

Board Meeting – 9 June 2009

Title of the Paper:	Review of 2009/10 Accounts		
Agenda item:	87/10		
Author:	D Self Financial Controller and Capital Accountant		
Trust Objective:	Sustaining Financial Health through Surplus		
<p>Key issues: To recommend Board approval of 2009/10 accounts. The Committee will be aware after adjusting for impairment the Trust achieved £5.7m surplus. Other points of significance are highlighted within the paper.</p> <p>Purpose: To inform the Committee of significant aspects of the Trust's 2009/10 annual accounts.</p>			
<p>Risk Implications for the Trust<i>(including any clinical and financial consequences):</i></p> <p>Following on from 2009/10 delivery of a surplus in excess of £6.4m in 2010/11 is important to cover the repayments of the trust's loans that are due in 2010/11.</p>		<p>Mitigating Actions (Controls):</p> <p>The Board has approved 2010/11 budgets and savings programme that takes into consideration the non recurrent aspects of 2009/10 and the loan repayments that are due in 2010/11.</p>	
<p>Level of Assurance that can be given to the Trust Board from the report [significant, sufficient, limited, none]: <u>Significant</u></p>			
<p>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".</p>			
<p>Legal Implications: The Annual Accounts have been prepared in accordance with national timetable and International Financial Reporting Standards as adopted by the Department of Health. The Trust achieved breakeven duty and did not exceed its external financing limit.</p>			
<p>Recommendation to the Trust Board:</p> <p>The Audit Committee recommend approval of the 2009/10 accounts to the Board. Note the achievement of £5.7m surplus after adjusting for impairment, and the other points brought to its attention.</p>			

9th June 2010

Review of 2009/10 Accounts

1. Introduction

- 1.1 The 2009/10 draft accounts were submitted to the Trust's auditors on Wednesday 21st April in line with the Trust's year end timetable. This is ahead on the deadline of 9am 23rd April set by the Department of Health.
- 1.2 As the Committee will be aware the Trust along with all other NHS organisations has adopted International Financial Reporting Standards (IFRS). This includes a change in the terminology used to head up the primary financial statements as follows:

IFRS - 2009/10 Accounts	Previously
Statement of comprehensive income This divides into the top and bottom part: Revenue Other comprehensive income	Income and expenditure account Statement of Total Recognised Gains and Losses.
Statement of Financial Position	Balance Sheet
Statement of Change in Taxpayers Equity	A note to the accounts titled Movement on Reserves
Statement of Cash Flow	Cash Flow Statement

- 1.3 The primary financial statements are reproduced in appendix A to this paper with a brief explanation against each figure.
- 1.4 In adopting IFRS the accounts have been compiled in accordance with the Department of Health Manual for Accounts that sets out applicable standards and also where the Trust is required to set its own policy. The Committee will recall where appropriate it agreed policies in September 2009. The accounts have been prepared on the basis of going concern as discussed at the Committee's meeting in April 2010.
- 1.5 In preparing the accounts a detailed review of revenue and expenses and of the financial position as at 31st March 2010 has been undertaken. Points to be brought to the Committee's attention are:
- The statement of comprehensive income contrasts the £4.4m surplus in 2008/09 with a £52.2m deficit in 2009/10. To put this into context the statement includes a footnote advising the reader that after adjusting for impairment, a surplus of £5.7m was achieved. The impairment relates to adopting the modern equivalent asset valuation technique.

- For these accounts only (adoption of IFRS) the statement of financial position (SoFP) includes three years of figures. In future years the usual two years will be shown. Most noticeable is the change in total assets employed and total taxpayers' equity between 31st March 2009 and 31st March 2010. This also is mainly due to adoption of the modern equivalent asset valuation technique.
- The SoFP includes the new working capital loan of £7m that the Trust agreed with the DH as at the end of March 2010. The loans are detailed further in note 24 of the accounts.
- The Trust achieved breakeven duty (see note 30.1) and operated within its external financing limit (see note 30.3) both of these are Trust statutory duties.

