NHS Improvement

Consolidated NHS provider accounts 2018/19

HC 2376

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1 April 2018 – 31 March 2019

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The NHS Long Term Plan says that when organisations work together they provide better care for the public. That is why on 1 April 2019 NHS Improvement and NHS England united as one – our aim, to provide leadership and support to the wider NHS. Nationally, regionally and locally, we champion frontline staff who provide a world-class service and constantly work to improve the care given to the people of England.

# Contents

# Foreword

## Introduction

This document is the second year for which NHS Improvement has produced consolidated provider accounts. The Department of Health and Social Care (DHSC) uses the provider sub-consolidation as part of the DHSC group accounts. We are very grateful to NHS providers for their co-operation in reporting their data to us.

These accounts do not include the results of the constituent legal bodies of NHS Improvement (Monitor and the NHS Trust Development Authority (TDA)): the accounts for these bodies are published separately as they are not the parent bodies of NHS trusts and NHS foundation trusts.

In the weeks following publication of this document we will publish the underlying data to enable local scrutiny and to facilitate trusts in comparing their financial information with others. The data will also feed into NHS Improvement's Model Hospital tool later this year.

The rest of this foreword provides further information on the legal requirements for NHS trust and NHS foundation trust accounts and on changes in the provider sector.

## NHS trusts

Paragraph 3(1) of Schedule 15 to the National Health Service Act 2006 (the 2006 Act) requires each NHS trust to prepare annual accounts for each financial year ending 31 March. Paragraph 5(1) of Schedule 15 to the 2006 Act requires NHS trusts to submit these annual accounts to the Secretary of State. The Secretary of State has directed[1] the NHS Trust Development Authority (NHS TDA) (one of the constituent bodies of NHS Improvement) to exercise this function of receiving NHS trust accounts. These annual accounts must be audited by auditors appointed by the NHS trust.

NHS trusts that cease to exist as separate legal entities during the year (including on authorisation as an NHS foundation trust) prepare accounts for their final period as directed by the Secretary of State and have them audited.

[1] DHSC Group Accounting Manual 2018/19 chapter 2 annex 4: www.gov.uk/government/publications/dhsc-group-accounting-manual-2018-to-2019

## NHS foundation trusts

Paragraph 25 of Schedule 7 to the 2006 Act requires each NHS foundation trust to prepare annual accounts for the period beginning with the date on which it is authorised and ending with the following 31 March and for each successive 12-month period, and to submit the accounts to Monitor (one of the constituent bodies of NHS Improvement). These annual accounts must be audited by auditors appointed by the NHS foundation trust's council of governors. The trust must lay a copy of the accounts, and any auditor's report on them, before Parliament and send them to NHS Improvement (Monitor).

NHS foundation trusts that cease to exist as separate legal entities and/or cease to provide services before the end of the year continue to prepare accounts for their final period as directed by NHS Improvement and have them audited, but do not present them to the council of governors.

## Basis of preparation for consolidated NHS provider accounts

The Secretary of State has directed NHS Improvement (the NHS TDA legal entity) to prepare consolidated NHS provider accounts for each financial year. The accounts presented in this report have been prepared as a consolidation of the audited accounts submitted by NHS trusts and NHS foundation trusts that were in existence during the 2018/19 financial year, together with comparative information for 2017/18. We give details below of providers whose legal status changed during this time.

NHS TDA has requested the Comptroller and Auditor General (C&AG), and the C&AG has agreed, to perform an audit of these consolidated NHS provider accounts.

## Consolidated NHS foundation trust accounts

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. These are available separately on our website.

## Changes in legal status of NHS providers

These consolidated NHS provider accounts incorporate the results of all NHS trusts and NHS foundation trusts. Entities where legal status changed in 2017/18 or 2018/19 are as follows:

| | | NHS trusts | NHS FTs | All providers |
|---|---|---|---|---|
| **1 April 2017** | **Opening number of providers**<br>This includes the following transactions on 1 April 2017:<br>• Hinchingbrooke Health Care NHS Trust acquired by Peterborough and Stamford Hospitals NHS Foundation Trust; entity renamed as North West Anglia NHS Foundation Trust.<br>• Authorisation of Essex Partnership University NHS Foundation Trust as newly formed entity. This follows the dissolution of North Essex Partnership University NHS Foundation Trust and South Essex Partnership University NHS Foundation Trust | **80** | **154** | **234** |
| 1 October 2017 | Authorisation of Manchester University NHS Foundation Trust as newly formed entity. | | +1 | |
| | This follows the dissolution of Central Manchester University Hospitals NHS Foundation Trust and University Hospital of South Manchester NHS Foundation Trust | | -2 | 233 |
| 1 November 2017 | Dissolution of Mid Staffordshire NHS Foundation Trust * | | -1 | 232 |
| **31 March 2018** | **Number of providers at end of year** | **80** | **152** | **232** |
| 1 April 2018 | Dissolution of Heart of England NHS Foundation Trust on acquisition by University Hospitals Birmingham NHS Foundation Trust | | -1 | 231 |
| 1 April 2018 | Dissolution of Liverpool Community Healthcare NHS Trust on acquisition by Mersey Care NHS Foundation Trust | -1 | | 230 |
| 1 June 2018 | Dissolution of Staffordshire and Stoke-on-Trent Partnership NHS Trust on acquisition by South Staffordshire and Shropshire Healthcare NHS Foundation Trust; entity renamed as Midlands Partnership NHS Foundation Trust. | -1 | | 229 |
| 1 July 2018 | Dissolution of Burton Hospitals NHS Foundation Trust on acquisition by Derby Teaching Hospitals NHS Foundation Trust; entity renamed as University Hospitals of Derby and Burton NHS Foundation Trust. | | -1 | 228 |
| 1 July 2018 | Dissolution of Ipswich Hospital NHS Trust on acquisition by Colchester Hospital University NHS Foundation Trust; entity renamed as East Suffolk and North Essex NHS Foundation Trust. | -1 | | 227 |
| **31 March 2019** | **Number of providers at end of year** | **77** | **150** | **227** |

* Mid Staffordshire NHS Foundation Trust's provider licence was revoked on 1 November 2014 and the Trust ceased to provide services. It continued to exist as a shell legal entity until its dissolution on 1 November 2017.

# Review of financial performance of NHS providers

## Summary in numbers

| | 2018/19 | 2017/18 |
|---|---|---|
| Number of NHS providers in existence during the year | 230 | 235 |
| Surplus/(deficit) before impairments and transfers | (£575 million) | (£968 million) |
| Surplus/(deficit) before impairments and transfers excluding Provider Sustainability Fund (PSF) (known as Sustainability and Transformation Fund (STF) income in 2017/18) | (£3,006 million) | (£2,761 million) |
| Number of NHS providers recording a deficit before impairments, transfers and consolidation of charitable funds | 106 | 101 |
| Sector cash balance at year end | £5,840 million | £4,875 million |
| Capital expenditure (purchases and new finance leases of property, plant and equipment and intangible assets, accruals basis) | £4,064 million | £3,377 million |

## Commentary

The NHS provider sector has delivered a net deficit before impairments and gains and losses on transfers by absorption for the year ended 31 March 2019 of £575 million (2017/18: £968 million net deficit) and held cash of £5.8 billion as at 31 March 2019 (31 March 2018: £4.9 billion).

Where NHS charitable funds are locally deemed to be controlled by an NHS provider, the financial results of the charities are consolidated in these accounts. Forty-seven NHS providers consolidate charitable funds, contributing an aggregate deficit of £1 million (2017/18: surplus £8 million) and net assets of £316 million (31 March 2018 £449 million). The Maudsley Charity became fully independent on 1 April 2018 and ceased to be consolidated by South London and Maudsley NHS Foundation Trust. This has resulted in a £137 million reduction in consolidated charitable funds.

The sector received £2.45 billion of income from the Provider Sustainability Fund (PSF), previously known as the Sustainability and Transformation Fund (STF). The sector deficit before impairments and transfers, excluding PSF income, was £3,006 million

(2017/18: £2,761 million). This reported deficit includes recognised gains of £256 million on part-constructed assets transferring to Sandwell and West Birmingham Hospitals NHS Trust and Royal Liverpool and Broadgreen University Hospitals NHS Trust following the liquidation of Carillion PLC in 2018. More detail is provided in note 4 of these accounts.

The following table shows the profile of NHS providers that made up the sector during 2018/19. Providers are classified by their principal services but may also provide other services.

| | Acute | Mental health | Ambulance | Specialist | Community | Charitable funds | Total |
|---|---|---|---|---|---|---|---|
| Number of NHS providers | 133 | 53 | 10 | 17 | 17 | n/a | **230** |
| % of sector turnover | 75% | 15% | 3% | 5% | 3% | <0.1% | **100%** |
| % share of £2.45 billion PSF income | 75% | 13% | 2% | 8% | 2% | 0% | **100%** |
| Surplus/(deficit) before impairments and transfers (£m) | (1,277) | 416 | 22 | 209 | 56 | (1) | **(575)** |
| Number of providers reporting deficit before impairment and transfers | 88 | 7 | 3 | 5 | 3 | n/a | **106** |

NHS providers are not required to break even every year. NHS trusts do have a duty to break even on a cumulative basis but there is no equivalent requirement for NHS foundation trusts. An in-year deficit may arise from the investment of previous surpluses or from financial conditions or operational pressures in that particular year. The results for the year showed that, excluding the consolidation of charitable funds, 124 (54%) (2017/18: 134 (57%)) NHS providers delivered a surplus or broke even and 106 providers reported a deficit before impairments and transfers by absorption, compared to 101 providers recording a deficit in 2017/18. The gross deficit of all providers in deficit rose from £2,354 million to £2,709 million in 2018/19. Of the 134 trusts that reported a surplus in 2017/18, 23 (17%) reported a deficit in 2018/19, while 15 (15%) of the trusts that reported a deficit in 2017/18 have recorded a surplus in 2018/19.

Figure 1 below shows providers' surpluses/deficits for 2018/19 and 2017/18. The two lines are plotted independently.

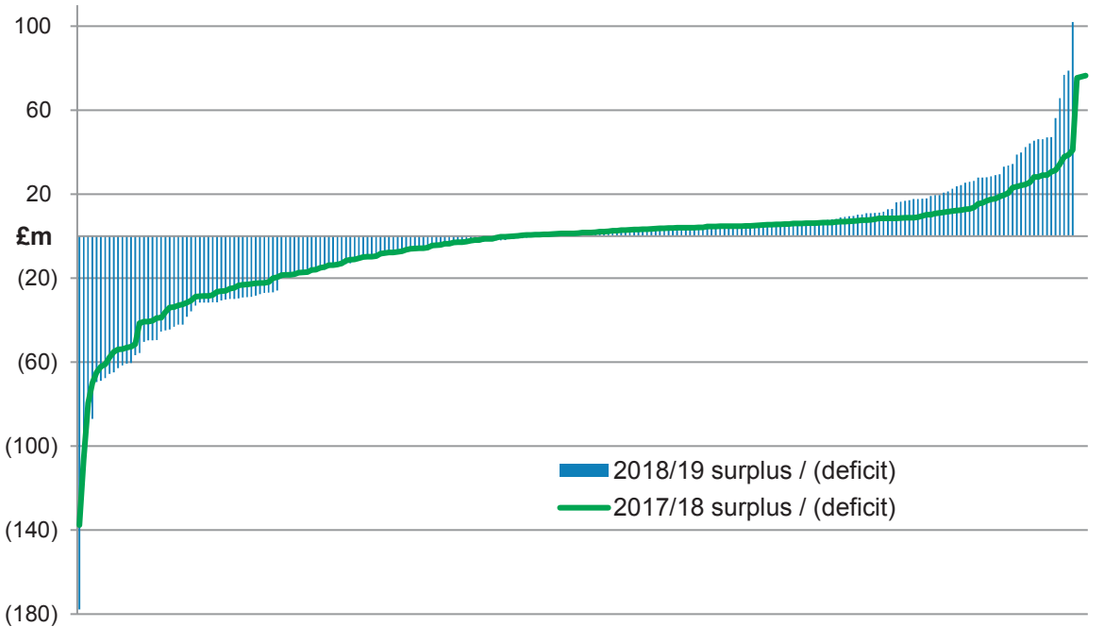


**Figure 1: Surplus / (deficit) before impairments and absorption transfers***

* For the purposes of this graph the 2018/19 surplus/(deficit) also excludes the gains recognised on part-constructed private finance initiative (PFI) assets following the liquidation of Carillion PLC

Of the 106 providers reporting deficits for 2018/19, 10 of the most financially challenged trusts are receiving intensive support in the Financial Special Measures programme as at 31 March 2019. These 10 trusts in the Financial Special Measures programme make up 26% of the reported gross deficit value.

The largest individual deficits were at the following trusts:

- King's College Hospital NHS Foundation Trust (£177.8 million)
- Cambridge University Hospitals NHS Foundation Trust (£94.2 million)
- United Lincolnshire Hospitals NHS Trust (£88.3 million)
- Barts Health NHS Trust (£87.0 million)
- University Hospitals of Morecambe Bay NHS Foundation Trust (£69.5 million)

Figure 2 details the trusts reporting a deficit before impairments and transfers in excess of £30 million.

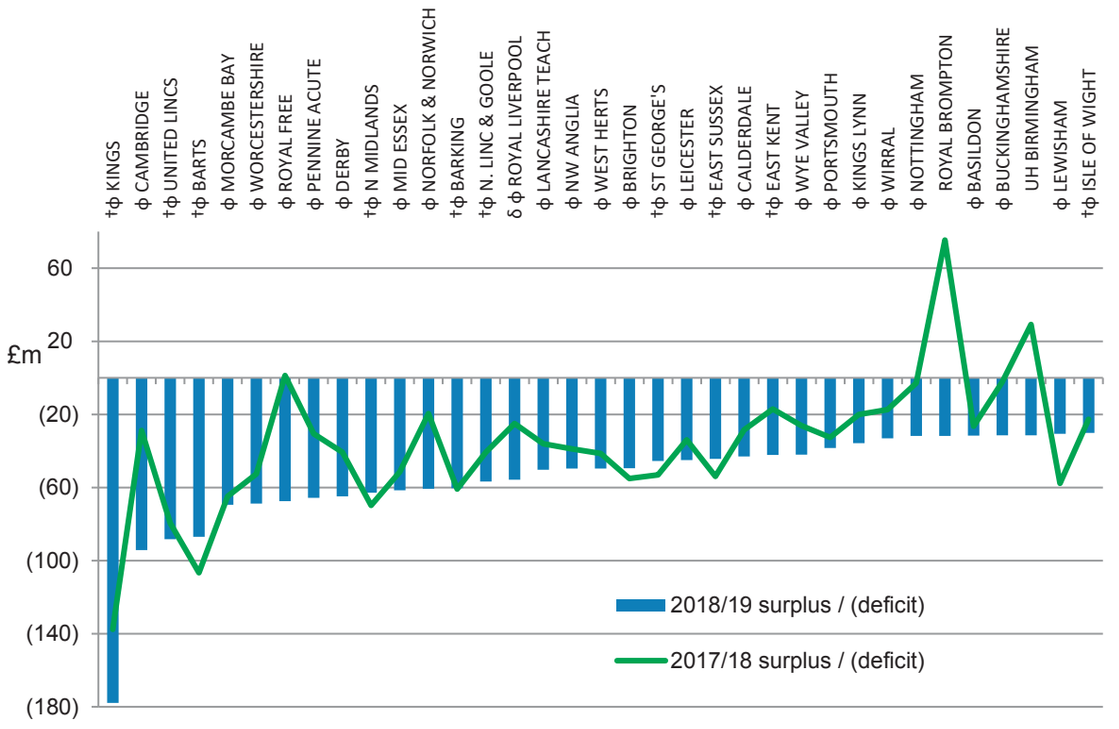


**Figure 2: Deficit before impairments and absorption transfers greater than £30 million**

† Receiving intensive support through the Financial Special Measures programme as at 31 March 2019
ϕ In receipt of interim revenue support funding from DHSC during 2018/19
δ Excludes gain recognised on part-constructed PFI asset following the liquidation of Carillion PLC

The Department of Health and Social Care (DHSC) provides cash support to NHS providers in financial difficulty to support the continued delivery of services on a finite basis. This interim support is normally intended to be a precursor to longer term planned investment to support the delivery of a sustainable recovery plan. Ninety-nine providers received interim cash revenue support from DHSC in 2018/19 (2017/18: 94). Those with a deficit greater than £30 million are identified with ϕ in the above graph. The total gross interim revenue support received by all trusts from DHSC during 2018/19 to maintain the delivery of patient care was £3,054 million (2017/18: £2,631 million) with an extra £199 million interim funding to support necessary capital investment (2017/18: £319 million). The five providers with the biggest deficits received £450 million of the total interim DHSC support.

All NHS provider financial statements have received unqualified true and fair audit opinions. All providers have prepared financial statements on a going concern basis. The financial statements of 78 (2017/18: 78) providers received audit reports highlighting material uncertainty in relation to going concern, 72 of which were trusts in deficit (2017/18: 72). These trusts are listed in the consolidated annual governance statement and the accounting policies contain NHS Improvement's going concern assessment for these consolidated accounts.

### Oversight by NHS Improvement

NHS Improvement's Single Oversight Framework (SOF) is used to identify where NHS providers may benefit from, or require, improvement support across a range of areas. This includes overseeing and supporting providers in improving their financial sustainability and compliance with sector-wide controls such as agency caps.

NHS providers are segmented according to the level of support needed across five themes:

- Quality of care
- Finance and use of resources
- Operational performance
- Strategic change
- Leadership and improvement capability

Based on information from these themes, provider are segmented from 1 to 4, where '4' reflects providers receiving the most support and '1' reflects those with maximum autonomy.

| | SOF at 31 March 2019 | | | | SOF at 31 March 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of NHS trusts | Number of NHS FTs | Total number of providers | % of sector | Number of NHS trusts | Number of NHS FTs | Total number of providers | % of sector |
| **1** | 9 | 32 | **41** | 18% | 5 | 33 | **38** | 16% |
| **2** | 23 | 82 | **105** | 46% | 27 | 82 | **109** | 47% |
| **3** | 35 | 27 | **62** | 27% | 35 | 29 | **64** | 28% |
| **4** | 10 | 9 | **19** | 8% | 13 | 8 | **21** | 9% |
| **Total** | **77** | **150** | **227** | | **80** | **152** | **232** | |

Further information on SOF segmentation can be found in the consolidated annual governance statement in this report.

## Operating performance

### Operating income

In the year to 31 March 2019, 230 NHS providers generated total operating revenues of £84.7 billion, an increase of £4.1 billion (5%). This is double the growth experienced by the sector in 2017/18 (£2.1 billion). £1.4 billion of the increased income in 2018/19 came from additional amounts in the PSF and funding associated with the Agenda for Change pay reform. The increase in income recognised also includes £0.3 billion of non-cash gains recognised on part-completed PFI assets transferring to two NHS providers after the liquidation of Carillion PLC. More information is provided in note 4 of these accounts.

Demand for urgent and emergency care at acute providers has continued to increase displacing non-elective activity. However, the rate of growth seen in non-elective income in 2018/19 has reduced significantly (5%, 2017/18: 12%) allowing growth in elective and outpatient income for the first time since 2016/17.

### Provider Sustainability Fund

The Provider Sustainability Fund (PSF) made £2.45 billion[2] of funding available to providers in 2018/19. Access to PSF income depended on NHS providers accepting and achieving a financial control total, 92 of which were set below break-even (after PSF). Of the 201 providers that accepted control totals in 2018/19:

- 149 providers met or exceeded their full year control total and received their full entitlement of PSF income,
- 1 provider met its control total but demised prior to 31 March 2019 and PSF was received by the successor organisation
- 43 providers received part of their initial PSF allocation
- a further 8 providers did not meet their control total at any point in the year but benefited from a general distribution of the fund.

In addition, three providers received PSF funding where the integrated care system (ICS) in which they participate exceeded its system plan, but these providers did not accept an individual control total.

### Operating expenditure

Total operating expenditure increased by 5% from £80.8 billion to £85.0 billion in 2018/19.

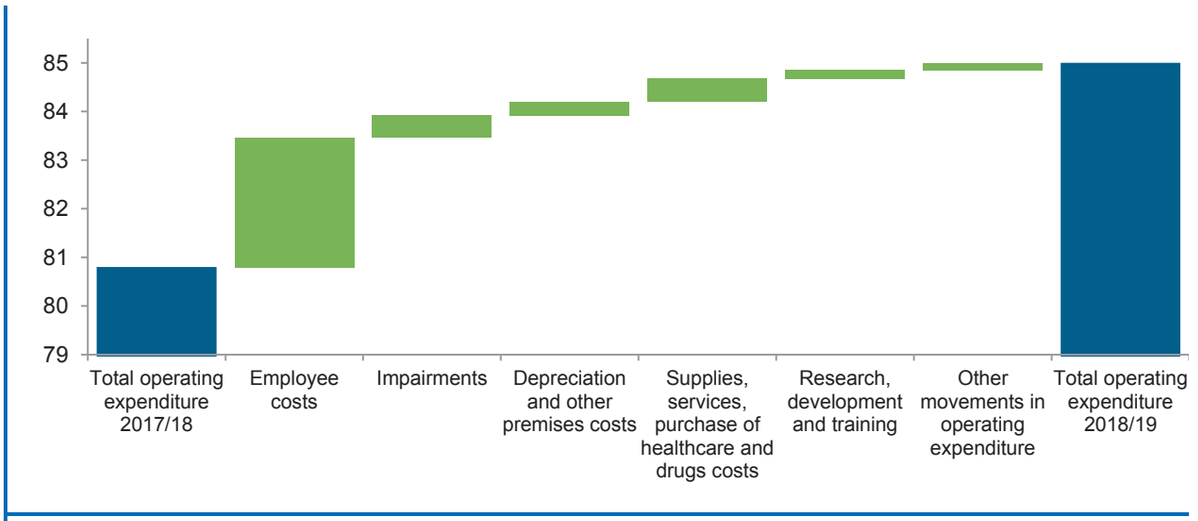


**Figure 3: Expenditure bridge 2017/18 to 2018/19**

[2] £19 million of the fund was allocated to the 'Get it right first time' initiative.

Almost 65% (£54.7 billion) of operating expenditure relates to employee costs. On 1 April 2018, a pay reform was introduced for staff employed on the Agenda for Change pay framework which resulted in additional pay costs of £832 million.

Following the introduction of a cap on agency staff spend in 2015/16, agency costs as a proportion of total employee costs has reduced significantly: this proportion was 4.4% in the last quarter of 2018/19 compared to 7.2% in April 2015. However total use of temporary staff increased in 2018/19 compared to 2017/18, primarily due to increased use of external bank staff. Unplanned increases in demand, high vacancy levels and staff turnover continue to be resourcing challenges for NHS providers and have resulted in an increased use of temporary staff to manage demand. In June 2019, NHS Improvement, NHS England and Health Education England published an interim People Plan setting out a vision for the future of working in the NHS. The plan establishes action that will be taken to tackle a number of workforce challenges, including improving the working culture throughout the NHS.

**Impact of impairments**

Impairments to the carrying value of assets are charged to operating surplus except where previous revaluation surpluses remain, and a reduction is recognised in the revaluation reserve to the extent of the remaining surplus. Where the impairments are the result of a permanent loss, such as fire damage, they are always charged to expenditure. In 2018/19 net impairments charged to income and expenditure were £1,053 million (2017/18: £606 million). A further £695 million of net impairments was charged to reserves (2017/18: £398 million), reducing previously recognised revaluation surpluses. There were 190 NHS providers that recorded a net impairment within surplus/deficit in 2018/19 (2017/18: 120) while 37 providers recorded net impairment reversals (2017/18: 77).

Of the £1,053 million of net impairments charged to income and expenditure, 54% arose from changes in market price, compared to 52% in 2017/18. These impairments reflect market conditions at the time of valuation and not a deterioration in the service potential of the asset.

Further details of impairments are provided in note 8 to the accounts.

**Net finance costs**

Net finance costs remained fairly static in 2018/19 increasing by only £19 million to £1,703 million. This includes increases in interest on loans from the Department of Health and Social Care of £68 million and in contingent finance costs on PFI schemes of £29 million. These increases are offset by additional interest income of £28 million and a reduction in Public Dividend Capital (PDC) dividend of £40 million. PDC dividend is

calculated based on average net relevant assets so this decrease results directly from further decrease in the value of the asset base for the provider sector.

**Working capital and borrowings**

At 31 March 2019, NHS providers held cash and cash equivalents of £5.8 billion (31 March 2018: £4.9 billion). While this is an increase of £0.9 billion, the cash balance is equivalent to just 2.7 weeks' operating costs in a sector with annual revenue of £84.7 billion (2017/18: 2.4 weeks).

Of the total cash balance, £5.3 billion was held with the Government Banking Service, £317 million was on deposit with the National Loans Fund and £122 million was held elsewhere. The remaining £136 million was held by NHS charitable funds and is not available to support the operating costs in providers.

The number of receivables days has increased from the previous year at 28.0 days (2017/18: 27.1 days), largely resulting from the increased PSF fund due to be paid over at the year end. Payable days have also increased slightly to 34.8 days in 2018/19 from 34.2 days in 2017/18.

Total long-term and working capital borrowing at 31 March 2019 was £23.6 billion (31 March 2018: £20.7 billion). This includes a £3.0 billion increase (27%) in loans from the Department of Health and Social Care (DHSC) to £14.0 billion, which continues to be the largest source of provider borrowings ahead of PFI liabilities of £8.9 billion. Ninety three percent of the increase in loan funding from DHSC relates to revenue and working capital support.

**Capital expenditure**

Total purchases and new finance leases of property, plant and equipment (PPE) and intangible assets in 2018/19 were £4.1 billion (2017/18: £3.4 billion). The majority of capital spend was on land and buildings (59%), with a further 19% on plant, equipment and transport, 14% on information technology, and 8% on other capital. Providers' ability to invest in capital schemes is limited by constraints in DHSC's capital expenditure limit.

