

Report to Trust Board

Date 25th May 2011

Agenda item no 8.3

<p>Title</p> <p>Author</p> <p>Responsible Director</p> <p>Purpose</p>	<p>Process for Adoption of Annual Report and Accounts</p> <p>Interim Director of Finance</p> <p>Interim Director of Finance</p> <p>Strategy/ Decision / Ratification/ Assurance/Information</p>
<p>Action required</p>	<p>Note the contents of the draft annual accounts and approve the process for adoption of the accounts after audit.</p>
<p>Executive Summary</p>	
<p>Relevant CQC standard/ NHS Constitution pledge</p>	<p>Pledge 6 We will spend tax payers' money carefully.</p> <p>Pledge 7 We will be open about how we spend the money.</p>
<p>Link to strategy/plans</p>	<p>Financial viability is an essential part of the Trusts integrated business plan.</p>
<p>Impact assessment:</p> <ul style="list-style-type: none"> - quality - financial/business - equality/diversity - risk - legal/statutory - sustainability 	<p>Sound financial performance can support delivery of high quality financial services</p> <p>Clear accounts are an indicator of sound financial management.</p> <p>The annual report provides information on how the Trust discharged duties with regard to equality and diversity.</p> <p>The Statement on Internal Control is provided as part of the accounts and describes how risk is managed.</p> <p>An NHS Trust has a statutory duty to produce an annual report and annual accounts.</p> <p>The Statement on Internal Control includes a statement on sustainability.</p>
<p>Previous consultation/decision/ discussion/</p>	<p>Consultation with Chair of Audit Committee before submission for audit.</p>

Date: 16 May 2011

NHS Trusts have a statutory duty to produce an annual report and accounts. This paper presents the draft annual report and accounts for the 2010/11 financial year that we have passed on to the Trust's external auditors for audit. This paper also summarises the final steps required to complete the task.

The format of the annual report and accounts is specified in the NHS manual for accounts.

The annual report and accounts have been submitted to auditors and DH in draft form on 20th April 2011 in advance of the agreed timetable for submission. These documents were discussed with the Chair of the Audit Committee and circulated to board members for information.

The Trust's board must formally adopt the accounts once they have been audited and ensure that the annual report is available to the public before 30th September 2011.

This paper provides an opportunity (a) for the board to discuss the draft accounts in advance of the deadline (10th June) for auditors to submit the audit certificate to DH and (b) to agree the process for adopting the accounts once audited.

The accounts comprise:

- Four primary statements:
 - o Statement of Comprehensive Income
 - o Statement of Financial Position (Balance Sheet)
 - o Statement of Changes in Taxpayers Equity
 - o Statement of Cash flows
- Notes to the accounts
- The Directors' Statement of Responsibilities
- The Statement on Internal Control
- The Auditors report

The additional requirements for the annual report are:

- A directors' report including a management commentary on the performance of the Trust.
- A remuneration report, which discloses salaries of the Trust's directors
- Any other information the Trust regards as necessary

The Statement of Comprehensive Income combines into one statement, the NHS trust's income and expenditure for the year, together with any other recognised gains and losses in summary form under the heading "Other comprehensive income".

The income and expenditure element shows a deficit of £3.286million but this includes £3.56million of asset impairments that DH do not view as part of the Trust's operating position. The operating position is therefore a retained surplus of £274,000.

This statement reports a retained deficit for the year of £3.286million, but this includes £3.56million of asset impairments charged to operating expenses. (The total value of asset impairments was £5.543million but only £3.56million, representing the amount that was greater than revaluation reserves held for the relevant assets, is recorded as expenditure in the Statement of Comprehensive Income. The balance of £1.983million is shown in the "other comprehensive income" section – see below). An impairment charge is not considered part of the Trust's operating position by DH and therefore the adjusted retained surplus for 2010-11 is a surplus of £274,000.

