Sandwell and West Birmingham Hospitals NHS
NHS Trust

AGENDA

Trust Board – Public Session

Venue Anne Gibson Boardroom, City Hospital **Date** 6 June 2013; 1200h – 1300h

Members

Mr R Samuda	(RSM)	[Chair]
Ms C Robinson	(CR)	
Dr S Sahota	(SS)	
Mrs G Hunjan	(GH)	
Prof R Lilford	(RL)	
Mr H Kang	(HK)	
Mrs O Dutton	(OD)	
Mr T Lewis	(TL)	
Dr R Stedman	(RST)	
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** *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 2013**	**SWBTB (6/13) 116** **SWBTB (6/13) 116 (a)** **SWBAC (6/13) 038 (b)***
5	**2012/13 audit memorandum**	**SWBAC (6/13) 039***
6	**2012/13 Annual Governance Statement**	**SWBAC (6/13) 040***
7	**Letter of representation**	**SWBAC (6/13) 041***
8	**Any other business**	**Verbal**
9	**Details of next meeting** *The next public Trust Board will be held on 27 June 2013 at 1530h in the Churchvale/Hollyoak Rooms, Sandwell Hospital*	**Verbal**

* Papers within Audit Committee meeting pack (6 June 13; 1130h)

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:	6 June 2013

EXECUTIVE SUMMARY:

The report presents the Trust's statutory accounts for the year ended 31st March 2013 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.

Data entered below will be used throughout the workbook:

Trust name	Sandwell & West Birmingham Hospitals NHS Trust
This year	2012-13
Last year	2011-12
This year ended	31 March 2013
Last year ended	31 March 2012
This year commencing:	1 April 2012
Last year commencing:	1 April 2011

Manual for Accounts 2012-13

Statement of Comprehensive Income for year ended 31 March 2013

	NOTE	**2012-13 £000**	2011-12 £000
Gross employee benefits	9.1	**(284,797)**	(292,716)
Other costs	7	**(144,346)**	(119,076)
Revenue from patient care activities	4	**391,875**	386,045
Other Operating revenue	5	**41,132**	38,099
Operating surplus/(deficit)		**3,864**	12,352
Investment revenue	11	**146**	115
Other gains and (losses)	12	**(139)**	(168)
Finance costs	13	**(2,158)**	(2,156)
Surplus/(deficit) for the financial year		**1,713**	10,143
Public dividend capital dividends payable		**(5,154)**	(5,603)
Net Gain/(loss) on transfers by absorption		**0**	
Retained surplus/(deficit) for the year		**(3,441)**	4,540

Other Comprehensive Income	**2012-13 £000**	2011-12 £000
Impairments and reversals	**(5,649)**	5,027
Net gain/(loss) on revaluation of property, plant & equipment	**580**	780
Total comprehensive income for the year*	**(8,510)**	10,347

* This sums the rows above and the surplus / (deficit) for the year before adjustments for PDC dividend and absorption accounting.

Financial performance for the year

Retained surplus/(deficit) for the year	**(3,441)**	4,540
Prior period adjustment to correct errors	**0**	0
IFRIC 12 adjustment	**882**	(640)
Impairments	**7,990**	(2,395)
Adjustments re elimination of donated asset/government grant reserves	**1,092**	358
Adjustment re Absorption accounting	**0**	
Adjusted retained surplus/(deficit)	**6,523**	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) Impairment of assets of £8,772,000 which is not considered part of the organisation's operating position (In 2011/12 there was a reversal of previous impairments to fixed assets of £2,395,000).

b) The net impact of changes resulting from the elimination of donated asset and government grant reserves.

c) For 2011/12, an IFRIC12 adjustment (£640,000) relating to the revenue impact of bringing PFI assets onto the balance sheet. Where this adjustment is negative, which it is in the case of Sandwell & West Birmingham Hospitals, the adjustment was removed by the Department of Health for 2012/13.

For 2012/13, PDC dividends payable to the Department of Health were overpaid and balances due to Sandwell & West Birmingham Hospitals are as follows:

PDC dividend: balance receivable/(payable) at 31 March 2013	**440**
PDC dividend: balance receivable/(payable) at 1 April 2012	**0**

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

Statement of Financial Position as at 31 March 2013

	NOTE	**31 March 2013** £000s	31 March 2012 £000s
Non-current assets:			
Property, plant and equipment	14	**216,669**	227,072
Intangible assets	15	**924**	1,075
Investment property	17	**0**	0
Other financial assets	22	**0**	0
Trade and other receivables	21.1	**1,048**	865
Total non-current assets		**218,641**	229,012
Current assets:			
Inventories	20	**3,604**	4,065
Trade and other receivables	21.1	**10,446**	14,446
Other financial assets	22	**0**	0
Other current assets	23	**0**	0
Cash and cash equivalents	24	**42,499**	34,465
Total current assets		**56,549**	52,976
Non-current assets held for sale	25	**0**	0
Total current assets		**56,549**	52,976
Total assets		**275,190**	281,988
Current liabilities			
Trade and other payables	26	**(43,105)**	(33,751)
Other liabilities	27	**0**	0
Provisions	32	**(10,355)**	(15,649)
Borrowings	28	**(1,211)**	(1,166)
Other financial liabilities	29	**0**	0
Working capital loan from Department	28	**0**	0
Capital loan from Department	28	**(2,000)**	(2,000)
Total current liabilities		**(56,671)**	(52,566)
Non-current assets plus/less net current assets/liabilities		**218,519**	229,422
Non-current liabilities			
Trade and other payables	26	**0**	0
Other Liabilities	27	**0**	0
Provisions	32	**(3,168)**	(2,532)
Borrowings	28	**(28,966)**	(29,995)
Other financial liabilities	29	**0**	0
Working capital loan from Department	28	**0**	0
Capital loan from Department	28	**(3,000)**	(5,000)
Total non-current liabilities		**(35,134)**	(37,527)
Total Assets Employed:		**183,385**	191,895
FINANCED BY:			
TAXPAYERS' EQUITY			
Public Dividend Capital		**160,231**	160,231
Retained earnings		**(20,260)**	(18,622)
Revaluation reserve		**34,356**	41,228
Other reserves		**9,058**	9,058
Total Taxpayers' Equity:		**183,385**	191,895

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 6th June 2013 and signed on its behalf by

Chief Executive: Date:

Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2013

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Other reserves £000s	Total reserves £000s
Balance at 1 April 2012	**160,231**	**(18,622)**	**41,228**	**9,058**	**191,895**
Changes in taxpayers' equity for 2012-13					
Retained surplus/(deficit) for the year		(3,441)			**(3,441)**
Net gain / (loss) on revaluation of property, plant, equipment			580		**580**
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		**0**
Impairments and reversals			(5,649)		**(5,649)**
Movements in other reserves				0	**0**
Transfers between reserves		1,803	(1,803)	0	**0**
Release of reserves to Statement of Comprehensive Income			0		**0**
Reclassification Adjustments					
Transfers to/(from) Other Bodies within the Resource Account Boundary	0	0	0	0	**0**
Transfers between Revaluation Reserve & Retained Earnings in respect of assets transferred under absorption		0	0		**0**
On Disposal of Available for Sale financial Assets			0		**0**
Reserves eliminated on dissolution	0	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**	**(1,638)**	**(6,872)**	**0**	**(8,510)**
Balance at 31 March 2013	**160,231**	**(20,260)**	**34,356**	**9,058**	**183,385**

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Other reserves £000s	Total reserves £000s
Balance at 1 April 2011	**160,231**	**(24,314)**	**36,573**	**9,058**	**181,548**
Changes in taxpayers' equity for the year ended 31 March 2012					
Retained surplus/(deficit) for the year		4,540			4,540
Net gain / (loss) on revaluation of property, plant, equipment			780		780
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		0
Impairments and reversals			5,027		5,027
Movements in other reserves				0	0
Transfers between reserves		1,152	(1,152)	0	0
Release of reserves to Statement of Comprehensive Income			0		0
Reclassification Adjustments					
Transfers to/(from) Other Bodies within the Resource Account Boundary	0	0	0	0	0
On Disposal of Available for Sale financial Assets			0		0
Reserves eliminated on dissolution	0	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	5,692	4,655	0	10,347
Balance at 31 March 2012	**160,231**	**(18,622)**	**41,228**	**9,058**	**191,895**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2013

	2012-13 £000s	2011-12 £000s
Cash Flows from Operating Activities		
Operating Surplus/Deficit	**3,864**	12,352
Depreciation and Amortisation	**14,220**	13,092
Impairments and Reversals	**8,872**	(2,395)
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	**(2,072)**	(2,073)
Dividend (Paid) / Refunded	**(5,594)**	(5,603)
Release of PFI/deferred credit	**0**	0
(Increase)/Decrease in Inventories	**326**	(534)
(Increase)/Decrease in Trade and Other Receivables	**4,263**	(2,010)
(Increase)/Decrease in Other Current Assets	**0**	(382)
Increase/(Decrease) in Trade and Other Payables	**7,545**	(4,175)
(Increase)/Decrease in Other Current Liabilities	**0**	0
Provisions Utilised	**(9,682)**	(1,665)
Increase/(Decrease) in Provisions	**5,035**	13,458
Net Cash Inflow/(Outflow) from Operating Activities	**26,777**	20,065
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	**140**	112
(Payments) for Property, Plant and Equipment	**(15,698)**	(11,387)
(Payments) for Intangible Assets	**(210)**	(472)
(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)	**9**	64
Proceeds of disposal of assets held for sale (Intangible)	**0**	0
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	**(15,759)**	(11,683)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	**11,018**	8,382
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	**0**	8,000
Loans received from DH - New Revenue Support Loans	**0**	0
Other Loans Received	**0**	0
Loans repaid to DH - Capital Investment Loans Repayment of Principal	**(2,000)**	(1,000)
Loans repaid to DH -Revenue Support Loans	**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	**(984)**	(2,043)
Capital grants and other capital receipts	**0**	460
Net Cash Inflow/(Outflow) from Financing Activities	**(2,984)**	5,417
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**8,034**	13,799
Cash and Cash Equivalents (and Bank Overdraft) at Beginning of the Period	**34,465**	20,666
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	**42,499**	34,465

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 2012-13 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 absorption accounting in line with the Treasury FReM. The FReM does not require retrospective adoption, so prior year transactions (which have been accounted for under merger accounting) have not been restated. Absorption accounting requires that entities account for their transactions in the period in which they took place, with no restatement of performance required when functions transfer within the public sector. Where assets and liabilities transfer, the gain or loss resulting is recognised in the SOCNE, and is disclosed separately from operating costs.

There are no TCS related transactions for Sandwell & West Birmingham Hospitals in 2012/13.

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

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

Provisions included in the financial position at 31st March 2013 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 the following year, 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, subsequent accumulated depreciation and impairment losses. 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:

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

- Land and non-specialised buildings – market value for existing use
- Specialised buildings – depreciated replacement cost

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. At 31st March 2013, Sandwell & West Birmingham Hospitals did not hold any assets under construction (also nil at 31st March 2012).

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.

Impairments are analysed between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) from 2011-12. This is necessary to comply with Treasury's budgeting guidance. DEL limits are set in the Spending Review and Departments may not exceed the limits that they have been set.

AME budgets are set by the Treasury and may be reviewed with departments in the run-up to the Budget. Departments need to monitor AME closely and inform Treasury if they expect AME spending to rise above forecast. Whilst Treasury accepts that in some areas of AME inherent volatility may mean departments do not have the ability to manage the spending within budgets in that financial year, any expected increases in AME require Treasury approval.

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.

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.

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.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term finance lease liability or prepayment is recognised respectively.

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.

Assets contributed by the Trust to the operator for use in the scheme
Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Trust's Statement of Financial Position.

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 approved discount rates.

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.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Trust has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

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.

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

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 government grant funded 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 with an offsetting transfer from deferred income. 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.

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 which will normally represent the market value at which these assets can be exchanged.