A number of providers have completed major capital developments in the year including the first of two new proton beam therapy facilities at The Christie NHS Foundation Trust giving patients access to the latest in cancer treatment therapies. The Royal National Orthopaedic Hospital opened The Stanmore Building in north west London which integrates the latest developments in technology to improve patient experience and staff productivity as part of the Trust's digital strategy.

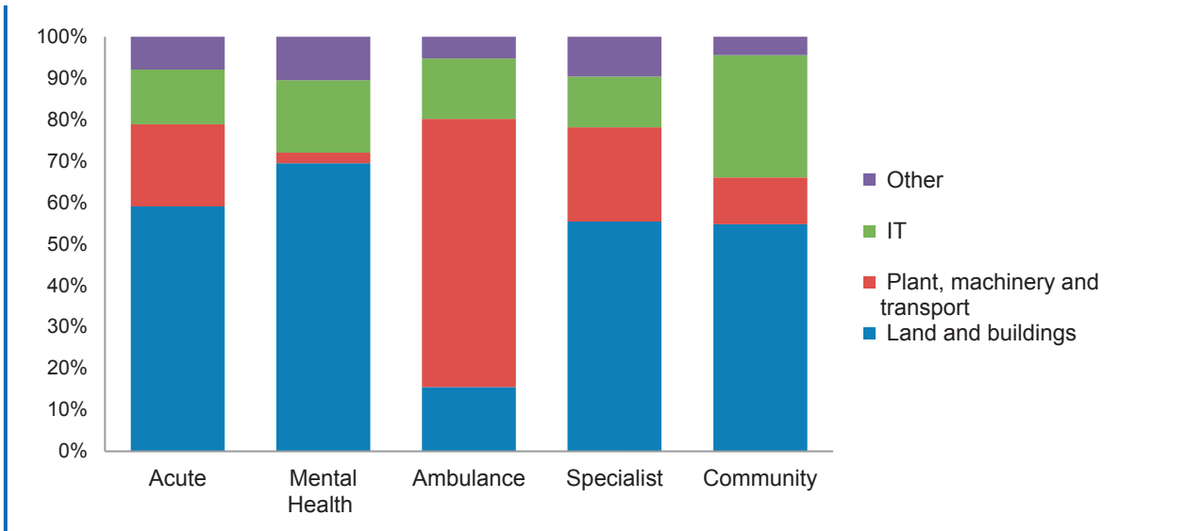


**Figure 4: Proportion of capital spend by type, 2018/19**

NHS providers continue to invest in their estates at levels significantly in excess of depreciation charges in year. On average capital expenditure was 182% of the depreciation charged.

## Events after the reporting period

As at 31 March 2019 there were 227 NHS providers. On 1 April 2019 City Hospitals Sunderland NHS Foundation Trust and South Tyneside NHS Foundation Trust merged to form South Tyneside and Sunderland NHS Foundation Trust and the two predecessor organisations were dissolved. As at the date of authorisation of these accounts, there are 226 NHS providers.

## Understanding the sector position

An overall commentary on the performance of the provider sector is provided in NHS Improvement's report *Quarterly performance of the NHS provider sector: quarter 4 2018/19.*[3] The in-year financial performance of the sector can be reconciled to these accounts as follows:

[3] https://improvement.nhs.uk/resources/quarterly-performance-nhs-provider-sector-quarter-4-201819/

| | £m |
|---|---|
| **Reported adjusted financial position surplus / (deficit) at draft accounts (page 21 of quarterly performance report) *** | **(571)** |
| Adjustment for 'on-statement of financial position' pension schemes (treated on a cash basis in adjusted financial position but an IAS 19 basis in accounts) | (4) |
| Reported outturn for locally-controlled NHS charities | (1) |
| Intra-group consolidation adjustment for NHS charities | 1 |
| **Consolidated accounts basis: surplus / (deficit) before impairments and transfers, including consolidated charities – audited accounts (per Statement of Comprehensive Income)** | **(575)** |

## Wider context

This has been an important year for the NHS. The NHS's Long Term Plan was published in January 2019. It was developed in partnership with frontline health and care staff, patients and their families and other experts. The Plan sets out how care for patients can be improved over the next ten years and how we can deliver on these ambitions. At the same time the government announced a multi-year funding settlement for the NHS. We are already working on important enablers to deliver the Long Term Plan: this includes developments in the financial architecture for the NHS. We have announced the end of the control total regime for NHS providers, and that in 2019/20 £1 billion of funding for providers will move from the Provider Sustainability Fund and directly into tariff prices for urgent and emergency care. We also announced the establishment of the Financial Recovery Fund (FRF) to further support the sustainability of providers in deficit, together with requiring these providers to deliver a further 0.5% efficiency on top of the 1.1% expected for the sector. Over the coming years the FRF will reduce as fewer providers record deficits.

In June 2019 we published the interim NHS People Plan. This was developed collaboratively with national leaders and partners: it sets a vision for how people working in the NHS will be supported to deliver care and identifies the actions we will take to help them. The plan explains that we need to promote positive cultures, build a pipeline of compassionate and engaging leaders and make the NHS an agile, inclusive and modern employer if we are to attract and retain the people we need to deliver our plans. We also need to transform the way our entire workforce, including doctors, nurses, allied health professionals (AHPs), pharmacists, healthcare scientists, dentists, non-clinical professions, social workers in the NHS, commissioners, non-executives and volunteers, work together.

There is much to do but we are building on strong foundations in 2018/19. The provider sector again saw an increase in demand for urgent and emergency care and failed to deliver the constitutional four-hour standard for waiting times. Nonetheless more patients were treated and discharged within the four-hour period compared to last year. This was achieved by reducing the number of patients spending long periods in hospital and additional winter funding, while the government's investment in adult social care helped improve patient flow into social care out of hospital and reduce unnecessary admissions. Major improvements were also delivered in ambulance response and handover times, while the number of patients waiting over 12 hours in emergency departments was significantly reduced. The NHS also substantially reduced the number of long waits for elective treatment and treated record numbers of elective and cancer patients.

The Long Term Plan sets out five major changes to the NHS service model to transform how care is delivered to be fit for the future. One of these is that local NHS organisations will increasingly focus on population health and local partnerships, through new integrated care systems (ICSs). To support this ambition, NHS England and NHS Improvement are now working jointly and are currently working to implement a shared operating model designed to support delivery of the Long Term Plan. There will be a reduction in duplication through shared regional teams accountable for supporting local systems and the providers within them.

The Long Term Plan outlines our shared vision for the future of the NHS in the coming decade. 2019/20 will be an important year to work on delivering it.

Bill McCarthy
Interim Accounting Officer
2 July 2019

# Statement of accounting officer's responsibilities and accountability framework

I am designated as the Accounting Officer for Monitor and NHS TDA, the constituent legal entities of NHS Improvement. In this capacity I am responsible for ensuring that NHS Improvement prepares consolidated NHS provider accounts to send to the Secretary of State and the Comptroller and Auditor General, in line with the directions issued to Monitor and NHS TDA. I am not the accountable/accounting officer for each individual NHS trust/NHS foundation trust; this is the role of each local chief executive. An NHS trust's chief executive is designated as the accountable officer when their appointment is confirmed by NHS Improvement. NHS foundation trust chief executives are designated as the accounting officer by the NHS Act 2006.

## NHS trusts

The Secretary of State is responsible for determining, with HM Treasury's approval, the form of accounts each NHS trust must adopt. This is described within the Department of Health and Social Care's Group Accounting Manual (GAM), which is based on HM Treasury's Financial reporting manual (FReM). NHS Improvement has set out the responsibilities of each NHS trust accountable officer to ensure:

- there are effective management systems in place to safeguard public funds and assets
- the trust achieves value for money from the resources available to it
- the trust's expenditure and income has been applied to the purposes intended by Parliament and conform to the authorities which govern them
- effective and sound financial management systems are in place.

NHS Improvement has set out the responsibilities of NHS trust directors to:

- apply suitable accounting policies consistently
- make reasonable judgements and estimates
- make a statement within the accounts on whether applicable accounting standards have been followed, and to disclose and explain any material departures.

## NHS foundation trusts

NHS Improvement is responsible for determining, with the Secretary of State's approval, the form of accounts each NHS foundation trust must adopt. This is described in the NHS foundation trust annual reporting manual (FT ARM), which is based on the FReM. The manual sets out the responsibilities of each NHS foundation trust accounting officer to:

- apply suitable accounting policies consistently
- make reasonable judgements and estimates
- make a statement within the accounts on whether applicable accounting standards have been followed, and to disclose and explain any material departures
- ensure the use of public funds complies with the relevant legislation, delegated authorities and guidance and
- prepare the accounts on a going concern basis (except in the unlikely event that it is intended to discontinue all the NHS foundation trust's services and not to transfer them within the public sector).

## Consolidated NHS provider accounts

In discharging its responsibilities in accordance with the directions to NHS TDA and Monitor issued by the Secretary of State, NHS Improvement has prepared consolidated NHS provider accounts on a basis consistent with the individual NHS providers' accounts and consolidated in accordance with International Financial Reporting Standards (IFRS), as amended for NHS providers by the FReM, the FT ARM and the GAM.

The Secretary of State's directions require NHS Improvement to prepare these consolidated NHS provider accounts to:

- give a true and fair view of the state of affairs of NHS trusts and foundation trusts collectively as at the end of the financial year and the comprehensive income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended
- disclose any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

As far as I am aware, there is no relevant audit information of which the auditors of the consolidated NHS provider accounts are unaware. As Accounting Officer I have taken

all the steps I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of this information.

Bill McCarthy
Interim Accounting Officer
2 July 2019

# Annual governance statement

This annual governance statement (AGS) for the NHS provider sector has been prepared in the context of the accountability framework set out above. It has been prepared as a consolidation of the sector position based on reference to:

(i) NHS Improvement's segmentation of providers under the Single Oversight Framework (SOF)

(ii) disclosures in local annual governance statements and

(iii) the audit reports issued by local external auditors.

Ian Dalton was the accounting officer for NHS Improvement (being the Monitor and TDA legal entities) for the 2018/19 financial year and up to 28 June 2019. Bill McCarthy, as incoming interim accounting officer, received assurances from Ian Dalton as part of authorising these accounts.

## Scope of responsibility

NHS Improvement's Board (which is the board of both Monitor and NHS TDA) is not accountable for the internal control and systems of NHS providers; this is the responsibility of each NHS provider's board.

### NHS trusts

As accountable officer, each NHS trust's chief executive is accountable to NHS Improvement and is responsible for maintaining a sound system of internal control that supports the achievement of the trust's policies, aims and objectives. In addition, the chief executive, as accountable officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the NHS trust accountable officer memorandum.

### NHS foundation trusts

As accounting officer, each NHS foundation trust's chief executive has responsibility to Parliament for maintaining a sound system of internal control that supports the achievement of the trust's policies, aims and objectives. In addition, the chief executive, as accounting officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the NHS foundation trust accounting officer memorandum.

## Purpose of the system of internal control

NHS Improvement's system of internal control is designed to support the achievement of its policies, aims and objectives and ensure compliance with legal and other obligations on its constituent bodies (Monitor and NHS TDA) and NHS trusts and

foundation trusts. As part of this system, NHS Improvement has the following processes to ensure these accounts provide a 'true and fair' view of the affairs of NHS providers:

- contributing to the development of guidance to NHS trusts and NHS foundation trusts through the Department of Health and Social Care's Group Accounting Manual (GAM); this has been approved by HM Treasury
- providing guidance to foundation trusts through the NHS foundation trust annual reporting manual (FT ARM); this has been approved by the Secretary of State
- relying on the external auditors appointed by each NHS trust/each NHS foundation trust's council of governors to ensure the truth and fairness of each set of accounts consolidated into these accounts; these auditors have each undertaken an audit in accordance with the Code of audit practice (audit code), issued by the Comptroller and Auditor General, supported by the National Audit Office (NAO)
- appointing the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to review the quality of the work of NHS foundation trust auditors and consider their findings
- attending the NAO's Local Auditors' Advisory Group and associated technical networks, to which senior representatives from each of the audit suppliers appointed as auditors of NHS providers are invited; the forum members discuss technical audit and accounting issues in the public sector, including those concerning NHS bodies
- consideration by NHS Improvement's management and by its Audit and Risk Assurance Committee of the consolidated accounts and the processes established to derive them and
- appointing the Comptroller and Audit General to audit these consolidated NHS provider accounts.

Each NHS provider's annual report and accounts includes an AGS for the year ended 31 March 2019. Each individual AGS explains how the accountable/accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk cannot be effectively controlled.

## Overview of internal control systems at NHS trusts and NHS foundation trusts

**Single Oversight Framework**

NHS Improvement's Single Oversight Framework (SOF) provides the framework for overseeing NHS trusts and NHS foundation trusts and identifying potential support needs.

NHS providers are segmented according to the level of support needed across five themes:

- Quality of care
- Finance and use of resources
- Operational performance
- Strategic change
- Leadership and improvement capability

The segmentation for providers is shown in the table below. Each NHS provider is segmented into one of the following four categories:

- Segment 1: providers with maximum autonomy with no potential support needs identified
- Segment 2: providers that have been offered targeted support, with concerns in relation to one or more themes
- Segment 3: providers receiving mandated support for significant concerns
- Segment 4: providers in special measures, with very serious and/or complex issues.

An NHS foundation trust will be in segment 3 or 4 only where it has been found to be in breach or suspected breach of its licence conditions. For NHS trusts this means conditions equivalent to those that are applicable to NHS foundation trusts.

While NHS trusts are exempt from the requirement to apply for and hold the licence, directions from the Secretary of State require NHS TDA to ensure that NHS trusts comply with conditions equivalent to the licence as it deems appropriate. This includes giving directions to an NHS trust where necessary to ensure compliance. We aim to treat all providers in comparable circumstances similarly unless there is sound reason not to. Using the SOF, we therefore base our oversight of all NHS trusts and NHS foundation trusts on the conditions of the NHS provider licence.

Segmentation of NHS providers is updated regularly rather than published quarterly. The table below summarises NHS providers' segmentation as at 31 March 2019 and 31 March 2018. The latest information is available at https://improvement.nhs.uk/resources/single-oversight-framework-segmentation/.

| | **SOF at 31 March 2019** | | | | **SOF at 31 March 2018** | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of NHS trusts | Number of NHS FTs | Total number of providers | % of sector | Number of NHS trusts | Number of NHS FTs | Total number of providers | % of sector |
| **1** | 9 | 32 | **41** | 18% | 5 | 33 | **38** | 16% |
| **2** | 23 | 82 | **105** | 46% | 27 | 82 | **109** | 47% |
| **3** | 35 | 27 | **62** | 27% | 35 | 29 | **64** | 28% |
| **4** | 10 | 9 | **19** | 8% | 13 | 8 | **21** | 9% |
| **Total** | **77** | **150** | **227** | | **80** | **152** | **232** | |

**NHS trusts in segments 3 or 4**

Where NHS Improvement identifies a significant concern that requires mandated support to the trust, and NHS Improvement has found a breach, or suspected breach, of the applicable licence conditions the trust will be placed in segment 3 or 4. For NHS trusts placed in segment 3 or 4 at the date the SOF was implemented, we are in the process of agreeing formal undertakings – in a manner akin to the arrangements at NHS foundation trusts.

Where an NHS trust is in breach of its applicable conditions (or where there are reasonable grounds for suspecting a breach), and NHS Improvement considers that mandated support may be appropriate, NHS Improvement considers the use of NHS TDA's powers under the 2006 Act. Those powers include the power to accept enforcement undertakings or to give directions to the trust, to secure compliance and ensure the breach does not recur.

Where the Care Quality Commission (CQC) has recommended NHS Improvement take action following the identification of failings in the quality of patient care, NHS Improvement may also place an NHS trust in special measures for quality reasons. Under special measures, trusts are given support to improve levels of patient care, including partnering with a high performing provider and appointing an improvement director.

NHS trusts may also be put into special measures for financial reasons where specialist teams, led by an improvement director, oversee intensive, accelerated action to bring about financial improvement, including support from peer providers where appropriate.

A trust subject to special measures, whether for quality or financial reasons, is placed in segment 4.

In exceptional circumstances an NHS trust may be placed into trust special administration. Administration is a regime for ensuring the continuity of essential services in the event of provider financial distress.

**NHS foundation trusts in segments 3 or 4**

Where NHS Improvement identifies a significant concern that requires mandated support to the trust, and NHS Improvement has found a breach, or suspected breach, of the applicable licence conditions the trust will be placed in segment 3 or 4.

Where an NHS foundation trust is in breach of its licence conditions (or where there are reasonable grounds for suspecting a breach) and NHS Improvement considers that mandated support may be appropriate, NHS Improvement considers the use of Monitor's statutory enforcement powers under the 2012 Act. NHS Improvement may

apply a range of enforcement powers including accepting enforcement undertakings, imposing discretionary requirements and imposing additional licence conditions to secure compliance and ensure breach does not recur. More information on NHS Improvement's formal powers of enforcement and general approach to deciding on regulatory action can be found in the Enforcement guidance available on NHS Improvement's website.

Where the CQC has recommended NHS Improvement take action following the identification of failings in the quality of patient care, NHS Improvement may also place a foundation trust in special measures for quality. Under special measures, trusts are given support to improve levels of patient care, including partnering with a high performing foundation trust and appointing an improvement director.

Foundation trusts may also be put into financial special measures where specialist teams, led by an improvement director, oversee intensive, accelerated action to bring about financial improvement, including support from peer providers where appropriate.

A trust subject to special measures, whether for quality or financial reasons, is placed in segment 4.

The 2012 Act also extends the provisions for trust special administration to foundation trusts. Administration is a regime for ensuring the continuity of essential services in the event of provider financial distress.

## NHS trusts' and NHS foundation trusts' significant internal control weaknesses

**Sources of information**

In the information that follows, NHS Improvement has collated a number of sources of information to disclose the position for NHS providers.

*SOF segment 3 or 4*

Where an NHS provider is in SOF segment 3 or 4 and is receiving mandated support, the support offered to the provider will be defined in terms of the SOF themes.

NHS Improvement placing an NHS provider into segment 3 or 4 and mandating support would normally indicate the existence of control weaknesses or failings in the trust's control environment.

*Other significant control issues*

NHS providers may also declare other matters as significant control issues. NHS

Improvement's FT ARM for NHS foundation trusts and AGS guidance for NHS trusts does not direct providers on which internal control matters should be defined as 'significant'; this is a matter for each trust's board. The table that follows includes all cases where trusts have disclosed one or more significant control weaknesses in their annual governance statement. It should be noted that some trusts consider all healthcare target breaches to be significant control issues, but not all do.

*External auditor's conclusion on use of resources*

In addition to the 'true and fair' audit opinion on the accounts, external auditors of NHS trusts and NHS foundation trusts are required to conclude whether the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors will modify this conclusion where they are unable to satisfy themselves that the trust has made these proper arrangements. Such a modification does not imply that the 'true and fair' audit opinion on the provider's accounts is qualified. These modified/qualified conclusions are listed in the table that follows. In each case we summarise if this qualification relates to the same matters as the reason for SOF segmentation as 3 or 4 by NHS Improvement.

*Financial standing: audit opinion material uncertainty on going concern*

All NHS trusts and NHS foundation trusts received unqualified true and fair audit opinions. Auditors at 78 providers included a 'material uncertainty' paragraph within the audit report relating to going concern or financial standing. This means that the auditor felt it necessary to draw the reader's attention to a disclosure about going concern or financial standing being made by the trust. This is not a modification or qualification of the audit opinion. Further details are in the accounting policies for the consolidated NHS provider accounts in Note 1.24. A further six trust auditors (2017/18: four) included an 'emphasis of matter' relating to the organisation demising with services transferring to other trusts, either during the reporting year or anticipated within the coming year.

*Financial standing: interim cash revenue support from DHSC*

Ninety-nine NHS trusts and NHS foundation trusts have required interim cash revenue support from DHSC in 2018/19 to support the continued provision of services to patients. These are also listed in the table that follows.

**Defining a significant internal control issue for this document**

Our starting point for this consolidated annual governance statement is where a trust has locally assessed and disclosed a significant internal control issue in its own annual governance statement. In addition, regardless of whether these have been reported locally, we also deem the following to be evidence of significant internal control

weaknesses:

- SOF segmentation of 3 or 4 by NHS Improvement during the year
- the external auditor qualifying or otherwise modifying their use of resources conclusion.

In addition, in the table that follows we also disclose, for added context:

- audit reports including a material uncertainty on going concern
- trusts in receipt of interim cash revenue support from DHSC during the year.

While these two columns provide additional information on trusts' financial standing, we do not consider that entries here in isolation necessarily represent a significant internal control weakness.

**Summary of results**

The table below provides a summary of the detail that follows:

| | 2018/19 | 2017/18 |
|---|---|---|
| Number of providers receiving mandated support from NHS Improvement (SOF segment 3 or 4) during the year | 87 | 97 |
| Total number of modified conclusions relating to arrangements for securing economy, efficiency and effectiveness in the provider's use of resources | 95 | 92 |
| Number of providers where audit opinion contains material uncertainty on going concern | 78 | 78 |
| Number of providers in receipt of DHSC interim cash revenue support | 99 | 94 |
| Number of providers where 'true and fair' audit opinion has been modified (qualified) | 0 | 0 |

**List of providers with matters to report**

The table below lists NHS trusts and NHS foundation trusts where one or more of the columns is a 'yes'. It therefore does not list all NHS providers.

Column (3) lists significant internal control issues disclosed in local annual governance statements, excluding matters relating to the same issues as NHS Improvement's mandated support. Therefore, the absence of a tick in this column does not necessarily mean that the provider disclosed no significant internal control issues in its local AGS.

