West Hertfordshire Hospitals NHS
NHS Trust

Special Meeting of the Trust Board
9 June 2009

Title of the Paper:	Review of 2008/09 Accounts
Agenda item:	**89/09**
Author:	D Self Acting Financial Controller
Trust Objective:	Sustaining Financial Health through Surplus

Key issues: To recommend Board approval of the 2008/09 accounts. The Committee will be aware the Trust delivered a £4.4m surplus in line with plan. Other points of significance to be brought to the Committee's attention are highlighted by this paper.
Purpose: To inform the Committee of significant aspects of the Trust's 2008/09 annual accounts.

Risk Implications for the Trust(*including any clinical and financial consequences):*	**Mitigating Actions** *(Controls):*
Delivery of a surplus in excess of £4.6m in 2009/10 is important to cover the third year's repayment of the Trust's £11.2m working capital loan and the second year's repayment of the Trust's £27m capital loan. 2008/09 underlying position is reported here as £1.3m.	The 2008/09 underlying position indicates all other things being equal the additional savings needed to achieve the desired surplus in 2009/10. Budgets have been set in line with plan to deliver £4.6m surplus. Income and expenditure against budget will be reported in-year to highlight any corrective action required.

Level of Assurance that can be given to the Trust Board from the report [significant, sufficient, limited, none]: Significant

Links to Key Line of Enquiry (KLOE 1 - 5): 1.1.8 "Accounts submitted to audit committee at which they were approved accompanied by an explanatory paper providing interpretation and highlighting key issues".

Legal Implications: The Annual Accounts have been prepared ahead of national timetable and in accordance with UK Generally Accepted Accounting Principles as adopted by the Department of Health.
Breakeven duty was recalibrated in 2006/07 and agreed with the SHA that the Trust will achieve this duty by 2010/11. The Trust is currently planning delivery in 2009/10.
With effect from 1st April 2009 and in line with other NHS organisations the Trust has adopted International Financial Reporting Standards.

Recommendation to the Trust Board:
The Audit Committee is asked to recommend approval of the 2008/09 accounts to the Board. Note the achievement of £4.4m surplus, and the other points brought to its attention.

Review of 2008/09 Accounts

1. **Introduction**

1.1 Trust accounts and Trust returns (called TRUs) were submitted to our auditors, DH and SHA on 22nd April this was in accordance with our plan and ahead of the national deadline of 23rd April.

1.2 In preparing the accounts a detailed review of income, expenditure and the balance sheet were undertaken. Those points to be brought to the Committee's attention are:

- Delivery of £4.4m surplus.
- Progress towards achievement of the breakeven duty.
- An under shoot of capital resource limit of £5.285m and external financing limit of £4.866m.
- Land values adjusted to reflect the economic climate.
- Change in accounting policy concerning the revaluation reserve.
- There are no post balance sheet events to report.

1.3 A legacy of historical debt is the £11.2m loan to support working balances taken out in 2006/07. This is repayable over 5 years and the second instalment of £2.24m was repaid in 2008/09.

1.4 A capital loan of £27m was accessed early in 2008/09, used mainly to finance the cost of the Acute Assessment Unit built at Watford Hospital. This is repayable over a period of 10 years. £2.1m of this has been repaid in 2008/09.

2. **Delivery of £4.4m surplus**

2.1 The reported surplus in 2008/09 is £4.4m; this is in line with budget and forecasts made during the year.

2.2 The nature of some income and expenditure, however, is non-recurrent. Adjusting for this gives an underlying position:

	£m	£m
2008/09 Surplus		4.4
Funding received in excess of cost following successful bid to SHA for Strategic Workforce Investment Fund (SWIFT) as reported period 9.	2.3	
Premium cost of outsourced activity	(0.8)	
Balance Sheet adjustments	1.6	
		3.1
Underlying surplus		1.3

2.3 SWIFT funding was received following a successful bid to the SHA to help support investment in our workforce including progress towards delivering European working time directive.

2.4 Balance sheet adjustments relate to the release of a number of accruals and provisions judged to no longer be required. They mainly relate to agenda for change, circumstances anticipated that have not arisen and adjustment to provisions in line with accounting policy.

2.5 In order to meet 18 weeks activity was outsourced albeit to a lesser extent than in 2007/08. Costs in excess of tariff are estimated to be £0.8m.

2.6 There will be non recurrent income and expenditure every year. Indeed the position presented here is a high level summary. However, it indicates before other factors the additional savings needed to budget a £4.6m surplus in 2009/10.

3. Progress towards achievement of breakeven duty

3.1 The Committee will recall the SHA agreed to recalibrate breakeven duty in 2006/07 and has confirmed this remains in place.