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.

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

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.

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 which will normally be the market value at which the liabilities can be exchanged.

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

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 44 to the accounts.

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.

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

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 2012-13 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.

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 2012-13. The application of the Standards as revised would not have a material impact on the accounts for 2012-13, were they applied in that year:

IAS 27 Separate Financial Statements - subject to consultation
IAS 28 Investments in Associates and Joint Ventures - subject to consultation
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 2012/13 and 2011/12 from within the whole of HM Government (primarily Primary Care Trusts and other NHS bodies) is 95% with 5% being received from elsewhere.

	SWB Hospitals		Other Segments		Total	
	2012-13	2011-12	**2012-13**	2011-12	**2012-13**	2011-12
	£000s	£000s	**£000s**	£000s	**£000s**	£000s
Income	**433,007**	424,144	**0**	0	**433,007**	424,144
Surplus/(Deficit)						
Segment surplus/(deficit)	**(3,441)**	4,540	**0**	0	**(3,441)**	4,540
Common costs	**0**	0	**0**	0	**0**	0
Surplus/(deficit) before interest	**429,566**	**428,684**	**0**	**0**	**429,566**	428,684
Net Assets:						
Segment net assets	**183,385**	191,895	**0**	0	**183,385**	191,895

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

	2012-13	2011-12
	£000s	£000s
Strategic Health Authorities	**130**	116
NHS Trusts	**50**	9
Primary Care Trusts - tariff	**252,021**	248,908
Primary Care Trusts - non-tariff	**133,802**	132,149
Primary Care Trusts - market forces factor	**0**	0
NHS Foundation Trusts	**922**	904
Local Authorities	**0**	0
Department of Health	**321**	230
NHS other	**1,040**	320
Non-NHS:		
Private patients	**116**	91
Overseas patients (non-reciprocal)	**500**	182
Injury costs recovery	**2,556**	2,673
Other	**417**	463
Total Revenue from patient care activities	**391,875**	386,045

Injury cost recovery income is subject to a provision for impairment of receivables of 36.7% to reflect expected rates of collection.

5. Other operating revenue

	2012-13	2011-12
	£000s	£000s
Recoveries in respect of employee benefits	**1,554**	1,755
Patient transport services	**165**	224
Education, training and research	**20,866**	20,526
Charitable and other contributions to revenue expenditure - NHS	**77**	0
Charitable and other contributions to revenue expenditure -non- NHS	**0**	78
Receipt of donations for capital acquisitions - NHS Charity	**39**	460
Receipt of Government grants for capital acquisitions	**0**	0
Non-patient care services to other bodies	**7,444**	7,258
Income generation	**4,151**	3,774
Rental revenue from finance leases	**0**	0
Rental revenue from operating leases	**0**	0
Other revenue	**6,836**	4,024
Total Other Operating Revenue	**41,132**	38,099
Total operating revenue	**433,007**	424,144

Other revenue includes £1,481,000 in respect of Estates Service Level Agreements and £1,196,000 for Distinction Awards.

6. Revenue

	2012-13	2011-12
	£000	£000
From rendering of services	**431,304**	422,467
From sale of goods	**1,703**	1,677
	433,007	424,144

7. Operating expenses (excluding employee benefits)	2012-13 £000s	2011-12 £000s
Services from other NHS trusts	**213**	292
Services from PCTs	**2,860**	2,422
Services from other NHS bodies	**0**	0
Services from foundation trusts	**783**	374
Purchase of healthcare from non NHS bodies	**1,191**	632
Trust Chair and Non-executive Directors	**65**	62
Supplies and services - clinical	**65,861**	63,612
Supplies and services - general	**6,390**	5,608
Consultancy services	**3,472**	1,886
Establishment	**6,435**	5,067
Transport	**1,505**	1,243
Premises	**21,145**	16,228
Impairments and Reversals of Receivables	**191**	92
Inventories write down	**135**	106
Depreciation	**13,956**	12,906
Amortisation	**264**	186
Impairments and reversals of property, plant and equipment	**8,737**	(2,395)
Impairments and reversals of intangible assets	**0**	0
Impairments and reversals of financial assets [by class]	**0**	0
Impairments and reversals of non current assets held for sale	**0**	0
Impairments and reversals of investment properties	**0**	0
Audit fees	**146**	193
Other auditor's remuneration	**42**	125
Clinical negligence	**8,255**	7,916
Research and development (excluding staff costs)	**249**	143
Education and Training	**1,050**	972
Change in Discount Rate	**124**	
Other	**1,277**	1,406
Total Operating expenses (excluding employee benefits)	**144,346**	119,076

Employee benefits		
Employee benefits excluding Board members	**283,907**	291,771
Board members	**890**	945
Total employee benefits	**284,797**	292,716
Total operating expenses	**429,143**	411,792

Other costs include £591,000 in respect of insurance costs and associated claims.

Other auditors remuneration relates to services provided by the Trust's external auditors which are not within the scope of the fees identified for mandatory audit work.

Consultancy Services includes £660,000 in respect of support for the Trust's Transformation Programme, £170,000 support to the Complaints and Litigation Service, £128,000 for the Quality Review Service and £626,000 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	2012-13 Total	2011-12
	£000s	£000s	£000s	£000s	£000s
Payments recognised as an expense					
Minimum lease payments				**45**	27
Contingent rents				**0**	0
Sub-lease payments				**0**	0
Total				**45**	27
Payable:					
No later than one year	13	0	5	**18**	6
Between one and five years	0	0	71	**71**	8
After five years	0	0	0	**0**	13
Total	**13**	**0**	**76**	**89**	27

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

	2012-13		
	Total £000s	**Permanently employed £000s**	**Other £000s**
Employee Benefits - Gross Expenditure			
Salaries and wages	**240,182**	221,834	18,348
Social security costs	**19,259**	18,585	674
Employer Contributions to NHS BSA - Pensions Division	**25,891**	25,516	375
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 employee benefits	**285,332**	**265,935**	**19,397**
Less recoveries in respect of employee benefits (table below)	**(1,554)**	(1,553)	(1)
Total - Net Employee Benefits including capitalised costs	**283,778**	**264,382**	**19,396**
Employee costs capitalised	**535**	535	0
Gross Employee Benefits excluding capitalised costs	**284,797**	**265,400**	**19,397**

Employee Benefits 2012-13 - income			
Salaries and wages	**1,296**	1,295	1
Social Security costs	**109**	109	0
Employer Contributions to NHS BSA - Pensions Division	**149**	149	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	**1,554**	**1,553**	**1**

	Total £000s	**Permanently employed £000s**	**Other £000s**
Gross Employee Benefits & Net expenditure 2011-12			
Salaries and wages	**240,679**	224,812	15,867
Social security costs	**19,263**	18,729	534
Employer Contributions to NHS BSA - Pensions Division	**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 - including capitalised costs	**293,255**	**276,523**	**16,732**
Less recoveries in respect of employee benefits	**(1,755)**	(1,737)	(18)
Total - Net Employee Benefits including capitalised costs	**291,500**	**274,786**	**16,714**
Recognised as			
Employee costs capitalised	**539**	**539**	**0**
Total excluding capitalised costs	**292,716**	**275,984**	**16,732**

9.2 Staff Numbers

	2012-13			2011-12
	Total Number	**Permanently employed Number**	**Other Number**	Total Number
Average Staff Numbers				
Medical and dental	**790**	744	46	783
Ambulance staff	**0**	0	0	0
Administration and estates	**1,489**	1,400	89	1,556
Healthcare assistants and other support staff	**1,416**	1,242	174	1,416
Nursing, midwifery and health visiting staff	**2,162**	1,975	187	2,162
Nursing, midwifery and health visiting learners	**0**	0	0	0
Scientific, therapeutic and technical staff	**1,157**	1,141	16	1,188
Social Care Staff	**0**	0	0	0
Other	**0**	0	0	0
TOTAL	**7,013**	**6,501**	**512**	7,105
Of the above - staff engaged on capital projects	**9**	9	0	8

9.3 Staff Sickness absence and ill health retirements

	2012-13 Number	2011-12 Number
Total Days Lost	64,353	53,309
Total Staff Years	6,575	6,050
Average working Days Lost	9.79	8.81

Staff sickness data is provided on a national basis by the Department of Health and covers the calendar year ended 31st December 2012 (2011-12 data, calendar year ended 31st December 2011)

	2012-13 Number	2011-12 Number
Number of persons retired early on ill health grounds	**7**	9
	£000s	£000s
Total additional pensions liabilities accrued in the year	**425**	800

9.4 Exit Packages agreed in 2012-13

	2012-13			2011-12		
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	7	11	18	1	4	5
£10,001-£25,000	7	16	23	3	2	5
£25,001-£50,000	6	16	22	1	6	7
£50,001-£100,000	7	17	24	1	6	7
£100,001 - £150,000	2	3	5	0	0	0
£150,001 - £200,000	1	0	1	0	0	0
>£200,000	0	0	0	0	0	0
Total number of exit packages by type (total cost	**30**	**63**	**93**	6	18	24
Total resource cost (£000s)	**1,233**	**2,505**	**3,738**	185	694	879

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.

This disclosure reports the number and value of exit packages taken by staff leaving in the year. Note: The expense associated with these departures may have been recognised in part or in full in a previous period.

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) 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. The valuation of the scheme liability as at 31 March 2013, is based on the valuation data as 31 March 2012, updated to 31 March 2013 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2004. 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 were 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 due in 2015.

The Scheme Regulations were changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next formal valuation to be used for funding purposes will be carried out at as at March 2012 and will be used to inform the contribution rates to be used from 1 April 2015.

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 Prices 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

	2012-13 Number	**2012-13 £000s**	2011-12 Number	2011-12 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	**99,086**	**109,335**	93,910	95,504
Total Non-NHS Trade Invoices Paid Within Target	**93,515**	**101,481**	86,510	86,754
Percentage of NHS Trade Invoices Paid Within Target	**94.38%**	**92.82%**	92.12%	90.84%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	**2,160**	**25,850**	2,513	**26,294**
Total NHS Trade Invoices Paid Within Target	**1,217**	**19,845**	1,417	**17,836**
Percentage of NHS Trade Invoices Paid Within Target	**56.34%**	**76.77%**	56.39%	67.83%

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 2012/13 or 2011/12.