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Aintree University Hospitals NHS Foundation Trust | No | | | | | ✓ Finance, quality | ✓ | ✓ |
| Ashford and St Peter's Hospitals NHS Foundation Trust | No | | | ✓ Operational performance targets | | | | |
| Avon and Wiltshire Mental Health Partnership NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Barking, Havering and Redbridge University Hospitals NHS Trust | ✓ Operational performance, quality, finance | ✓ | | | ✓ | | ✓ | ✓ |
| Barnet, Enfield And Haringey Mental Health NHS Trust | ✓ Quality, finance | | | | | | | |
| Barnsley Hospital NHS Foundation Trust | No | | | | | | ✓ | ✓ |
| Barts Health NHS Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | ✓ Fire safety | ✓ | | ✓ | ✓ |
| Basildon & Thurrock University Hospitals NHS Foundation Trust | ✓ Finance | | | | ✓ | | ✓ | ✓ |
| Bedford Hospital NHS Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| Black Country Partnership NHS Foundation Trust | No | | | | | | | ✓ |
| Blackpool Teaching Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Bolton NHS Foundation Trust | No | | | ✓ Never Events, A&E performance, control issues in subsidiary | | | | |
| Bradford District Care NHS Foundation Trust | No | | | ✓ CQC concerns, IT infrastructure | | ✓ CQC findings | | |
| Bridgewater Community Healthcare NHS Foundation Trust | No | | | ✓ CQC findings | | ✓ Finance, quality | ✓ | ✓ |
| Brighton and Sussex University Hospitals NHS Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Buckinghamshire Healthcare NHS Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| Calderdale & Huddersfield NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Cambridge University Hospitals NHS Foundation Trust | No | | | ✓ Capacity and capital funding | | ✓ Finance | ✓ | ✓ |
| City Hospitals Sunderland NHS Foundation Trust | No | | | | | | | ✓ |
| Countess of Chester Hospital NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| County Durham and Darlington NHS Foundation Trust | No | | | | | ✓ Finance | | ✓ |
| Croydon Health Services NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Cumbria Partnership NHS Foundation Trust | No | | | | | ✓ Finance | | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Dartford and Gravesham NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Pathology service concerns | ✓ | | ✓ | ✓ |
| Doncaster & Bassetlaw Teaching Hospitals NHS Foundation Trust | ✓ Finance | | | | ✓ | | ✓ | ✓ |
| Dorset County Hospital NHS Foundation Trust | No | | | | | ✓ Finance | | |
| East And North Hertfordshire NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| East Cheshire NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| East Kent Hospitals University NHS Foundation Trust | ✓ Operational performance, quality, finance | ✓ | | ✓ Use of single tender waivers | ✓ | | ✓ | ✓ |
| East Lancashire Hospitals NHS Trust | No | | | | | | | ✓ |
| East Midlands Ambulance Service NHS Trust | ✓ Operational performance | | | | | | | |
| East of England Ambulance Service NHS Trust | ✓ Operational performance | | | | | | | |
| East Suffolk and North Essex NHS Foundation Trust (includes Ipswich Hospital NHS Trust from 1 July 2018) | ✓ Operational performance, quality, finance | | | ✓ Pathology service concerns | ✓ | | | ✓ |
| East Sussex Healthcare NHS Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Epsom and St Helier University Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Gateshead Health NHS Foundation Trust | No | | | | | | | ✓ |
| George Eliot Hospital NHS Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| Gloucestershire Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | ✓ | | | | | ✓ | ✓ |
| Great Western Hospitals NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| Guy's & St Thomas' NHS Foundation Trust | No | | | ✓ Delays to planned appointments, internal fraud | | | | |
| Hull University Teaching Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Staff engagement, capital funding | | | | |
| Imperial College Healthcare NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Staff retention, risks to estate | ✓ | | ✓ | |
| Isle of Wight NHS Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | ✓ Internal audit findings | ✓ | | ✓ | ✓ |
| James Paget University Hospitals NHS Foundation Trust | No | | | ✓ Internal audit findings | | | | ✓ |
| Kent and Medway NHS and Social Care Partnership Trust | No | | | ✓ Data security breaches, financial control weaknesses | | | | |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Kettering General Hospital NHS Foundation Trust | ✓ Operational performance, quality, finance | | ✓ | | ✓ | | ✓ | ✓ |
| King's College Hospital NHS Foundation Trust | ✓ Operational performance, quality, finance | ✓ | | ✓ See Trust AGS for full list | ✓ | | ✓ | ✓ |
| Kingston Hospital NHS Foundation Trust | | | | | | | | ✓ |
| Lancashire Teaching Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Leeds Teaching Hospitals NHS Trust | No | | | ✓ Serious incidents and Never Events | | | | |
| Leicestershire Partnership NHS Trust | No | | | ✓ CQC findings, serious incidents, internal audit findings, information governance. | | ✓ Quality | | |
| Lewisham and Greenwich NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Liverpool Women's NHS Foundation Trust | ✓ Finance | | | | | | | |
| London Ambulance Service NHS Trust | ✓ Quality | | ✓ | | | | | |
| London North West University Healthcare NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Maidstone And Tunbridge Wells NHS Trust | ✓ Operational performance, quality, finance | ✓ | | | | | | ✓ |
| Medway NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Mersey Care NHS Foundation Trust (includes Liverpool Community Healthcare NHS Trust from 1 April 2018) | No | | | ✓ Fraud loss | | | | |
| Mid Essex Hospital Services NHS Trust | ✓ Operational performance, finance | | | ✓ Internal audit findings | ✓ | | ✓ | ✓ |
| Mid Yorkshire Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Failure to achieve endoscopy service accreditation | ✓ | | ✓ | ✓ |
| Milton Keynes University Hospital NHS Foundation Trust | No | | | | | ✓ Finance and operational performance | ✓ | ✓ |
| Norfolk and Norwich University Hospitals NHS Foundation Trust | ✓ Operational performance, finance | | ✓ | | ✓ | | ✓ | ✓ |
| Norfolk and Suffolk NHS Foundation Trust | ✓ Quality | | ✓ | ✓ Internal audit findings | ✓ | | | |
| North Bristol NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| North Cumbria University Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| North Middlesex University Hospital NHS Trust | ✓ Operational performance, quality, finance | | | | | | ✓ | ✓ |
| North Tees and Hartlepool NHS Foundation Trust | ✓ Finance | | | | ✓ | | ✓ | ✓ |
| North West Anglia NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| North West Boroughs Healthcare NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | |
| Northampton General Hospital NHS Trust | ✓ Operational performance, finance | | | | ✓ | | | ✓ |
| Northern Devon Healthcare NHS Trust | No | | | | | ✓ Finance | | ✓ |
| Northern Lincolnshire and Goole Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| Nottingham University Hospitals NHS Trust | ✓ Operational performance, finance | | | | ✓ | | | ✓ |
| Nottinghamshire Healthcare NHS Foundation Trust | No | | | | | ✓ Quality | | |
| Oxford Health NHS Foundation Trust | No | | | | | ✓ Finance | | |
| Oxford University Hospitals NHS Foundation Trust | ✓ Operational performance, finance | | | | | | | |
| Pennine Acute Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Pennine Care NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | | | ✓ | |
| Plymouth Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Workforce challenges | ✓ | | ✓ | ✓ |
| Poole Hospital NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| Portsmouth Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | ✓ Data security, performance reporting, incident reporting, safeguarding | ✓ | | ✓ | ✓ |
| Queen Victoria Hospital NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | |
| Royal Cornwall Hospitals NHS Trust | ✓ Operational performance, quality, finance | | ✓ | | ✓ | | ✓ | ✓ |
| Royal Free London NHS Foundation Trust | ✓ Finance | | | | | ✓ Also quality | ✓ | ✓ |
| Royal Liverpool and Broadgreen University Hospitals NHS Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| Royal National Orthopaedic Hospital NHS Trust | | | | ✓ Workforce challenges | | | | ✓ |
| Royal Surrey County Hospital NHS Foundation Trust | No | | | ✓ HSE notices | | | | |
| Royal United Hospitals Bath NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | | | | |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Salisbury NHS Foundation Trust | ✓ Operational performance, quality, finance | | | ✓ Internal audit findings | ✓ | | | ✓ |
| Sandwell And West Birmingham Hospitals NHS Trust | ✓ Quality, operational performance, finance | | | | | | | |
| Sherwood Forest Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Shrewsbury and Telford Hospital NHS Trust | ✓ Operational performance, quality, finance | | ✓ | ✓ Internal audit findings | ✓ | | | ✓ |
| Solent NHS Trust | No | | | ✓ Finance risks, CQC breach, operational performance, deaths. | | | | |
| South East Coast Ambulance Service NHS Foundation Trust | ✓ Operational performance, quality, finance | | ✓ | ✓ DBS checks, driving licences | ✓ | | | |
| South Tees Hospitals NHS Foundation Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| South Tyneside NHS Foundation Trust | No | | | | | | | ✓ |
| Southend University Hospital NHS Foundation Trust | ✓ Finance | | | | ✓ | | | ✓ |
| Southern Health NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | | |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Southport And Ormskirk Hospital NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| St George's University Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | | ✓ | | ✓ | ✓ |
| St Helens and Knowsley Hospital Services NHS Trust | No | | | | | | | ✓ |
| Stockport NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Surrey And Sussex Healthcare NHS Trust | No | | | ✓ Operational performance targets | | | | ✓ |
| Tameside and Glossop Integrated Care NHS Foundation Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| Taunton & Somerset NHS Foundation Trust | No | | | | | ✓ Finance | | ✓ |
| The Dudley Group NHS Foundation Trust | ✓ Quality, finance | | | | ✓ | | ✓ | |
| The Hillingdon Hospitals NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| The Princess Alexandra Hospital NHS Trust | ✓ Quality, finance | | | ✓ Staff vacancies, A&E performance, estates | | | ✓ | ✓ |
| The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust | ✓ Operational performance, quality, finance | | ✓ | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| The Rotherham NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| The Royal Orthopaedic Hospital NHS Foundation Trust | ✓ Operational performance | | | ✓ Loss of a laptop | ✓ | | | ✓ |
| The Royal Wolverhampton NHS Trust | ✓ Finance | | | | | | | |
| The Whittington Health NHS Trust | No | | | ✓ Internal audit findings | | | | |
| Torbay and South Devon NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | |
| United Lincolnshire Hospitals NHS Trust | ✓ Operational performance, quality, finance | ✓ | ✓ | ✓ Workforce challenges, fire notices | ✓ | | ✓ | ✓ |
| University Hospitals Birmingham NHS Foundation Trust (includes Heart of England NHS Foundation Trust from 1 April 2018) | No | | | ✓ Never events | | | | |
| University Hospitals Bristol NHS Foundation Trust | No | | | ✓ Ofsted findings on apprenticeships | | | | |
| University Hospitals Coventry And Warwickshire NHS Trust | ✓ Operational performance, finance | | | | ✓ | | | ✓ |
| University Hospitals of Derby and Burton NHS Foundation Trust (includes Burton Hospitals NHS Foundation Trust from 1 July 2018) | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| University Hospitals of Leicester NHS Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| University Hospitals of Morecambe Bay NHS Foundation Trust | ✓ Operational performance, finance | | | | ✓ | | ✓ | ✓ |
| University Hospitals of North Midlands NHS Trust | ✓ Operational performance, finance | ✓ | | | ✓ | | ✓ | ✓ |
| Walsall Healthcare NHS Trust | ✓ Operational performance, quality, finance | | ✓ | ✓ Staff survey findings | ✓ | | ✓ | ✓ |
| Warrington and Halton Hospitals NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| West Hertfordshire Hospitals NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| West London Mental Health NHS Trust | ✓ Operational performance, quality | | | | | | | |
| West Suffolk NHS Foundation Trust | No | | | ✓ Electronic patient record issues, pathology concerns | | ✓ Finance | | ✓ |
| Western Sussex Hospitals NHS Foundation Trust | No | | | ✓ Operational performance targets | | | | |
| Weston Area Health NHS Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |
| Wirral University Teaching Hospital NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | ✓ | ✓ |

| | Provider subject to mandated support from NHS Improvement | | | Other significant internal control issue disclosed by provider | Audit report: Use of Resources modification | | Financial standing | |
|---|---|---|---|---|---|---|---|---|
| Provider name | (1) Provider in SOF segment 3 or 4 during the year * | (2) Provider in special measures during the year | | (3) Significant internal control issue not relating to matters in (1) | (4) UoR modification linked to matters in (1) | (5) UoR modification: Other matter (or SOF segment 3/4 post year-end) | (6) Auditor material uncertainty on going concern | (7) Provider in receipt of DHSC interim cash revenue support during 2018/19 |
| | | Finance | Quality | | | | | |
| Worcestershire Acute Hospitals NHS Trust | ✓ Operational performance, quality, finance | | ✓ | | ✓ | | ✓ | ✓ |
| Wye Valley NHS Trust | ✓ Operational performance, quality, finance | | | ✓ HSE notices, staff retention | ✓ | | ✓ | ✓ |
| Yeovil District Hospital NHS Foundation Trust | No | | | | | ✓ Finance | ✓ | ✓ |
| York Teaching Hospital NHS Foundation Trust | ✓ Operational performance, quality, finance | | | | ✓ | | | ✓ |
| **Totals** | **86** | **13** | **17** | **41** | **69** | **26** | **78** | **97 ** ** |

* Notes for column (1):

- The explanation for each provider shows the support offerings for each provider that was in segment 3 or 4 at any point during the year. In some cases a trust may receive a combination of mandated and targeted support with all such support needs included here.
- In many cases our support also relates to the leadership and improvement capability and strategic change SOF domains. Where this is the case the underlying issues will relate to other SOF domains so these are not additionally listed here. There are no providers receiving mandated support solely relating to either leadership and improvement capability or strategic change.

** Two trusts that demised during the year which are not listed in this table (Burton Hospitals NHS Foundation Trust and Ipswich Hospital NHS Trust) also received interim revenue support, making the overall total 99.

**Auditor referrals of matters arising**

Under Section 30 of the Local Audit and Accountability Act 2014 for NHS trusts, and under Schedule 10 to the NHS Act 2006 for NHS foundation trusts, where an auditor believes that the body or an officer of the body:

- is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful, or
- is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency

the auditor should make a referral to the Secretary of State (for NHS trusts)/NHS Improvement (for NHS foundation trusts).

42 NHS trusts (2017/18: 40) and no NHS foundation trusts (2017/18: none) were subject to such referrals in 2018/19. All 42 of these trust referrals relate to a failure by the trust to meet the statutory breakeven duty target. This requires an NHS trust to achieve a cumulative breakeven over a three or five-year period. The underlying issues in trust finances are disclosed as part of the detail on significant internal control issues presented above. One trust referral also reported that the trust had taken out a loan from a source other than DHSC, which it was not permitted to do. The loan was repaid by the trust.

**NHS foundation trusts: quality report external assurance**

In 2018/19 each foundation trust was required to obtain a limited assurance report from its external auditor on the content of its quality report and two mandated indicators to be included in the quality report. This assurance report states whether anything had come to the auditor's attention that led them to believe that the quality report's content was not prepared in line with the guidance documents accompanying the FT ARM or was inconsistent with the other information sources detailed in the guidance.

NHS trusts are subject to separate arrangements asking them to obtain external assurance on their quality account. This work is completed to a later deadline.

In reporting on mandated indicators at foundation trusts, the auditors are forming a view on data quality rather than the quality of services more generally at a trust. The relevant guidance for 2018/19 is available here.[4] The assurance on mandated indicators followed a selection of indicators prescribed by NHS Improvement, with different indicators applicable to different types of foundation trust.

[4] https://improvement.nhs.uk/resources/nhs-foundation-trust-quality-reports-requirements/

For 2018/19, 150 NHS foundation trusts received limited assurance opinions. Of these, one foundation trust received a modification to its limited assurance opinion on the content and consistency of their quality reports while 41 foundation trusts received a modification to their limited assurance report in respect of one or both of the mandated indicators that were tested. Details are provided below. Some foundation trusts received a modification to the limited assurance report for both indicators tested, which is why the total number of modifications below is greater than 41.

| Indicator | Number of foundation trusts where tested | Number of modified limited assurance opinions |
|---|---|---|
| Percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge | 88 | 23 |
| Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period | 22 | 8 |
| Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers | 95 | 9 |
| Emergency re-admissions within 28 days of discharge from hospital | 2 | 0 |
| Early intervention in psychosis (EIP): people experiencing a first episode of psychosis treated with a National Institute for Health and Care Excellence-approved care package within two weeks of referral | 39 | 6 |
| Inappropriate out-of-area placements for adult mental health services | 34 | 3 |
| Improving access to psychological therapies (IAPT): waiting time to begin treatment (from IAPT minimum dataset): within six weeks of referral | 3 | 0 |
| 100% enhanced Care Programme Approach patients receiving follow-up contact within seven days of discharge from hospital | 1 | 0 |
| Category 1 ambulance response: 7 minutes | 5 | 0 |
| Category 2 ambulance response: 18 minutes | 5 | 0 |
| Other indicators | 6 | 1 |
| **Total** | **300** | **50** |

Each NHS foundation trust is provided with a report addressed to the council of governors which provides detail on the auditor's findings and makes recommendations for improvement.

Bill McCarthy
Interim Accounting Officer
2 July 2019

# The certificate and audit report of the Comptroller and Auditor General to the Houses of Parliament

## Opinion on financial statements

I have audited the Consolidated NHS Provider Accounts for the year ended 31 March 2019 pursuant to my powers under section 16 of the Budget Responsibility and National Audit Act 2011 ("the 2011 Act"). The financial statements have been prepared by the National Health Service Trust Development Authority ("NHS Trust Development Authority") in accordance with directions issued by the Secretary of State for Health and Social Care dated 29 June 2018 ("the Directions"), under the National Health Service Act 2006. The consolidated NHS provider accounts comprise: the Consolidated Statements of Comprehensive Income, Financial Position, Cash Flows, Changes in Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of NHS trusts and NHS foundation trusts, collectively, at 31 March 2019 and of their deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the directions issued under the National Health Service Act 2006.

## Opinion on regularity

In my opinion, in all material respects, the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the NHS Trust Development Authority, the body responsible for the production of the Consolidated NHS Provider Accounts, in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other

ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on NHS trusts' and NHS foundation trusts' collective ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of accounting officer's responsibilities and accountability framework, the Accounting Officer of the NHS Trust Development Authority is responsible for preparing the Consolidated NHS Provider Accounts and for being satisfied that they give a true and fair view, in accordance with the Directions.

## Auditor's responsibilities for the audit of the financial statements

My responsibility is to examine, certify and report on the financial statements, in response to a request made by the NHS Trust Development Authority for me to audit the Consolidated NHS Provider Accounts under section 16 of the 2011 Act.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as

fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls relevant in the production of the Consolidated NHS Provider Account.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of NHS trusts and NHS foundation trusts, collectively, to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause NHS trusts and NHS foundation trusts, collectively, to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Other Information

The Accounting Officer of the NHS Trust Development Authority is responsible for the other information. The other information comprises information included in the Foreword, the Review of financial performance of NHS providers, the Statement of accounting officer's responsibilities and accountability framework, and the Annual governance

statement. I read all the financial and non-financial information in the Foreword, the Review of financial performance of NHS providers, the Statement of accounting officer's responsibilities and accountability framework and the Annual governance statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report. I have nothing to report in this regard.

## Opinion on other matters

In my opinion:

- the information given in the Foreword, the Review of financial performance of NHS providers, the Statement of accounting officer's responsibilities and accountability framework and the Annual governance statement is consistent with the consolidated financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Annual Governance Statement does not reflect compliance with HM Treasury's guidance.

## Report

I have no observations to make on these financial statements.

Gareth Davies 8 July 2019

Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

## Consolidated statement of comprehensive income for the year ended 31 March 2019

| | Note | 2018/19 Before revaluations, impairments and transfers £m | 2018/19 Revaluations, impairments and transfers £m | 2018/19 After revaluations, impairments and transfers £m | 2017/18 Before revaluations, impairments and transfers £m | 2017/18 Revaluations, impairments and transfers £m | 2017/18 After revaluations, impairments and transfers £m |
|---|---|---|---|---|---|---|---|
| Operating income from patient care activities | 3 | 75,170 | - | 75,170 | 72,078 | - | 72,078 |
| Other operating income | 4 | 9,510 | - | 9,510 | 8,525 | - | 8,525 |
| **Total operating income** | | **84,680** | **-** | **84,680** | **80,603** | **-** | **80,603** |
| Operating expenses | 5, 6 | (83,958) | (1,053) | (85,011) | (80,196) | (606) | (80,802) |
| **Operating surplus/(deficit)** | | **722** | **(1,053)** | **(331)** | **407** | **(606)** | **(199)** |
| Finance income | | 56 | - | 56 | 28 | - | 28 |
| Finance expenses | 10 | (1,112) | - | (1,112) | (1,025) | - | (1,025) |
| PDC dividends payable | | (647) | - | (647) | (687) | - | (687) |
| **Net finance costs** | | **(1,703)** | **-** | **(1,703)** | **(1,684)** | **-** | **(1,684)** |
| Other gains/(losses) | 11 | 400 | - | 400 | 284 | - | 284 |
| Share of profits/(losses) of joint ventures/associates | | 10 | - | 10 | 9 | - | 9 |
| Gains arising from transfers by absorption | 31 | - | 1 | 1 | - | - | - |
| Losses arising from transfers by absorption | 31 | - | (6) | (6) | - | (47) | (47) |
| Corporation tax expense | | (4) | - | (4) | (2) | - | (2) |
| **Surplus/(deficit) for the year** | | **(575)** | **(1,058)** | **(1,633)** | **(986)** | **(653)** | **(1,639)** |
| **Other comprehensive income/(expenditure)** | | | | | | | |
| **Will not be reclassified to income and expenditure:** | | | | | | | |
| Net impairments charged to the revaluation reserve | 8 | - | (695) | (695) | - | (398) | (398) |
| Revaluations | 8 | - | 623 | 623 | - | 1,285 | 1,285 |
| Fair value gains/(losses) on equity instruments designated at fair value through OCI | | 1 | - | 1 | - | - | - |
| Other reserve movements | | (8) | - | (8) | 6 | - | 6 |
| **May be reclassified to income and expenditure when certain conditions are met:** | | | | | | | |
| Fair value gains/(losses) on financial assets mandated at fair value through OCI | | 5 | - | 5 | (1) | - | (1) |
| **Other comprehensive income/(expense)** | | **(2)** | **(72)** | **(74)** | **5** | **887** | **892** |
| **Total comprehensive income/(expense) for the period** | | **(577)** | **(1,130)** | **(1,707)** | **(981)** | **234** | **(747)** |

Discontinued operations are not material so are not shown separately on the face of the consolidated statement of comprehensive income.

## Consolidated statement of financial position as at 31 March 2019

| | Note | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 12 | 1,201 | 1,049 |
| Property, plant and equipment | 13 | 45,022 | 44,193 |
| Investment property | 14 | 201 | 272 |
| Investments in joint ventures and associates | 14 | 75 | 79 |
| Other investments / financial assets | 14 | 214 | 244 |
| Receivables | 16 | 539 | 649 |
| Other assets | | 5 | 5 |
| **Total non-current assets** | | **47,257** | **46,491** |
| **Current assets** | | | |
| Inventories | 15 | 1,086 | 1,042 |
| Receivables | 16 | 6,671 | 6,122 |
| Other investments / financial assets | 14 | 45 | 20 |
| Other current assets | | - | 1 |
| Non-current assets held for sale and assets in disposal groups | | 30 | 60 |
| Cash and cash equivalents | 17 | 5,840 | 4,875 |
| **Total current assets** | | **13,672** | **12,120** |
| **Current liabilities** | | | |
| Trade and other payables | 18 | (8,645) | (8,174) |
| Borrowings | 20 | (3,983) | (2,063) |
| Other financial liabilities | | (1) | (1) |
| Provisions | 22 | (432) | (409) |
| Other liabilities | 19 | (814) | (801) |
| **Total current liabilities** | | **(13,875)** | **(11,448)** |
| **Total assets less current liabilities** | | **47,054** | **47,163** |
| **Non-current liabilities** | | | |
| Trade and other payables | 18 | (25) | (34) |
| Borrowings | 20 | (19,586) | (18,635) |
| Other financial liabilities | | (2) | (2) |
| Provisions | 22 | (463) | (478) |
| Other liabilities | 19 | (195) | (204) |
| **Total non-current liabilities** | | **(20,271)** | **(19,353)** |
| **Total assets employed** | | **26,783** | **27,810** |
| | | | |
| **Financed by** | | | |
| Public dividend capital | | 27,408 | 26,692 |
| Revaluation reserve | | 8,846 | 9,025 |
| Other reserves | | 138 | 149 |
| Income and expenditure reserve | | (9,925) | (8,505) |
| Charitable fund reserves | 28 | 316 | 449 |
| **Total taxpayers' equity** | | **26,783** | **27,810** |

The accompanying notes are an integral part of these accounts. They are presented on pages 51 to 106.

Bill McCarthy
Interim Accounting Officer
2 July 2019

## Consolidated statement of changes in equity for the year ended 31 March 2019

| | Note | Public dividend capital £m | Revaluation reserve £m | Other reserves £m | Income and expenditure reserve £m | NHS charitable fund reserves £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Taxpayers' and others' equity at 1 April 2018 - brought forward** | | **26,692** | **9,025** | **149** | **(8,505)** | **449** | **27,810** |
| Impact of implementing IFRS 15 on 1 April 2018 | | - | - | - | (2) | - | **(2)** |
| Impact of implementing IFRS 9 on 1 April 2018 | | - | - | - | (11) | - | **(11)** |
| Surplus/(deficit) for the year | | - | - | - | (1,671) | 38 | **(1,633)** |
| Transfers by absorption: transfers between reserves | 31 | - | - | (5) | 5 | - | **-** |
| Adjustments to prior period accounted for in-year * | | - | 8 | - | 16 | (139) | **(115)** |
| Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits | | - | (8) | - | 8 | - | **-** |
| Other transfers between reserves | | - | (53) | (4) | 57 | - | **-** |
| Impairments | 8 | - | (695) | - | - | - | **(695)** |
| Revaluations | 8 | - | 623 | - | - | - | **623** |
| Transfer to retained earnings on disposal of assets | | - | (54) | - | 54 | - | **-** |
| Fair value gains/(losses) on financial assets mandated at fair value through Other Comprehensive Income (OCI) | | - | - | - | - | 4 | **4** |
| Fair value gains/(losses) on equity instruments designated at fair value through OCI | | - | - | 1 | - | - | **1** |
| Remeasurements of the defined net benefit pension scheme liability/asset | | - | - | (3) | (6) | - | **(9)** |
| Public dividend capital received | | 809 | - | - | - | - | **809** |
| Public dividend capital repaid | | (3) | - | - | - | - | **(3)** |
| Public dividend capital written off | | (90) | - | - | 91 | - | **1** |
| Other reserve movements** | | - | - | - | 39 | (36) | **3** |
| **Taxpayers' and others' equity at 31 March 2019** | | **27,408** | **8,846** | **138** | **(9,925)** | **316** | **26,783** |

* These adjustments reflect local NHS providers' adjustments to prior year reserves. The aggregated adjustments are not considered material to the consolidated provider accounts and so prior year balances have not been restated.

** Other reserve movements includes a transfer between charitable funds and NHS provider income and expenditure reserves representing a transfer of resources eliminated from income and expenditure on consolidation.

## Consolidated statement of changes in equity for the year ended 31 March 2018

| | Note | Public dividend capital £m | Revaluation reserve £m | Other reserves £m | Income and expenditure reserve £m | NHS charitable fund reserves £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Taxpayers' and others' equity at 1 April 2017** | | **26,265** | **8,318** | **152** | **(7,280)** | **446** | **27,901** |
| Surplus/(deficit) for the year | | - | - | - | (1,680) | 41 | **(1,639)** |
| Transfers by absorption: transfers between reserves | 31 | - | (20) | (1) | 21 | - | **-** |
| Previous prior period adjustments accounted for in 2017/18 | | - | 4 | - | 36 | (5) | **35** |
| Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits | | - | (19) | - | 19 | - | **-** |
| Other transfers between reserves | | - | (52) | (1) | 53 | - | **-** |
| Impairments | 8 | - | (398) | - | - | - | **(398)** |
| Revaluations | 8 | - | 1,284 | - | - | 1 | **1,285** |
| Transfer to retained earnings on disposal of assets | | - | (87) | - | 87 | - | **-** |
| Fair value gains on available-for-sale financial investments | | - | - | - | - | (1) | **(1)** |
| Other recognised gains and losses | | - | (2) | - | - | - | **(2)** |
| Remeasurements of the defined net benefit pension scheme liability/asset | | - | - | 2 | 7 | - | **9** |
| Public dividend capital received | | 622 | - | - | - | - | **622** |
| Public dividend capital repaid | | (2) | - | - | - | - | **(2)** |
| Public dividend capital written off | | (193) | - | - | 193 | - | **-** |
| Other reserve movements* | | - | (3) | (3) | 39 | (33) | **-** |
| **Taxpayers' and others' equity at 31 March 2018** | | **26,692** | **9,025** | **149** | **(8,505)** | **449** | **27,810** |

**Information on reserves**

**Public dividend capital**
Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of an NHS trust, or predecessor NHS trust where PDC is recognised by a foundation trust. Additional PDC may also be issued to NHS providers by the Department of Health and Social Care. A charge, reflecting the cost of capital utilised by an NHS provider, is payable to the Department of Health and Social Care as the PDC dividend.

**Revaluation reserve**
Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are reversed in operating expenses. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

**Other reserves**
This reserve reflects balances formed on the creation of predecessor NHS bodies, and in some historic mergers before the use of transfer by absorption. Other reserves also include non-controlling interests. Non-controlling interests represent the equity in a subsidiary of an NHS provider which is not attributable, directly or indirectly, to the NHS provider.

**Income and expenditure reserve**
The balance of this reserve represents the accumulated surpluses and deficits of NHS providers.

**NHS charitable funds reserves**
This balance represents the ring-fenced funds held by the NHS charitable funds consolidated within these financial statements. These reserves are classified as restricted or unrestricted and a breakdown is provided in note 28.