2. **Delivery of £5.7m surplus excluding impairment**

- 2.1 The reported surplus excluding impairment in 2009/10 is £5.7m. Table 1 below shows variation to budget as reported to the Board at the end of the year and the extent to which the surplus is recurrent.

Table 1 2009/10 financial performance and non recurrent aspects.

	Budget	Outturn	Variance
	£m	£m	£m
Revenue less pay and non pay expenses	25.9	21.3	(4.6)
Depreciation	(11.5)	(8.7)	2.8
Dividend payable	(7.8)	(5.2)	2.6
Other financial transactions mainly interest payable	(2.0)	(1.7)	0.3
2009/10 Surplus	4.6	5.7	1.1
Non recurrent items			
Mixed sex accommodation funding		(1.5)	
Start up funding relating to the Acute Assessment Unit and keeping open Churchill ward at Hemel.		(0.9)	
One-off redundancy and back pay.		0.4	
Adjusted surplus		3.7	

- 2.2 The overspending on pay and non pay was off-set in reduced dividend and depreciation which was caused by the adoption of the modern equivalent asset valuation technique.
- 2.3 Non recurrent income was budgeted at the start of the year. £1.5m revenue funding received from West Hertfordshire PCT relates to the successful completion of the project to eliminate mixed sex inpatient accommodation. This is disclosed in note 1.3.1 of the Trust's accounts and is included in other operating revenue, rather than patient care activities because it is not part of the Trust's revenue received from providing patient activity. The £0.9m relates to the Trust keeping open Churchill Ward at Hemel as part of the transition of the Acute Assessment Unit. The 2010/11 financial plan fully reflects the fact that these aspects of the 2009/10 performance were of a non recurrent nature.

3. **Modern Equivalent Asset Valuation Technique**

- 3.1 Adoption of this method of valuing land and buildings is not associated with IFRS but is a Treasury requirement for all public sector organisations. Specifically for buildings for which there are no market transactions (described as specialised buildings) the modern equivalent asset (MEA) valuation technique is applicable. Rather than value land and buildings at what it would cost to replace them as they are now, the technique assesses the value and location of modern buildings to meet future service needs, adjusted to the age and functional obsolescence of existing buildings. Unsurprisingly, given the age of many of the Trust's buildings, this change in valuation technique, coupled with the closure of part of the Hemel site, has reduced the value of the Trust's land and buildings by over £126m.
- 3.2 The MEA valuations were undertaken by GVA Grimley Ltd chartered surveyors; this is disclosed in note 1.7 of the accounts. The firm was appointed following a competitive tender exercise undertaken in June 2009 for a three year period.
- 3.3 Table 2 below is included in the accounts as note 15.3 and shows the full extent of the change in approach to valuation also disclosing the reduced value resulting from closing part of Hemel.

Table 2: Effect of change in valuation approach

	Watford Hospital £000	Hemel Hempsted Hospital £000	St Albans Hospital £000	Total £000
<u>Operating expenses (note 6)</u>				
Land - MEA	1,990	994	0	2,984
Buildings, dwellings and fixtures - MEA	37,522	3,376	5,691	46,589
Buildings, dwellings and fixtures no longer in use	0	8,293	0	8,293
	39,512	12,663	5,691	57,866
<u>Other comprehensive income (SOCl)</u>				
Land - MEA	22,831	8,468	1,924	33,223
Buildings, dwellings and fixtures - MEA	9,194	12,173	5,004	26,371
Buildings, dwellings and fixtures no longer in use	0	8,676	0	8,676
	32,025	29,317	6,928	68,270

- 3.3 The effect shown in table 2 above is in two parts. £57.8m charged to operating expenses and £68.3m adjusted through reserves. The adjustment through reserves is done first, reducing the relevant reserve to nil and the balance is then adjusted through revenue. This is because with effect from 2008/09 it is not permissible to have negative revaluation reserves. Under IFRS the reserve adjustment is shown on the face of the statement of comprehensive income, in previous years this would have been included within the statement of recognised gains and losses.