11 Investment Income

	2012-13 £000s	2011-12 £000s
Interest Income		
Bank interest	**146**	115
Total Investment income	**146**	115

12 Other Gains and Losses

	2012-13 £000s	2011-12 £000s
Gain/(Loss) on disposal of assets other than by sale (PPE)	**(139)**	(168)
Total	**(139)**	(168)

13 Finance Costs

	2012-13 £000s	2011-12 £000s
Interest		
Interest on loans and overdrafts	**55**	34
Interest on obligations under finance leases	**35**	69
Interest on obligations under PFI contracts:		
- main finance cost	**1,530**	1,572
- contingent finance cost	**452**	398
Total interest expense	**2,072**	2,073
Other finance costs	**10**	12
Provisions - unwinding of discount	**76**	71
Total	**2,158**	2,156

14.1 Property, plant and equipment

2012-13	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	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	£000's
Cost or valuation:									
At 1 April 2012	**38,363**	**207,415**	**2,344**	**0**	**98,251**	**3,623**	**21,317**	**1,463**	**372,776**
Opening Balance Adjustment	(2,565)	(44,028)	(1,354)	0	0	0	0	0	(47,947)
Restated Opening Cost or Valuation	**35,798**	**163,387**	**990**	**0**	**98,251**	**3,623**	**21,317**	**1,463**	**324,829**
Additions of Assets Under Construction				**0**					**0**
Additions Purchased	1,615	8,849	13		4,864	263	1,609	255	**17,468**
Additions Donated	0	0	0	0	39	0	0	0	**39**
Additions Government Granted	0	0	0	0	0	0	0	0	**0**
Additions Leased	0	0	0		0	0	0	0	**0**
Reclassifications	0	0	0	0	0	0	0	0	**0**
Reclassifications as Held for Sale and reversals	0	0	0	0	0	0	0	0	**0**
Disposals other than for sale	0	(16,336)	(81)	0	(3,738)	(189)	0	0	**(20,344)**
Upward revaluation/positive indexation	523	57	0	0	0	0	0	0	**580**
Impairments/negative indexation	(804)	(5,271)	(24)	0	0	0	0	0	**(6,099)**
Reversal of Impairments	0	450	0	0	0	0	0	0	**450**
Transfers to NHS Foundation Trust	0	0	0	0	0	0	0	0	**0**
Transfer (to)/from Other Public Sector bodies	0	0	0	0	0	0	0	0	**0**
At 31 March 2013	**37,132**	**151,136**	**898**	**0**	**99,416**	**3,697**	**22,926**	**1,718**	**316,923**
Depreciation									
At 1 April 2012	**2,565**	**44,028**	**1,354**	**0**	**76,208**	**2,647**	**17,912**	**990**	**145,704**
Opening Balance Adjustment	(2,565)	(44,028)	(1,354)	0	0	0	0	0	(47,947)
Restated Opening Depreciation	**0**	**0**	**0**	**0**	**76,208**	**2,647**	**17,912**	**990**	**97,757**
Reclassifications	0	0	0		0	0	0	0	**0**
Reclassifications as Held for Sale and reversals	0	0	0		0	0	0	0	**0**
Disposals other than for sale	0	(16,336)	(81)		(3,590)	(189)	0	0	**(20,196)**
Upward revaluation/positive indexation	0	0	0		0	0	0	0	**0**
Impairments	0	9,613	35	0	0	0	0	0	**9,648**
Reversal of Impairments	0	(910)	(1)	0	0	0	0	0	**(911)**
Charged During the Year	0	7,633	47		4,807	246	1,091	132	**13,956**
Transfers to NHS Foundation Trust	0	0	0	0	0	0	0	0	**0**
Transfer (to)/from Other Public Sector bodies	0	0	0		0	0	0	0	**0**
At 31 March 2013	**0**	**0**	**0**	**0**	**77,425**	**2,704**	**19,003**	**1,122**	**100,254**
Net Book Value at 31 March 2013	**37,132**	**151,136**	**898**	**0**	**21,991**	**993**	**3,923**	**596**	**216,669**
Purchased	37,132	149,693	898	0	20,748	993	3,897	596	**213,957**
Donated	0	454	0	0	1,243	0	26	0	**1,723**
Government Granted	0	989	0	0	0	0	0	0	**989**
Total at 31 March 2013	**37,132**	**151,136**	**898**	**0**	**21,991**	**993**	**3,923**	**596**	**216,669**
Asset financing:									
Owned	37,132	132,084	898	0	21,863	884	3,923	596	**197,380**
Held on finance lease	0	0	0	0	128	109	0	0	**237**
On-SOFP PFI contracts	0	19,052	0	0	0	0	0	0	**19,052**
PFI residual: interests	0	0	0	0	0	0	0	0	**0**
Total at 31 March 2013	**37,132**	**151,136**	**898**	**0**	**21,991**	**993**	**3,923**	**596**	**216,669**

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	Dwellings	Assets under construction & payments on account	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	£000's
At 1 April 2012	15,587	24,890	416	0	314	0	0	21	**41,228**
Movements	(281)	(6,386)	(39)	0	(156)	0	0	(10)	**(6,872)**
At 31 March 2013	**15,306**	**18,504**	**377**	**0**	**158**	**0**	**0**	**11**	**34,356**

The Opening Balance Adjustments in the schedule above refer to the zeroing of brought forward accumulated depreciation balances such that the restated opening position for land, buildings and dwellings shows the net value of the assets (on the basis of professional valuations carried out in 2011/12) with zero accumulated depreciation.

Disposals other than for sale represent the zeroing of depreciation charges in year such that the asset values reflect the professional valuations of those assets at 31st March 2013 with zero accumulated depreciation.

14.2 Property, plant and equipment prior-year

2011-12	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or valuation:									
At 1 April 2011	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 and reversals	0	0	0	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	(2,939)	(272)	0	0	(3,211)
Revaluation & indexation gains	603	18,249	66	0	0	0	0	0	18,918
Impairments	(815)	(556)	(653)	0	0	0	0	0	(2,024)
Reversals of impairments	0	6,980	71	0	0	0	0	0	7,051
In-year transfers to/from NHS bodies	0	0	0	0	0	0	0	0	0
Transfer to NHS Foundation Trust	0	0	0	0	0	0	0	0	0
Cumulative dep netted off cost 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 1 April 2011	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 and reversals	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	0	4,573	183	991	129	12,906
Transfers to NHS Bodies	0	0	0	0	0	0	0	0	0
Transfer to NHS Foundation Trust	0	0	0	0	0	0	0	0	0
Cumulative dep netted off cost 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 at 31 March 2012	35,798	163,387	990	0	22,043	976	3,405	473	227,072

14.3 (cont). Property, plant and equipment

The Trust received donated assets to the value of £39,000 during the year, £29,000 via Sandwell And West Birmingham Hospital's charitable funds and £10,000 from the League of Friends, both 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 2013. 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 1-42 years
Plant and machinery 0-12 years
Transport equipment 0-7 years
Information technology 0-5 years
Furniture and fittings 0-10 years

15.1 Intangible non-current assets

2012-13	Software internally generated	Software purchased	Licences & trademarks	Patents	Development expenditure	Total
	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2012	**0**	**2,481**	**0**	**261**	**0**	**2,742**
Additions - purchased	0	210	0	0	0	**210**
Additions - internally generated	0	0	0	0	0	**0**
Additions - donated	0	0	0	0	0	**0**
Additions - government granted	0	0	0	0	0	**0**
Additions - leased	0	0	0	0	0	**0**
Reclassifications	0	0	0	0	0	**0**
Reclassified as Held for Sale and Reversals	0	0	0	0	0	**0**
Disposals other than by sale	0	0	0	(97)	0	**(97)**
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**
Transfer to NHS Foundation Trust	0	0	0	0	0	**0**
Transfer (to)/from Other Public Sector bodies	0	0	0	0	0	**0**
At 31 March 2013	**0**	**2,691**	**0**	**164**	**0**	**2,855**
Amortisation						
At 1 April 2012	**0**	**1,667**	**0**	**0**	**0**	**1,667**
Reclassifications	0	0	0	0	0	**0**
Reclassified as Held for Sale and Reversals	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	264	0	0	0	**264**
Transfer to NHS Foundation Trust	0	0	0	0	0	**0**
Transfer (to)/from Other Public Sector bodies	0	0	0	0	0	**0**
At 31 March 2013	**0**	**1,931**	**0**	**0**	**0**	**1,931**
Net Book Value at 31 March 2013	**0**	**760**	**0**	**164**	**0**	**924**
Net book value at 31 March 2013 comprises:						
Purchased	0	756	0	0	0	**756**
Donated	0	4	0	0	0	**4**
Government Granted	0	0	0	164	0	**164**
Total at 31 March 2013	**0**	**760**	**0**	**164**	**0**	**924**

Revaluation reserve balance for intangible non-current assets

	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2012	0	0	0	0	0	**0**
Movements (specify)	0	0	0	0	0	**0**
At 31 March 2013	**0**	**0**	**0**	**0**	**0**	**0**

15.2 Intangible non-current assets prior year

2011-12	Software internally generated £000s	Software purchased £000s	Licences & trademarks £000s	Patents £000s	Development expenditure £000s	Total £000s
Cost or valuation:						
At 1 April 2011	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	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0
Transfer to NHS Foundation Trust	0	0	0	0	0	0
Less cumulative depreciation written down on revaluation	0	0	0	0	0	0
At 31 March 2012	0	2,481	0	261	0	2,742
Amortisation						
At 1 April 2011	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
Transfer to NHS Foundation Trust	0	0	0	0	0	0
Less cumulative depreciation written down on revaluation	0	0	0	0	0	
At 31 March 2012	0	1,667	0	0	0	1,667
Net book value 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

15.3 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 2013.

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

16 Analysis of impairments and reversals recognised in 2012-13

	2012-13 Total £000s
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	8,737
Total charged to Annually Managed Expenditure	**8,737**
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	5,649
Total impairments for PPE charged to reserves	**5,649**
Total Impairments of Property, Plant and Equipment	**14,386**
Inventories - impairments and reversals charged to SoCI.	
Loss or damage resulting from normal operations	135
Total charged to Departmental Expenditure Limit	**135**
Total impairments of Inventories	**135**
Total Impairments charged to Revaluation Reserve	**5,649**
Total Impairments charged to SoCI - DEL	**135**
Total Impairments charged to SoCI - AME	**8,737**
Overall Total Impairments	**14,521**

All valuations of land and buildings were carried out on behalf of the Trust during 2012/13 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 2012-13 or in 2011-12.

18 Commitments

18.1 Capital commitments

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

	31 March 2013	31 March 2012
	£000s	£000s
Property, plant and equipment	**4,128**	1,614
Intangible assets	**0**	0
Total	**4,128**	1,614

18.2 Other financial commitments

The trust has not 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	3,766	0	5,055	0
Balances with Local Authorities	0	0	0	0
Balances with NHS bodies outside the Departmental Group	33	0	0	0
Balances with NHS Trusts and Foundation Trusts	2,439	0	1,130	0
Balances with Public Corporations and Trading Funds	0	0	0	0
Balances with bodies external to government	0	0	0	0
At 31 March 2013	**6,238**	**0**	**6,185**	**0**
prior period:				
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**

20 Inventories

	Drugs £000s	Consumables £000s	Energy £000s	Work in progress £000s	Loan Equipment £000s	Other £000s	Total £000s
Balance at 1 April 2012	1,942	1,871	252	0	0	0	**4,065**
Additions	28,794	13,244	58	0	0	0	**42,096**
Inventories recognised as an expense in the period	(28,896)	(13,466)	(60)	0	0	0	**(42,422)**
Write-down of inventories (including losses)	(135)	0	0	0	0	0	**(135)**
Reversal of write-down previously taken to SoCI	0	0	0	0	0	0	**0**
Transfers (to) Foundation Trusts	0	0	0	0	0	0	**0**
Transfers (to) / from other Public Sector Bodies	0	0	0	0	0	0	**0**
Balance at 31 March 2013	1,705	1,649	250	0	0	0	**3,604**

21.1 Trade and other receivables

	Current		Non-current	
	31 March 2013 £000s	31 March 2012 £000s	**31 March 2013 £000s**	31 March 2012 £000s
NHS receivables - revenue	**6,099**	10,088	**0**	0
NHS receivables - capital	**0**	0	**0**	0
NHS prepayments and accrued income	**120**	0	**0**	0
Non-NHS receivables - revenue	**1,819**	1,539	**0**	0
Non-NHS receivables - capital	**0**	0	**0**	0
Non-NHS prepayments and accrued income	**524**	1,023	**0**	0
Provision for the impairment of receivables	**(1,640)**	(1,477)	**(398)**	(518)
VAT	**575**	558	**0**	0
Current/non-current part of PFI and other PPP arrangements prepayments and accrued income	**0**	0	**0**	0
Interest receivables	**0**	0	**0**	0
Finance lease receivables	**0**	0	**0**	0
Operating lease receivables	**0**	0	**0**	0
Other receivables	**2,949**	2,715	**1,446**	1,383
Total	**10,446**	14,446	**1,048**	865
Total current and non current	**11,494**	15,311		
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 2013 £000s	31 March 2012 £000s
By up to three months	**109**	409
By three to six months	**202**	244
By more than six months	**68**	10
Total	**379**	663