## Consolidated statement of cash flows for the year ended 31 March 2019

| | Note | 2018/19 £m | 2017/18 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Operating surplus/ (deficit)** | | (331) | (199) |
| Non-cash income and expense: | | | |
| Depreciation and amortisation | 5.1 | 2,229 | 2,182 |
| Net impairments | 8 | 1,053 | 606 |
| Donations/grants credited to income | | (384) | (144) |
| Non-cash movements in on-SoFP pension liability | | 5 | 4 |
| (Increase) in receivables and other assets | | (557) | (744) |
| (Increase) in inventories | | (43) | (40) |
| Increase in payables and other liabilities | | 515 | 290 |
| Increase/(Decrease) in provisions | | 15 | (47) |
| Corporation tax (paid) | | (3) | (2) |
| NHS charitable funds net adjustments to operating cash flows | | (1) | (1) |
| Other movements in operating cash flows | | (30) | (8) |
| **Net cash generated from operating activities** | | **2,468** | **1,897** |
| **Cash flows from investing activities** | | | |
| Interest received | | 49 | 19 |
| Purchase of financial assets/investments | | (165) | (33) |
| Sale of financial assets/investments | | 144 | 38 |
| Purchase of intangible assets | | (364) | (275) |
| Purchase of property, plant, equipment and investment property | | (3,493) | (3,026) |
| Sales of property, plant, equipment and investment property | | 441 | 409 |
| Receipt of cash donations to purchase capital assets | | 108 | 111 |
| Cash from acquisitions and disposals of business units and subsidiaries | | - | 1 |
| NHS charitable funds investing cash flows | | - | 14 |
| **Net cash generated used in investing activities** | | **(3,280)** | **(2,742)** |
| **Cash flows from financing activities** | | | |
| Public dividend capital received | | 809 | 622 |
| Public dividend capital repaid | | (3) | (2) |
| Movement in loans from the Department of Health and Social Care | | 2,963 | 2,905 |
| Movement in other loans | | 101 | 19 |
| Capital element of finance lease rental payments | | (59) | (53) |
| Capital element of PFI, LIFT and other service concession payments | | (276) | (271) |
| Interest paid on finance lease liabilities | | (14) | (16) |
| Interest paid on PFI, LIFT and other service concession obligations | | (794) | (751) |
| Other interest paid | | (288) | (238) |
| PDC dividend (paid) | | (663) | (672) |
| **Net cash generated from financing activities** | | **1,776** | **1,543** |
| **Increase in cash and cash equivalents** | | **964** | **698** |
| **Cash and cash equivalents at 1 April** | | 4,865 | 4,166 |
| Adjustments to prior period accounted for in year | | (5) | 1 |
| **Cash and cash equivalents at 31 March** | 17.1 | **5,824** | **4,865** |

Total cash and cash equivalents is reconciled to the Consolidated Statement of Financial Position in note 17.1

Cash flows from discontinued operations are not material so are not shown separately on the face of the Consolidated Statement of Cash Flows.

# Notes to the financial statements

## Note 1 Accounting policies and other information

### Basis of preparation

NHS Improvement, in exercising the duties conferred on the NHS Trust Development Authority (NHS TDA) and Monitor, has produced the consolidated accounts of NHS providers in accordance with directions issued by the Secretary of State. In line with those directions, these accounts have been prepared in accordance with the Department of Health and Social Care (DHSC) Group Accounting Manual (GAM) 2018/19 and the HM Treasury Financial Reporting Manual (FReM) in relevant respects. 'NHS providers' is used as a collective term for NHS trusts and NHS foundation trusts. 'Trusts' when not prefixed with 'NHS' is also used to mean providers in general.

NHS Improvement, in exercising the statutory functions conferred on Monitor, is responsible for issuing an accounts direction to NHS foundation trusts under the NHS Act 2006. NHS Improvement has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the GAM. The GAM is directly applicable to NHS trusts as a result of directions issued by the Secretary of State.

The accounting policies contained within the GAM are broadly consistent with those specified in the FReM, which itself follows International Financial Reporting Standards (IFRS), to the extent that it is meaningful and appropriate in the public sector context. The GAM's divergences from the FReM are designed to ensure an appropriate financial reporting framework and have been approved by HM Treasury's Financial Reporting Advisory Board. NHS providers have confirmed their accounting policies are consistent with the GAM in all material respects.

### Accounting convention

These financial statements have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

### Consolidated Statement of Comprehensive Income (SOCI) policy

The SOCI in these consolidated accounts is presented to separately identify the surplus or deficit before impairments of non-financial assets and transfers as this is how NHS Improvement has reported on the performance of NHS providers during the year. We consider that the notional gain/loss associated with a transfer by absorption is outside of the operational performance management of an NHS provider. Impairments on property, plant and equipment and other non-financial assets are usually considered outside of a provider's control. Fair value movements are not included within the 'impairments and transfers' column as providers are held to account for the effects of funds being invested in this way.

## Note 1.1 Consolidation and other entities

### Basis of consolidation

These accounts consolidate the accounts of all NHS providers that have been in existence during 2018/19 using the principles of IFRS as adopted by the FReM. They present the consolidated results of the NHS provider sector after the elimination of inter-NHS provider balances and transactions. Monitor and the NHS Trust Development Authority (NHS TDA), as part of NHS Improvement, are not the parent undertakings for NHS providers and their results are not incorporated within these accounts. As there is no parent entity within this consolidation, only consolidated group statements are presented.

Where an NHS provider combines with, transfers a function to, or receives a function from another entity within the Whole of Government Accounts boundary (including other NHS providers) this represents a 'machinery of government change' regardless of the mechanism used to effect the combination.

Machinery of government changes in 2018/19 and 2017/18

Where functions are transferred to NHS providers from other NHS or local government bodies (or vice versa), the transaction is accounted for as a transfer by absorption. The assets and liabilities transferred are recognised in the accounts as at the date of transfer and prior year comparatives are not restated. The assets and liabilities are not adjusted to fair value prior to recognition. The net gain/loss corresponding to the net assets/liabilities transferred is recognised within non-operating income/expenditure.

In absorption transfers for property, plant and equipment assets and intangible assets, the cost and accumulated depreciation and amortisation balances from the transferring entity's accounts are preserved on recognition in the NHS provider accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the NHS provider makes a transfer from its income and expenditure reserve to its revaluation reserve. Where DHSC transfers Public Dividend Capital (PDC) from the divesting body to the receiving body as part of an absorption transaction, this is treated as a transfer from the income and expenditure reserve to the PDC reserve by the NHS provider. This ensures that the absorption gain/loss is calculated in line with the requirements of the FReM and also that the balance of PDC is preserved where this is transferred by DHSC.

Where functions are transferred to another NHS or local government body, the assets and liabilities transferred are derecognised from the accounts as at the date of transfer and prior year comparatives are not restated. The net loss / gain corresponding to the net assets / liabilities transferred is recognised within non-operating income/expenditure. Any revaluation reserve balances attributable to assets de-recognised are transferred to the income and expenditure reserve.

More details of transfers in 2018/19 and 2017/18 are provided in note 31.

Other business combinations

Where NHS providers acquire businesses from outside of the Whole of Government Accounts boundary, these are accounted for in accordance with IFRS 3.

**Subsidiaries**

Under IFRS 10, an NHS provider controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power over the investee occurs where the provider has existing rights that give it the current ability to direct the relevant activities. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated, in full, into the appropriate financial statement lines. The capital and reserves attributable to non-controlling interests are included within Other Reserves in the Consolidated Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year, except where a subsidiary's financial year end is before 1 January or after 1 July. In these cases the actual amounts for each month of the year to 31 March are obtained from the subsidiary and consolidated.

Where a subsidiary's accounting policies are not aligned with those of the NHS provider (including where they report under UK GAAP) amounts are adjusted during local consolidation where the differences are material. Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation. Subsidiaries classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

*NHS charitable funds*

NHS providers are the corporate trustees to various NHS charitable funds. NHS providers have individually assessed their relationships to the respective charitable funds to determine whether they meet the definition of subsidiaries under IFRS 10. Some NHS providers consolidate their linked NHS charity as a result. Other providers may also have charities meeting the definition of local control that are not locally consolidated on the grounds of materiality. These consolidated accounts only include charities locally consolidated by providers.

The charitable fund's statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK Generally Accepted Accounting Principles (UK GAAP). On consolidation, necessary adjustments are made to the charity's assets, liabilities and transactions to:

- recognise and measure them in accordance with the NHS provider's accounting policies; and
- eliminate intra-group transactions, balances, gains and losses.

**Associates**

Associate entities are those over which an NHS provider has the power to exercise a significant influence. Associate entities are recognised in these financial statements using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the NHS provider's share of the entity's profit or loss or other comprehensive gains and losses (e.g. revaluation gains on the entity's property, plant and equipment) following acquisition. It is also reduced when any distribution (e.g. share dividends) are received by the NHS provider from the associate.

Associates which are classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

**Joint ventures**

Joint ventures are arrangements in which the NHS provider has joint control with one or more other parties, and where it has the rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method.

**Joint operations**

Joint operations are arrangements in which the NHS provider has joint control with one or more other parties and has the rights to the assets, and obligations for the liabilities, relating to the arrangement. The NHS provider includes within its financial statements its share of the assets, liabilities, income and expenses.

**Note 1.2 Contract income**

Where income is derived from contracts with customers, it is accounted for under IFRS 15. The GAM expands the definition of a contract to include legislation and regulations which enables an entity to receive cash or another financial asset that is not classified as a tax by the Office of National Statistics (ONS). As directed by the GAM, the transition to IFRS 15 in 2018/19 has been completed in accordance with paragraph C3 (b) of the Standard: applying the Standard retrospectively but recognising the cumulative effects at the date of initial application (1 April 2018).

Revenue in respect of goods/services provided is recognised when (or as) performance obligations are satisfied by transferring promised goods/services to the customer and is measured at the amount of the transaction price allocated to those performance obligations. At the year end, each NHS provider accrues income relating to performance obligations satisfied in that year. Where the provider's entitlement to consideration for those goods or services is unconditional a contract receivable will be recognised. Where entitlement to consideration is conditional on a further factor other than the passage of time, a contract asset will be recognised. Where consideration received or receivable relates to a performance obligation that is to be satisfied in a future period, the income is deferred and recognised as a contract liability.

The main source of income for NHS providers is contracts with commissioners for healthcare services. Most contracts run to 31 March in each year.

**Revenue from NHS contracts**

A performance obligation relating to delivery of a spell of health care is generally satisfied over time as healthcare is received and consumed simultaneously by the customer as the Trust performs it. The customer in such a contract is the commissioner, but the customer benefits as services are provided to their patient. Even where a contract could be broken down into separate performance obligations, healthcare generally aligns with paragraph 22(b) of the Standard entailing a delivery of a series of goods or services that are substantially the same and have a similar pattern of transfer. At the year end, each NHS provider accrues income relating to activity delivered in that year, where a patient care spell is incomplete. This accrual is disclosed as a contract receivable as entitlement to payment for work completed is usually only dependent on the passage of time.

Where contract challenges from commissioners are expected to be upheld, the provider reflects this in the transaction price and derecognises the relevant portion of income.

NHS providers also receive income from commissioners under Commissioning for Quality and Innovation (CQUIN) schemes. Each provider agrees schemes with its commissioner(s) but they affect how care is provided to patients. That is, the CQUIN payments are not considered distinct performance obligations in their own right; instead they form part of the transaction price for performance obligations under the overall contract with the commissioner.

**Revenue from research contracts**

Where research contracts fall under IFRS 15, revenue is recognised as and when performance obligations are satisfied. For some contracts, NHS providers assess that the research project constitutes one performance obligation over the course of the multi-year contract. In many cases it is assessed that the provider's interim performance does not create an asset with alternative use for the provider, and the provider has an enforceable right to payment for the performance completed to date. It is therefore considered that the performance obligation is satisfied over time, and the provider recognises revenue each year over the course of the contract. Some research income alternatively falls within the provisions of IAS 20 for government grants.

**NHS injury cost recovery scheme**

NHS providers receive 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, for instance by an insurer. Providers recognise the income when performance obligations are satisfied. In practical terms this means that treatment has been given, they receive notification from the Department of Work and Pensions' Compensation Recovery Unit, have completed the NHS2 form and have confirmed there are no discrepancies with the treatment. The income is measured at the agreed tariff for the treatments provided to the injured individual, less an allowance for unsuccessful compensation claims and doubtful debts in line with IFRS 9 requirements of measuring expected credit losses over the lifetime of the asset.

**Note 1.3 Other forms of income**

**Grants and donations**

Government grants are grants from Government bodies other than income from commissioners for the provision of services. Where a grant is used to fund revenue expenditure it is credited to operating income to match that expenditure. Where the grant is used to fund capital expenditure, it is credited to the Consolidated Statement of Comprehensive Income once conditions attached to the grant have been met. Donations are treated in the same way as government grants.

**Apprenticeship service income**

The value of the benefit received when accessing funds from the Government's apprenticeship service is recognised as income at the point of receipt of the training service. Where these funds are paid directly to an accredited training provider from the NHS provider's Digital Apprenticeship Service (DAS) account held by the Department for Education, the corresponding notional expense is also recognised at the point of recognition for the benefit.

**Provider sustainability fund (PSF)**

The PSF enables NHS providers to earn income linked to the achievement of financial controls and performance targets. Access to both the core elements of PSF are unlocked as NHS providers meet their financial control totals. A further element of the fund is distributed to all providers which accepted a control total, in proportion to their delivery according to agreed plans. PSF is accounted for by providers as variable consideration as guided by the DHSC GAM. With the full amount of allocated PSF funding being allocated to providers based on their 2018/19 results, the total amount is recognised in these consolidated provider accounts. More information is provided in the *Review of financial performance* and in note 4.

**Note 1.4 Expenditure on employee benefits**

**Short-term employee benefits**

Salaries, wages and employment-related payments, such as social security costs and the apprenticeship levy, are recognised in the period in which the service is received from employees. The cost of annual leave entitlement 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.

**NHS pension scheme**

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. Both schemes are unfunded, defined benefit schemes that cover NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State for Health and Social Care 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 a defined contribution scheme: the cost to the NHS body is taken as equal to the employers' pension contributions payable to the scheme for the accounting period. The contributions are charged to operating expenses as they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to operating expenses at the time of committing to the retirement, regardless of the method of payment.

In order that the defined benefit obligations recognised in the financial statements of the NHS Pension Schemes 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 scheme liability is carried out annually by the scheme actuary (currently the Government Actuary’s Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2019 is based on valuation data as 31 March 2018, updated to 31 March 2019 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. These accounts can be viewed on the NHS Pensions website and are published annually. 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 schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2016. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health and Social Care, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate. As a result the employer contribution rate will increase to 20.6% of pensionable pay from April 2019.

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation. Following a judgment from the Court of Appeal in December 2018 Government announced a pause to that part of the valuation process pending conclusion of the continuing legal process.

**Other pension schemes**

*Local Government Pension Scheme*
Some NHS provider employees are members of the Local Government Pension Scheme ('LGPS') which is a defined benefit pension scheme, administered locally through local pension funds. Where an NHS provider is able to identify its share of the underlying scheme assets and liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position') by the provider and are consolidated here.

The assets are measured at fair value and the liabilities at the present value of future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The expected gain during the year from scheme assets is recognised within finance income. The net interest cost during the year arising from the unwinding of the discount on the net scheme liabilities is recognised within finance costs.

Remeasurements of the defined benefit plan are recognised as 'other comprehensive income' in the Consolidated Statement of Comprehensive Income.

Where an NHS provider is unable to identify its share of the underlying scheme liabilities these are accounted for as defined contribution pension schemes ('off Statement of Financial Position') and employer contributions are charged to expenditure as they fall due.

The following schemes are accounted for 'on Statement of Financial Position'. For further details please refer to individual NHS provider financial statements.

| NHS provider | Pension fund | Administering body |
|---|---|---|
| Black Country Partnership NHS Foundation Trust | West Midlands Pension Fund | Wolverhampton City Council |
| Cambridgeshire and Peterborough NHS Foundation Trust | Cambridgeshire County Council Pension Fund | Cambridgeshire County Council |
| Cheshire and Wirral Partnership NHS Foundation Trust | Cheshire Pension Fund | Cheshire West and Chester Council |
| Cheshire and Wirral Partnership NHS Foundation Trust | Merseyside Pension Fund | Wirral Metropolitan Borough Council |
| East London NHS Foundation Trust | Bedfordshire Pension Fund | Bedford Borough Council |
| Essex Partnership University NHS Foundation Trust | Essex Pension Fund | Essex County Council |
| Greater Manchester Mental Health NHS Foundation Trust | Greater Manchester Pension Fund | Tameside Metropolitan Borough Council |
| Hertfordshire Partnership University NHS Foundation Trust | Hertfordshire County Council Pension Fund | Hertfordshire County Council |
| Humber Teaching NHS Foundation Trust | East Riding of Yorkshire County Council Pension Fund | East Riding of Yorkshire County Council |
| Midlands Partnership NHS Foundation Trust | Staffordshire County Council Pension Fund | Staffordshire County Council |
| North Staffordshire Combined Healthcare NHS Trust | Staffordshire County Council Pension Fund | Staffordshire County Council |
| Oxford Health NHS Foundation Trust | Buckinghamshire County Council Pension scheme | Buckinghamshire County Council |
| Rotherham Doncaster and South Humber NHS Foundation Trust | South Yorkshire Pension Fund | South Yorkshire Pension Authority |
| Salford Royal NHS Foundation Trust | Greater Manchester Pension Fund | Tameside Metropolitan Borough Council |
| Sheffield Health and Social Care NHS Foundation Trust | South Yorkshire Pension Fund | South Yorkshire Pension Authority |
| Wirral Community NHS Foundation Trust | Merseyside Pension Fund | Wirral Metropolitan Borough Council |

The following schemes are accounted for 'off-Statement of Financial Position'. For further details please refer to individual NHS provider financial statements.

| NHS provider | Pension Fund | Administering body |
|---|---|---|
| Camden and Islington NHS Foundation Trust | London Borough of Islington Council Pension Fund | London Borough of Islington Council |
| Croydon Health Services NHS Trust | Croydon Pension Scheme | London Borough of Croydon |
| Gloucestershire Care Services NHS Trust | Gloucestershire County Council Pension Fund | Gloucestershire County Council |
| Northumbria Healthcare NHS Foundation Trust | Northumberland County Council Pension Fund | Northumberland County Council |
| Pennine Acute Hospitals NHS Trust | Greater Manchester Local Government Pension Scheme | Rochdale Borough Council |
| South Tyneside NHS Foundation Trust | South of Tyne and Wear Pension Fund | South Tyneside Council |
| Worcestershire Health and Care NHS Trust | Worcestershire County Council Pension Fund | Worcestershire County Council |

*Other pension schemes*

Some NHS providers have employees who are members of defined benefit pension schemes other than the NHS Pension Scheme and the Local Government Pension Scheme. Where an NHS provider is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). Otherwise, these are accounted for as defined contribution pension schemes ('off Statement of Financial Position').

There are currently no defined benefit pension arrangements accounted for 'on Statement of Financial Position' by NHS providers apart from LGPS schemes.

*Defined contribution pension schemes*

Some NHS providers have employees who are members of defined contribution pension schemes. In accounting for these schemes the trust recognises expenditure for its employer contributions as they fall due. The National Employment Savings Trust (NEST) is a common example of such a scheme.

**Note 1.5 Expenditure on other goods and services**

Expenditure on goods and services is recognised when, and to the extent that they have been received and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as property, plant and equipment.

**Note 1.6 Discontinued operations**

Discontinued operations occur where activities either cease without transfer to another entity, or transfer to an entity outside of the boundary of Whole of Government Accounts, such as private or voluntary sectors. Such activities are accounted for in accordance with IFRS 5. Activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes' and treated as continuing operations.

**Note 1.7 Property, plant and equipment**

**Recognition**

Property, plant and equipment is capitalised where:

- 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 be provided 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 cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single managerial control.

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

**Measurement**

*Valuation*

All property, plant and equipment assets are measured initially at cost, representing the costs 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.

Assets are measured subsequently at valuation. Assets which are held for their service potential and are in use (ie operational assets used to deliver either front line services or back office functions) are measured at their current value in existing use. Assets that were most recently held for their service potential but are surplus with no plan to bring them back into use are measured at fair value where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

Current values in existing use are determined as follows:

- Land and non-specialised buildings – market value in existing use
- Specialised buildings – depreciated replacement cost on a modern equivalent asset basis.

For specialised assets, current value in existing use is interpreted as the present value of the asset’s remaining service potential, which is assumed to be at least equal to the cost of replacing that service potential. In line with the GAM, specialised assets are therefore valued as their depreciated replacement cost (DRC) on a modern equivalent asset (MEA) basis. This valuation method therefore applies to the majority of NHS providers' property asset base. The MEA method assumes that the existing asset would be replaced with a modern asset of equivalent capacity and function. This asset need not be restricted to the current location and thus, where it would meet the contractual location requirements of the service being provided, an alternative site may instead be used as the basis of valuation. It is for individual NHS providers to determine whether the alternative site approach is appropriate when undertaking an MEA based valuation.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying values are not materially different from those that would be determined at the end of the reporting period.

Valuation guidance issued by RICS states that valuations are performed net of VAT where the VAT is recoverable by the entity. This commonly applies to schemes procured under a Private Finance Initiative (PFI), where the construction is completed by a special purpose vehicle and the costs have recoverable VAT for the trust.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees and, where capitalised in accordance with IAS 23, borrowing costs. Assets are revalued and depreciation commences when the assets are brought into use.

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost where these assets have short useful lives or low values or both, as this is not considered to be materially different from current value in existing use.

*Subsequent expenditure*

Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the trust and the cost of the item can be determined reliably. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Consolidated Statement of Comprehensive Income in the period in which it is incurred.

*Depreciation*

Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

Property, plant and equipment which has been reclassified as 'held for sale' ceases to be depreciated upon the reclassification. Assets in the course of construction and residual interests in off-Statement of Financial Position Private Finance Initiative (PFI) contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

*Revaluation gains and losses*

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they directly relate to a revaluation decrease that has previously been recognised in operating expenses, in which case they are reversed in operating expenditure. Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Consolidated Statement of Comprehensive Income as an item of 'other comprehensive income'.

*Impairments*

In accordance with the GAM, impairments that arise from a clear consumption of economic benefits or of service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment that arises from a clear consumption of economic benefit or of service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating expenditure to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.

Other impairments are treated as revaluation losses. Reversals of 'other impairments' are treated as revaluation gains.

**De-recognition**

Assets intended for disposal are reclassified as 'held for sale' once the criteria in IFRS 5 are met.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'held for sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

**Donated, government grant and other grant funded assets**

Donated and grant funded property, plant and equipment assets are capitalised at their current valuation on receipt. The donation/grant is credited to income at the same time, unless the donor has imposed a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case, the donation/grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

**Private finance initiative (PFI) and Local Improvement Finance Trust (LIFT) transactions**

PFI and LIFT transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by NHS providers. In accordance with IAS 17, the underlying assets are initially recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services. The finance cost is calculated using the implicit interest rate for the scheme. The element of the annual unitary payment increase due to cumulative indexation is treated as contingent rent and is expensed as incurred.

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Consolidated Statement of Comprehensive Income. Maintenance spend is charged to operating expenses or capitalised as property, plant and equipment depending upon the nature of the expenditure.

**Useful economic lives of property, plant and equipment**

Useful economic lives assigned to categories of property, plant and equipment vary between NHS providers according to specific local circumstances. The ranges of useful economic lives across the sector are:

| | Min life Years | Max life Years |
|---|---|---|
| Buildings, excluding dwellings | 1 | 193 |
| Dwellings | 1 | 136 |
| Plant & machinery | 1 | 21 |
| Transport equipment | 1 | 36 |
| Information technology | 1 | 35 |
| Furniture & fittings | 1 | 15 |

Land is not depreciated by NHS providers and so is not included in the above table.

Finance-leased assets are depreciated over the shorter of the useful economic life or the lease term, unless the NHS provider expects to acquire the asset at the end of the lease term in which case the assets are depreciated in the same manner as owned assets above.

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximum used across the provider sector for each category of asset.

**Note 1.8 Intangible assets**

**Recognition**

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

*Internally generated intangible assets*

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

Expenditure on research is not capitalised. Expenditure on development is capitalised when it meets the requirements set out in IAS 38.

*Software*

Software which is integral to the operation of hardware, eg an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware, eg application software, is capitalised as an intangible asset.

**Measurement**

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets are measured at current value in existing use. Where no active market exists, intangible assets are valued at the lower of depreciated replacement cost and the value in use where the asset is income generating. Revaluations gains and losses and impairments are treated in the same manner as for property, plant and equipment. Assets that were most recently held for their service potential but are surplus with no plan to bring them back into use are measured at fair value where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

Intangible assets 'held for sale' are measured at the lower of their carrying amount or "fair value less costs to sell".

*Amortisation*

Intangible assets are amortised over their expected useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

Useful economic lives assigned to categories of intangible asset vary between NHS providers according to specific local circumstances. The range of useful economic lives across the sector is:

| | Min life Years | Max life Years |
|---|---|---|
| **Intangible assets - internally generated** | | |
| Information technology | 1 | 23 |
| Development expenditure | 1 | 12 |
| Websites | 1 | 12 |
| **Intangible assets - purchased** | | |
| Software | 1 | 23 |
| Licences & trademarks | 1 | 15 |
| Patents | 1 | 8 |
| Other | 1 | 15 |

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximums used across the provider sector for each category of asset.

**Note 1.9 Investment properties**

Investment properties are measured at fair value. Changes in fair value are recognised as gains or losses in income/expenditure.

Only those assets which are held solely to generate a commercial return are considered to be investment properties. Where an asset is held, in part, for support service delivery objectives, then it is considered to be an item of property, plant and equipment. Properties occupied by employees, whether or not they pay rent at market rates, are not classified as investment properties.