4. New Working Capital Loan

- 4.1 The Committee will be aware the Trust took out a second working capital loan of £7m in March 2010 in order to strengthen its liquidity as measured by Monitor for FT purposes. This coupled with the 2009/10 outturn has enabled the Trust to plan its FT application on the basis of a liquidity risk rating of 2 for 2010/11 rather than 1 had the loan not been taken. This enables an overall financial risk rating of 3 (the minimum required of FT applicants) as it is possible to gain a 3 provided only one element of the risk matrix scores 2. (1 being the worse score and 5 the best).
- 4.2 Liquidity has not improved as much as was planned at the time of the loan application. Table 1 shows an under spending against depreciation of £2.8m. In order to improve liquidity by this amount capital expenditure would need to have been curtailed by a matching sum; only £0.8m was possible. The 2010/11 financial plan has been set to restore liquidity to that envisaged at the time of the loan application.

5. Statutory Duties

- 5.1 It is a statutory duty for Trust's to breakeven taking one year with another. The Trust failed in this duty in 2006/07 and agreement was reached with the SHA to recover the position over the next 5 years. This has been achieved in 2009/10 and is detailed in note 30.1 to the accounts.
- 5.2 It is a statutory duty for the Trust to retain its external financing (EFL) within the limit set by the Department of Health. This was achieved; the Trust undershot its EFL by £1.7m as shown in note 30.3 of the accounts. The under shoot is due to planning at the start of 2009/10 to have a nil cash balance as at 31st March 2010 whereas at year end the cash balance was £1.7m.
- 5.3 It is an administrative duty for the Trust's capital expenditure to not exceed the capital resource limit set by the Department of Health. This was achieved; the Trust under spending by £4.2m as shown in note 30.4 to the accounts. The under spend was due to revisions in the capital spending budget made during the year in support of achieving the improved liquidity risk rating discussed in paragraph 4.1.

6. Conclusion

- 6.1 The 2009/10 draft accounts were prepared ahead of national timetable, in accordance with IFRS as adopted by the DH. They include the significant affect of compliance with the Treasury requirement to value specialised buildings using the modern equivalent valuation technique.
- 6.2 The outturn for 2009/10 was a deficit of £52.2m but after adjusting for the MEA impairment a surplus of £5.7m was achieved. The underlying surplus; i.e. after adjusting the position for non recurrent factors is £3.7m.
- 6.3 The Trust took out a second working capital loan for £7m this has improved its liquidity risk rating as measured by Monitor sufficiently not to stall the Trust's FT application on this point. Liquidity has not improved to the extent originally envisaged due to overspending of revenue budgets but the 2010/11 financial plan addresses this.
- 6.4 The Trust achieved breakeven duty and retained external financing within its limit set by the Department of Health.
- 6.5 There are no post balance sheet events to report.

West Hertfordshire Hospitals NHS Trust - 2009/10 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 IFRS accepted accounting principles as adopted by the Department of Health.

The Trust has not deviated from the prescribed layout or policies apart from additional disclosure.

- Note 1.3.1 critical accounting judgement
- Note 1.3.2 key sources of estimation uncertainty
- Note 1.7 specifics to the Trust including details that GVA Grimleys Ltd undertook the valuation of the Trust's estate
- Note 2 the Trust operates as a single segment
- Note 3 details of the prescription packaging unit income generation activities
- Note 7 descriptions of the Trust's leases
- Note 15.3 additional disclosure about the Trust's property plant and equipment including the effect of revaluation.
- Note 22 disclosure of assets held for sale and that these relate to residential properties adjacent to Hemel.
- Note 24 details of the Trust's loans.
- Brief explanation of terms used in the accounts.