21.3 Provision for impairment of receivables

	2012-13 £000s	2011-12 £000s
Balance at 1 April 2012	**(1,995)**	(2,086)
Amount written off during the year	**148**	183
Amount recovered during the year	**602**	964
(Increase)/decrease in receivables impaired	**(793)**	(1,056)
Transfer to NHS Foundation Trust	**0**	
Balance at 31 March 2013	**(2,038)**	**(1,995)**

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 2013 £000s	31 March 2012 £000s
Opening balance	**34,465**	20,666
Net change in year	**8,034**	13,799
Closing balance	**42,499**	34,465
Made up of		
Cash with Government Banking Service	**42,467**	34,407
Commercial banks	**4**	29
Cash in hand	**28**	29
Current investments	**0**	0
Cash and cash equivalents as in statement of financial position	**42,499**	34,465
Bank overdraft - Government Banking Service	**0**	0
Bank overdraft - Commercial banks	**0**	0
Cash and cash equivalents as in statement of cash flows	**42,499**	34,465
Patients' money held by the Trust, not included above	**0**	1

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
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2012	0	0	0	0	0	0	0	0	0	**0**
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	0	0	0	0	0	0	0	0	0	**0**
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 Foundation Trust	0	0	0	0	0	0	0	0	0	**0**
Transfers (to)/from other public sector bodies	0	0	0	0	0	0	0	0	0	**0**
Revaluation	0	0	0	0	0	0	0	0	0	**0**
Balance at 31 March 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Liabilities associated with assets held for sale at 31 March 2013	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Balance 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**
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

26 Trade and other payables

	Current		Non-current	
	31 March 2013 £000s	31 March 2012 £000s	**31 March 2013 £000s**	31 March 2012 £000s
Interest payable	**0**	0		
NHS payables - revenue	**6,185**	6,699	**0**	0
NHS payables - capital	**0**	0	**0**	0
NHS accruals and deferred income	**0**	0	**0**	0
Non-NHS payables - revenue	**17,366**	10,912	**0**	0
Non-NHS payables - capital	**7,967**	6,197	**0**	0
Non-NHS accruals and deferred income	**11,142**	9,806	**0**	0
Social security costs	**50**	12		
VAT	**0**	0	**0**	0
Tax	**35**	9		
Payments received on account	**0**	0	**0**	0
Other	**360**	116	**0**	0
Total	**43,105**	33,751	**0**	0
Total payables (current and non-current)	**43,105**	**33,751**		

Included above:

to Buy Out the Liability for Early Retirements Over 5 Years	0	0
outstanding Pension Contributions at the year end	3,371	0

27 Other liabilities

The Trust does not hold any other liabilities.

28 Borrowings

	Current		Non-current	
	31 March 2013 £000s	31 March 2012 £000s	**31 March 2013 £000s**	31 March 2012 £000s
Loans from Department of Health	**2,000**	2,000	**3,000**	5,000
PFI liabilities:				
Main liability	**1,029**	906	**28,913**	29,767
Lifecycle replacement received in advance	**0**	0	**0**	0
Finance lease liabilities	**182**	260	**53**	228
Other	**0**	0	**0**	0
Total	**3,211**	**3,166**	**31,966**	**34,995**
Total other liabilities (current and non-current)	**35,177**	**38,161**		

Since being reported in the Trust's accounts for that year, timing of the 2011-12 PFI liabilities have been recalculated as £732,000 current and £29,941,000 non current liabilities. There is no overall change in the level of liability.

Loans - repayment of principal falling due in:

		31 March 2013	
	DH £000s	**Other £000s**	**Total £000s**
0-1 years	2,000	1,211	**3,211**
1 - 2 Years	3,000	2,068	**5,068**
2 - 5 Years	0	2,210	**2,210**
Over 5 Years	0	24,688	**24,688**
TOTAL	**5,000**	**30,177**	**35,177**

29 Other financial liabilities
The Trust does not hold any other financial liabilities.

30 Deferred income

	Current		Non-current	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000s	£000s	**£000s**	£000s
Opening balance at 1 April 2012	3,284	8,223	0	0
Deferred income addition	1,822	963	0	0
Transfer of deferred income	(2,988)	(5,902)	**0**	0
Current deferred Income at 31 March 2013	**2,118**	3,284	**0**	0
Total deferred income (current and non-current)	**2,118**	**3,284**		

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 Treasury approved discount rates to generate the present value of lease payments.

Amounts payable under finance leases (Other)	**Minimum lease payments**		**Present value of minimum lease**	
	31 March 2013	31 March 2012	**31 March 2013**	31 March 2012
	£000s	£000s	**£000s**	£000s
Within one year	**182**	260	**182**	260
Between one and five years	**53**	234	**53**	228
After five years	**0**	0	**0**	0
Less future finance charges	0	(6)		
Present value of minimum lease payments	**235**	488	**235**	488
Included in:				
Current borrowings			**182**	260
Non-current borrowings			**53**	228
			235	488

32 Provisions

	Total	Comprising: 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 1 April 2012	**18,181**	0	825	276	7,084	0	8	0	8,809	1,179
Arising During the Year	**9,987**	0	73	428	4,395	0	0	0	5,091	0
Utilised During the Year	**(9,682)**	0	(95)	(187)	(3,788)	0	0	0	(5,612)	0
Reversed Unused	**(5,163)**	0	0	(180)	(3,296)	0	0	0	(508)	(1,179)
Unwinding of Discount	**76**	0	24	0	0	0	0	0	52	0
Change in Discount Rate	**124**	0	19	0	0	0	0	0	105	0
Transfers to NHS Foundation Trusts (for Trusts becoming FTs only)	**0**	0	0	0	0	0	0	0	0	0
Transferred (to)/from other public sector bodies	**0**	0	0	0	0	0	0	0	0	0
Balance at 31 March 2013	**13,523**	**0**	**846**	**337**	**4,395**	**0**	**8**	0	**7,937**	**0**
Expected Timing of Cash Flows:										
No Later than One Year	**10,355**	0	94	337	4,395	0	8	0	5,521	0
Later than One Year and not later than Five Years	**938**	0	438	0	0	0	0	0	500	0
Later than Five Years	**2,230**	0	314	0	0	0	0	0	1,916	0

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

As at 31 March 2013	60,295
As at 31 March 2012	54,421

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 £1,945,000, transitional enabling programme £1,000,000, employment tribunals and litigation claims £579,000, other contractual obligations £4,212,000 and £201,000 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.

33 Contingencies

	31 March 2013	31 March 2012
	£000s	£000s
Contingent liabilities		
Equal Pay	**0**	0
Other	**(794)**	(867)
Amounts Recoverable Against Contingent Liabilities	**0**	0
Net Value of Contingent Liabilities	**(794)**	(867)

The Trust does not hold any contingent assets.

Contingent liabilities held by the Trust relate to employers and public liability claims (£198,000) and injury benefits (£596,000). 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.

34.1 PFI and LIFT - additional information

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

Charges to operating expenditure and future commitments in respect of ON and OFF SOFP PFI	**2012-13 £000s**	2011-12 £000s
Total charge to operating expenses in year - OFF SOFP PFI	**0**	0
Service element of on SOFP PFI charged to operating expenses in year	**1,362**	1,067
Total	**1,362**	1,067
Payments committed to in respect of off SOFP PFI and the service element of on SOFP PFI		
No Later than One Year	**1,091**	1,383
Later than One Year, No Later than Five Years	**5,201**	4,656
Later than Five Years	**35,502**	37,463
Total	**41,794**	43,502

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	**2012-13 £000s**	2011-12 £000s
No Later than One Year	**3,120**	2,436
Later than One Year, No Later than Five Years	**12,722**	9,420
Later than Five Years	**65,712**	40,295
Subtotal	**81,554**	52,151
Less: Interest Element	**(51,612)**	(21,478)
Total	**29,942**	30,673

Since being reported in the Trust's accounts for that year, the 2011-12 comparatives have been recalculated as a gross liability of £84,268,000 (made up of £2,714,000 for less than one year, £12,866,000 for Years 1-5 and £68,688,000 for the remaining period) and an interest element of £53,595,000. There is no change to the net liability for 2011-12.

34.2 Other financial commitments

The trust does not have any other financial commitments.

35 Impact of IFRS treatment - current year

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

	Total £000s
Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12 (e.g. PFI / LIFT)	
Depreciation charges	545
Interest Expense	1,982
Impairment charge - AME	0
Impairment charge - DEL	882
Other Expenditure	1,362
Revenue Receivable from subleasing	0
Impact on PDC dividend payable	(434)
Total IFRS Expenditure (IFRIC12)	**4,337**
Revenue consequences of PFI / LIFT schemes under UK GAAP / ESA95 (net of any sublease income)	(3,891)
Net IFRS change (IFRIC12)	**446**
Capital Consequences of IFRS : LIFT/PFI and other items under IFRIC12	
Capital expenditure 2012-13	0
UK GAAP capital expenditure 2012-13 (Reversionary Interest)	186

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 agreed 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 2013 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' £000s	Loans and receivables £000s	Available for sale £000s	Total £000s
Embedded derivatives	0			**0**
Receivables - NHS		6,219		**6,219**
Receivables - non-NHS		5,275		**5,275**
Cash at bank and in hand		42,499		**42,499**
Other financial assets	0	0	0	**0**
Total at 31 March 2013	**0**	**53,993**	**0**	**53,993**
Embedded derivatives	0			0
Receivables - NHS		0		0
Receivables - non-NHS		865		865
Cash at bank and in hand		34,465		34,465
Other financial assets	0	0	0	0
Total at 31 March 2012	0	35,330	0	35,330

36.3 Financial Liabilities	At 'fair value through profit and loss' £000s	Other £000s	Total £000s
Embedded derivatives	0		**0**
NHS payables		6,185	**6,185**
Non-NHS payables		26,920	**26,920**
Other borrowings		0	**0**
PFI & finance lease obligations		29,994	**29,994**
Other financial liabilities	0	0	**0**
Total at 31 March 2013	**0**	**63,099**	**63,099**
Embedded derivatives	0		0
NHS payables		2,281	2,281
Non-NHS payables		0	0
Other borrowings		0	0
PFI & finance lease obligations		30,901	30,901
Other financial liabilities	0	0	0
Total at 31 March 2012	0	33,182	33,182

PFI & finance lease obligations relate to amounts payable in respect of the Trust's PFI and finance lease funded assets over the remaining life of the arrangements.

37 Events after the end of the reporting period

Assets with a total value of £1,906,000 (primarily a single community property) were transferred to Sandwell & West Birmingham Hospitals on 1st April on the dissolution of Sandwell PCT.

38 Related party transactions

During the year none of the Department of Health Ministers, trust board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with Sandwell & West Birmingham Hospitals NHS Trust.

The Department of Health is regarded as a related party. During 2012/2013, Sandwell And West Birmingham Hospitals NHS Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. These entities are listed below:

	Payments to Related Party £000	Receipts from Related Party £000	Amounts owed to Related Party £000	Amounts due from Related Party £000
Sandwell Primary Care Trust	2,887	200,254	859	894
Heart of Birmingham Teaching Primary Care Trust	38	95,186	9	722
Birmingham East and North Primary Care Trust	160	49,224	6	710
South Birmingham PCT	10	19,007	36	0
Walsall Primary Care Trust	0	6,700	595	0
NHS Litigation Authority	8,512	0	1	4
West Midlands Strategic Health Authority	0	18,580	0	87
NHS Business Services Authority (NHS Pensions)	37,366	0	3,393	0

There are a number of other Health Bodies with which the Trust has transacted during the normal course of its activities but these are not considered to be material.

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with the Department for Education and Skills in respect of university hospitals and Sandwell MBC and Birmingham City Council in respect of joint enterprises.

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the Trustees for which are also members of the NHS Trust Board.

The Trust has ongoing contractual relationships with all of the entities listed above (PCTs through clustering arrangements).

For 2013-14, there is estimated income of £192.2m from Sandwell & West Birmingham Clinical Commissioning Group (CCG), £43.4m from Birmingham Cross City and North East Birmingham CCG and £13.3m from Birmingham South & Central CCG. All of the income is in respect of patient related Service Level Agreements.