**Note 1.10 Inventories**

Inventories are valued at the lower of cost and net realisable value. NHS providers measure the cost of inventories using either a first in first out (FIFO) method or the weighted average cost method.

**Note 1.11 Financial assets and financial liabilities**

**Recognition**
Financial assets and financial liabilities arise where providers are party to the contractual provisions of a financial instrument, and as a result have a legal right to receive or a legal obligation to pay cash or another financial instrument. The GAM expands the definition of a contract to include legislation and regulations which give rise to arrangements that in all other respects would be a financial instrument and do not give rise to transactions classified as a tax by ONS.

This includes the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the provider's normal purchase, sale or usage requirements and are recognised when, and to the extent which, performance occurs, ie, when receipt or delivery of the goods or services is made.

**Classification and measurement**
Financial assets and financial liabilities are initially measured at fair value plus or minus directly attributable transaction costs except where the asset or liability is not measured at fair value through income and expenditure. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices or valuation techniques.

Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described below.

Financial assets are subsequently measured at amortised cost, fair value through income and expenditure or fair value through other comprehensive income.

Financial liabilities are subsequently measured at amortised cost or fair value through income and expenditure.

**Financial assets and financial liabilities at amortised cost**
Financial assets and financial liabilities at amortised cost are those held with the objective of collecting contractual cash flows and where cash flows are solely payments of principal and interest. This includes cash equivalents, contract and other receivables, trade and other payables, rights and obligations under lease arrangements and loans receivable and payable.

After initial recognition, these financial assets and financial liabilities are measured at amortised cost using the effective interest method less any impairment (for financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Interest revenue or expense is calculated by applying the effective interest rate to the gross carrying amount of a financial asset or amortised cost of a financial liability and recognised in the Consolidated Statement of Comprehensive Income and a financing income or expense. In the case of loans held from the Department of Health and Social Care, the effective interest rate is the nominal rate of interest charged on the loan.

**Financial assets measured at fair value through other comprehensive income**
A financial asset is measured at fair value through other comprehensive income where business model objectives are met by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest. Movements in the fair value of financial assets in this category are recognised as gains or losses in other comprehensive income except for impairment losses. On derecognition, cumulative gains and losses previously recognised in other comprehensive income are reclassified from equity to income and expenditure, except where the provider elected to measure an equity instrument in this category on initial recognition.

In some cases providers have irrevocably elected to measure some equity instruments at fair value through other comprehensive income. This is not material to these consolidated accounts.

**Financial assets and financial liabilities at fair value through income and expenditure**
Financial assets measured at fair value through income and expenditure are those that are not otherwise measured at amortised cost or at fair value through other comprehensive income. This category also includes financial assets and liabilities acquired principally for the purpose of selling in the short term (held for trading) and derivatives. Derivatives which are embedded in other contracts, but which are separable from the host contract are measured within this category. Movements in the fair value of financial assets and liabilities in this category are recognised as gains or losses in the Consolidated Statement of Comprehensive income.

In some cases providers have irrevocably elected to measure some financial assets at fair value through income and expenditure. This is not material to these consolidated accounts.

**Impairment of financial assets**
For all financial assets measured at amortised cost including lease receivables, contract receivables and contract assets or assets measured at fair value through other comprehensive income, providers recognise an allowance for expected credit losses.

Providers adopt the simplified approach to impairment for contract and other receivables, contract assets and lease receivables, measuring expected losses as at an amount equal to lifetime expected losses. For other financial assets, the loss allowance is initially measured at an amount equal to 12-month expected credit losses (stage 1) and subsequently at an amount equal to lifetime expected credit losses if the credit risk assessed for the financial asset significantly increases (stage 2).

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Expected losses are charged to operating expenditure within the Consolidated Statement of Comprehensive Income and reduce the net carrying value of the financial asset in the Consolidated Statement of Financial Position.

**De-recognition**
Financial assets are de-recognised when the contractual rights to receive cash flows from the assets have expired or the provider has transferred substantially all the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

### Note 1.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

### Note 1.13 Leases

#### Finance leases

Where substantially all risks and rewards of ownership of a leased asset are borne by an NHS provider, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

The asset and liability are recognised at the inception of the lease and de-recognised when the liability is discharged, cancelled or expires. After initial recognition the asset is accounted for an item of property plant and equipment. The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to finance costs in the Consolidated Statement of Comprehensive Income.

#### Operating leases

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. The aggregate benefit of operating lease incentives is recognised as a reduction of rental expense over the lease term.

#### Leases of land and buildings

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

### Note 1.14 Provisions

An NHS provider recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Consolidated Statement of Financial Position is the best estimate of the resources required to settle the obligation.

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rates effective for 31 March 2019.

| | | Nominal rate |
|---|---|---|
| Short-term | Up to 5 years | 0.76% |
| Medium-term | After 5 years up to 10 years | 1.14% |
| Long-term | Exceeding 10 years | 1.99% |

In 2018/19 HM Treasury moved to providing discount rates for general provision on a nominal rate basis. Expected future cash flows are therefore adjusted for the impact of inflation before discounting using nominal rates. The following inflation rates are set by HM Treasury, effective 31 March 2019.

| | Inflation rate |
|---|---|
| Year 1 | 2.00% |
| Year 2 | 2.00% |
| Into perpetuity | 2.10% |

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 0.29% in real terms.

*Clinical negligence costs*

NHS Resolution (previously known as NHS Litigation Authority) operates a risk pooling scheme under which an NHS provider pays an annual contribution to NHS Resolution, which, in return, settles all clinical negligence claims. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with an NHS provider. The total value of clinical negligence provisions carried by NHS Resolution on behalf of NHS providers is disclosed at note 22.3.

*Non-clinical risk pooling*

NHS providers can participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which an NHS provider pays an annual contribution to NHS Resolution 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 when the liability arises.

**Note 1.15 Contingencies**

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 23 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 23, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

**Note 1.16 Public dividend capital**

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the NHS trust or predecessor NHS trust (in the case for NHS foundation trusts). Additional PDC may also be issued to NHS providers by the Department of Health and Social Care. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by the trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for
(i) donated assets (including lottery funded assets),
(ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility,
(iii) any PDC dividend balance receivable or payable and
(iv) any receivable associated with Provider Sustainability Fund (PSF) incentive or bonus schemes.

In accordance with the requirements laid down by the Department of Health and Social Care (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the "pre-audit" version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

**Note 1.17 Value added tax**

Most of the activities of NHS providers 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. Where an NHS provider consolidates the activities of a subsidiary, these activities may be within the scope of VAT rules.

**Note 1.18 Corporation tax**

The Finance Act 2004 amended S519A Income and Corporation Taxes Act 1998 to provide power to HM Treasury to make certain non-core activities of NHS providers potentially subject to corporation tax. NHS providers may also incur corporation tax liabilities through subsidiaries which are consolidated into their financial statements.

Corporation tax expense recognised in these financial statements represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable on the taxable surpluses generated during the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

**Note 1.19 Foreign exchange**

The functional and presentation currency of NHS providers is sterling. A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where an NHS provider has assets or liabilities denominated in a foreign currency at the reporting date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the reporting date) are recognised as income or expense in the period in which they arise. Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

**Note 1.20 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme**

The CRC scheme is a mandatory cap and trade scheme for non-transport $CO_2$ emissions. Some NHS providers have emissions above this cap and participate in the scheme. Where NHS providers are registered with the CRC scheme, they are required to surrender to the Government an allowance for every tonne of $CO_2$ they emit during the financial year. Therefore, registered NHS providers should recognise a liability and related expense in respect of this obligation as $CO_2$ emissions are made.

The carrying amount of the liability at 31 March will, therefore, reflect the $CO_2$ emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation.

**Note 1.21 Third party assets**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since an NHS provider has no beneficial interest in them.

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 17.2 to the accounts).

**Note 1.22 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 would 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.

Losses and special payments notes within individual NHS provider financial statements are compiled directly from each trust's losses and compensations register which reports on an accruals basis without provisions for future losses.

**Note 1.23 Gifts**

Gifts are items that are voluntarily donated, with no preconditions and without the expectation of any return. Gifts include all transactions economically equivalent to free and unremunerated transfers, such as the loan of an asset for its expected useful life, and the sale or lease of assets at below market value.

**Note 1.24 Going concern**

HM Treasury's Financial Reporting Manual (FReM) defines that a public sector body that is not classified as a trading entity will be a going concern where there is the anticipated continuation of the provision of services in the future. The same definition is applied by NHS providers in preparing their financial statements. NHS Improvement has therefore prepared these consolidated financial statements on a going concern basis which reflects the basis on which the underlying NHS providers' financial statements have been prepared on the assumption that the Department of Health and Social Care will provide the necessary cash funding to enable the continuation of services if local NHS funds are insufficient through their regime for funding of NHS providers.

The GAM and FT Annual Reporting Manual direct NHS providers to disclose in their annual report and accounts if there are any uncertanties around going concern, including if the adoption of the going concern basis is solely based on the interpretation in the FReM to focus on the continued provision of services.

All NHS provider financial statements have been prepared on a going concern basis in 2018/19 and all received unqualified true and fair audit opinions on the accounts. NHS Improvement has prepared these consolidated accounts on a going concern basis which reflects the basis on which the underlying accounts have been prepared.

The auditors of 78 NHS providers have included a 'material uncertainty' paragraph within the audit report to draw attention to the going concern disclosure in those financial statements (2017/18: 78). These are entered by auditors where providers are dependent on future funding from the Department of Health and Social Care and the Department has not confirmed the provision of this funding going forwards. These 78 NHS providers comprise 39% of total operating income. A listing of these providers is provided in the annual governance statement. 99 providers received interim cash revenue support funding from the Department of Health and Social Care during 2018/19 totalling £3.1 billion. Details of the overall sector position are set out in the *Review of financial performance* .

A further 6 provider audit reports included an 'emphasis of matter' relating to the demise of the organisation and the transfer of its services to another entity (2017/18: 4).

**Note 1.25 Critical accounting judgements and key sources of estimation uncertainty**

In preparing the consolidated NHS provider accounts, NHS Improvement applies the following accounting judgements:

- Intra-group transactions and balances between NHS providers are eliminated upon consolidation. Where differences are identified in the amounts recorded, adjustments are made to these amounts to ensure all intra-group balances eliminate. Any difference between these amounts and the amounts recognised as expenditure and payables are not further adjusted as these net amounts are not material. We are satisfied that the gross mismatches which net together to this immaterial position do not constitute a material error.

- These consolidated accounts are prepared on a going concern basis as detailed within the section above.

and the following estimations:

- Accounting policy note 1.7 sets out how property plant and equipment is measured. In applying the RICS guidance to valuing an asset, the valuation used by the NHS provider will depend on the local assumptions used, including the floor area for assets. For a specialised asset valued on a depreciated replacement cost (DRC) basis as a modern equivalent (MEA), this includes the assumption of whether 'alternative site' or 'no alternative' site is used for the valuation. Further, RICS guidance says that valuations should be stated net of VAT where VAT would be recoverable on the cost of replacing the service potential. Whether this is applicable in each local valuation is a matter of local judgement, with guidance on the parameters for this judgement provided in the DHSC GAM. The accounting policy of DRC:MEA is applied consistently for specialised assets across NHS providers, but local valuation assumptions may have material effects on each local valuation.

- Useful lives of PPE - as shown in note 13.1, property plant and equipment (PPE) is material to these consolidated accounts. In note 1.7 we disclose, for each category of PPE, the lowest minimum and the highest maximum in the ranges of useful lives used by providers. Useful lives are the period over which assets are depreciated. We do not collect information from providers on average useful lives, but in taking the median average lowest and median average highest, and the mean average of those, an approximate average can be computed to assess the impact of the accounting estimates.

  As shown in note 13.1, buildings and plant & equipment depreciation comprise 49% and 29% of total PPE depreciation charged in-year respectively. Utilising the methodology outlined above, a very approximate average useful life in these categories is 39 years and 10 years respectively. In average terms, making all asset lives one year shorter would approximately increase the annual depreciation charge by £26m for buildings and £65m for plant & machinery. This is not material. Based on a materiality of £1 billion, ten times this 'one year effect' would be required to lead to a material error based on these approximate averages.

  The depreciation charge in these accounts comprises the depreciation charges in each provider's accounts, which in themselves relate to many assets. It is therefore not possible to thoroughly interrogate this accounting estimate upon consolidation, but given the impact locally each provider's accounting estimates in this area are subject to review by each local external auditor.

Critical accounting estimates and judgements made in the preparation of individual NHS provider accounts are disclosed locally by each NHS provider.

NHS providers made preparations through 2018/19 for the potential impact of the UK's exit from the European Union, including planning for the case of a 'no deal' EU Exit, including following recommendations in the Department of Health and Social Care's EU Exit Operational Guidance. The NHS's overall approach includes planning and contingency measures being taken centrally, as well as actions that are the responsibility of individual providers. Each provider has identified an EU Exit Senior Responsible Officer, who participated in regional planning work by the NHS. Individual providers have managed relevant risks as part of their existing governance and risk management arrangements.

**Note 1.26 Early adoption of standards, amendments and interpretations**

The consolidated NHS Provider financial statements have not adopted any IFRSs, amendments or interpretations early.

**Note 1.27 Standards, amendments and interpretations in issue but not yet effective or adopted**

International Accounting Standard 8, accounting policies, changes in accounting estimates and errors, requires disclosure in respect of new IFRSs, amendments and interpretations that are, or will be, applicable after the accounting period. There are a number of IFRSs, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period.

| Standard | Description of amendment | Effective date |
|---|---|---|
| *Standards, amendments or interpretations issued and effective from 2019/20:* | | |
| IFRS 3 Business combinations (amendment) | An entity remeasures its previously held interest in a joint operation when it obtains control of the business. | Annual periods beginning on or after 1 January 2019. |
| IFRS 9 Financial instruments (amendments) | Amendments dealing with prepayments with negative compensation. | Annual periods beginning on or after 1 January 2019 |
| IFRS 11 Joint arrangements (amendment) | An entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. | Annual periods beginning on or after 1 January 2019. |
| IAS 12 Income taxes (amendment) | Amendment to clarify an entity accounts for all income tax consequences of dividend payments in the same way. | Annual periods beginning on or after 1 January 2019. |
| IAS 19 Employee benefits (amendments) | Amendments relate to dealing with the effects of plan amendment, curtailment or settlement. | Annual periods beginning on or after 1 January 2019. |
| IAS 23 Borrowing costs (amendment) | Amendment to clarify that an entity treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale. | Annual periods beginning on or after 1 January 2019. |
| IAS 28 Investments in associates and joint ventures (amendment) | Amendments to clarify where interests are excluded from IFRS 9 measurement. | Annual periods beginning on or after 1 January 2019. |
| IFRIC 23 Uncertainty over income tax treatments | Interprets how to determine taxable profits when there are uncertainties under IAS 12. | Annual periods beginning on or after 1 January 2019. |
| *Standards, amendments or interpretations issued and effective for later periods:* | | |
| IFRS 3 Business combinations (amendment) | Amendment clarifies the definition of a business. | Annual periods beginning on or after 1 January 2020. Not yet EU endorsed. |
| IFRS 16 Leases | Original issue | For public sector - applicable from 2020/21. Not yet adopted by the FReM. |
| IFRS 17 Insurance contracts | Original issue | Annual periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU. |
| IAS 1 and IAS 8 (amendments) | These amendments clarify the definition of material and its application. | Annual periods beginning on or after 1 January 2020. Not yet endorsed for use in the EU. |

**Estimated impact of future standards**

IFRS 16 Leases

IFRS 16 has not yet been formally adopted for the public sector by HM Treasury and may be subject to interpretation and/or adaptation. However decisions have been taken by HM Treasury on key aspects of accounting which does enable estimates of the impact of the standard to be made.

*Definition of a lease*
IFRS 16 brings some changes to the definition of a lease compared to IFRIC 4 and IAS 17 currently. HM Treasury has decided that, as a practical expedient, entities will grandfather in (i.e. carry forward) their current assessment of whether a contract contains a lease. We have not collected detailed information from providers to enable us to quantify the effects of this but given the practical expedient we do not expect this part of IFRS 16 to have a material impact. The key impact will be in changing the accounting for arrangements currently identified as leases.

*Lessee accounting: single model of accounting*
For lessees, the current (IAS 17) distinction between operating leases and finance leases is removed. Under IFRS 16, a right-of-use asset and lease liability are included in the statement of financial position for all leased assets. Note 9.2 in these accounts shows annual lease payments for operating leases of £715 million and future commitments under these contracts of £3.0 billion.

HM Treasury updated its IFRS 16 implementation guidance in April 2019, to include guidance on how the right-of-use asset should be measured. Given the timing of this decision and the complexity of valuing assets in some cases, it has not been possible to collect data from providers on the impact these leases will have in the Consolidated Statement of Financial Position. But given the annual payments it is clear that this will have a material impact on gross assets.

There is a corresponding impact on the consolidated statement of comprehensive income: such assets will now be depreciated, and finance charges will be recorded. Finance lease modelling for lessees usually results in higher I&E charges in the earlier parts of lease terms, as finance leases involve recognition of finance charges which reduce over time as the principal is repaid. The precise effect of this on the statement of comprehensive income in the consolidated accounts will be a function of many different leases all at different stages of the lease contract across many providers. As such it is considered impracticable to accurately predict the impact on the statement of comprehensive income for a given period at this stage.

*Lessor accounting*
IFRS 16 retains the distinction between operating and finance leases for lessors. Thus there is a difference in approach between lessees and lessors. Appropriate elimination adjustments will be performed in preparing these consolidated provider accounts under IFRS 16. The figures quoted above for lessee operating leases have been adjusted to remove amounts within the provider sector. There are far fewer lease arrangements where providers are the lessor. As shown in Note 9.1 of these accounts, providers currently have £89 million of lessor annual income under operating leases and less than £1 million under finance leases. This is not material to the consolidated accounts.

Other standards

The other new or amended standards and interpretations are not anticipated to have a material future impact.

**Note 2 Operating segments**

The NHS provider sector is formed of five types of NHS provider, supplying different services: acute, ambulance, community, mental health and specialist. This classification is based on the majority of the provider's income: i.e. each provider is allocated to a single segment. Alternatively NHS providers can be allocated into four regions: North, Midlands & East, South and London. From 1 April 2019 the number of regions will be expanded to seven.

These are two alternative segmental analyses. NHS Improvement does not allocate resources between these segments; however this is the basis on which the performance of the NHS provider sector is reported to NHS Improvement's Board. NHS Improvement is not the parent of NHS providers and as such does not have a function that meets the definition of the chief operating decision maker in IFRS 8.

Net assets are not split between segments in our internal reporting and so are not split by segment here.

The figures reported below include inter-NHS provider trust income and expenditure and these are removed in reconciling to the Consolidated Statement of Comprehensive Income overleaf. The figures below exclude amounts relating to NHS charitable funds which are excluded for our regulatory analysis. The impact of consolidating charitable funds is added in to the reconciliation to the Consolidated Statement of Comprehensive Income overleaf.

***Analysis by type of trust***

| **2018/19 excluding charities** | **Community £m** | **Ambulance £m** | **Specialist £m** | **Mental Health £m** | **Acute £m** | **Total £m** |
|---|---|---|---|---|---|---|
| Income | 2,568 | 2,587 | 4,054 | 12,731 | 65,006 | **86,946** |
| Expenditure before depreciation and impairments | (2,436) | (2,462) | (3,646) | (11,924) | (63,519) | **(83,987)** |
| Depreciation and amortisation | (56) | (89) | (134) | (269) | (1,681) | **(2,229)** |
| Net finance costs | (20) | (16) | (70) | (237) | (1,366) | **(1,709)** |
| Other | - | 2 | 5 | 115 | 283 | **405** |
| **Surplus / (deficit) before I&T** | **56** | **22** | **209** | **416** | **(1,277)** | **(574)** |
| Impairments (net of reversals) | (11) | (3) | (71) | (195) | (773) | **(1,053)** |
| Transfers by absorption | (31) | - | - | 24 | 2 | **(5)** |
| **Surplus / (deficit) for the year** [1] | **14** | **19** | **138** | **245** | **(2,048)** | **(1,632)** |

| **2017/18 excluding charities** | **Community £m** | **Ambulance £m** | **Specialist £m** | **Mental Health £m** | **Acute £m** | **Total £m** |
|---|---|---|---|---|---|---|
| Income | 2,765 | 2,468 | 3,863 | 11,945 | 61,751 | **82,792** |
| Expenditure before depreciation and impairments | (2,635) | (2,328) | (3,462) | (11,190) | (60,587) | **(80,202)** |
| Depreciation and amortisation | (57) | (88) | (128) | (260) | (1,649) | **(2,182)** |
| Net finance costs | (24) | (16) | (66) | (250) | (1,336) | **(1,692)** |
| Other | 1 | 4 | 67 | 55 | 163 | **290** |
| **Surplus / (deficit) before I&T** | **50** | **40** | **274** | **300** | **(1,658)** | **(994)** |
| Impairments (net of reversals) | (29) | 1 | (88) | (181) | (309) | **(606)** |
| Transfers by absorption | (15) | - | - | 4 | (36) | **(47)** |
| **Surplus / (deficit) for the year** [1] | **6** | **41** | **186** | **123** | **(2,003)** | **(1,647)** |

Further information on the acute sector is presented overleaf.

[1] These totals are after impairments and transfers but exclude consolidated charitable funds.

***Analysis by region***

| 2018/19 excluding charities | North £m | Midlands & East £m | South £m | London £m | Total £m |
|---|---|---|---|---|---|
| Income | 25,745 | 22,976 | 19,459 | 18,766 | **86,946** |
| Expenditure before depreciation and impairments | (24,673) | (22,689) | (18,620) | (18,005) | **(83,987)** |
| Depreciation and amortisation | (561) | (580) | (532) | (556) | **(2,229)** |
| Net finance costs | (430) | (449) | (381) | (449) | **(1,709)** |
| Other | 115 | 9 | 97 | 184 | **405** |
| **Surplus / (deficit) before I&T** | **196** | **(733)** | **23** | **(60)** | **(574)** |
| Impairments (net of reversals) | (571) | (144) | (108) | (230) | **(1,053)** |
| Gains/(losses) from transfers by absorption | (5) | (1) | 1 | - | **(5)** |
| **Surplus / (deficit) for the year** [1] | **(380)** | **(878)** | **(84)** | **(290)** | **(1,632)** |

| 2017/18 excluding charities | North £m | Midlands & East £m | South £m | London £m | Total £m |
|---|---|---|---|---|---|
| Income | 24,475 | 21,959 | 18,446 | 17,912 | **82,792** |
| Expenditure before depreciation and impairments | (23,641) | (21,624) | (17,689) | (17,248) | **(80,202)** |
| Depreciation and amortisation | (552) | (567) | (532) | (531) | **(2,182)** |
| Net finance costs | (440) | (434) | (384) | (434) | **(1,692)** |
| Other | 31 | 29 | 33 | 197 | **290** |
| **Surplus / (deficit) before I&T** | **(127)** | **(637)** | **(126)** | **(104)** | **(994)** |
| Impairments (net of reversals) | (347) | (92) | (93) | (74) | **(606)** |
| Gains/(losses) from transfers by absorption | (8) | (1) | (38) | - | **(47)** |
| **(Deficit) for the year** [1] | **(482)** | **(730)** | **(257)** | **(178)** | **(1,647)** |

***Reconciliation to Consolidated Statement of Comprehensive Income***

| 2018/19 | Figure per above £m | Less: Inter-provider adjustment £m | Add: charities consolidation[2] £m | Total before impairments & transfers £m | Impairments & transfers £m | Total per SOCI £m |
|---|---|---|---|---|---|---|
| Operating income | 86,946 | (2,298) | 32 | **84,680** | - | **84,680** |
| Operating expenditure excluding depreciation | (83,987) | 2,298 | (40) | **(81,729)** | (1,053) | **(82,782)** |
| Depreciation and amortisation | (2,229) | - | - | **(2,229)** | - | **(2,229)** |
| Operating expenditure total | (86,216) | 2,298 | (40) | **(83,958)** | (1,053) | **(85,011)** |
| **Operating surplus / (deficit)** | **730** | **-** | **(8)** | **722** | **(1,053)** | **(331)** |
| Net finance costs | (1,709) | - | 6 | **(1,703)** | - | **(1,703)** |
| Other items | 405 | - | 1 | **406** | (5) | **401** |
| **Surplus / (deficit) for the year** | **(574)** | **-** | **(1)** | **(575)** | **(1,058)** | **(1,633)** |
| **2017/18** | | | | | | |
| Operating income | 82,792 | (2,228) | 39 | **80,603** | - | **80,603** |
| Operating expenditure excluding depreciation | (80,202) | 2,228 | (40) | **(78,014)** | (606) | **(78,620)** |
| Depreciation and amortisation | (2,182) | - | - | **(2,182)** | - | **(2,182)** |
| Operating expenditure total | (82,384) | 2,228 | (40) | **(80,196)** | (606) | **(80,802)** |
| **Operating surplus / (deficit)** | **408** | **-** | **(1)** | **407** | **(606)** | **(199)** |
| Net finance costs | (1,692) | - | 8 | **(1,684)** | - | **(1,684)** |
| Other items | 290 | - | 1 | **291** | (47) | **244** |
| **Surplus / (deficit) for the year** | **(994)** | **-** | **8** | **(986)** | **(653)** | **(1,639)** |

[1] These totals are after impairments and transfers but exclude consolidated charitable funds.

[2] These numbers reflect the impact of consolidating NHS charitable funds including local intra-group eliminations. These numbers do not represent total income and expenditure in NHS charitable funds.