The impairment arose mainly because the depreciated replacement cost valuation of the Trust's assets undertaken by the District Valuer reflect the use of building cost indices, which show a large reduction between the relevant years.

Revenue from patient care activities rose by £9m (7.5%) reflecting an equivalent increase in NHS patient activity and a 25% (£235,000) increase in private patient revenues.

As explained above operating expenses of £143.6million for 2010-11 include £3.56million expenditure related to impairment on assets. The operating expenses for 2009-10 included the benefit of a net £739,000 reversal of impairments. After adjusting for these unusual items, operating expenses rose by 6.8% between the two years.

The "other comprehensive income" section of this statement shows the other recognised gains and losses in summary form. The most significant item in 2010-11 is £1.983million of impairments that match the revaluation reserves previously held for the relevant assets.

The Statement of financial position (formerly the balance sheet) lists assets, liabilities and taxpayers' equity (public funds invested in the NHS trust). At any given time, the NHS trust's total assets less its total liabilities must equal taxpayers' equity. As at 31st March 2011 these equalled £86.1million.

Non-current assets, (fixed assets or assets the Trust expects to hold for more than a year) reduced by £1.4million. This was largely due to £5.5million of impairments and £5.2million of asset depreciation offsetting over £9million of capital investment.

Current assets increased by £1.9million to £13.8million, due to cash balances increasing by £1.9million. The increase in cash was largely driven by an increase in payables (creditors) balances (see below). Receivables reduced by £0.5million supporting cash but this was offset by stocks increasing by £0.5million.

Trade payables increased by 3.2million between the years and supported the achievement of the Trust's cash flow target. The Trust received a £3million capital loan in 2010-11 of which £1.5million remains payable within a year, this therefore also contributes to the increase in current liabilities.

The Statement of Changes in Taxpayers' Equity shows the movement from the previous year on reserves and public dividend capital.

It represents the change in the value of the taxpayer's investment in the NHS trust. Clearly the large changes are the net trading surplus and the effects of revaluation of assets.

The Statement of Cash Flows summarises the cash flows of the NHS trust during the accounting period. It focuses on the cash implications of actions taken by the Trust in year.

In focussing on cash implications, this statement adjusts the operating surplus for the non cash charges (eg depreciation and impairments) contained in the reported revenue surplus. The statement shows that the cash balance increased from £2.9 million at the start of the year to £4.6million at the end and within this the cash flow implications of capital expenditure totalled £9.8 m, net of proceeds, for example.

Notes to the accounts

The notes to the accounts provide additional details about the entries in the main statements as well as additional disclosures, such as the accounting policies followed when preparing the accounts.

Completing the process requires (a) the auditors to report to the Audit Committee on 3rd June and (b) for the Board to formally adopt the audited accounts on the 8th June.

The auditors need to submit the accounts and certificates to DH by 9am on Friday 10th June.

The annual report and accounts need to be published and presented before 30th September.

The Audit Committee will have met on the 24th May and received an update on the external audit of these accounts by the Audit Commission.

The auditors will formally report to those charged with governance on the results of the audit and issues arising at an Audit Committee scheduled for Friday 3rd June.

A Board meeting has been arranged for Wednesday 8th June to allow the board to formally adopt the finalised accounts.

After adoption, the Chief Executive will sign the Statement of Financial Position and the accountable officers' certificate, Statement on Internal Control. The Chief Executive and Finance Director sign the statement of directors' responsibilities.

The signed certificates will be given to auditors so that they can provide directors with their signed audit report and certificate.

The auditors submit their reports, certificates and electronic summarization schedules of the accounts to DH as mandated no later than 9am on Friday 10th June 2011.

The annual accounts must be published with the Annual Report no later than 30th September and a public meeting must be held no later than this date where the annual report and audited accounts must be presented.

The Board is asked to note the contents of this report and the draft annual accounts attached and to approve the process for adoption of the accounts and signature of necessary certificates.