3.2 The duty requires Trust's to break-even over a 3 years period, or as in our case with SHA agreement this may be extended to 5 years. We are required to achieve breakeven over the period 2006/07 through to 2010/11.

3.3 Break-even is measured as the cumulative deficit being less than 0.5% of turnover. Following the outcome of 2008/09 the cumulative deficit is £4.5m therefore as already reported to the Board (2009/10 Budget) the duty should be met in 2009/10.

4. Going Concern

4.1 Based on an approved financial plan for 2009/10 and progress towards achievement of breakeven duty the 2008/09 accounts have been prepared on a going concern basis.

4.2 A medium term financial plan has been prepared and discussed with the SHA as part of the Foundation Trust application process. Liquidity remains an issue and options such as re-phasing the Trust's capital loan are being explored.

4.3 Nothing has come to my attention to detract from preparing 2008/09 accounts based on a going concern.

5. Capital resource limit and external financing limit

The Capital Resource Limit (CRL) is the maximum the Trust may expend on capital items. External Financing Limit is the maximum funding the Trust may source outside of normal operations.

It is an administrative duty that a Trust does not exceed its Capital Resource Limit (CRL) and it's a statutory duty not to exceed External Financing Limit (EFL). We under-spent CRL of £37.8m by £4.9m and under-spent against EFL of £24.3m by £5.3m. The difference in these two figures relate to timing of payments.

Capital under-spending relates to slippage on a number of projects.

- £1.5m DaHF
- £1.4m Decontamination
- £0.5m MRI Scanner
- £0.3m Theatre upgrade PMOK
- £1.2m Other mainly estate related

6. Land Values

The Department of Health issued guidance on 15th April 2009 concerning asset valuations within 2008/09 accounts.

Revised Valuation Office indices have been used to adjust the carrying value of land and the associated revaluation reserve. (Opening value £96.671m to a closing book value £65.956m).

No change has been made in approach to estimating current value of buildings and equipment. (i.e. Department of Health indices before the start of the year have been used)

Both land and buildings will be revalued during 2009/10 this is discussed further below.

7. Change in accounting policy

In line with Department of Health guidance there has been a change in accounting policy concerning the revaluation reserve.

When assets or enhancements (particularly buildings) are brought into use they are valued by a chartered surveyor who uses a technique described as depreciated replacement cost. This may determine a lower value than cost. In previous years this reduction was taken to the revaluation reserve sometimes creating a negative reserve. This is no longer permitted; rather than create a negative reserve, the circumstance described is accounted for through income and expenditure.

Negative values totalling £9.5m have been cleared as a prior period adjustment; debiting the revaluation reserve and crediting the income and expenditure reserve. The 2007/08 comparative balance sheet has been restated to reflect this change which does not affect measurement of breakeven duty.

8. 2009/10 Land and Building Valuation

It is important to note the change in accounting policy described above as there is likely to be significant impairments in 2009/10 after final settlement for the acute assessment unit and enhancements to PMOK. Further the Committee will be aware that International Financial Reporting Standards are to be adopted in 2009/10. A new chartered surveyor technique to value land and buildings will be introduced termed modern equivalent valuation. This may result in further adjustments to the revaluation reserve and where the existing revaluation reserve is insufficient result in an adjustment to the income and expenditure account.

As a result, the 2009/10 accounts will likely show a deficit. These technical reasons will be explained and will not affect progress towards meeting the break-even duty. The SHA is also aware of this.

9. Conclusion

9.1 The 2008/09 accounts have been prepared on a going concern basis, ahead of national timetable and in accordance with UK GAAP as adopted by the DH.

9.2 The outturn for 2008/09 was a surplus of £4.4m. After adjusting for non recurrent factors the underlying surplus is estimated at £1.3m.

9.3 A planned revenue surplus of £4.6m in 2009/10 will achieve breakeven duty.

9.4 Capital financial duties have been met albeit there has been slippage in expenditure.

9.5 Land values show a £30.7m reduction in value reflecting the current economic climate.

9.6 A change in accounting policy concerning revaluation reserve has had the effect of adjusting the revaluation reserve and income and expenditure reserve by £9.5m. The 2007/08 balance sheet has been restated for comparative purposes.

9.7 In 2009/10 both land and building will be valued using a chartered surveyor. This will likely result in adjustments in values to be charged to income and expenditure in-year resulting in a reported deficit. The technical adjustments will be explained in 2009/10 accounts.

9.8 In common with other NHS organisations, with affect from 1st April 2009 we have adopted international financial reporting standards; this has been disclosed in the finance part of the 2008/09 Annual Report.