## Note 3 Operating income from patient care activities

All income from patient care activities relates to contract income recognised in line with accounting policy 1.2

### Note 3.1 Income from patient care activities (by nature)

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Acute services** | | |
| Elective income | 9,377 | 9,026 |
| Non elective income | 15,190 | 14,347 |
| Outpatient income | 8,272 | 7,934 |
| A & E income | 2,451 | 2,288 |
| Other NHS clinical income (including high cost drugs income) | 19,381 | 19,192 |
| **Mental health services** | | |
| Cost and volume contract income | 535 | 624 |
| Block contract income | 7,524 | 7,153 |
| Clinical partnerships providing mandatory services | 206 | 213 |
| Clinical income for the secondary commissioning of mandatory services | 70 | 54 |
| Other clinical income from mandatory services | 283 | 259 |
| **Ambulance services** | | |
| A & E income | 2,108 | 2,027 |
| Patient transport service income | 206 | 206 |
| Other income | 138 | 134 |
| **Community services** | | |
| Community services income from CCGs and NHS England | 5,998 | 5,826 |
| Community services income from other sources | 1,343 | 1,478 |
| **All services** | | |
| Private patient income | 659 | 625 |
| AfC pay award central funding | 783 | - |
| Other clinical income | 646 | 692 |
| **Total income from activities** | **75,170** | **72,078** |

### Note 3.2 Income from patient care activities (by source)

| **Income from patient care activities received from:** | 2018/19 £m | 2017/18 £m |
|---|---|---|
| CCGs and NHS England | 70,611 | 68,306 |
| Local authorities | 2,081 | 2,114 |
| Department of Health and Social Care | 794 | 8 |
| NHS other | 160 | 191 |
| Non-NHS: private patients | 648 | 614 |
| Non-NHS: overseas patients (chargeable to patient) | 91 | 87 |
| Injury cost recovery scheme | 209 | 202 |
| Non NHS: other | 576 | 556 |
| **Total income from activities** | **75,170** | **72,078** |

In this note, NHS refers to the NHS in England.

**Note 3.3 Overseas visitors (relating to patients charged directly by the NHS provider)**

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| Income recognised this year | 91 | 87 |
| Cash payments received in-year | 35 | 30 |
| Amounts added to provision for impairment of receivables | 39 | 45 |
| Amounts written off in-year | 30 | 27 |

**Note 4 Other operating income**

| | Contract income £m | Non-contract income £m | 2018/19 Total £m | 2017/18 Total £m |
|---|---|---|---|---|
| Research and development | 870 | 105 | **975** | 914 |
| Education and training | 2,766 | 22 | **2,788** | 2,746 |
| Receipt of capital grants and donations | | 128 | **128** | 144 |
| Gain recognised on receipt of part-constructed PFI assets ** | | 256 | **256** | - |
| Charitable and other contributions to expenditure | | 107 | **107** | 90 |
| Non-patient care services to other bodies | 691 | | **691** | 743 |
| Provider sustainability / sustainability and transformation fund income (PSF / STF)* | 2,431 | | **2,431** | 1,793 |
| Support from the Department of Health and Social Care for mergers | | 60 | **60** | 76 |
| Rental revenue from finance leases | | - | **-** | 2 |
| Rental revenue from operating leases | | 89 | **89** | 88 |
| Income in respect of staff costs where accounted on gross basis | 206 | | **206** | 204 |
| Incoming resources excluding investment income, relating to NHS charitable funds | | 72 | **72** | 73 |
| PFI support income | 100 | | **100** | 96 |
| Car parking | 255 | | **255** | 237 |
| Pharmacy sales | 143 | | **143** | 85 |
| Clinical excellence awards | 92 | | **92** | 91 |
| Catering | 109 | | **109** | 107 |
| Other | 951 | 57 | **1,008** | 1,036 |
| **Total other operating income** | **8,614** | **896** | **9,510** | **8,525** |

* 203 NHS providers received income from the Provider Sustainability Fund (previously the Sustainability and Transformation Fund) in 2018/19 (2017/18: 212). This is part of the £2.45 billion fund available to NHS providers in 2018/19 (2017/18: £1.8 billion). £19 million of the fund was allocated to the 'Get It Right First Time' initiative (2017/18: £7m).

** Following the liquidation of Carillion PLC in 2018, the ownership of two part-constructed PFI assets at The Royal Liverpool and Broadgreen University Hospitals NHS Trust and Sandwell and West Birmingham Hospitals NHS Trust transferred to the public sector. The certified construction cost amount for works completed on site was in both cases greater than the capital prepayments made by the trusts. This difference has been treated as a part-donated asset. Initial recognition of the assets has been at cost, in line with IAS 16. The cash price equivalent for cost, as required by the Standard, includes the part donated element up to the amount in the construction cost certificate. In applying the HM Treasury Financial Reporting Manual, the donated element results in a gain being recognised in income. Given the exceptional nature of this, we have presented this figure separately from the rest of 'capital grants and donations' to aid comparability between years. The accounting treatment has been confirmed by the Department of Health and Social Care.

**Note 5.1 Operating expenses**

| | 2018/19 | 2017/18 |
|---|---|---|
| | £m | £m |
| Purchase of healthcare from NHS and DHSC bodies | 82 | 93 |
| Purchase of healthcare from non-NHS and non-DHSC bodies | 1,326 | 1,106 |
| Purchase of social care | 183 | 182 |
| Employee expenses - staff (including executive directors) | 54,198 | 51,600 |
| Non-executive directors | 28 | 28 |
| Supplies and services - clinical | 6,521 | 6,428 |
| Supplies and services - general | 1,431 | 1,388 |
| Drug costs | 7,211 | 7,087 |
| Inventories written down | 11 | 12 |
| Consultancy costs | 227 | 247 |
| Establishment | 920 | 881 |
| Premises | 3,181 | 2,995 |
| Transport (including patient travel) | 699 | 664 |
| Depreciation on property, plant and equipment | 2,012 | 1,983 |
| Amortisation on intangible assets | 217 | 199 |
| Net Impairments | 1,053 | 606 |
| Movement in credit loss allowance: contract receivables/assets | 79 | - |
| Movement in credit loss allowance: all other receivables & investments | 20 | 134 |
| Increase in other provisions | 40 | 10 |
| Change in provisions discount rate(s) | (7) | 6 |
| Fees payable to the external auditor * | | |
| audit services- statutory audit | 16 | 16 |
| other auditor remuneration (external auditor only) | 3 | 3 |
| Internal audit costs, including local counter fraud services | 20 | 20 |
| Clinical negligence | 1,996 | 1,946 |
| Legal fees | 87 | 83 |
| Insurance | 60 | 56 |
| Research and development | 611 | 491 |
| Education and training | 454 | 390 |
| Rentals under operating leases | 715 | 672 |
| Early retirements | 3 | 5 |
| Redundancy | 32 | 53 |
| Charges to operating expenditure for on-SoFP IFRIC 12 schemes (e.g. PFI / LIFT) on IFRS basis** | 948 | 914 |
| Charges to operating expenditure for off-SoFP PFI / LIFT schemes | 5 | 6 |
| Car parking & security | 43 | 39 |
| Hospitality | 7 | 8 |
| Losses, ex gratia & special payments | 18 | 17 |
| Grossing up consortium arrangements | 11 | 7 |
| Other services, eg external payroll | 71 | 78 |
| Other | 443 | 313 |
| NHS charitable funds: Other resources expended | 36 | 36 |
| **Total** | **85,011** | **80,802** |

* These are the audit fees disclosed by NHS providers and do not include the audit fee payable to the National Audit Office in respect of these consolidated accounts. This fee is accounted for within the NHS TDA's own accounts which are prepared separately. This fee is £110,000 (2017/18: £120,000 of which £40,000 related to additional work on opening and comparative balances in the first year of these accounts).

** This line does not contain all the charges relating to PFI and similar schemes in these accounts. An analysis of payments made can be found in note 25.3.

**Note 5.2 Other auditors' remuneration**

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| Other remuneration paid to the external auditor is made up as follows: | | |
| 1. Audit of accounts of any associate of the provider | 0.2 | 0.1 |
| 2. Audit-related assurance services * | 1.5 | 1.8 |
| 3. Taxation compliance services | - | - |
| 4. All taxation advisory services not falling within item 3 above | 0.1 | 0.1 |
| 5. Internal audit services | - | - |
| 6. All assurance services not falling within items 1 to 5 | 0.5 | 0.5 |
| 7. Corporate finance transaction services not falling within items 1 to 6 above | - | - |
| 8. Other non-audit services not falling within items 2 to 7 above | 0.6 | 0.4 |
| **Total** | **2.9** | **2.9** |

* Audit related assurance services includes fees paid by providers for external assurance on quality accounts and quality reports.

**Note 5.3 Limitation on auditors' liability**

Liability caps are standard under most public sector frameworks.167 (2017/18: 161) NHS providers disclosed a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount.The amount of that limit in 2018/19 ranges between £0.2 million to £5 million (2017/18: £0.2 million to £5 million).

For these consolidated provider accounts, the Comptroller and Auditor General is indemnified for any liability arising from a breach of duty in relation to the audit of these financial statements. Any amount payable arising from such a liability shall be charged on and paid out of the Consolidated Fund.

**Note 6.1 Employee benefits**

| | Permanent £m | Other £m | 2018/19 Total £m | 2017/18 Total £m |
|---|---|---|---|---|
| Salaries and wages | 41,038 | 1,266 | **42,304** | 40,229 |
| Social security costs | 4,059 | 69 | **4,128** | 3,923 |
| Apprenticeship levy | 203 | 2 | **205** | 192 |
| Employers' contributions to NHS pensions | 4,901 | 62 | **4,963** | 4,745 |
| Pension cost - other | 14 | 2 | **16** | 14 |
| Other employment benefits | - | 2 | **2** | 3 |
| Termination benefits | 18 | 1 | **19** | 38 |
| Temporary staff (including agency) | - | 3,377 | **3,377** | 3,160 |
| NHS charitable funds staff | 4 | - | **4** | 5 |
| **Total gross staff costs** | **50,237** | **4,781** | **55,018** | **52,309** |
| Recoveries in respect of seconded staff | (82) | (2) | **(84)** | (79) |
| **Total staff costs** | **50,155** | **4,779** | **54,934** | **52,230** |
| **Included within:** | | | | |
| Costs capitalised as part of assets | 172 | 30 | **202** | 163 |

Staff costs here and in note 5.1 differ as note 6.1 also includes redundancy and early retirements costs and the costs of staff involved in research & development, education & training and internal audit services.

Individual NHS providers' accounts and annual reports contain disclosure of senior manager remuneration, the Hutton fair pay ratio and off-payroll engagements as required by the HM Treasury FReM.

**Note 6.2 Average number of employees (WTE basis)**

| | Permanent Number | Other Number | 2018/19 Total Number | 2017/18 Total Number |
|---|---|---|---|---|
| Medical and dental | 107,341 | 19,183 | **126,524** | 121,862 |
| Ambulance staff | 30,133 | 255 | **30,388** | 28,897 |
| Administration and estates | 231,956 | 14,650 | **246,606** | 245,536 |
| Healthcare assistants and other support staff | 202,630 | 25,338 | **227,968** | 204,515 |
| Nursing, midwifery and health visiting staff | 335,776 | 37,762 | **373,538** | 377,704 |
| Nursing, midwifery and health visiting learners | 7,223 | 787 | **8,010** | 7,972 |
| Scientific, therapeutic and technical staff | 132,738 | 6,674 | **139,412** | 141,904 |
| Healthcare science staff | 24,540 | 617 | **25,157** | 21,955 |
| Social care staff | 1,850 | 346 | **2,196** | 2,166 |
| Other | 2,759 | 890 | **3,649** | 5,036 |
| **Total average numbers** | **1,076,946** | **106,502** | **1,183,448** | **1,157,547** |
| **Of which:** | | | | |
| Number of employees (WTE) engaged on capital projects | 3,069 | 486 | **3,555** | 3,570 |

**Note 6.3 Retirements due to ill-health**

During 2018/19 there were 772 retirements on the grounds of ill-health (2017/18: 907). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £43 million (2017/18: £55 million).

**Note 6.4 Reporting of compensation schemes - exit packages**

Redundancy and other departure costs have been paid in accordance with the provisions of the NHS terms and conditions of service. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Further disclosure of exit packages paid to senior managers can be found in the remuneration reports of individual NHS providers.

Note 6.5 provides further analysis of the 'other departures' disclosed below.

| 2018/19 | Number of compulsory redundancies Number | Number of other departures agreed Number | Total number of exit packages Number |
|---|---|---|---|
| **Exit package cost band (including any special payment element)** | | | |
| <£10,000 | 218 | 1,611 | **1,829** |
| £10,000 - £25,000 | 239 | 283 | **522** |
| £25,001 - 50,000 | 196 | 136 | **332** |
| £50,001 - £100,000 | 122 | 55 | **177** |
| £100,001 - £150,000 | 33 | 10 | **43** |
| £150,001 - £200,000 | 17 | 5 | **22** |
| >£200,000 | 6 | 4 | **10** |
| **Total number of exit packages by type** | **831** | **2,104** | **2,935** |
| Total resource cost (£m) | 29 | 22 | **51** |

| 2017/18 | Number of compulsory redundancies Number | Number of other departures agreed Number | Total number of exit packages Number |
|---|---|---|---|
| <£10,000 | 367 | 1,756 | **2,123** |
| £10,000 - £25,000 | 453 | 356 | **809** |
| £25,001 - 50,000 | 341 | 227 | **568** |
| £50,001 - £100,000 | 184 | 101 | **285** |
| £100,001 - £150,000 | 59 | 13 | **72** |
| £150,001 - £200,000 | 26 | 5 | **31** |
| >£200,000 | 2 | 1 | **3** |
| **Total number of exit packages by type** | **1,432** | **2,459** | **3,891** |
| Total resource cost (£m) | 47 | 28 | **75** |

**Note 6.5 Exit packages: other (non-compulsory) departure payments**

| | 2018/19 | | 2017/18 | |
|---|---|---|---|---|
| | Payments agreed Number | Total value of agreements £m | Payments agreed Number | Total value of agreements £m |
| Voluntary redundancies including early retirement contractual costs | 104 | 3 | 156 | 6 |
| Mutually agreed resignations (MARS) contractual costs | 331 | 8 | 520 | 12 |
| Early retirements in the efficiency of the service contractual costs | 10 | - | 11 | - |
| Contractual payments in lieu of notice | 1,654 | 8 | 1,701 | 8 |
| Exit payments following employment tribunals or court orders | 52 | 2 | 64 | 1 |
| Non-contractual payments requiring HM Treasury approval* | 21 | 1 | 18 | 1 |
| **Total** | **2,172** | **22** | **2,470** | **28** |

* Includes any non-contractual severance payment made following the judicial mediation, and amounts relating to non-contractual payments in lieu of notice.

In 2018/19 there were no non-contractual payments requiring HM Treasury approval made that were in excess of the individuals' salaries (2017/18: 2 payments totalling £209,000).

As a single exit package can be made up of several components, each of which will be counted separately in this note, the total number in note 6.5 does not match the total numbers in note 6.4 which is the number of individuals.

Exit packages disclosed in this note differ from the redundancy figure included within note 5.1. The redundancy figure in note 5.1 relates to additional costs which are not exit packages payable directly to the employee.

### Note 6.6 Staff sickness absence

The HM Treasury FReM requires public sector bodies to disclose published staff sickness absence data. This disclosure is based on statistics published by NHS Digital (previously known as Health and Social Care Information Centre) for the calendar year from 1 January to 31 December drawn from the Electronic Staff Record (ESR) national data warehouse. Where providers consolidated within these accounts were authorised during the current or comparative year, full calendar year data has been used. Where NHS providers do not use ESR, the NHS Digital statistics have been supplemented with information from the annual reports of those trusts.

| | 2018<br>Number | 2017<br>Number |
|---|---|---|
| Total days lost | 10,665,133 | 10,035,241 |
| Total staff years | 1,100,837 | 1,063,251 |
| **Average working days lost (per WTE)** | **9.7** | **9.4** |

### Note 7 Pension costs

All NHS providers participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the regulations of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS providers pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury.

For 2018/19, the contribution rate was 14.3% (2017/18: 14.3%). It is not possible for the NHS provider sector to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme in these accounts.

Employer pension contributions are charged to operating expenses as and when they become due.

As set out in accounting policy 1.4, some NHS providers also have employees who are members of other pension schemes. Membership of these individual schemes is not material to the consolidated NHS provider accounts.

### Note 8 Impairment of non-financial assets

Impairments are either charged to operating expenditure or the revaluation reserve. More detail is provided in accounting policy 1.7 and 1.8. Impairments reduce the value of assets. The note below provides detail about the reasons for impairments.

| **Net impairments charged to operating surplus / deficit resulting from:** | **Impairments<br>£m** | **Reversals<br>£m** | **2018/19 Net impairments<br>£m** | **2017/18 Net impairments<br>£m** |
|---|---|---|---|---|
| Loss or damage from normal operations | 94 | - | **94** | - |
| Over specification of assets | - | (1) | **(1)** | 1 |
| Abandonment of assets in course of construction | 11 | - | **11** | 6 |
| Unforeseen obsolescence | 68 | (1) | **67** | 20 |
| Loss as a result of catastrophe | - | - | **-** | 10 |
| Changes in market price | 806 | (241) | **565** | 318 |
| Other causes | 366 | (49) | **317** | 251 |
| **Total net impairments charged to operating surplus / deficit** | **1,345** | **(292)** | **1,053** | **606** |
| Impairments charged to the revaluation reserve | 827 | (132) | **695** | **398** |
| **Total net impairments** | **2,172** | **(424)** | **1,748** | **1,004** |

Net impairments taken to operating surplus / deficit relate to property, plant and equipment (£1,033 million) and intangible assets (£20 million). Impairments charged to the revaluation reserve relate solely to property, plant and equipment.

In addition there are revaluation surpluses taken to the revaluation reserve of £623 million (2017/18: £1,285 million), as can be seen in the Statement of Changes in Equity.

## Note 9 Operating leases

### Note 9.1 Operating lease income

This note discloses income generated and expected future receipts from operating lease agreements where NHS providers are the lessor.

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Operating lease revenue** | | |
| Minimum lease receipts | 83 | 79 |
| Contingent rent | 3 | 4 |
| Other | 3 | 5 |
| **Total** | **89** | **88** |

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Future minimum lease receipts due:** | | |
| - not later than one year; | 68 | 67 |
| - later than one year and not later than five years; | 153 | 140 |
| - later than five years. | 514 | 526 |
| **Total** | **735** | **733** |

### Note 9.2 Operating lease expense

This note discloses costs incurred and commitments for operating lease arrangements where NHS providers are lessees.

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Operating lease expense** | | |
| Minimum lease payments | 718 | 673 |
| Contingent rents | 1 | 2 |
| Less sublease receipts received | (4) | (3) |
| **Total** | **715** | **672** |

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Future minimum lease payments due:** | | |
| On leases of land expiring | | |
| - not later than one year; | 6 | 13 |
| - later than one year and not later than five years; | 6 | 8 |
| - later than five years. | 16 | 21 |
| On leases of buildings expiring | | |
| - not later than one year; | 408 | 362 |
| - later than one year and not later than five years; | 865 | 673 |
| - later than five years. | 1,088 | 773 |
| On other leases expiring | | |
| - not later than one year; | 193 | 190 |
| - later than one year and not later than five years; | 321 | 322 |
| - later than five years. | 63 | 75 |
| **Total** | **2,966** | **2,437** |
| Future minimum sublease receipts to be received | (50) | (4) |

**Note 10.1 Finance expenditure**

Finance expenditure represents interest and other charges involved in the borrowing of money.

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| Interest incurred on: | | |
| Loans from the Department of Health and Social Care | 290 | 222 |
| Other loans | 7 | 7 |
| Finance leases | 14 | 16 |
| Interest on late payment of commercial debt | 1 | 1 |
| Main finance costs on PFI and LIFT schemes obligations | 494 | 504 |
| Contingent finance costs on PFI and LIFT scheme obligations | 301 | 272 |
| Other finance costs | 3 | 1 |
| **Total finance expenditure - financial liabilities** | **1,110** | **1,023** |
| Finance expense - unwinding of discount on provisions | 2 | 2 |
| **Total finance expenditure** | **1,112** | **1,025** |

**Note 10.2 The late payment of commercial debts (interest) Act 1998**

In 2018/19 59 NHS providers incurred expenditure arising from claims made under this legislation. The total amount included within other interest payable arising from claims made under this legislation in 2018/19 was £623k (2017/18: £969k). Total compensation paid to cover debt recovery costs under this legislation in 2018/19 was £16k (2017/18: £19k).

**Note 11 Other gains and losses**

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Gains/losses on disposal/derecognition of non-current assets** | | |
| Profit on disposal of non-current assets | 343 | 217 |
| Loss on disposal of non-current assets | (13) | (11) |
| Profits/losses on disposal of non-current assets by NHS charitable funds | - | (5) |
| **Other gains/losses** | | |
| Fair value gains/(losses) on investment property and other investments | 9 | 77 |
| Other gains/(losses) | 60 | - |
| Fair value gains/(losses) on charitable fund investment property and other investments | 1 | 6 |
| **Total other gains/(losses)** | **400** | **284** |

**Note 12.1 Intangible assets - 2018/19**

| | Software licences £m | Licences & trademarks £m | Information technology £m | Development expenditure £m | Intangible assets under construction £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Valuation/gross cost at 1 April 2018 - brought forward** | **1,293** | **29** | **426** | **184** | **147** | **2** | **2,081** |
| Adjustments to prior period accounted for in-year | - | - | - | - | 7 | - | **7** |
| Additions | 132 | 2 | 45 | 29 | 148 | 1 | **357** |
| Impairments | (1) | - | - | - | (18) | - | **(19)** |
| Reversals of impairments | - | - | - | - | - | - | **-** |
| Reclassifications | 61 | 1 | 40 | 3 | (79) | - | **26** |
| Revaluations | - | - | (5) | 10 | (9) | - | **(4)** |
| Disposals / derecognition | (32) | - | (1) | (7) | (2) | - | **(42)** |
| **Valuation/gross cost at 31 March 2019** | **1,453** | **32** | **505** | **219** | **194** | **3** | **2,406** |
| | | | | | | | |
| **Amortisation at 1 April 2018 - brought forward** | **718** | **13** | **224** | **77** | **-** | **-** | **1,032** |
| Adjustments to prior period accounted for in-year | - | - | - | - | - | - | **-** |
| Provided during the year | 139 | 3 | 51 | 24 | - | - | **217** |
| Impairments | 1 | - | - | - | - | - | **1** |
| Reversals of impairments | - | - | - | - | - | - | **-** |
| Reclassifications | 1 | - | - | - | - | - | **1** |
| Revaluations | (3) | - | (5) | - | - | - | **(8)** |
| Disposals / derecognition | (30) | - | (1) | (7) | - | - | **(38)** |
| **Amortisation at 31 March 2019** | **826** | **16** | **269** | **94** | **-** | **-** | **1,205** |
| | | | | | | | |
| **Net book value at 31 March 2019** | **627** | **16** | **236** | **125** | **194** | **3** | **1,201** |
| **Net book value at 1 April 2018** | **575** | **16** | **202** | **107** | **147** | **2** | **1,049** |

The total net impairment of £20 million shown in this note was charged to operating expenses.