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 March 2010**

		2009/10	2008/09	Description
	NOTE	£000	£000	
Revenue				This top section is a summary of the Trust's financial performance for the year using the matching principle. I.e. all costs that are associated with the generation of revenue are reported.
Revenue from patient care activities	4	227,443	214,288	The Trust earned £254.3m revenue from its activities. The bulk £227.4m was from providing patient care and related activities. Further details as to the way revenue was earned is included in note 4 and 5 of the accounts.
Other operating revenue	5	26,865	27,396	
Operating expenses	6	(299,504)	(227,537)	The Trust spent £299.5m delivering services. However £57.9m relates to the one-off impairment of the Trust's land and buildings value resulting from introducing the modern equivalent asset valuation technique which is explained more fully in the paper to which this is appended. Excluding the impairment £155.9m (65% was spent on staff costs). £35m was spent on clinical supplies, £12.9m of this relates to drugs. Further analysis is given in note 5 to 8 of the accounts.
Operating surplus (deficit)		(45,196)	14,147	
Finance costs:				
Investment revenue	12	31	615	Spare cash is invested with the Government Banking Service - the reduced figure reflects the deteriorating interest rate received.
Other gains and (losses)	13	(11)	(5)	Minor losses on the disposal of equipment.
Finance costs	14	(1,763)	(1,478)	This includes the interest paid on the Trust's loans and the unwinding of discount. See note 14 for analysis and the glossary of terms included with the accounts for an explanation of unwinding of discount.
Surplus/(deficit) for the financial year		(46,939)	13,279	
Public dividend capital dividends payable		(5,228)	(8,849)	The return paid to the Department of Health (DH) for 'public' investment in the Trust. Sometimes referred to as capital cost absorption. With effect from 2009/10 this is calculated at 3.5% at year end rather than charged per the plan at the start of a year.
Retained surplus/(deficit) for the year		(52,167)	4,430	
Other comprehensive income				This bottom section in previous years was the statement of of gains and losses. Under IFRS it is perhaps more prominent here.
Impairments and reversals		(68,270)	(30,708)	Related to the impairment of land, property and equipment made through the revaluation reserve
Gains on revaluations		0	6,688	In 2009/10, buildings and equipment were increased in value in line with DH indices.
Receipt of donated assets		49	31	Additional donated assets
Reclassification adjustments:				
- Transfers from donated asset reserve		(226)	(303)	Depreciation of donated assets
Total comprehensive income for the year		(120,614)	(19,862)	

**STATEMENT OF FINANCIAL POSITION AS AT
31 March 2010**

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Non-current assets			
Property, plant and equipment	131,615	251,421	253,048
Intangible assets	3,325	4,092	4,074
Trade and other receivables	1,575	1,618	1,408
Total non-current assets	136,515	257,131	258,530
Current assets			
Inventories	3,530	2,912	2,987
Trade and other receivables	13,306	13,514	11,580
Cash and cash equivalents	1,776	5,285	0
	18,612	21,711	14,567
Non-current assets held for sale	260	0	0
Total current assets	18,872	21,711	14,567
Total assets	155,387	278,842	273,097
Current liabilities			
Trade and other payables	(20,780)	(27,402)	(25,179)
DH Working capital loan	(3,640)	(2,240)	(2,240)
DH Capital loan	(2,772)	(2,772)	0
Borrowings	0	0	0
Provisions	(550)	(529)	(1,063)
Net current assets/(liabilities)	(8,870)	(11,232)	(13,915)
Total assets less current liabilities	127,645	245,899	244,615
Non-current liabilities			
DH Working capital loan	(7,840)	(4,480)	(6,720)
DH Capital loan	(19,395)	(22,167)	0
Provisions	(5,430)	(5,726)	(6,123)
Total assets employed	94,980	213,526	231,772

Description

A 'snap shot' of the Trust's position as at 31st March. Under UK accounting standards this was described as the Balance Sheet. As this is the year in which the Trust adopts IFRS three years of figures are included.

The significant reduced 31st March 2010 figure is a consequence of adopting Modern Equivalent Asset (MEA) valuation technique.

The value of computer software and licenses used by the Trust
Longer term receivables relating to injury cost recovery unit. This is explained in note 19 of the accounts. That proportion anticipated longer than one year is estimated by the usual annual receipt. A bad debt provision is made as advised by the injury cost recovery unit.

Previously described as stock; note 18 provides further detail.

Money owed to the Trust and prepayments note 19 provides further details.

Cash balance at the end of the year. The reduced total between March 09 and March 10 is mainly due to capital payments of 2008/09 slippage.

The Maynard Road properties approved by the board for sale but unsold as at 31st March 2010. Note 22 provides further details.