£17.8m is receivable from NHS Midlands and East - West Midlands Deanery in respect of education and training funding.

£7.2m is payable in 2013-14 to the NHS Litigation Authority in respect of clinical negligence and other insurances and £2.4m to Sandwell PCT for property services in respect of community estate.

£40m will be payable to the NHS Business Services Authority (NHS Pensions) in respect of employee and employer contributions and £11m to the NHS Supply Chain for the provision of goods to the Trust.

39 Losses and special payments

	Total Value of Cases £s	**Total Number of Cases**
Losses	221,818	310
Special payments	199,044	87
Total losses and special payments	420,862	397

The total number of losses cases in 2011-12 and their total value was as follows:

	Total Value of Cases £s	**Total Number of Cases**
Losses	242,349	525
Special payments	271,127	114
Total losses and special payments	513,476	639

There were no individual cases where the value of losses or special payments exceeded £250,000 in either 2012/2013 or 2011/2012.

40 Financial performance targets
The figures given for periods prior to 2009-10 are on a UK GAAP basis as that is the basis on which the targets were set for those years.

40.1 Breakeven performance	**2005-06 £000s**	**2006-07 £000s**	**2007-08 £000s**	**2008-09 £000s**	**2009-10 £000s**	**2010-11 £000s**	**2011-12 £000s**	**2012-13 £000s**
Turnover	313,388	327,536	348,475	359,161	384,774	387,870	424,144	**433,007**
Retained surplus/(deficit) for the year	(5,726)	3,399	6,524	2,547	(28,646)	(6,885)	4,540	**(3,441)**
Adjustment for:								
Timing/non-cash impacting distortions:								
Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	0	0	0	0	0	0	0	**0**
2006/07 PPA (relating to 1997/98 to 2005/06)	0							
2007/08 PPA (relating to 1997/98 to 2006/07)	0	0						
2008/09 PPA (relating to 1997/98 to 2007/08)	0	0	0					
Adjustments for Impairments				0	36,463	9,533	(2,395)	**8,872**
Adjustments for impact of policy change re donated/government grants assets							358	**1,092**
Consolidated Budgetary Guidance - Adjustment for Dual Accounting under IFRIC12*					(557)	(455)	(640)	**0**
Adsorption Accounting Adjustment								**0**
Other agreed adjustments	0	5,726	0	0	0	0	0	**0**
Break-even in-year position	**(5,726)**	**9,125**	**6,524**	**2,547**	**7,260**	**2,193**	**1,863**	**6,523**
Break-even cumulative position	**(13,527)**	**(4,402)**	**2,122**	**4,669**	**11,929**	**14,122**	**15,985**	**22,508**

* Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, NHS Trust's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS to IFRIC 12 schemes (which would include PFI schemes), which has no cash impact and is not chargeable for overall budgeting purposes, is excluded when measuring Breakeven performance. Other adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves) to maintain comparability year to year.

	2005-06 %	**2006-07 %**	**2007-08 %**	**2008-09 %**	**2009-10 %**	**2010-11 %**	**2011-12 %**	**2012-13 %**
Materiality test (I.e. is it equal to or less than 0.5%):								
Break-even in-year position as a percentage of turnover	-1.83	2.79	1.87	0.71	1.89	0.57	0.44	**1.51**
Break-even cumulative position as a percentage of turnover	-4.32	-1.34	0.61	1.30	3.10	3.64	3.77	**5.20**

The amounts in the above tables in respect of financial years 2005/06 to 2008/09 inclusive have **not** been restated to IFRS and remain on a UK GAAP basis.

40.2 Capital cost absorption rate

The dividend payable on public dividend capital is based on the actual (rather than forecast) average relevant net assets and therefore the actual capital cost absorption rate is automatically 3.5%.

40.3 External financing

The trust is given an external financing limit which it is permitted to undershoot.

		2012-13	2011-12
	£000s	**£000s**	£000s
External financing limit		**5,425**	10,973
Cash flow financing	**(11,018)**		(8,382)
Finance leases taken out in the year	**0**		0
Other capital receipts	**0**		(460)
External financing requirement		**(11,018)**	(8,842)
Undershoot/(overshoot)		**16,443**	19,815

40.4 Capital resource limit

The trust is given a capital resource limit which it is not permitted to exceed.

	2012-13	2011-12
	£000s	£000s
Gross capital expenditure	**17,717**	16,366
Less: book value of assets disposed of	**(245)**	(541)
Less: capital grants	**0**	0
Less: donations towards the acquisition of non-current assets	**(39)**	(460)
Charge against the capital resource limit	**17,433**	15,365
Capital resource limit	**21,498**	21,955
(Over)/underspend against the capital resource limit	**4,065**	6,590

41 Third party assets

The Trust held cash and cash equivalents which relate to monies held by the NHS Trust on behalf of patients or other parties. This has been excluded from the cash and cash equivalents figure reported in the accounts.

	31 March 2013	31 March 2012
	£000s	£000s
Third party assets held by the Trust	**0**	1

SWBAC (6/13) 039

cutting through complexity™

Sandwell and West Birmingham Hospitals NHS Trust

ISA260 Audit Highlights Memorandum

2012/13

6th June 2013

Contents

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This report is addressed to Sandwell & West Birmingham Hospitals NHS Trust (the Trust) and has been prepared for the sole use of the Trust. We take no responsibility to any member of staff acting in their individual capacities, or to 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 audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body'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 Andrew Bostock who is the engagement lead to the Trust or Trevor Rees, 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. You can contact the Complaints Unit by phone (0844 798 3131), by email (complaints@audit-commission.gov.uk), through the audit commission website (www.audit-commission.gov.uk/aboutus/contactus), by textphone/minicom (020 7630 0421), or via post to Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR.

Introduction

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 C 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 6th June 2013.

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.

Use of Resources (UoR)	Sandwell and West Birmingham Hospitals 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. 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. 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. 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.
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.

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 UoR work.
- Section 4 sets out our findings on the audit of the financial statements.

Headlines

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

Use of Resources and audit certification	■ Based on the findings of our work, we concluded that the Trust has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. ■ We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. In order to do this we must have completed all our mandated work at the Trust. As outlined on page 4, our work on the quality account is not yet complete. We therefore anticipate issuing our certificate after completion of this work.
Accounts, unadjusted audit differences and management representations	■ We intend to issue an unqualified audit opinion on the accounts following the adoption of the accounts by the Trust Board, our receipt of the required management representation letter and the completion of our final quality control procedures. ■ We have completed our audit of the financial statements. We have also read the content of the Annual Report (including the remuneration report) and reviewed the Annual Governance Statement. Our key findings are: – Our audit work did not identify any material misstatements. There are two significant unadjusted misstatements and these are outlined in Appendix C. – We have agreed a number of presentational changes to the accounts with management, mainly related to compliance with the relevant guidance and accounts classification issues. We also agreed changes to the Remuneration Report to clarify dates of appointment and departure of senior officers. These items have been adjusted. – In addition to our routine request, we have requested management representations over your accounting treatment of monies relating to the Right Care Right Here programme and other income received from Commissioners relating to long term treatments. Section four provides further details.
Recommendations	■ We have made four recommendations as a result of our 2012/13 audit work. The key recommendations are in relation to: – Identification and classification of deferred income and accruals – Verification of Assets – Asset valuations – Better Payment Practice Code ■ We reviewed the Trust's progress against prior year recommendations and found that management had fully implemented two of our recommendations, but our recommendation in relation to deferred income and accruals raised by us in our previous ISA260 still requires further action by management.

Headlines (cont.)

Whole of Government Accounts	■ We are required to report to the NAO auditors in connection with the audit of the Department of Health Departmental Account, NHS Summarised Accounts and Whole of Government Accounts. We intend to issue an unqualified Group Audit Assurance Certificate to the National Audit Office (NAO) regarding the Whole of Government accounts (WGA) submission. ■ 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 identified three such balances and these are detailed in Appendix E.
Quality Accounts	We are in the process of our audit of the Trust's 2012/13 Quality Accounts. Currently, based on the work performed: ■ You are on track to achieve a clean limited assurance opinion on the content of your Quality Report. We suggested amendments to your draft to ensure compliance with the Quality Account Regulations which we understand have been implemented. The Quality Report can be referenced to supporting information and evidence provided by the Trust. ■ This year we are in the process of testing the required quality indicators – The percentage of patient safety incidents resulting in severe harm or death and percentage of patients readmitted within 28 days. ■ Our detailed findings following the audit of the Quality Report will be presented to you in a separate report. The deadline for our opinion on your Quality Account is 30 June 2013. We continue to work with Trust officers to progress the work and achieve this deadline. We will issue our audit certificate upon completion of this work.
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. ■ We did not issue a report to the Secretary of State or a report in the public interest in 2012/13.
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. ■ This work is complete and has not identified any matters which we wish to draw to your attention.

Use of Resources

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Trust has proper arrangements in place for:

- securing financial resilience: looking at the Trust's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Trust is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Trust to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Trust has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources:

VFM criterion	Met	VFM criterion	Met
Securing financial resilience	✓	**Securing economy, efficiency and effectiveness**	✓

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.

Criteria and scope of our work	Key findings from our work
1) Securing financial resilience We considered the Trust's arrangements for ensuring robust financial governance, planning and control. As a result, we focused on whether the Trust has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.	The Trust has robust systems and processes to effectively manage financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future. Our review of documentation and discussions with Trust officers in respect of the Trust's cost improvement planning processes (transformation programme) support that the Trust maintains sound arrangements. These arrangements have enabled the Trust to achieve its CIP target of £24.08m for the financial year. Regular financial reporting to Board facilitates the Trust in its decision making in the short and medium term. The Trust delivered against its budget in 2012/13 and met its statutory financial targets. During the year the Trust made a number of severance payments as disclosed in its accounts. We reviewed the Trust's arrangements that are in place to ensure that such payments are in the public interest and represent value for money. Our audit sample testing identified one severance payment made by the Trust in 2012/13 that resulted from a settlement reached in employment tribunal mediation. From 11 March 2013 per the DH guidance *NHS employers guide to severance, April 2013* any employment tribunal cases settled with a special severance payment at judicial mediation must be approved in advance by HM Treasury as any payments are deemed "non-contractual". However, we are satisfied that this is not an issue for the Trust because this payment occurred prior to 11 March 2013 and is therefore deemed by the guidance to be "regular and legal ".

Use of Resources (cont.)

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.

Criteria and scope of our work	Key findings from our work
2) Securing economy, efficiency and effectiveness We considered the Trust's arrangements for prioritising resources and achieving efficiency and productivity. We also considered the Trust's performance in the year. As a result, we focused on how the Trust is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.	The Trust demonstrates prioritisation of its resources within tighter budgets including the achievement of cost reductions. We note that whilst the Trust has achieved the majority of its key performance targets throughout the year but did not meet those in relation to: • Emergency care 4 hour maximum wait; and • Ambulance turnaround – clinical handover completed within 15 minutes. The Trust has arrangements in place to monitor delivery of its key targets including monthly reporting to Board. It has identified the risks relating to failure to meet its targets and has plans in place to mitigate these risks. Key actions identified and being managed include increasing workforce (including consultant and nursing posts) and the implementation of new IT systems. We note that: • performance against the Emergency Care 4-hour maximum wait target was 92.4% during the month of April 2013, which met the Trust's improvement trajectory for the period. Data for the period 1 - 14 May inclusive indicates further improvement to 94.5% but remains short of the 95% target. • ambulance turnaround – clinical handover completed within 15 minutes performance for April was reported as 81.4% against a target of 84%. We note significantly different performance between the Trust sites with City achieving 85.1% and Sandwell 76.4% In forming our view of the Trust's arrangements in place to secure economy, efficiency and effectiveness we have taken these issues and the actions taken to address them into account. We note that the improving performance being demonstrated however the Board needs to ensure that actions planned to improve performance continue to be managed, monitored and delivered. We will continue to review progress during 2013/14.