**Note 12.2 Intangible assets - 2017/18**

| | Software licences £m | Licences & trademarks £m | Information technology £m | Development expenditure £m | Intangible assets under construction £m | Other £m | Total £m |
|---|---|---|---|---|---|---|---|
| **Valuation/gross cost at 1 April 2017** | **1,129** | **21** | **358** | **148** | **141** | **-** | **1,797** |
| Transfers by absorption | - | - | - | - | - | - | **-** |
| Previous prior period adjustments accounted for in 2017/18 | (9) | - | 7 | - | - | - | **(2)** |
| Additions | 129 | 2 | 27 | 16 | 122 | 2 | **298** |
| Impairments | (12) | - | (20) | - | (15) | - | **(47)** |
| Reversals of impairments | 1 | 1 | - | - | - | - | **2** |
| Reclassifications | 80 | 6 | 61 | 28 | (101) | - | **74** |
| Revaluations | - | - | - | - | - | - | **-** |
| Disposals / derecognition | (25) | (1) | (7) | (8) | - | - | **(41)** |
| **Valuation/gross cost at 31 March 2018** | **1,293** | **29** | **426** | **184** | **147** | **2** | **2,081** |
| | | | | | | | |
| **Amortisation at 1 April 2017** | **619** | **11** | **184** | **59** | **-** | **-** | **873** |
| Transfers by absorption | - | - | - | - | - | - | **-** |
| Previous prior period adjustments accounted for in 2017/18 | (4) | - | 4 | (1) | - | - | **(1)** |
| Provided during the year | 130 | 3 | 45 | 21 | - | - | **199** |
| Impairments | - | - | (1) | - | - | - | **(1)** |
| Reversals of impairments | - | - | - | - | - | - | **-** |
| Reclassifications | (4) | - | (1) | 6 | - | - | **1** |
| Revaluations | - | - | - | - | - | - | **-** |
| Disposals / derecognition | (23) | (1) | (7) | (8) | - | - | **(39)** |
| **Amortisation at 31 March 2018** | **718** | **13** | **224** | **77** | **-** | **-** | **1,032** |
| | | | | | | | |
| **Net book value at 31 March 2018** | **575** | **16** | **202** | **107** | **147** | **2** | **1,049** |
| **Net book value at 1 April 2017** | **510** | **10** | **174** | **89** | **141** | **-** | **924** |

**Note 13.1 Property, plant and equipment - 2018/19**

| | Land £m | Buildings excluding dwellings £m | Dwellings £m | Assets under construction £m | Plant & machinery £m | Transport equipment £m | Information technology £m | Furniture & fittings £m | NHS charitable fund assets £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Valuation/gross cost at 1 April 2018 - brought forward** | **4,604** | **34,505** | **354** | **2,298** | **8,958** | **462** | **3,408** | **581** | **15** | **55,185** |
| Transfers by absorption | - | 1 | - | - | - | - | - | - | - | **1** |
| Adjustments to prior period recorded in-year | (21) | (287) | (6) | (7) | (2) | - | (5) | (3) | (7) | **(338)** |
| Additions | 26 | 868 | 22 | 2,256 | 546 | 29 | 344 | 19 | - | **4,110** |
| Impairments | (183) | (1,570) | (11) | (109) | (5) | - | (4) | - | - | **(1,882)** |
| Reversals of impairments | 44 | 253 | 5 | 1 | 1 | - | - | - | - | **304** |
| Reclassifications | 4 | 965 | 8 | (1,366) | 158 | 43 | 120 | 10 | - | **(58)** |
| Revaluations | 99 | (270) | (3) | (3) | (15) | - | (6) | (3) | - | **(201)** |
| Transfers to/ from assets held for sale | (10) | (7) | - | - | (9) | (12) | - | - | - | **(38)** |
| Disposals / derecognition | (46) | (75) | (6) | (2) | (321) | (46) | (131) | (18) | - | **(645)** |
| **Valuation/gross cost at 31 March 2019** | **4,517** | **34,383** | **363** | **3,068** | **9,311** | **476** | **3,726** | **586** | **8** | **56,438** |
| **Accumulated depreciation at 1 April 2018 - brought forward** | **38** | **1,764** | **37** | **9** | **6,120** | **289** | **2,323** | **409** | **3** | **10,992** |
| Transfers by absorption | - | - | - | - | - | - | - | - | - | **-** |
| Adjustments to prior period recorded in-year | (21) | (295) | (5) | - | (3) | - | (3) | (3) | (2) | **(332)** |
| Provided during the year | - | 992 | 10 | - | 588 | 45 | 340 | 37 | - | **2,012** |
| Impairments | 22 | 238 | 8 | 3 | - | - | - | - | - | **271** |
| Reversals of impairments | (2) | (117) | (1) | (1) | - | - | - | - | - | **(121)** |
| Reclassifications | - | (30) | - | - | (1) | - | (1) | (1) | - | **(33)** |
| Revaluations | (9) | (771) | (15) | (2) | (17) | - | (6) | (2) | - | **(822)** |
| Transfers to/ from assets held for sale | - | - | - | - | (9) | (12) | - | - | - | **(21)** |
| Disposals / derecognition | - | (22) | (1) | (1) | (311) | (45) | (132) | (18) | - | **(530)** |
| **Accumulated depreciation at 31 March 2019** | **28** | **1,759** | **33** | **8** | **6,367** | **277** | **2,521** | **422** | **1** | **11,416** |
| **Net book value at 31 March 2019** | **4,489** | **32,624** | **330** | **3,060** | **2,944** | **199** | **1,205** | **164** | **7** | **45,022** |
| **Net book value at 1 April 2018** | **4,566** | **32,741** | **317** | **2,289** | **2,838** | **173** | **1,085** | **172** | **12** | **44,193** |

Details of donations received during the year including any restrictions or conditions imposed by the donor are disclosed in the accounts of individual NHS providers.

Of the total net impairments of £1,728 million shown in this note, £1,033 million was charged to operating expenses and £695 million to the revaluation reserve.

**Note 13.2 Property, plant and equipment - 2017/18**

| | Land £m | Buildings excluding dwellings £m | Dwellings £m | Assets under construction £m | Plant & machinery £m | Transport equipment £m | Information technology £m | Furniture & fittings £m | NHS charitable fund assets £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Valuation/gross cost at 1 April 2017** | **4,858** | **33,931** | **386** | **1,858** | **8,796** | **457** | **3,252** | **608** | **11** | **54,157** |
| Transfers by absorption | (15) | (33) | - | - | - | - | - | - | - | **(48)** |
| Previous prior period adjustments accounted for in 2017/18 | (52) | (303) | (3) | (1) | (4) | - | - | (5) | - | **(368)** |
| Additions | 7 | 709 | 3 | 1,679 | 514 | 26 | 280 | 17 | - | **3,235** |
| Impairments | (217) | (1,310) | (32) | (80) | (16) | - | (9) | - | - | **(1,664)** |
| Reversals of impairments | 37 | 431 | 2 | - | - | - | - | - | - | **470** |
| Reclassifications | (2) | 779 | (2) | (1,156) | 134 | 27 | 67 | 4 | 3 | **(146)** |
| Revaluations | 82 | 368 | 3 | - | (7) | - | (11) | (3) | 1 | **433** |
| Transfers to/ from assets held for sale | (44) | (17) | - | - | (6) | (7) | - | - | - | **(74)** |
| Disposals / derecognition | (50) | (50) | (3) | (2) | (453) | (41) | (171) | (40) | - | **(810)** |
| **Valuation/gross cost at 31 March 2018** | **4,604** | **34,505** | **354** | **2,298** | **8,958** | **462** | **3,408** | **581** | **15** | **55,185** |
| **Accumulated depreciation at 1 April 2017** | **93** | **2,224** | **39** | **10** | **5,987** | **293** | **2,194** | **419** | **3** | **11,262** |
| Transfers by absorption | - | (2) | - | - | - | - | - | - | - | **(2)** |
| Previous prior period adjustments accounted for in 2017/18 | (50) | (312) | (3) | - | (7) | - | - | (3) | - | **(375)** |
| Provided during the year | - | 960 | 11 | - | 601 | 44 | 327 | 40 | - | **1,983** |
| Impairments | 9 | 6 | 3 | 9 | (1) | - | - | - | - | **26** |
| Reversals of impairments | (6) | (250) | (1) | (9) | - | - | - | - | - | **(266)** |
| Reclassifications | - | (32) | (1) | - | (15) | - | (19) | (5) | - | **(72)** |
| Revaluations | (8) | (810) | (11) | (1) | (9) | - | (11) | (3) | - | **(853)** |
| Transfers to/ from assets held for sale | - | - | - | - | (4) | (8) | - | - | - | **(12)** |
| Disposals / derecognition | - | (20) | - | - | (432) | (40) | (168) | (39) | - | **(699)** |
| **Accumulated depreciation at 31 March 2018** | **38** | **1,764** | **37** | **9** | **6,120** | **289** | **2,323** | **409** | **3** | **10,992** |
| **Net book value at 31 March 2018** | **4,566** | **32,741** | **317** | **2,289** | **2,838** | **173** | **1,085** | **172** | **12** | **44,193** |
| **Net book value at 1 April 2017** | **4,765** | **31,707** | **347** | **1,848** | **2,809** | **164** | **1,058** | **189** | **8** | **42,895** |

Details of donations received during the year including any restrictions or conditions imposed by the donor are disclosed in the accounts of individual NHS providers.

**Note 13.3 Property, plant and equipment financing - 2018/19**

| | Land £m | Buildings excluding dwellings £m | Dwellings £m | Assets under construction £m | Plant & machinery £m | Transport equipment £m | Information technology £m | Furniture & fittings £m | NHS charitable fund assets £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net book value at 31 March 2019** | | | | | | | | | | |
| Owned - purchased | 4,324 | 23,009 | 249 | 2,621 | 2,375 | 196 | 1,161 | 148 | 7 | **34,090** |
| Finance leased | 38 | 194 | 18 | 19 | 149 | 1 | 26 | 1 | - | **446** |
| On-SoFP PFI contracts and other service concession arrangements | 29 | 8,185 | 48 | 127 | 148 | - | 7 | - | - | **8,544** |
| PFI residual interests | - | - | 2 | - | - | - | - | - | - | **2** |
| Owned - government granted | - | 50 | - | 4 | 3 | - | 1 | - | - | **58** |
| Owned - donated | 98 | 1,186 | 13 | 289 | 269 | 2 | 10 | 15 | - | **1,882** |
| **NBV total at 31 March 2019** | **4,489** | **32,624** | **330** | **3,060** | **2,944** | **199** | **1,205** | **164** | **7** | **45,022** |

**Note 13.4 Property, plant and equipment financing - 2017/18**

| | Land £m | Buildings excluding dwellings £m | Dwellings £m | Assets under construction £m | Plant & machinery £m | Transport equipment £m | Information technology £m | Furniture & fittings £m | NHS charitable fund assets £m | Total £m |
|---|---|---|---|---|---|---|---|---|---|---|
| **Net book value at 31 March 2018** | | | | | | | | | | |
| Owned - purchased | 4,404 | 22,982 | 230 | 2,082 | 2,272 | 170 | 1,045 | 156 | 12 | **33,353** |
| Finance leased | 37 | 169 | 17 | 7 | 143 | 2 | 23 | 1 | - | **399** |
| On-SoFP PFI contracts and other service concession arrangements | 23 | 8,336 | 54 | 132 | 143 | - | 5 | - | - | **8,693** |
| PFI residual interests | - | - | 2 | - | - | - | - | - | - | **2** |
| Owned - government granted | - | 53 | - | 4 | 4 | - | 1 | - | - | **62** |
| Owned - donated | 102 | 1,201 | 14 | 64 | 276 | 1 | 11 | 15 | - | **1,684** |
| **NBV total at 31 March 2018** | **4,566** | **32,741** | **317** | **2,289** | **2,838** | **173** | **1,085** | **172** | **12** | **44,193** |

**Note 14.1 Investment property**

| | 2018/19 | 2017/18 |
|---|---|---|
| | £m | £m |
| **Carrying value at 1 April** | **272** | **201** |
| Adjustments to prior period accounted for in-year | (67) | - |
| Acquisitions in year | 3 | - |
| Movement in fair value | (1) | 76 |
| Transfers to/from assets held for sale | - | (4) |
| Disposals | (6) | (1) |
| **Carrying value at 31 March** | **201** | **272** |
| | | |
| Held by: | | |
| NHS providers excluding charitable funds | 200 | 208 |
| NHS charitable funds | 1 | 64 |

**Note 14.2 Investments in joint ventures and associates**

| | 2018/19 | 2017/18 |
|---|---|---|
| | £m | £m |
| **Carrying value at 1 April** | **79** | **74** |
| Acquisitions in year | - | - |
| Share of profit/(loss) | 10 | 9 |
| Disbursements / dividends received | (8) | (1) |
| Disposals | (6) | (3) |
| **Carrying value at 31 March** | **75** | **79** |

Interests in subsidiaries, joint arrangements and associates are not material to these consolidated accounts. Where material to individual NHS providers relevant disclosures around the nature of investments and exposures to risk as required by IFRS 12 will be made in individual local accounts.

**Note 14.3 Other investments/financial assets (non-current)**

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Carrying value at 1 April** | **244** | **254** |
| Impact of implementing IFRS 9 on 1 April 2018 | - | - |
| Adjustments to prior period accounted for in-year | (66) | (7) |
| Acquisitions in year | 45 | 35 |
| Movements in fair value through income and expenditure | 11 | 8 |
| Movements in fair value through other comprehensive income | 6 | - |
| Net impairments | - | - |
| Current portion of loans receivable transferred to current financial assets | (1) | (2) |
| Disposals | (25) | (44) |
| **Carrying value at 31 March** | **214** | **244** |
| Held by: | | |
| NHS providers excluding charitable funds | 34 | 10 |
| NHS charitable funds | 180 | 234 |

**Note 14.4 Other investments/financial assets (current)**

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| Loans receivable within 12 months transferred from non-current financial assets | 1 | 2 |
| Deposits with the National Loans Fund | 20 | 15 |
| Other current financial assets | 24 | 3 |
| **Total current investments / financial assets at 31 March** | **45** | **20** |

**Note 15 Inventories**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| Drugs | 366 | 339 |
| Work in progress | 1 | 1 |
| Consumables | 655 | 645 |
| Energy | 14 | 13 |
| Other | 50 | 44 |
| **Total inventories** | **1,086** | **1,042** |

Inventories recognised in expenses for the year were £9,675 million (2017/18 £9,284 million). Write-downs of inventories recognised as expenses for the year were £11 million (2017/18: £12 million).

**Note 16.1 Receivables**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Current** | | |
| Trade receivables* | - | 3,075 |
| Contract receivables* † | 5,734 | - |
| Contract assets* | 95 | - |
| Capital receivables | 70 | 34 |
| Accrued income * | - | 1,915 |
| Allowance for impaired contract receivables / assets* | (508) | - |
| Allowance for other impaired receivables* | (35) | (516) |
| Deposits and advances | 5 | 4 |
| Prepayments | 823 | 754 |
| Interest receivable | 1 | 1 |
| Finance lease receivables | 3 | - |
| PDC dividend receivable | 54 | 46 |
| VAT receivable | 288 | 244 |
| Corporation tax receivable | - | 1 |
| Other receivables* | 133 | 556 |
| NHS charitable funds receivables | 8 | 8 |
| **Total current receivables** | **6,671** | **6,122** |
| | | |
| **Non-current** | | |
| Trade receivables* | - | 31 |
| Contract receivables* | 220 | - |
| Contract assets* | 4 | - |
| Capital receivables | 38 | 21 |
| Accrued income * | - | 32 |
| Allowance for impaired contract receivables / assets* | (20) | - |
| Allowance for other impaired receivables* | (3) | (28) |
| Deposits and advances | 5 | 4 |
| Prepayments | 252 | 357 |
| Finance lease receivables | 5 | 5 |
| VAT receivable | 8 | 2 |
| Other receivables* | 29 | 224 |
| NHS charitable funds receivables | 1 | 1 |
| **Total non-current receivables** | **539** | **649** |
| | | |
| **Of which receivable from NHS and DHSC group bodies** | | |
| Current | 4,128 | 3,740 |
| Non-current | 2 | - |

* Following the application of IFRS 15 from 1 April 2018, NHS providers' entitlement to consideration for work performed under contracts with customers is shown separately as contract receivables and contract assets. This replaces the previous analysis into trade receivables, accrued income and other receivables. IFRS 15 is applied without restatement therefore the comparative analysis of receivables has not been restated under IFRS 15.

† Current contract receivables include £1,721 million of accrued income from the Provider Sustainability Fund.

The terms 'contract receivables' and 'contract assets' are defined in accounting policy note 1.2.

**Note 16.2 Allowances for credit losses - 2018/19**

IFRS 9 and IFRS 15 are adopted without restatement therefore the credit loss allowance relating to contract receivables and contract assets is reallocated from 'all other receivables' as a 1 April 2018 transition adjustment.

| | Contract receivables and contract assets £m | All other receivables £m |
|---|---|---|
| **Allowances as at 1 April 2018 - brought forward** | **-** | **544** |
| Impact of implementing IFRS 9 (and IFRS 15) on 1 April 2018 | 522 | (540) |
| Adjustments to prior period accounted for in-year | - | 14 |
| New allowances arising | 163 | 17 |
| Changes in existing allowances | (3) | 6 |
| Reversals of allowances | (81) | (3) |
| Utilisation of allowances (write offs) | (73) | - |
| **Allowances as at 31 March 2019** | **528** | **38** |

**Note 16.3 Allowances for credit losses - 2017/18**

IFRS 9 and IFRS 15 are adopted without restatement therefore this analysis is prepared in line with the requirements of IFRS 7 prior to IFRS 9 adoption. As a result it differs in format to the current period disclosure.

| | All receivables £m |
|---|---|
| **Allowances as at 1 April 2017 - as previously stated** | **501** |
| Prior period adjustments | 3 |
| **Allowances as at 1 April 2017 - restated** | **504** |
| Increase in provision | 205 |
| Amounts utilised | (94) |
| Unused amounts reversed | (71) |
| **Allowances as at 31 March 2018** | **544** |

**Note 17.1 Cash and cash equivalents movements**

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **At 1 April** | **4,875** | **4,167** |
| Adjustments to prior period accounted for in-year | (5) | 1 |
| Net change in year | 970 | 707 |
| **At 31 March** | **5,840** | **4,875** |
| **Broken down into:** | | |
| Cash at commercial banks and in hand (excluding charitable funds) | 119 | 160 |
| Cash with the Government Banking Service (excluding charitable funds) | 5,265 | 4,480 |
| Deposits with the National Loans Fund (excluding charitable funds) | 317 | 80 |
| Other current investments (excluding charitable funds) | 3 | 4 |
| NHS charitable funds cash and cash equivalents | 136 | 151 |
| **Total cash and cash equivalents as in SoFP** | **5,840** | **4,875** |
| Bank overdrafts | (16) | (10) |
| **Total cash and cash equivalents as in SoCF** | **5,824** | **4,865** |

**Note 17.2 Third party assets**

The balance of third party assets, including patients' money held within the NHS providers' bank accounts at 31 March 2019 was £35 million (31 March 2018: £38 million). This has been excluded from the Consolidated Statement of Financial Position as it is not an asset of the NHS provider. It includes monies held in trust on behalf of patients and others.

**Note 18 Trade and other payables**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Current** | | |
| Trade payables | 2,381 | 2,279 |
| Capital payables | 771 | 746 |
| Accruals | 3,477 | 3,234 |
| Receipts in advance | 74 | 71 |
| Social security costs | 623 | 568 |
| VAT payable | 14 | 17 |
| Other taxes payable | 471 | 441 |
| PDC dividend payable | 6 | 14 |
| Other payables* | 820 | 797 |
| NHS charitable funds trade and other payables | 8 | 7 |
| **Total current trade and other payables** | **8,645** | **8,174** |
| **Non-current** | | |
| Trade payables | 2 | 4 |
| Capital payables | 3 | 3 |
| Accruals | 3 | 11 |
| Receipts in advance | 2 | 2 |
| Other payables | 15 | 14 |
| **Total non-current trade and other payables** | **25** | **34** |
| **Of which payable to NHS and DHSC group bodies** | | |
| Current | 542 | 567 |
| Non-current | - | - |

*Following adoption of IFRS 9 on 1 April 2018, loans are measured at amortised cost. Any accrued interest previously recorded as an other payable is now included in the carrying value of the loan within note 20. IFRS 9 is applied without restatement therefore comparatives have not been restated. The value of accrued interest reclassified on 1 April 2018 was £45 million.

**Note 19 Other liabilities**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Current** | | |
| Deferred income: contract liability | 747 | 765 |
| Deferred grants | 33 | 31 |
| Deferred PFI income/credits | 5 | 3 |
| Lease incentives | 7 | 1 |
| Deferred income: other | 22 | - |
| NHS charitable funds other liabilities | - | 1 |
| **Total other current liabilities** | **814** | **801** |
| | | |
| **Non-current** | | |
| Deferred income: contract liability | 70 | 106 |
| Deferred grants | 6 | 2 |
| Deferred PFI income/credits | 52 | 55 |
| Lease incentives | 11 | 9 |
| Deferred income: other | 4 | - |
| Net pension scheme liability | 52 | 32 |
| **Total other non-current liabilities** | **195** | **204** |

**Note 20 Borrowings**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Current** | | |
| Bank overdrafts | 16 | 9 |
| Loans from the Department of Health and Social Care* | 3,607 | 1,699 |
| Other loans | 23 | 28 |
| Obligations under finance leases | 57 | 48 |
| PFI lifecycle replacement received in advance | - | 1 |
| Obligations under PFI, LIFT or other service concession contracts (finance lease element) | 280 | 278 |
| **Total current borrowings** | **3,983** | **2,063** |
| | | |
| **Non-current** | | |
| Loans from the Department of Health and Social Care | 10,429 | 9,316 |
| Other loans | 295 | 190 |
| Obligations under finance leases | 248 | 204 |
| Obligations under PFI, LIFT or other service concession contracts (finance lease element) | 8,614 | 8,925 |
| **Total non-current borrowings** | **19,586** | **18,635** |

*Following adoption of IFRS 9 on 1 April 2018, loans are measured at amortised cost. Any accrued interest previously recorded as an other payable in note 18 is now included in the carrying value of borrowings within this note. IFRS 9 is applied without restatement therefore comparatives have not been restated. The value of accrued interest reclassified on 1 April 2018 was £45 million.

**Note 20.1 Reconciliation of liabilities arising from financing activities**

| | Loans from DHSC £m | Other loans £m | Finance leases £m | PFI and LIFT schemes £m | Total £m |
|---|---|---|---|---|---|
| **Carrying value at 1 April 2018** | **11,015** | **218** | **252** | **9,204** | **20,689** |
| Impact of implementing IFRS 9 on 1 April 2018 | 40 | 4 | - | - | **44** |
| **Cash movements:** | | | | | |
| Financing cash flows - payments and receipts of principal | 2,963 | 101 | (59) | (276) | **2,729** |
| Financing cash flows - payments of interest | (273) | (14) | (14) | (498) | **(799)** |
| **Non-cash movements:** | | | | | |
| Adjustments to prior year accounted for in-year | - | - | - | 4 | **4** |
| Additions | - | - | 114 | 26 | **140** |
| Application of effective interest rate | 291 | 9 | 13 | 494 | **807** |
| Other changes | - | - | (1) | (60) | **(61)** |
| **Carrying value at 31 March 2019** | **14,036** | **318** | **305** | **8,894** | **23,553** |

**Note 21 Finance lease obligations**

| Obligations under finance leases where NHS providers are the lessees: | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Gross lease liabilities** | **452** | **378** |
| Of which liabilities are due: | | |
| - not later than one year; | 69 | 60 |
| - later than one year and not later than five years; | 175 | 159 |
| - later than five years. | 208 | 159 |
| Finance charges allocated to future periods | (147) | (126) |
| **Net lease liabilities** | **305** | **252** |
| Of which payable: | | |
| - not later than one year; | 57 | 48 |
| - later than one year and not later than five years; | 137 | 124 |
| - later than five years. | 111 | 80 |
| Total of future minimum sublease payments to be received at the reporting date | - | - |

**Note 22.1 Provisions for liabilities and charges**

| | 31 March 2019 | | 31 March 2018 | |
|---|---|---|---|---|
| | Current | Non-current | Current | Non-current |
| | £m | £m | £m | £m |
| Pensions | 36 | 397 | 26 | 289 |
| Other legal claims | 61 | 7 | 52 | 31 |
| Restructurings | 12 | 4 | 14 | 3 |
| Equal Pay | 6 | - | 6 | - |
| Redundancy | 44 | 1 | 49 | 1 |
| Other | 273 | 54 | 262 | 154 |
| **Total** | **432** | **463** | **409** | **478** |

**Note 22.2 Provisions for liabilities and charges analysis**

| | Pensions | Other legal claims | Restructuring | Equal Pay | Redundancy | Other | Total |
|---|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m | £m |
| **At 1 April 2018** | **315** | **83** | **17** | **6** | **50** | **416** | **887** |
| Adjustments to prior period accounted for in-year* | 143 | (26) | - | - | - | (126) | **(9)** |
| Change in the discount rate | (7) | - | - | - | - | - | **(7)** |
| Arising during the year | 26 | 42 | 10 | 3 | 37 | 188 | **306** |
| Utilised during the year | (37) | (13) | (5) | (1) | (15) | (77) | **(148)** |
| Reclassified to liabilities held in disposal groups | - | - | - | - | - | - | **-** |
| Reversed unused | (9) | (18) | (6) | (2) | (27) | (74) | **(136)** |
| Unwinding of discount | 2 | - | - | - | - | - | **2** |
| **At 31 March 2019** | **433** | **68** | **16** | **6** | **45** | **327** | **895** |
| **Expected timing of cash flows:** | | | | | | | |
| - not later than one year; | 36 | 61 | 12 | 6 | 44 | 273 | **432** |
| - later than one year and not later than five years; | 152 | 4 | 3 | - | 1 | 40 | **200** |
| - later than five years. | 245 | 3 | 1 | - | - | 14 | **263** |
| **Total** | **433** | **68** | **16** | **6** | **45** | **327** | **895** |

*In 2017/18 'other' provisions included liabilities for additional pension benefits related to work-based injuries for some NHS providers. These amounts have been reclassified to pension related provisions as an in-year adjustment relating to prior periods and is not material.

- Pension provisions relate to staff who have retired early from the NHS Pensions Scheme and are calculated in accordance with DHSC guidance.
- Other legal claims include personal legal claims that have been lodged against NHS providers with NHS Resolution but not yet agreed and therefore not included in provisions held by NHS Resolution.
- Equal pay provisions include provisions for unresolved claims relating to employment contracts.
- Redundancy and restructuring provisions are included by trusts who are undergoing change in their organisational structures.
- Included within other provisions are charges arising from the provision of services, the cost of PFI terminations, dilapidations associated with leases and other contract challenges.

### Note 22.3 Clinical negligence liabilities

NHS Resolution manages clinical and some non-clinical claims on behalf of NHS providers. For this to occur, providers pay an annual premium to NHS Resolution, who then assumes responsibility for settling claims on providers' behalf. This is called the Clinical Negligence Scheme for Trusts (CNST) which covers clinical negligence claims for incidents occurring on or after 1 April 1995. The Existing Liabilities Scheme (ELS) is centrally funded by DHSC and covers clinical negligence claims against NHS organisations for incidents occurring before 1 April 1995.

Under these schemes, most liabilities for clinical negligence are not included in providers' statements of financial position. Instead they separately disclose the amounts relating to clinical negligence cases for their trust which are included in the provisions of NHS Resolution.

As at 31 March 2019, NHS Resolution held provisions for clinical negligence liabilities totalling £30,592 million for CNST (2017/18 restated*: £27,199 million) and £1,168 million for ELS (2017/18 restated*: £1,170 million) on behalf of NHS providers.

* The comparative has been restated to separately disclose ELS using information provided by NHS Resolution as opposed to a consolidation of local provider disclosures.

### Note 23 Contingent assets and liabilities

Contingent assets and liabilities are potential assets and liabilities arising from past events, whose existence will only be confirmed by the occurrence of future events that are not entirely within the entity's control.