Money owed for goods and services supplied to the Trust. £20.8m equates to 31 days of 2009/10 operating expenses (excluding impairment)

The loan increase reflects the current liability of the new £7m working capital loan as well as that associated with the £11.2m loan taken out in 2006/07.

Current liability (i.e. what is due for repayment within one year) of the Trust's capital loan

Further analysed in note 26 this represents the Trusts probable cost mainly in respect of pension enhancements paid to staff that retired early a number of years ago.

The working capital loan repayments due in more than one years time

The capital loan repayments due in more than one years time

The provisions as shown in note 26 anticipated in more than one years time

The significant change between 31/3/09 and 31/3/10 is due to the fall in asset value on introducing the MEA valuation technique.

**STATEMENT OF FINANCIAL POSITION AS AT
31 March 2010 Cont'd**

	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Financed by taxpayers' equity:			
Public dividend capital	173,668	171,600	169,984
Retained earnings	(100,168)	(48,832)	(54,727)
Revaluation reserve	20,545	89,001	114,552
Donated asset reserve	935	1,757	1,963
Total Taxpayers' Equity	<u>94,980</u>	<u>213,526</u>	<u>231,772</u>

Public' investment in the Trust. The increase between 31/3/09 and 31/3/10 relates to funding towards Hemel reconfiguration £1.7m and funding towards energy efficiency improvements

The cumulative performance of the Trust since its inception including non cash related adjustments such as the impairment of asset value

The increase in the value of plant, property and equipment since they were purchased or constructed. The decrease between 31/3/09 and 31/3/10 relates to the revised valuation technique (MEA) for land and buildings. The remaining £20.5m mainly relates to land at St Albans, external works and equipment these were not impaired as a consequence of the revaluation.

When assets are donated they are added to non current assets. The SoFP remains in balance by adjusting this reserve. As the donated asset is used its value is reduced through depreciation and this reserve adjusted accordingly

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Public dividend capital (PDC) £000	Retained earnings £000	Revaluation reserve £000	Donated asset reserve £000	Total £000
Balance at 31 March 2008					
As previously stated	169,984	(54,727)	105,013	1,963	222,233
Prior Period Adjustment	0	0	9,539	0	9,539
Restated balance	169,984	(54,727)	114,552	1,963	231,772
Changes in taxpayers' equity for 2008/09					
Total Comprehensive Income for the year:					
Retained surplus/(deficit) for the year	0	4,430	0	0	4,430
Transfers between reserves	0	1,465	(1,465)	0	0
Impairments and reversals	0	0	(30,708)	0	(30,708)
Net gain on revaluation of property, plant, equipment	0	0	6,622	66	6,688
Receipt of donated/government granted assets	0	0	0	31	31
Reclassification adjustments:					
- transfers from donated asset reserve	0	0	0	(303)	(303)
New PDC received	10,616	0	0	0	10,616
PDC repaid in year	(9,000)	0	0	0	(9,000)
Balance at 31 March 2009	171,600	(48,832)	89,001	1,757	213,526

Explanations of changes in taxpayers equity

Under IFRS this information is "promoted" from a note in the accounts. On adoption of IFRS reserve movement from 1st April 2008 are shown through to 31st March 2010. The changes between 31st March 2009 and 31st March 2010 being shown overleaf.

Prior period adjustment. This relates to the withdrawal of the practice of holding negative revaluation reserves. That is the reserve may only hold increases in asset values. Any decrease after exhausting the relevant revaluation reserve is charged to expenses as is the case in 2010/11 impairment.

Retained surplus is the transfer of the year's performance into the reserve.

The transfer between reserves relates to backlog depreciation. This is the additional depreciation required when an asset is revalued adjusting for the fact that previous depreciation had been calculated on a now out-of-date valuation.

The impairment is also seen on the statement of comprehensive income. It is the reduction in land value adjusted through the reserves.

The revaluation of property, plant and equipment relates to the increase in building and equipment as a consequence of indexation during 2008/09.