Our conclusion

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 2013.

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. External Audit Plan: presented to Audit Committee	✓	-	-
3. Controls: assess the control framework.	✓	-	-
4. Prepared by Client Request (PBC): issue our prepared by client request.	✓	-	-
5. Accounting standards: agree the impact of any new accounting standards.	✓	✓	-
6. Accounts Production: review the accounts production process.	✓	✓	✓
7. Testing: test and confirm material or significant balances and disclosures.	-	✓	-
8. Representations and opinions : seek and provide representations before issuing our opinions.	✓	✓	✓

We have completed the first seven stages of the process. We report our key findings from each stage in the remainder of this section.

Business Understanding and External Audit Plan.	■ In our *2012/13 External Audit Plan* we assessed your current operations to identify significant issues that might have a financial consequence. ■ We have provided an update on the key accounts audit issues on page 12.
Assessment of the Control Framework	■ We have assessed the effectiveness of your key financial system controls in place that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. ■ We evaluated the work of your internal audit function, provided by Coventry and Warwick Audit Services, in accordance with ISA 610. We found that we were able to place reliance as planned on their work in respect of fixed assets and payroll controls. ■ We have completed our review of the IT controls which prevent fraud and error in the annual accounts. There are no issues from this work which we need to raise with you.

Accounts (cont.)

Prepared by Client Request	■ We issued our final prepared by client list to the Trust on 16th April 2013. This document summarises the working papers and evidence we ask you to collate as part of the preparation of the financial statements. ■ Working papers were presented to us in line with the agreed timetable. Whilst a small number were revised during the course of the audit where they didn't fully meet our requirements, this was dealt with swiftly by the client and there were no delays to the audit.
Accounting Standards	■ During our routine liaison throughout the year we have discussed changes to accounting standards and accounting policies with the Trust, for example in relation to the valuation of land and buildings.
Accounts Production	■ We received the Trust's submitted accounts on 19th April 2013 in advance of 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. ■ The Trust's working papers to support the financial statements were of high quality 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. ■ 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. As in previous years, we will debrief with the Finance team to share views on the accounts production and audit process. We anticipate that his will lead to an even smoother audit process in future.

Testing	■ Our audit sample testing identified concerns about the following balances:
	    ■ £3.7m which has been included in provisions in respect of transformation funding received in previous years from commissioners; and
	    ■ £1.4m which has been included in provisions in respect of incomplete treatments for patients receiving high cost drugs (including Lucentis).
	These items been accounted for as provisions but we do not consider that these items meet the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. Appendix C provides further details. The total value of these balances is £5.1m and is therefore not material in the context of the accounts as a whole. These are summarised in Appendix C.
	■ We have also identified a number of items related to presentation and classification of balances. These items have been adjusted but we have raised recommendations in respect of these items in Appendix A.
	■ Our findings related to areas of high audit risk are shown on page 12.

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 have provided a draft of this representation letter to the Director of Finance and Performance Management. ■ This year we are asking management to provide a specific representation on the provisions for transformation funding services yet to be provided by the Trust at the Statement of Financial Position (SOFP) date.

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.
- 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 6 June 2013.

Once we have received your representations we issue our audit opinion. For 2012/13 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 NHS Trust Financial Reporting Manual 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 Annual Report and in our view it does not contain information which is inconsistent with your financial statements; 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 Audit Commission's NHS Trust Financial Reporting Manual.

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

Accounts (cont.)

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 2012/13 was £111,107 (plus VAT). This fee was consistent with the scale fee highlighted within our audit plan and communicated to the Audit Committee.

The fee for our NHS Quality accounts work was £10,000 which was included in the scale fee.

However we also provided additional audit testing in relation to potential redundancy cases for which we billed the Trust £10,065 (plus VAT).

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

RTT 18 weeks root cause analysis review	■ The fee for our RTT18 weeks root cause analysis review was £35,000 (plus VAT). ■ This work was subject to approval by the Audit Commission based upon an assessment of our arrangements to secure our independence and objectivity as your external auditors. The scope of work and fees were approved by the Audit Commission. ■ We reported this work to you in our Audit Committee update reporting throughout the year and we are confident that there are no conflicts of interest or independence issues relating to this work.

Results of our testing on areas of high audit risk

In our *External Audit Plan 2012/13,* presented to you in February 2013, we identified the key risks affecting the Trust's 2012/13 financial statements. We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk set out in the *External Audit Plan 2012/13.*

Areas of HIGH audit risk	Summary of findings
Valuation of fixed assets **Audit areas affected** ■ Non current asset valuations	■ A valuation of the Trusts assets was performed by the District Valuer during the year with revised net book values and asset lives reflected in the Fixed Asset Register during Quarter 3 of the financial year. ■ We reviewed the methodology used to value the Trust's Fixed Assets (as described on page 12) and have agreed a number of amendments where the treatment of depreciation and impairment of fixed assets to ensure compliance with the requirements of the NHS Trust Financial Reporting Manual.
Financial standing and delivery of CIP **Audit areas affected** ■ Use of resources ■ Value for Money	■ The Trust has in place arrangements in place for identification, implementation and monitoring of Cost Improvement Programmes. ■ The Trust had a challenging CIP target for 2013/14 of £24.08m. The Trust delivered this target, achieving £16.58m recurrent savings and £7.5m non-recurrent savings. The Trust expects the benefits it receives from recurrent savings to increase in 2013/14 as many of these were implemented during the financial year, and so will bring full year savings in the future.
Income recognition **Audit areas affected** ■ Income ■ Agreement of balances	■ The Trust has received non-recurrent income streams in previous years relating to 'Transformation Monies' in respect of specific activities under the 'Right Care, Right Here' programme which it continues to recognise in provisions. 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. Appendix C provides further details. ■ We reviewed the Agreement of Balances exercise to ensure that there are no discrepancies with other bodies that could indicate additional income recognition issues. No discrepancies were identified from this process, however we will be required to disclose to the NAO the "transformation monies" noted above because their inclusion in provisions means that they were not including within the Agreement of Balances exercise. ■ Our audit testing also identified balances in provisions of £1.3m relating to income received in respect of incomplete treatments for patients receiving high cost drugs (including Lucentis) for which treatment was not delivered by the SOFP date. These are unadjusted audit differences. Appendix C provides further details.

Accounts (cont.)

During the audit we consider areas of significant judgements and estimates affecting the Trust.

We have summarised our key findings below to give the Audit Committee a view as to whether we believe these judgements are reasonable:

Areas of significant audit judgment	Summary of findings
Asset Valuation	■ The Trust has had its estates revalued during the current financial year by the Valuation Office (District Valuer). The Trust has applied this revaluation to the financial statements as it believes the valuation to be an accurate reflection of the value of the Trust's estates. We have performed a number of procedures to ensure that we are comfortable with the revaluation including: ■ Ensuring the approach adopted by the Valuation Office is consistent with IFRS accounting standards and NHS Trust Financial Reporting manual guidance; ■ Reviewing the District Valuer's report and checking it is correctly reflected in the accounts; ■ Inspection of Title Deed / land registry documentation in respect of a sample of Trust's site areas; ■ Reviewing the competence and objectivity of the District Valuer; and ■ Reviewing the basis of the valuation and confirming that it is consistent with our expectation using the input of our own KPMG specialist.

Appendix A: Key issues and recommendations

This appendix summarises the recommendations that we have identified from our work. We have given each of our recommendations a risk rating (as explained below) and agreed with management what action you will need to take.

Priority rating for recommendations					
❶	***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷	***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸	***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
1	❶	**Identification and classification of Deferred Income and Accruals** Our audit testing identified balances of £3.7m relating to Transformation Funding, and £1.4m relating to incomplete treatments which have been classified as provisions, but do not meet the definition of a provision as set out in IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. £5.1m of income received in both 2012/13 and previous financial year has been incorrectly recorded as a provision in the statement of financial position. An assessment should be made on the correct treatment and presentation using IAS18 Revenue Recognition and IAS 37 Provisions. Where income has been received from another NHS body, the accounting treatment should be agreed by the counterparty to ensure consistency. **This recommendation was also made in our 2011/12 ISA260 report.**	The Trust's view is that a potential liability exists to incur expenditure on the projects for which funding was given and therefore it is not appropriate to release these monies to the Statement of Comprehensive Income under IAS18. However, the Trust will review accounting treatment during 13/14 with a view to recognition where appropriate within the overall income and expenditure position, thus reducing or eliminating such balances at 31st March 2014

Appendix A: Key issues and recommendations (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
2	2	**Verification of Assets** We have undertaken testing as part of the audit to gain assurance over the existence of assets, including physical verification and testing of deeds. Whilst our sample testing did not identify and specific issues we note that the Trust does not undertake a routine physical verification of its assets. This impacts on the ability of the Trust to be assured that all assets recorded in the financial statements exist and remain in use by the Trust. We note that this recommendation has previously been raised by internal audit and was not accepted by management. The Trust needs to make appropriate checks to assure itself of the existence of fixed assets. This should take the form of a rolling physical verification of assets recorded on the asset register.	The Trust considers that close joint working between Finance and other appropriate staff within the Trust (primarily Estates and Medical Engineering) on recording and accounting for assets provides a more robust and timely method of establishing the status of assets than simple physical verification. However, a process will be established during 2013/14 to physically check and record the existence of a sample of assets to provide additional validation of the existence and condition of assets.
3	2	**Asset Valuations** The Trust had a revaluation of its land and building assets in year. The NHS Trust Financial Reporting Manual stipulates that if a revaluation on assets has been carried out during the period, this should be reflected in the financial statements as a revised Gross Book Value but this had not been done in the Trust's draft accounts. The Trust has now amended the presentation of the Property, Plant and Equipment in the final version of the accounts. We note that the valuation was commissioned as at 1 January 2013, meaning the Trust had to complete additional work to demonstrate that these values were appropriate for the 31 March SOFP date. The Trust should ensure compliance with Manual for Accounts guidance in future years by ensuring: ▪ the fixed asset register (CARS) reconciles to the financial statements for gross as well as net amounts; and ▪ the Trust has robust arrangements in place to assure itself of the accuracy of PPE valuations as at 31 March where possible requesting a valuation as at the SOFP date.	Although the brought forward net asset values were correct, the 2011/12 audited accounts showed both gross and depreciation values rather than a single net book value. This then meant that a correction to opening balances had to be included within the 2012/13 accounts (with no overall effect). In addition, the 2012/13 FMAs failed to incorporate a facility to generate net values (a problem across all NHS organisations) and organisations needed to reflect this transaction on an inappropriate line within the accounts (as agreed by the DoH). These actions have now corrected the problem going into 2013/14 and future valuation exercises will be reflected In single net value balances. (continued overleaf).

Appendix A: Key issues and recommendations (cont.)