9.9 There are no post balance sheet events to report.

Annex A

West Hertfordshire Hospitals NHS Trust - 2008/09 Accounts

The accounts report to taxpayers and service users the results of the Trust's stewardship of public money for the year. Their format is specified by the Department of Health with limited flexibility to change them to further inform readers. The content of the accounts consists of four key statements (reproduced here with explanatory text).

They have been prepared using UK Generally accepted accounting principles as adopted by the Department of Health.

We have not deviated from the prescribed layout or policies. Additional disclosure includes:

- Policy concerning partially completed spells.
- Explanation of asset values.
- Detail of the change in policy concerning revaluation reserve
- Additional text where it is felt this helps the reader understand what is included in the figures. This is very much in line with the 2007/08 accounts.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2009

	NOTE	2008/09 £000	2007/08 £000	Description
				A statement of the Trust's financial performance for the year using the matching principle. I.e. all costs that are associated with the generation of the income are reported.
Income from activities	3	**214,288**	202,188	The Trust earned £214.3m from providing patient care and related services in the year. Of this, £174.6m was received from West Hertfordshire PCT. Further details is included in note 3 of the accounts.
Other operating income	4	**27,396**	30,779	Of the £27.4m other operating income, £8m relates to education and training and £2.2m to income generation such as car parking. Further details is included in note 4 of the accounts.
Operating expenses	5-7	**(227,562)**	(222,349)	The Trust spent £227.6m delivering services. £149.1m (65.5%) on staff costs including agency. Of the £31.3m spent on clinical supplies £11.7m relates to drugs. Further analysis is given in notes 5 to 7 of the accounts.
OPERATING SURPLUS/(DEFICIT)		**14,122**	10,618	
Profit/(loss) on disposal of fixed assets	8	**(5)**	0	
SURPLUS/(DEFICIT) BEFORE INTEREST		**14,117**	10,618	
Interest receivable	9	**615**	730	Spare cash is invested with the Office Paymaster General (OPG) - the reduced figure reflects the deteriorating interest rate and reduced cash balances as the capital loan was spent.
Interest payable	9	**(1,346)**	(574)	Relates to the two Trust loans discussed further in the paper. The increase between years due to the capital loan initiated in 2008/09.
Other finance costs - unwinding of discount	17	**(132)**	(122)	Provisions are stated at fair value. In other words the cost if settled as at 31st March. The cost of this not happening is described as unwinding of discount and charged as an expense each year.
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR		**13,254**	10,652	
Public dividend capital dividends payable		**(8,849)**	(8,157)	The return paid to the Department of Health (DH) for 'public' investment in the Trust. Sometimes referred to as the capital cost absorption the DH expects a return of 3.5%. Note 24.2 details the calculation. The percentage for 2008/09 was 4%, higher than planned due to land being revalued down as a result of the current economic climate. This is discused further in the paper.
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		**4,405**	2,495	The surplus for the year.