The transfer from the donated asset reserve is the reduced value as a consequence of use. i.e. depreciation

New PDC totalled £1.6m and mainly related to funds for decontamination compliance. It is shown as £10.6m with £9m repaid as during 2008/09 the DH advanced the Trust £9m while the capital loan was agreed. The £9m was repaid once the loan was finalised

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Public dividend capital (PDC) £000	Retained earnings £000	Revaluation reserve £000	Donated asset reserve £000	Total £000
Changes in taxpayers' equity for 2009/10					
Balance at 1 April 2009	171,600	(48,832)	89,001	1,757	213,526
Total Comprehensive Income for the year					
Retained surplus/(deficit) for the year	0	(52,167)	0	0	(52,167)
Transfers between reserves	0	831	(831)	0	0
Impairments and reversals	0	0	(67,625)	(645)	(68,270)
Receipt of donated/government granted assets	0	0	0	49	49
Reclassification adjustments:					
- transfers from donated asset reserve	0	0	0	(226)	(226)
New PDC received	2,068	0	0	0	2,068
Balance at 31 March 2010	173,668	(100,168)	20,545	935	94,980

Explanations of changes in taxpayers equity

Retained deficit is self explanatory. It shows the transfer of the deficit shown on the statement of comprehensive income to the reserve.

Transfer between reserves relates to clearing out that part of the revaluation reserve relating to the Maynard Road proerties sold during 2009/10.

Impairment relates to the part of the MEA valuation impairment taken from the revaluation reserve. This may be seen under other comprehensive income on the statement of comprehensive income.

New PDC is shown on the statement of Financial Position. I.e. £1.7m decontamination compliance and £0.4m towards improved energy efficiency.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2010

	2009/10	2008/09	Description
	£000	£000	
Cash flows from operating activities			The cash transactions during the year providing some ana end balance.
Operating surplus/(deficit)	(45,196)	14,147	Under IFRS this analysis has been "promoted" from a note reconciliation of the operating position reported in the state (SOCl) with cash.
Depreciation and amortisation	8,671	10,505	Position per SOCl.
Impairments and reversals	57,866	0	Add back depreciation as this expenditure is not a cash re
Transfer from donated asset reserve	(226)	(303)	Add back impairment as this expenditure is not a cash rel
Interest paid	(1,645)	(1,287)	The 'income' covering the depreciation of donated assets
Dividends paid	(5,364)	(8,849)	Interest is not included in the operating position but involve
(Increase)/decrease in inventories	(618)	75	Payment of dividend is not included in the operating positio
(Increase)/decrease in trade and other receivables	375	(2,189)	Change in inventories the cash involved will be within the c
Increase/(decrease) in trade and other payables	(3,859)	276	Movement in money owed to the Trust as at 31st March e
Increase/(decrease) in provisions	(400)	(1,063)	Movement in money owed by the Trust as at 31st March e
Net cash inflow/(outflow) from operating activities	9,604	11,312	The movement in provisions reflects the cash spent.
Cash flows from investing activities			
Interest received	34	684	Interest from surplus cah invested with the Government B:
(Payments) for property, plant and equipment	(18,003)	(30,697)	Cash transactions raltng to tangible capital items
Proceeds from disposal of plant, property and equipment	1,129	187	2009/10 relates to the sale of Maynard Raod properties
(Payments) for intangible assets	(329)	(516)	Cash transactions raltng to intangible capital items
Net cash inflow/(outflow) from investing activities	(17,169)	(30,342)	
Net cash inflow/(outflow) before financing	(7,565)	(19,030)	
Cash flows from financing activities			
Public dividend capital received	2,068	10,616	Additional 'public' investment in the Trust
Public dividend capital repaid	0	(9,000)	Repaid 'public' investment in the Trust
Loans received from the DH	7,000	27,000	New working capital loan
Loans repaid to the DH	(5,012)	(4,301)	Repayments on the 1st working capital loan and capital lo:
Other capital receipts	0	0	
Net cash inflow/(outflow) from financing	4,056	24,315	
Net increase/(decrease) in cash and cash equivalents	(3,509)	5,285	
Cash (and) cash equivalents (and bank overdrafts) at the beginning of the financial year	5,285	0	
Cash (and) cash equivalents (and bank overdrafts) at the end of the financial year	1,776	5,285	Cash balance as at 31st March