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Value of contingent liabilities** | | |
| NHS Resolution legal claims | (16) | (11) |
| Employment tribunal and other employee related litigation | (2) | (2) |
| Other | (75) | (35) |
| **Gross value of contingent liabilities** | **(93)** | **(48)** |
| Amounts recoverable against liabilities | 9 | 3 |
| **Net value of contingent liabilities** | **(84)** | **(45)** |
| **Net value of contingent assets** | 20 | 29 |

### Note 24.1 Contractual capital commitments

At 31 March, contractual capital commitments not otherwise included in these financial statements were:

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| Property, plant and equipment | 1,216 | 1,223 |
| Intangible assets | 94 | 84 |
| **Total** | **1,310** | **1,307** |

### Note 24.2 Other financial commitments

NHS providers are committed to making payments under non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements), analysed by the period during which the payment is due:

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| not later than 1 year | 169 | 242 |
| after 1 year and not later than 5 years | 215 | 260 |
| paid thereafter | 73 | 86 |
| **Total** | **457** | **588** |

### Note 25 On-SoFP PFI, LIFT or other service concession lease arrangements

### Note 25.1 Imputed finance lease obligations

NHS providers have the following obligations in respect of the finance lease element of on-Statement of Financial Position PFI and LIFT schemes:

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Gross PFI, LIFT or other service concession liabilities** | **16,976** | **17,971** |
| **Of which liabilities are due** | | |
| - not later than one year; | 840 | 848 |
| - later than one year and not later than five years; | 3,332 | 3,340 |
| - later than five years. | 12,804 | 13,783 |
| Finance charges allocated to future periods | (8,082) | (8,768) |
| **Net PFI, LIFT or other service concession arrangement lease obligation** | **8,894** | **9,203** |
| - not later than one year; | 280 | 278 |
| - later than one year and not later than five years; | 1,259 | 1,222 |
| - later than five years. | 7,355 | 7,703 |

### Note 25.2 Total service concession arrangement commitments

NHS providers have obligations to make the following payments in respect of on-Statement of Financial Position PFI, LIFT and other service concession arrangements:

| | 31 March 2019 £m | 31 March 2018 restated* £m |
|---|---|---|
| **Total future payments due in:** | | |
| - not later than one year; | 2,139 | 2,064 |
| - later than one year and not later than five years; | 8,964 | 8,569 |
| - later than five years. | 41,268 | 42,000 |
| **Total** | **52,371** | **52,633** |
| | **Number** | **Number** |
| Total number of PFI, LIFT and other service concession schemes accounted for on-SoFP at 31 March | 156 | 159 |
| Of which schemes with total future commitment in excess of £500 million | 26 | 26 |

* Total service concession arrangement commitments as at 31 March 2018 have been restated to correct previous errors made in the disclosure by three NHS providers

### Note 25.3 Analysis of amounts paid to service concession operators

This note shows the total amount paid to the service concession operator in the year, on an accruals basis. The constituent parts of the untiary payment are taken to the Consolidated Statement of Comprehensive Income or Consolidated Statement of Financial Position as appropriate.

| | 2018/19 £m | 2017/18 £m |
|---|---|---|
| **Unitary payment paid to service concession operator** | **2,107** | **2,048** |
| **Consisting of:** | | |
| - Interest charge | 494 | 504 |
| - Repayment of finance lease liability | 277 | 264 |
| - Service element | 895 | 866 |
| - Capital lifecycle maintenance | 77 | 66 |
| - Revenue lifecycle maintenance | 16 | 16 |
| - Contingent rent | 301 | 272 |
| - Addition to lifecycle prepayment | 47 | 60 |

### Note 26 Off-SoFP PFI, LIFT and other service concession arrangements

NHS providers incurred the following charges in respect of off-Statement of Financial Position PFI and LIFT schemes:

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| Charge in respect of the off SoFP PFI, LIFT or other service concession arrangement for the period | 5 | 6 |
| Commitments in respect of off-SoFP PFI, LIFT or other service concession arrangements payable in: | | |
| - not later than one year; | 6 | 6 |
| - later than one year and not later than five years; | 24 | 25 |
| - later than five years. | 30 | 37 |
| **Total** | **60** | **68** |

### Note 27 Financial instruments

#### Note 27.1 Financial assets

| **Carrying values of financial assets as at 31 March 2019 under IFRS 9** | Financial assets at amortised cost £m | Financial assets at fair value through I&E £m | Financial assets at fair value through OCI* £m | Total £m |
|---|---|---|---|---|
| Receivables excluding non financial assets | 5,680 | - | - | **5,680** |
| Investments / financial assets | 74 | 8 | 23 | **105** |
| Cash and cash equivalents at bank and in hand** | 5,704 | - | - | **5,704** |
| NHS charitable funds financial assets | 220 | 68 | 38 | **326** |
| **Total at 31 March 2019** | **11,678** | **76** | **61** | **11,815** |

* Financial assets at fair value through other comprehensive income include £51 million of investments in equity instruments designated as held at fair value through other comprehensive income on initial recognition.
** Cash and cash equivalents excludes cash held by NHS charitable funds, which is shown within the final row above.

IFRS 9 Financial Instruments is applied retrospectively from 1 April 2018 without restatement of comparatives. As such, this comparative disclosure has been prepared under IAS 39 and the measurement categories differ to those in the current year analysis.

| Carrying values of financial assets as at 31 March 2018 under IAS 39 | Loans and receivables £m | Assets held at fair value through the I&E £m | Held to maturity £m | Available-for-sale £m | Total £m |
|---|---|---|---|---|---|
| Trade and other receivables excluding non financial assets | 5,073 | - | - | - | **5,073** |
| Other investments / financial assets | 48 | 5 | 3 | 1 | **57** |
| Cash and cash equivalents at bank and in hand | 4,724 | - | - | - | **4,724** |
| NHS charitable funds financial assets * | 234 | 113 | 2 | 44 | **393** |
| **Total at 31 March 2018** | **10,079** | **118** | **5** | **45** | **10,247** |

* Cash and cash equivalents excludes cash held by NHS charitable funds, which is shown within the final row above.

**Note 27.2 Financial liabilities**

IFRS 9 Financial Instruments is applied retrospectively from 1 April 2018 without restatement of comparatives. As such, financial liabilities as at 31 March 2019 are measured in accordance with IFRS 9; comparatives are measured in accordance with IAS 39.

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Carrying values of financial liabilities** | | |
| Loans from the Department of Health and Social Care | 14,036 | 11,015 |
| Obligations under PFI, LIFT and other service concession contracts | 8,894 | 9,203 |
| Obligations under finance leases | 305 | 252 |
| Other borrowings | 335 | 228 |
| Trade and other payables excluding non financial liabilities | 7,212 | 7,003 |
| Other financial liabilities | 3 | 3 |
| Provisions under contract | 241 | 276 |
| NHS charitable funds financial liabilities | 7 | 5 |
| **Total financial liabilities** | **31,033** | **27,985** |

All financial liabilities are held at amortised cost.

**Note 27.3 Maturity of financial liabilities**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Financial liabilities fall due in:** | | |
| In one year or less | 11,295 | 9,325 |
| In more than one year but not more than two years | 4,396 | 2,960 |
| In more than two years but not more than five years | 5,145 | 5,277 |
| In more than five years | 10,197 | 10,423 |
| **Total financial liabilities** | **31,033** | **27,985** |

**Note 27.4 Fair values of financial instruments**

At a consolidated level, the fair values of financial instruments disclosed by individual providers, do not differ materially from the book values disclosed above.

**Note 27.5 Financial risk management**

The risks arising from financial instruments and the NHS providers' policies and processes in response to these risks are described below. Individual NHS providers may have their own bespoke policies and processes in place to deal with the risks they face as an entity.

Liquidity risk

The level of income generated by NHS providers is dependent on the contractual arrangements they have with their commissioners, whose resources are voted on annually by Parliament. In the majority of cases, these contractual arrangements are either based on a tariff for services performed or on a contract based on assumptions for the amount of work to be carried out by the NHS provider.

Under section 63 of the National Health Service Act 2006, NHS providers are required to carry out their functions effectively, efficiently and economically and under their licence conditions, they are required to have systems and processes in place to ensure they comply with that duty and to ensure they are able to continue as a going concern as defined by generally accepted accounting practice. NHS Improvement supervises the risk of individual NHS providers breaching these and other licence conditions relating to finance by reviewing a range of financial information and categorising each trust according to our Single Oversight Framework. It may provide mandated support to providers where required.

Details of the Single Oversight Framework used by NHS Improvement since October 2016 to monitor these risks and risk ratings for individual NHS providers can be accessed on the NHS Improvement website (https://improvement.nhs.uk/).

As disclosed within the accounting policies at Note 1.24, the auditors of 78 NHS providers have included a material uncertainty paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts (2017/18: 78). In the NHS sector, the focus is on the continuity of services and NHS Improvement's oversight regime is established to ensure that provision of commissioner requested services is maintained. As such, it is deemed that there is not a risk that the wider sector would fail to meet its liabilities as they fall due.

Credit risk

The vast majority of the NHS provider sector's income is generated from public sector bodies and as such is exposed to low credit risk as these bodies are financed through taxation.

NHS providers are permitted to generate income derived from private patients and overseas visitors without reciprocal arrangements, however this income contributes only 0.98% of total income from patient care activities generated in the year to 31 March 2019 (2017/18: 0.97%). Other sources of income from non-public sector bodies amount to a small proportion of total provider income. Accordingly, the effective credit risk posed by income derived from private and overseas patients or non-public sector entities to the sector is low. Within cash and cash equivalents, £5.2 billion is held with the Government Banking Service and National Loans Fund. Individual providers have confirmed that they do not consider these deposits to be exposed to significant credit risk. The maximum exposures as at 31 March 2019 are in receivables, as disclosed in the receivables note.

Currency risk

The NHS provider sector operates principally within England and as such has only negligible amounts of transactions, assets and liabilities which are not in Sterling. Therefore the NHS provider sector has low exposure to currency risk.

Interest rate risk

NHS providers have the power to enter into loans and working capital facilities with commercial lenders. NHS providers are also able to borrow from DHSC. The term of DHSC loans can range up to 25 years but individual DHSC loan products may be shorter, with the potential for replacement DHSC loans to be at a different interest rate. However given the total interest paid to DHSC by NHS providers (see note 10.1) this is not a material risk to the consolidated NHS provider accounts.

**Note 28 Analysis of NHS charitable funds reserves**

| | 31 March 2019 £m | 31 March 2018 £m |
|---|---|---|
| **Restricted funds:** | | |
| Endowment funds | 13 | 144 |
| Other restricted income funds | 110 | 118 |
| **Unrestricted funds:** | | |
| Unrestricted income funds | 188 | 183 |
| Revaluation reserve | 4 | 3 |
| Other reserves | 1 | 1 |
| **Total** | **316** | **449** |

NHS charitable funds are consolidated by 47 NHS providers where the trust determines they have control (2017/18: 50) as outlined in accounting policy 1.1. Other providers may also have charities meeting the definition of local control that are not locally consolidated on the grounds of materiality.

Restricted funds are funds that are to be used in accordance with specific restrictions imposed by the donor, for example where the donor has specified that their donation should be spent on a specified ward, patients, nurses or project fund. Endowment funds are funds which the trustees are required to invest or to keep and use for the charity's purposes.

Unrestricted income funds comprise those funds that the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include general funds, where the donor has not specified or restricted the use the charity may make of their donation. General funds additionally generate income from Gift Aid, investment income, interest and donations given specifically to cover running costs.

On 1 April 2018 the Maudsley Charity became fully independent and ceased to be consolidated by South London and Maudsley NHS Foundation Trust. This has resulted in a £137 million reduction in charitable funds, of which £131 million was classified as endowment funds.

**Note 29.1 Losses and special payments**

| | 2018/19 | | 2017/18 | |
|---|---|---|---|---|
| | Number of cases | Total value of cases £m | Number of cases | Total value of cases £m |
| **Losses** | | | | |
| Cash losses | 3,636 | 4 | 3,166 | 3 |
| Fruitless payments | 547 | 3 | 456 | 1 |
| Bad debts and claims abandoned | 32,839 | 47 | 37,218 | 58 |
| Stores losses and damage to property | 12,196 | 15 | 11,825 | 14 |
| **Total losses** | **49,218** | **69** | **52,665** | **76** |
| **Special payments** | | | | |
| Extra-contractual payments | 26 | 1 | 4 | - |
| Extra-statutory and extra-regulatory payments | 4 | - | 5 | - |
| binding arbitration award | 449 | 3 | 481 | 7 |
| Special severance payments | 21 | 1 | 18 | - |
| Ex-gratia payments | 7,773 | 14 | 7,791 | 15 |
| **Total special payments** | **8,273** | **19** | **8,299** | **22** |
| **Total losses and special payments** | **57,491** | **88** | **60,964** | **98** |
| Compensation payments received | | 2 | | - |

The total losses disclosed here are higher than the amounts included in the line 'Losses, ex gratia & special payments' in note 5.1 as NHS providers may include some losses in other lines within that note.

**Note 29.2 Losses and special payments in excess of £300,000**

HM Treasury requires additional disclosure of losses or special payments individually in excess of £0.3 million.

In 2018/19 15 individual trusts reported losses in excess of £0.3 million:

- The following two trusts have recorded pharmacy losses totalling £0.946 million:-
  - Royal Surrey County Hospital NHS Foundation Trust; and
  - Medway NHS Foundation Trust
- The following two trusts have recorded losses for out of court special payments to a contractor totalling £0.750 million:
  - Countess of Chester Hospital NHS Foundation Trust
  - Wirral University Teaching Hospital NHS Foundation Trust
- Kings College London NHS Foundation Trust recorded losses of £0.930m relating to an employment tribunal.
- Mersey Care NHS Foundation Trust recorded losses of £0.904 million relating to fraud.
- Royal National Orthopaedic Hospital NHS Trust recorded losses of £0.633 million for a Biomedical Engineering Hub facility which it has deemed a fruitless venture.
- University Hospitals of Derby and Burton NHS Foundation Trust recorded losses of £0.431 million for severance payments.
- United Lincolnshire Hospitals NHS Trust recorded losses of £0.384 million for a payment to the PFI for occupancy rate shortfalls.
- North Bristol NHS Trust recorded losses of £0.502 million relating to bad debt.
- Barts Health NHS Trust recorded losses of £0.520 million for HMRC penalty payments.
- Royal United Hospitals Bath NHS Foundation Trust recorded losses of £0.337 million relating to HSE fines.
- The Dudley Group NHS Foundation Trust recorded losses of £0.314 million for delayed discharges.
- Guy's & St Thomas' NHS Foundation Trust recorded losses of £0.301 million for obsolete cardiac stock.

In 2017/18, ten individual losses and special payments were reported in excess of £0.3 million totalled £23.098 million:

- Basildon and Thurrock NHS Foundation Trust;
- East and North Hertfordshire NHS Trust;
- Guy’s and St Thomas’ NHS Foundation Trust;
- Imperial College Healthcare NHS Trust;
- Mid Essex Hospital Services NHS Trust;
- Royal Surrey County Hospital NHS Foundation Trust.
- Shrewsbury and Telford Hospital NHS Trust;
- Southern Health NHS Foundation Trust;
- Surrey and Borders Partnership NHS Foundation Trust;
- United Lincolnshire Hospitals NHS Trust;

**Note 29.3 Gifts**

NHS providers granted 18 gifts with total value of £18,000 (2017/18: 133 gifts, £67,000). HM Treasury requires additional disclosure of gifts individually in excess of £300,000. No individual gift was in excess of £300,000.

**Note 30 Related parties**

DHSC is regarded as a related party of NHS trusts and NHS foundation trusts. Per paragraph 25 of IAS 24, government-related entities are not required to disclose balances and transactions with entities that have the same government control. The information below is collated from that provided by NHS trusts and NHS foundation trusts, which were advised to exclude from the data collection balances and transactions with entities within the whole of government accounts boundary.

Information on related party balances and transactions with charitable funds and group entities below only relates to where the entity has not been consolidated within the local accounts, and thus not consolidated within these consolidated provider accounts.

Details of NHS providers' material related party transactions are shown in the accounts of the individual NHS providers.

| | Receivables | | Payables | |
|---|---|---|---|---|
| | 31 March 2019 £m | 31 March 2018 restated* £m | 31 March 2019 £m | 31 March 2018 restated* £m |
| Value of balances with board members and key staff (excluding salaries) | - | - | - | - |
| Value of balances with other related parties: | | | | |
| Non-consolidated NHS charitable funds | 19 | 22 | 1 | 4 |
| Subsidiaries / Associates / Joint ventures | 24 | 25 | 9 | 13 |
| Other | 39 | 39 | 32 | 44 |
| Value of allowances for expected credit losses held against related party balances | (2) | (3) | - | - |
| **Total** | **80** | **83** | **42** | **61** |
| Value of balances with related parties written off in year | - | - | - | - |

| | Income | | Expenditure | |
|---|---|---|---|---|
| | 2018/19 £m | 2017/18 restated* £m | 2018/19 £m | 2017/18 restated* £m |
| Value of transactions with board members and key staff (excluding salaries) | - | 1 | 6 | 1 |
| Value of transactions with other related parties: | | | | |
| NHS charitable funds | 128 | 131 | 7 | 8 |
| Subsidiaries / Associates / Joint Ventures | 136 | 138 | 180 | 166 |
| Other | 127 | 110 | 217 | 196 |
| **Total** | **391** | **380** | **410** | **371** |

* Prior year comparatives have been restated to remove balances and transactions with entities under government control included in 2017/18 in error.

**Note 31 Transfers by absorption**

Most business combinations within the public sector are accounted for using absorption accounting principles. Under this approach, balances are written out by the divesting organisation and recorded by the receiving organisation at their book values at the point in transfer. A gain or loss corresponding to the value of net assets is recognised within income and expenditure. More details are provided in accounting policy 1.1.

Transactions accounted for under absorption accounting: 2018/19

The following absorption transfers occurred within the NHS provider sector during 2018/19 and so the accounting entries have been eliminated within these consolidated accounts:

| Receiving body | Divesting body | Date of transfer | Non-current assets | Current assets | Current liabilities | Non-current liabilities | Total net assets | PDC transfer |
|---|---|---|---|---|---|---|---|---|
| | | | £m | £m | £m | £m | £m | £m |
| Mersey Care NHS Foundation Trust | Liverpool Community Health NHS Trust | 1 April 2018 | 10 | 18 | (9) | (1) | **18** | - |
| University Hospitals Birmingham NHS Foundation Trust | Heart of England NHS Foundation Trust | 1 April 2018 | 275 | 54 | (119) | (44) | **166** | 165 |
| Midlands Partnership NHS Foundation Trust | Staffordshire and Stoke on Trent Partnership NHS Trust | 1 June 2018 | 86 | 30 | (29) | (74) | **13** | 1 |
| University Hospitals of Derby and Burton NHS Foundation Trust | Burton Hospitals NHS Foundation Trust | 1 July 2018 | 107 | 24 | (52) | (28) | **51** | 51 |
| East Suffolk and North Essex NHS Foundation Trust | Ipswich Hospital NHS Trust | 1 July 2018 | 142 | 35 | (53) | (83) | **41** | 41 |

Absorption transfers involving six other providers also occurred but the net assets transferring totalled less than £1m. These transfers have not been detailed here. Opposite entries have been recorded in the accounts of the divesting NHS providers and so the impact of these transactions on the consolidated NHS provider accounts is nil.

The following absorption transactions occurred between NHS providers and other government bodies during 2018/19 and so reflect absorption movements in or out of the consolidated NHS provider accounts:

| Details | Non-current assets | Current assets | Current liabilities | Non-current liabilities | Total net assets | PDC transfer |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Transfers from Public Health England | 1 | - | - | - | **1** | - |
| Transfers from local authorities | - | - | - | (5) | **(5)** | - |
| Transfers to local authorities | - | - | - | (1) | **(1)** | - |
| **Totals** | **1** | **-** | **-** | **(6)** | **(5)** | **-** |

Transfers from Public Health England relate to the transfer of services to University Hospital Southampton NHS Foundation Trust. Transfers from local authorities are local government pension scheme obligations relating to staff transferring to Cheshire and Wirral Partnership NHS Foundation Trust. Transfers to local authorities are local government pension scheme obligations relating to staff transferring from North Staffordshire Combined Healthcare NHS Trust.

The sum of the absorption gains and losses rows in the other notes to the accounts do not equal the balances presented in this note, as not all notes (for example payables and receivables) contain details of the movements in the year.

Transactions accounted for under absorption accounting: 2017/18

The following absorption transfers occurred within the NHS provider sector during 2017/18 and so the accounting entries have been eliminated within these consolidated accounts:

| Receiving NHS provider | Divesting body | Date of transfer | Non-current assets | Current assets | Current liabilities | Non-current liabilities | Total net assets | PDC transfer |
|---|---|---|---|---|---|---|---|---|
| | | | £m | £m | £m | £m | £m | £m |
| Essex Partnership University NHS Foundation Trust | North Essex Partnership University NHS Foundation Trust | 1 April 2017 | 82 | 18 | (16) | (29) | **55** | 30 |
| Essex Partnership University NHS Foundation Trust | South Essex Partnership University NHS Foundation Trust | 1 April 2017 | 150 | 59 | (27) | (34) | **148** | 98 |
| North West Anglia NHS Foundation Trust | Hinchingbrooke Health Care NHS Trust | 1 April 2017 | 100 | 11 | (14) | (66) | **31** | 31 |
| Manchester University NHS Foundation Trust | Central Manchester University Hospitals NHS Foundation Trust | 1 October 2017 | 415 | 196 | (131) | (373) | **107** | 107 |
| Manchester University NHS Foundation Trust | University Hospital of South Manchester NHS Foundation Trust | 1 October 2017 | 200 | 49 | (86) | (77) | **86** | 86 |

In relation to these intra-group transfers, opposite entries have been recorded in the accounts of the divesting NHS provider and so the impact of these transactions on the consolidated NHS provider accounts is nil apart from the change in charity consolidation outlined above.

The following absorption transactions occurred between NHS providers and other government bodies during 2017/18 and so reflect absorption movements in or out of the consolidated NHS provider accounts:

| Details | Non-current assets | Current assets | Current liabilities | Non-current liabilities | Total net assets | PDC transfer |
|---|---|---|---|---|---|---|
| | £m | £m | £m | £m | £m | £m |
| Transfers to NHS Property Services Ltd | (46) | - | - | 7 | **(39)** | - |
| Transfers from local authorities | - | - | - | (8) | **(8)** | - |
| **Totals** | **(46)** | **-** | **-** | **(1)** | **(47)** | **-** |

## Note 32 New and amended IFRS standards that are effective for the current year

### Note 32.1 Initial application of IFRS 15

IFRS 15 Revenue from Contracts with Customers as interpreted and adapted by the GAM has been applied by NHS providers from 1 April 2018. The standard is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of the income and expenditure reserve as at 1 April 2018. Comparative amounts have not been restated, as allowed by the transition provisions of IFRS 15.

IFRS 15 introduces a new model for the recognition of revenue from contracts with customers replacing the previous standards IAS 11, IAS 18 and related Interpretations. The core principle of IFRS 15 is that an entity recognises revenue when it satisfies performance obligations through the transfer of control of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

As directed by the GAM, providers have applied the practical expedient offered in paragraph C7A of the standard removing the need to retrospectively restate any contract modifications that occurred before the date of implementation (1 April 2018).

The impact of initial application of the standard on 1 April 2018 was immaterial to these consolidated accounts. Providers recognised an additional £0.5 million of deferred income (contract liabilities). The impact on receivables was also affected by the initial application of IFRS 9 and is detailed below. An additional £2m income was recognised in 2018/19 compared to if the standard had not been adopted.

The standard has a material effect on the classification of receivables. More details are provided in note 16.1.

### Note 32.2 Initial application of IFRS 9

IFRS 9 Financial Instruments (and related amendments to other standards) as interpreted and adapted by the GAM has been applied by NHS providers from 1 April 2018. The standard is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balances of reserves as at 1 April 2018. Comparatives amounts have not been restated, as allowed by the transition provisions of IFRS 9.

IFRS 9 replaces IAS 39 and introduces a revised approach to classification and measurement of financial assets and financial liabilities, a new forward-looking 'expected credit loss' impairment model and a revised approach to general hedge accounting.

Under IFRS 9, borrowings from the Department of Health and Social Care, which were previously held at historic cost, are measured on an amortised cost basis. Consequently, on 1 April 2018 the carrying value of loans from the Department of Health and Social Care increased by £40 million, and trade payables correspondingly reduced. Further accrued interest of £5 million were also reclassified from payables in relation to other forms of borrowing.

Reassessment of allowances for credit losses under the expected loss model in conjunction with the new revenue recognition requirements of IFRS 15 resulted in derecognition of gross receivables and a subsequent reduction in the value of allowances for credit losses. The overall impact on the carrying value of receivables at 1 April 2018 was a net decrease of £14 million.

The GAM expands the definition of a contract in the context of financial instruments to include legislation and regulations, except where this gives rise to a tax. Implementation of this adaptation on 1 April 2018 has led to the classification of receivables relating to income under the injury cost recovery scheme as financial assets measured at amortised cost. The carrying value of injury cost recovery receivables not previously included in financial asset disclosures at 1 April 2018 was £289 million.

## Note 33 Prior period adjustments

Sector-wide changes in accounting policy

In 2018/19, there have been no changes in accounting policy requiring sector-wide restatement of comparatives. See notes 32.1 and 32.2 for the initial application of IFRS 9 and IFRS 15.

Other prior period adjustments applied by NHS providers

Local prior period adjustments in individual NHS providers are not material to the consolidated accounts, and so their effects are instead disclosed in the current year.

Restatement of disclosures

In some notes of these consolidated accounts, prior year disclosures have been restated compared to the consolidated NHS provider accounts in 2017/18. More details are provided in each note. The affected notes are:

- Note 25.2 Total service concession arrangement commitments
- Note 30 Related parties
- Note 22.3 Clinical negligence liabilities

## Note 34 Events after the reporting date

South Tyneside NHS Foundation Trust and City Hospitals Sunderland NHS Foundation Trust merged on 1 April 2019 to form South Tyneside and Sunderland NHS Foundation Trust. The two previous foundation trusts were dissolved and the new entity authorised as a foundation trust by NHS Improvement.

This transaction will eliminate and therefore have no impact on the 2019/20 consolidated NHS provider accounts.

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.