#	Risk	Issue, Impact and Recommendation	Management Response/ Responsible Officer/Due Date
3 (cont)			As it did in 2011/12, the Trust obtained a formal valuation of its land and buildings at 1st January which, with the evidence of no material movements either local or nationally in terms of building costs (as measured by BICS indices) nor any changes of use or condition between January and March, was considered a reasonable basis for establishing a value at 31st March (after adjusting for transactions between January and March). The purpose of an early valuation is twofold: it gives an earlier indication of the potential impact of impairments rather than being known only at the year end; and it ensures that all valuation movements can be correctly accounted for and tested prior to the production of the statutory accounts. However, the Trust will enter into discussion with the District Valuation Service over the next few months to consider options in terms of valuations which provide information closer to the SoFP date but also allow sufficient time for transactions to be properly accounted for. Information will also be sought from other Trusts on their approach to the same issue.
4	3	**Better Payments Practice Code (BPPC)** The accounts show that the Trust has not met any of the four the Better Payment Practice Code targets. In the case of the percentage of NHS payables paid within 30 days, performance at 56.34% is substantially below the 95% target, though we recognise that this represented 76.77% of payments by value. Non-NHS payments show better results, though remain below the 95% target as 94.38% of invoices were paid within 30 days. This represents 92.82% of invoices by value paid within 30 days. We have previously raised recommendations in respect of this area and recognise that the Trust has taken steps to improve performance. However, the Trust needs to continue to improve the accuracy and timeliness of invoice registering and recording, including encouraging invoices to be forwarded to finance in the first instance in order to bring its performance in line with target and with peers.	Over the last few years, the Trust has focussed on improving performance in respect of trade creditors such that percentage compliance has risen from 68.3% by volume and 69.6% by value in 2009/10 to 94.4% and 92.8% in 2012/13. However, it is recognised that there has not been a similar improvement in payment of NHS invoices. A major contributory factor is that intra NHS transactions have not always been subject to the rigors introduced via i-procurement and the Oracle purchasing and payment system to non NHS payments and transactions have been handled outside "normal" systems. In many cases, orders have not been raised nor receipted and this has required authorisation by operational departments prior to payments being made. Late in 2012/13, all NHS payments were switched to Oracle and this, coupled with the introduction of more rigorous control of ordering and receipting (in line with non NHS purchases) in operational departments is expected to make significant improvements to performance although it is anticipated that it will take some time to ensure that all NHS transactions are subject to this process.

Appendix B: Follow up of prior year recommendations

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2011/12* and re-iterates any recommendations still outstanding.

Number of Prior Year Recommendations	Number of Recommendations implemented	Number outstanding (re-iterated below)
3	2	1

Recommendations Outstanding

#	Risk	Issue and Recommendation	Officer Responsible and Due Date	Status as at May 2013
1	2	**Identification and classification of Deferred Income and Accruals** In 2011/12 we identified classification errors in relation to deferred income and provisions, which we consider is a misclassification. We repeat our recommendation from 2011/12 in Appendix A	Responsible Officer – DoF&PM	**Outstanding – see recommendation at Appendix A**

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 Sandwell and West Birmingham Hospitals NHS Trust for the year ended 31 March 2013.

Unadjusted audit differences

Detailed below are the audit differences that have an effect on the NHS Trust's reported financial statements. We are satisfied that, although the NHS Trust has not adjusted the accounts to reflect these differences, the total unadjusted difference is not material to the overall reported financial position.

Issue	Statement of Comprehensive Income (£'000)	
	Adverse Impact (Dr)	Favourable Impact (Cr)
Release of provisions – transformation funds (Dr Provisions, Cr SOCI)		3,700
Release of provisions – long term care income received (Dr Provisions, Cr SOCI)		1,400

Adjusted audit differences

We are pleased to report that there were no significant adjusted audit differences which impacted on the Trust's statement of comprehensive income, or statement of financial position.

Presentational Issues

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

- Amendments to the presentation of the Property Plant and Equipment note. These amendments were necessary to ensure the Trust complied with NHS Trust Financial Reporting Manual guidance on accounting for revaluation of land and buildings assets. This amendment also required amendment to the presentation of prior year figures in this note. There is no impact from this change on the values for these assets as presented in the statement of financial position.
- Amendment to the disclosures in the PFI and LIFT note to ensure all finance lease obligations were fully disclosed and recognised for 2011-12 after omission by the Trust. This change has no impact on the statement of financial position.

Other Matters

There are no other matters I wish to bring to your attention.

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 2013, 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 Sandwell and West Birmingham Hospitals NHS 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 intend to report the following;

Counter party	Type of balance/ transaction	Balance as per Sandwell and West Birmingham Hospitals NHS Trust (£,k)	Balance as per counter party (£,k)	Difference (£,k)	Comments on Difference
Heart of Birmingham PCT	Provision	2,806	0	2,806	These balances are recorded in provisions, which is not subject to the agreement of balances exercise. Balances related to monies provided by Commissioners in respect of transformation monies, Right Care Right Here and monies received for patient care where services have not yet been provided. There is no equivalent balance in the PCT accounts.
Sandwell PCT	Provision	1,523	0	1,523	
Birmingham East and North PCT	Provision	250	0	250	

cutting through complexity™

Sandwell and West Birmingham Hospitals NHS
NHS Trust

ANNUAL GOVERNANCE STATEMENT 2012/13

SANDWELL AND WEST BIRMINGHAM HOSPITALS NHS TRUST

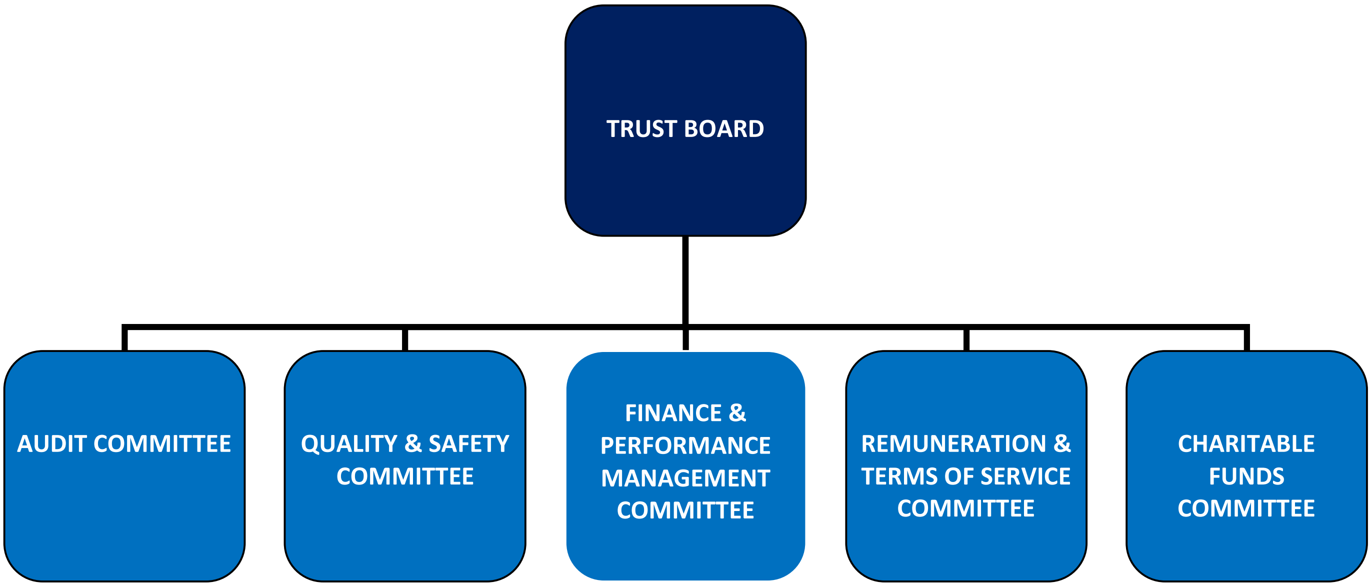
1. SCOPE OF RESPONSIBILITY

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 National Trust Development Authority, the senior managers of the local Clinical Commissioning Group 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 National Trust Development 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 was supported in its duties during the year by five committees, as follows:



2012-13 Annual Accounts of Sandwell & West Birmingham Hospitals NHS Trust

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: Five Non-Executive directors (excluding the Chair). The Director of Finance has a standing invitation to attend and other Executives may attend when requested.

Attendance:

	17/5/12	7/6/12	13/9/12	6/12/12	14 & 28 /2/13
Gianjeet Hunjan (Ch)	✓	✓	✓	✓	✓
Roger Trotman	A	✓	A		
Sarindar Sahota	✓	✓	✓	✓	✓
Derek Alderson	A	A	✓		
Olwen Dutton	✓	✓	A	A	A
Phil Gayle	✓	✓	✓		
Clare Robinson				✓	✓
Harjinder Kang				✓	A

KEY:

✓	Attended
A	Apologies tendered
	Not in post or not required to attend

QUALITY & 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: Monthly

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

	24/5/12	19/7/12	20/9/12	19/10/12	22/11/12	14/12/12	25/1/13	21/2/13	21/3/13
Derek Alderson (Ch)	A	A							
Olwen Dutton (Ch)#1	✓	✓	✓	✓	✓	✓	A	✓	✓
Sarindar Sahota	✓	✓	✓	✓	✓	✓	✓	✓	✓
Richard Samuda	A	A	A	A	A	✓	✓	✓	✓
Gianjeet Hunjan#2		A	✓	✓	✓	✓	✓	✓	A
Richard Lilford#3			A	A	✓	✓	✓	A	A
John Adler#4	✓	✓	✓	✓	A	✓			
Mike Sharon#5							✓	✓	✓
Robert White	✓	✓	A	A	✓	A	A	A	✓
Rachel Overfield	✓	✓	✓	A	✓	✓	✓	✓	✓
Rachel Barlow	A	✓	A	A	✓	A	✓	✓	✓
Deva Situnayake#6	✓	✓							
Roger Stedman#7			✓	✓	✓	A	✓	✓	✓
Kam Dhami	✓	✓	✓	✓	✓	✓	✓	✓	✓

NOTES

#1	Assumed chair of Committee from July 2013
#2	Member of Committee from July 2013
#3	Commenced in post as a Non Executive Director from September 2012
#4	Departed the Trust from January 2013
#5	Acting CEO from January 2013
#6	Acting Medical Director until August 2012
#7	Commenced in post as Medical Director from August 2012

KEY:

✓	Attended
A	Apologies tendered
	Not in post or not required to attend

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, Trust Development 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: Three Non-Executive directors, CEO, Director of Finance and Chief Operating Officer

	DATE											
DIRECTOR	19/4/12	24/5/12	21/6/12	20/7/12	24/8/12	20/9/12	19/10/12	23/11/12	20/12/12	25/1/13	22/2/13	22/3/13
Roger Trotman (Ch)	NO MEETING	✓	✓	✓	✓	✓	✓					
Clare Robinson (Ch)								✓	✓	✓	✓	✓
Richard Samuda		A	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Gianjeet Hunjan		✓	✓	✓								
Phil Gayle		A	✓	A	✓	A	✓					
Harjinder Kang								✓	✓	✓	✓	✓
John Adler		✓	A	✓	✓	✓	✓	✓	✓			
Robert White		✓	✓	✓	✓	✓	✓	✓	✓	✓	A	✓
Mike Sharon										✓	✓	✓
Rachel Barlow		✓	✓	✓	A	✓	A	✓	✓	✓	✓	✓

NOTE:
NED attendance rationalised from July 2012 to restrict membership to three NEDs;
Chair ship changed from Mr Trotman to Ms Robinson from November 2012
Following his departure in December 2012, Mr Adler's seat on the Committee was given to Mr Sharon in his capacity as acting Chief Executive

KEY:

✓	Attended
A	Apologies tendered
	Not in post or not required to attend

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.

Attendance:

	31/5/12	2/12/12
Richard Samuda	✓	✓
Roger Trotman	✓	
Sarindar Sahota	✓	✓
Gianjeet Hunjan	✓	✓
Derek Alderson	A	
Richard Lilford		✓
Olwen Dutton	✓	✓
Phil Gayle	A	
Clare Robinson		✓
Harjinder Kang		✓

KEY:

✓	Attended
A	Apologies tendered
	Not in post or not required to attend

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 are Trustees, however they are represented by six voting Board members. The HoCE and Head of Fundraising also attend

	17/5/12	13/9/12	6/12/12	14 /2/13
Sarindar Sahota (Ch)	✓	✓	✓	✓
Richard Samuda	✓	A	A	✓
Roger Trotman	A	✓		
Gianjeet Hunjan	✓	✓		
Olwen Dutton	A	A		
Derek Alderson	A			
Clare Robinson			✓	✓
Phil Gayle	A	✓		
John Adler	✓	✓	✓	
Mike Sharon				✓
Robert White	✓	✓	A	✓
Rachel Overfield	A	A		✓
Rachel Barlow	A	A		
Roger Stedman		✓		

KEY:

✓	Attended
A	Apologies tendered
	Not in post or not required to attend

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 assessments, development activities and opportunities. Much of this work has been facilitated by independent sources, most notably being the in-year assessments against the Board Governance Assurance Framework and Monitor's Quality Governance Framework. The assessments although largely focussed on the degree to which governance arrangements and quality is embedded into the organisation, also focus on the operation of the Board, including a comprehensive assessment of the skills and capabilities of Board members. The actions to address the recommendations arising from the assessments have been incorporated into an Integrated 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 FT readiness assessment 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. The outcome from these processes has been carefully considered by the Board and included within the Integrated Development Plan, including action as required. Finally, the Development Plan is monitored by the Board on a routine basis through the FT Programme Board.