BALANCE SHEET AS AT 31 March 2009

	NOTE	31 March 2009 £000	Restated 31 March 2008 £000	Description
				A 'snap-shot' as at 31st March as to the Trust's assets and liabilities.
FIXED ASSETS				
Intangible assets	10	**4,092**	4,074	The value of computer software and licenses used by the Trust
Tangible assets	11	**251,421**	253,048	The current value of land, buildings and equipment. Items that are of use to the Trust for more than one year. Details as to the change in value between years is shown in note 11 of the accounts. The total has reduced between years despite the significant capital investment during 2008/09. This is because land values have been reduced by £30.7m to reflect the current economic climate.
TOTAL FIXED ASSETS		**255,513**	257,122	
CURRENT ASSETS				
Stocks	12	**2,912**	2,987	An annual stock-take undertaken to value consumables to be used in the future delivery of patient care and related activities. £0.9m relates to drugs and £0.7m to theatres.
Debtors	13	**15,132**	12,988	Money owed to the Trust and prepayments. As at 31st March overperformance on NHS contracts are estimated; the increase in debtors mainly relates to a higher level of overperformance with the Trust's main commissioner West Hertfordshire PCT. (2008/09 £3.6m).
Cash at bank and in hand	19.3	**5,382**	169	The increase mainly relates to slippage in planned capital expenditure
TOTAL CURRENT ASSETS		**23,426**	16,144	
CREDITORS: Amounts falling due within one year	15.1	**(31,654)**	(26,706)	Money owed for goods and services supplied to the Trust totals £31.7m. This equates to 50 days of operating expenses. Further analysis is shown in note 15.
NET CURRENT ASSETS/(LIABILITIES)		**(8,228)**	(10,562)	Sometimes referred to as working capital. A healthy position is where this figure is positive.
TOTAL ASSETS LESS CURRENT LIABILITIES		**247,285**	246,560	
CREDITORS: Amounts falling due after more than one year	15.2	**(26,647)**	(6,720)	Loan repayments due later than one year.
PROVISIONS FOR LIABILITIES AND CHARGES	17	**(6,255)**	(7,186)	Further analysed in note 17 this represents the Trust's probable liabilities mainly in respect to pension enhancements paid to staff that retired early a number of years ago.
TOTAL ASSETS EMPLOYED		**214,383**	232,654	
FINANCED BY:				
TAXPAYERS' EQUITY				
Public dividend capital	23	**171,600**	169,984	'Public' investment in the Trust. The increase between years relates to funding received from the DH towards decontamination.
Revaluation reserve	18	**89,001**	114,552	This is the net increase in the value of the fixed assets used by the Trust since they were purchased or constructed. The reduction between years caused by the reduced value of land is explained further in the paper to which this is annexed.
Donated asset reserve	18	**1,757**	1,963	When assets are donated they are added to fixed assets. The balance sheet remains in balance by adjusting this reserve. As the donated asset is used its value is reduced through depreciation and this reserve adjusted accordingly.
Income and expenditure reserve	18	**(47,975)**	(53,845)	The cumulative performance of the Trust since its inception. The difference between years matches the I&E surplus. Note however the 2007/08 figure has been restated to reflect the prior period adjustment relating to the revaluation reserve discussed in the main report.
TOTAL TAXPAYERS' EQUITY		**214,383**	232,654	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 March 2009

	2008/09 £000	2007/08 £000	Description
			The gains and losses that have not yet been realised as well as those reflected in the income and expenditure account.
Surplus/(deficit) for the financial year before dividend payments	**13,254**	10,652	Per the I&E account
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	**(24,020)**	6,133	and reducing land values. There is no real 'loss' to report but the potential loss is recognised.
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	**31**	178	Additional donated assets
Total recognised gains and losses for the financial year	**(10,735)**	16,963	
Prior period adjustment	**(9,539)**	0	A change in accounting policy concerning negative revaluation reserves discussed in the main paper.
Total gains and losses recognised in the financial year	**(20,274)**	16,963	

The Prior period adjustment relates to change in accounting policy concerning the valuation of new buildings and enhancements fully brought into use. Variation between cost and ideal conditions assumed by the District Valuers were previously adjusted through the revaluation reserve. In future where these reductions in value exceed the related reserve the difference will be charged to the I&E account.

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2009

	NOTE	2008/09 £000	2007/08 £000	Description
				The cash transactions during the year providing some analysis as to the change cash balance seen in the balance sheets.
OPERATING ACTIVITIES				
Net cash inflow/(outflow) from operating activities	19.1	**21,448**	20,143	Note 19.1 shows the reconcilation of these figures with the operating surplus reported in the I&E account adjusting for non cash items such as depreciation.
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:				
Interest received		**684**	703	The interest received rather than earnt during the period
Interest paid		**(1,287)**	(568)	The interest paid rather than liable during the period
Net cash inflow/(outflow) from returns on investments and servicing of finance		**(603)**	135	
CAPITAL EXPENDITURE				
(Payments) to acquire tangible fixed assets		**(30,697)**	(19,564)	
Receipts from sale of tangible fixed assets		**187**	525	Cash transactions that took place during the period relating to capital items
(Payments) to acquire intangible assets		**(516)**	(937)	
Net cash inflow/(outflow) from capital expenditure		**(31,026)**	(19,976)	
DIVIDENDS PAID		**(8,849)**	(8,157)	Payment to DH as return on 'public' investment in the Trust
Net cash inflow/(outflow) before financing		**(19,030)**	(7,855)	
FINANCING				
Public dividend capital received		**10,616**	10,620	Additional 'public' investment received from the Department of Health. In 2008/09 this is
Public dividend capital repaid		**(9,000)**	(525)	£1.6m. Figures are shown gross with £9m temporary borrowing before the capital loan
Loans received from the Department of Health		**27,000**	0	The capital loan inititiated during the period
Loans repaid to the Department of Health		**(4,301)**	(2,240)	The Principle on the loans repaid during the period
Net cash inflow/(outflow) from financing		**24,315**	7,855	
Increase/(decrease) in cash		**5,285**	0	The increase was unplanned and mainly relates to slippage in capital spending.

Public dividend capital of £9,000k repaid relates to temporary borrowing while the capital loan detailed in note 15.2 was agreed.