2.5 In addition to the Integrated Development Plan, a plan specifically including matters pertaining to Board Development has been prepared. This incorporates both short term needs to focus on creating a cohesive team following the change in membership over recent months and longer term development requirements to develop the Board into a more effective and highly performing unit.

2.6 Within the last year there has been a refresh of the terms of reference of the Board Committees to bring them in line with best practice examples and to strengthen the role in providing the Board with the assurance it needs to satisfy itself that the organisation is operating legally, effectively and safely. The remit of the Quality & Safety Committee has been broadened to include a wider range of assurance matters, including the consideration of a comprehensive monthly report, which provides an update on the key activities and performance across the various dimensions of quality & safety. 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 A key area of interest for the Audit Committee during the year has been the process to assess the quality of data in respect of the Trust's performance against the national 18 week referral to treatment target. During the year the Committee has also considered the selection process and a revised specification for the provision of Internal Audit services to the Trust. The Committee took the opportunity to receive an update on the Trust's position in relation to the reference cost index (RCI) data and an analysis for the 2011-2012 financial year, where it was highlighted that the Trust RCI remained unchanged at 102 between 2010-2011 and 2011-2012, a period which included the incorporation of Sandwell's community services into the index.

2.8 The Board considers that the Trust has, throughout the 2012/13 reporting year, applied the principles and met the requirements of the Code of Governance. In summary, the Trust has 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.

2.9 The Board's routine reporting includes a review of performance against the priorities of the Operating Framework, principally by measuring compliance against the NHS Performance Framework. The assessment reported the Trust to be classified as a 'Performing' organisation throughout the year.

3 RISK ASSESSMENT

3.1 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.

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

3.3 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 Risk Register and monitored by the Trust Board and its delegated committees.

3.4 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.

3.5 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.

3.6 Those risks that are presented for addition to the corporate risk register are presented monthly to the Trust Board. The Trust Board is asked to approve a proposal for the risk to be tolerated or treated.

3.7 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. Any difficulties in meeting the deadlines of the actions or in securing resources to enable mitigation are reported on the monthly risk register update that the Board receives.

3.8 New risks identified during the year have largely centred on the impact of the pause in the delivery of the Trust's bed configuration plan; the impact of the higher than planned operational pressures on the Trust's achievement of national performance targets; and the potential historic inaccuracy with reporting of the Trust's performance against the 18 week referral to treatment time target. All risks, together with their respective mitigation are included on the Trust's Corporate Risk Register, the summary of which is reported to the Trust Board on a monthly basis.

3.9 The Board, as part of the monthly Quality Report, receives a summary of the Care Quality Commission's Quality & Risk Profile (QRP). Overall the QRP shows the Trust as being at a low risk of non-compliance with the CQC's 16 essential standards of quality and safety, with the exception of Outcome 4 which relates to the 'care and welfare of people who use services'. The indicators forming this judgement and assessing the Trust's position as worse than the expected position or moving in that direction were reviewed and details were presented to the Quality & Safety Committee. The data sources include the Stroke Improvement National Audit Programme, PROMs (groin hernia surgery and knee replacement), the CQC A&E Survey and Dr Foster Intelligence.

3.10 Overall, the Trust remains fully compliant with the CQC essential standards of quality and safety. However within the year, the Sandwell Hospital was subjected to a responsive review of compliance by the CQC in connection with Outcomes 1, 4 and 14. The CQC assessed the Trust as meeting the standards at this site. Additionally, within the year, the Trust's position was assessed for compliance against a further set of outcomes including consent to care & treatment, assessing & monitoring the quality of service provision and complaints. The Trust was assessed as having shortfalls against a number of the standards and therefore an action plan was developed to address these matters. Good progress is being made with the delivery of the action plan, which is monitored on a monthly basis by the Quality & Safety Committee.

3.11 There have been no data security lapses that have warranted reporting to the Strategic Health Authority or the Information Commissioner's Office during the period.

3.12 Within the year, the Trust experienced a catastrophic hardware (disk) failure which resulted in a number of core systems including ICM and the Clinical Data Archive being unavailable to users between the 6th March 2013 and the 10th March 2013. None of the Trust's financial systems were affected. To prevent a reoccurrence of the situation, a threefold approach was undertaken to include: independent solution assurance; implementation of more robust operational monitoring of infrastructure and strengthened business continuity arrangements. The Trust Board was appraised of the situation and consequences of the IT failure at its Board meeting in March 2013, with a request for further detail and assurance on the measures being implemented to safeguard against a further incident.

4. THE RISK & CONTROL FRAMEWORK

4.1 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.

4.2 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.

4.3 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.

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

Board Assurance Framework

4.5 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 2013/14.

4.6 The Board Assurance Framework is considered on a quarterly basis by the Trust Board and twice yearly by the Audit Committee.

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

4.8 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.

Quality Account

4.9 The Trust has in place robust processes to develop its annual Quality Account. The process and progress with developing the Quality Account is monitored by the Audit Committee.

Transformation Plan Quality Impact Assessment

4.10 A major piece of work within 2012/13 continued to be 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. Quality Impact Assessment of schemes put forward as part of the 2013/14 element of the Transformation Plan was undertaken by the Chief Nurse and Medical Director. The assessments highlighted that there were some schemes where quality of care might be impacted and in these cases mitigation plans were produced, to minimise the effects of any risk realised. Those which remained a concern following the proposed mitigation were not approved as viable schemes. 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

4.11 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 2014/15. In February 2013, the Trust gained accreditation against CNST maternity standards at Level 2, with the Level 3 assessment planned for 2014.

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.

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 countering 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. Work has been undertaken during the year to revise the policy and strengthen the processes for raising, logging and processing concerns. The policy advises 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.

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. As part of the auditor's opinion, concerns were highlighted with regard to the effectiveness of controls over data quality in relation to A&E indicators and 18 week referral to treatment reporting that led to the provision of only moderate assurance in both instances.

Weaknesses with regard to theatre utilisation were also highlighted, which resulted in the provision of moderate assurance. The auditor did however advise that action plans had been agreed with management in relation to these moderate assurance areas and the implementation of those plans will be monitored.

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 2012/13 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 2012/13 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 During the year, 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 & Performance Management Committee, Quality & Safety Committee, Clinical Quality Review Group, Quality Committees, Governance Board, Health & Safety Committee and the Adverse Events Committee.

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 receives a monthly update within the Quality Report 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, there were no data security breaches reported which warranted reporting to the Information Commissioners Office and Strategic Health Authority.

6.2 Two inspections by the Care Quality Commission which occurred within the year, one of which identified that there were concerns over compliance with a number of outcomes across City and Sandwell Hospitals, prompting the development of robust action plans to address the issues raised, progress with the delivery of which was given close oversight by the Quality & Safety Committee.

6.3 The Trust failed to meet the required performance against the Emergency Care 4-hour maximum wait target, being 92.55% for the year against a target of 95%. A robust winter plan for 2013 is in preparation intended to provide better resilience against increases in demand or reductions in supply. This is overseen by the Chief Executive, the Chief Nurse and Medical Director, alongside the Chief Operating Officer who is responsible for its execution.

6.4 During the year, a data quality issue related to potential under reporting of 18 weeks referral to treatment pathways was identified. The Trust established a recovery and improvement programme to rectify the issues identified, the first stage of which validated the extent of the reporting problem. The second stage of the programme established an improvement programme to resolve the issues identified, progress with which was reported routinely to the Trust Board and Audit Committee. The issue remains open and considerable work is needed in 2013/14 to establish stable systems. In light of these difficulties, the Trust has commissioned external advice on our data quality across all national performance indicators.

6.5 The Trust experienced a catastrophic hardware (disk) failure. To prevent a reoccurrence of the situation, a robust, multiple workstream approach was undertaken to include: independent solution assurance; implementation of more robust operational monitoring of infrastructure and strengthened business continuity arrangements. The Trust Board was appraised of the situation and consequences of the IT failure and continues to receive information to assure itself that safeguards are in place to prevent a reoccurrence.

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 …………………………….

Sandwell and West Birmingham Hospitals NHS Trust

Chief Executive's Office
Corporate Suite
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Birmingham
B18 7QH

Andrew Bostock
KPMG LLP
Infrastructure, Government & Healthcare
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

6 June 2013

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 2013, 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 2013 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 2013, 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 2013 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 balances of £3,703,863 relating to monies received from Commissioners in prior periods for the Right Care Right Here and transformation programme and £1,388,187 in relation to high cost treatments where income has been received but full treatment not provided. 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 2013 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 2012/13 and Supplementary Guidance issued by the Department of Health and Monitor in December 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 meet its statutory breakeven duty.
    (b) The uncertainties disclosed are material ones that may cast significant doubt on the Trust's ability to meet its statutory breakeven duty;

This letter was tabled and agreed at the meeting of the Audit Committee on 6 June 2013.

Yours faithfully,

Toby Lewis
Chief Executive

Robert White.
Director of Finance and
Performance Management

Appendix A to the Board Representation Letter of Sandwell and West Birmingham Hospitals NHS 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.

Sandwell and West Birmingham Hospitals NHS
NHS Trust

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

Thursday 6th June 2013

STATUTORY ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2013

1. Introduction

Attached to this report are the Trust's statutory accounts for the year ended 31st March 2013. 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 classification and presentational changes recommended by them have been incorporated into the accounts.

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 materially impacted on the position reported in any of the 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) and none which have impacted upon performance measured against national performance targets.

There have been some minor changes to the cash flow statement (which also impacts marginally on the Statement of Financial Position). Cash holdings reported at 31st March. The cash balance has increased by a net £51,000, the result of now showing the Government Banking Service cleared balance rather than the internal cash book figure, the differences being uncleared items which are now treated as receivables and unpresented payable orders as payables.

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.

Other issues regarding the content and presentation of the accounts will be separately raised by the external auditors in their ISA260 report which also includes the management responses to these issues.

3. Content of Accounts

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 9th May, at which the draft accounts were considered. Changes made as a result of the audit have not materially impacted upon these explanations.

4. Performance Against Targets

Against its key financial targets for 2012/13, the Trust is reporting the following performance:

Measure	Target	Actual	Variation	Comments
Break Even	£3,877k	£6,523k	+£2,646k	Agreed in year uplift to target to £5,777k and in year national technical adjustments of £687k produces actual performance £59k better than revised target.
External Financing Limit	£5,425k	(£11,018)	£16,443k undershoot	Undershoots are permitted, trusts are required not to overshoot.
Capital Resource Limit	£21,498k	£17,433k	£4,065k underspend	Under spending is permitted, trusts are required not to over spend.
Capital Cost Absorption Rate	3.5%	3.5%	0%	Actual dividend payable and therefore the absorption rate is recalculated at the year end based on actual capital employed so a rate of 3.5% is guaranteed.

5. Conclusion

The attached accounts for the year ended 31st March 2013 demonstrate that the Trust has met all its primary financial duties and has posted an overall retained deficit of (£3,441,000) which converts to a surplus of £6,523,000 against its DoH performance target. The Trust met its other primary financial duties.

6. Recommendation

The Trust Board is requested to APPROVE the recommendation from the Audit Committee that the annual accounts be adopted.

Robert White
Director of Finance and Performance Management