South Tees Hospitals NHS
NHS Foundation Trust

Accounts

For the year 1 April 2014 to 31 March 2015

South Tees Hospitals NHS Foundation Trust - Accounts for year 2014/15

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTING OFFICER OF SOUTH TEES HOSPITALS NHS FOUNDATION TRUST

The NHS Act 2006 states that the Chief Executive is the Accounting Officer of the NHS Foundation Trust. The relevant responsibilities of the accounting officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the NHS Foundation Trust Accounting Officer Memorandum issued by Monitor.

Under the NHS Act 2006, Monitor has directed South Tees Hospitals NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of South Tees Hospitals NHS Foundation Trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the NHS Foundation Trust Annual Reporting Manual and in particular to:

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the NHS Foundation Trust Annual Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;

- ensure that the use of public funds complies with the relevant legislation, delegated authorities and guidance; and

- prepare the financial statements on a going concern basis.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS Foundation Trust and to enable her to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is also responsible for safeguarding the assets of the NHS Foundation Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor's *NHS Foundation Trust Accounting Officer Memorandum.*

Signed:

Tricia Hart
Chief Executive Date:

FOREWORD TO THE ACCOUNTS

SOUTH TEES HOSPITALS NHS FOUNDATION TRUST

The accounts for the year ended 31 March 2015 have been prepared by South Tees Hospitals NHS Foundation Trust under Schedule 7 of the National Health Service Act 2006, paragraphs 24 and 25 and in accordance with directions given by Monitor, the sector regulator for health services in England.

Signed:

Tricia Hart
Chief Executive

Date:

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2015

		GROUP		TRUST	
		2014/15	2013/14	**2014/15**	2013/14
	NOTE	**£000**	£000	**£000**	£000
Operating income	3	**578,776**	550,547	**577,685**	549,068
Operating expenses	4	**(577,435)**	(537,404)	**(575,837)**	(535,486)
OPERATING SURPLUS		**1,341**	13,143	**1,848**	13,582
FINANCE COSTS:					
Finance income	7	**205**	203	**62**	61
Finance costs - financial liabilities	8	**(15,806)**	(15,171)	**(15,806)**	(15,171)
Finance costs - unwinding of discount on provisions		**(5)**	(4)	**(5)**	(4)
PDC dividends payable		**(2,930)**	(2,802)	**(2,930)**	(2,802)
NET FINANCE COSTS		**(18,536)**	(17,774)	**(18,679)**	(17,916)
Movement in fair value of investment property and other investments	14	**228**	246	**0**	0
DEFICIT FOR THE YEAR		**(16,967)**	(4,385)	**(16,831)**	(4,334)
Other comprehensive income					
Will not be reclassified to income and expenditure:					
Gain from transfer by absorption from demising bodies		**0**	957	**0**	957
Impairments		**(18,587)**	0	**(18,587)**	0
Revaluation gains and impairment losses on property, plant and equipment		**15,936**	7,341	**15,936**	7,341
TOTAL OTHER COMPREHENSIVE (EXPENSE) / INCOME		**(2,651)**	8,298	**(2,651)**	8,298
TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR		**(19,618)**	3,913	**(19,482)**	3,964

The notes on pages 5 to 42 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

		GROUP		TRUST	
		31 March 2015	31 March 2014	**31 March 2015**	31 March 2014
	NOTE	**£000**	£000	**£000**	£000
Non-current assets					
Property, plant and equipment	9	**245,362**	246,790	**245,362**	246,790
Intangible assets	10	**4,264**	1,935	**4,264**	1,935
Trade and other receivables	17	**1,838**	1,853	**1,838**	1,853
Other investments	14	**5,540**	5,262	**0**	0
Total non-current assets		**257,004**	255,840	**251,464**	250,578
Current assets					
Inventories	15	**7,835**	7,942	**7,835**	7,942
Trade and other receivables	17	**53,107**	40,510	**53,410**	40,474
Cash and cash equivalents	16	**12,816**	17,854	**11,142**	16,133
Total current assets		**73,758**	66,306	**72,387**	64,549
Total assets		**330,762**	322,146	**323,851**	315,127
Current liabilities					
Trade and other payables	18	**(56,834)**	(49,992)	**(56,696)**	(49,882)
Borrowings	19	**(19,344)**	(8,057)	**(19,344)**	(8,057)
Provisions	22	**(2,704)**	(470)	**(2,704)**	(470)
Total current liabilities		**(78,882)**	(58,519)	**(78,744)**	(58,409)
Total assets less current liabilities		**251,880**	263,627	**245,107**	256,718
Non-current liabilities					
Borrowings	19	**(150,367)**	(143,069)	**(150,367)**	(143,069)
Provisions	22	**(1,735)**	(1,891)	**(1,735)**	(1,891)
Total non-current liabilities		**(152,102)**	(144,960)	**(152,102)**	(144,960)
Total assets employed		**99,778**	118,667	**93,005**	111,758
Financed by taxpayers' equity:					
Public dividend capital		**156,178**	155,449	**156,178**	155,449
Income and expenditure reserve		**(121,275)**	(104,810)	**(121,275)**	(104,810)
Revaluation reserve		**31,626**	34,643	**31,626**	34,643
Other reserves		**26,476**	26,476	**26,476**	26,476
Others' equity					
Charitable fund reserve	13	**6,773**	6,909	**0**	0
Total taxpayers' equity		**99,778**	118,667	**93,005**	111,758

The financial statements on pages 1 to 42 were approved by the Board on 26 May 2015 and signed on its behalf by:

Signed: …………………………………(Director of Finance) Date:

Signed: …………………………………(Chief Executive) Date:

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2015

	Public Dividend Capital (PDC)	Income and Expenditure Reserve	Revaluation Reserve	Other reserves	Trust total	Charitable funds reserve	Group total
	£000	£000	£000	£000	£000	£000	£000
Taxpayers' equity at 1 April 2013	154,107	(102,424)	28,293	26,476	106,452	6,960	113,412
Changes in taxpayers' equity for 2013/14							
(Deficit)/surplus for the year	0	(4,334)	0	0	(4,334)	(51)	(4,385)
Transfer by modified absorption: gain on transfer from demising bodies	0	957	0	0	957	0	957
Revaluation gains and impairment losses on property, plant and equipment.	0	0	7,341	0	7,341	0	7,341
Total comprehensive (expense) / income for the year	0	(3,377)	7,341	0	3,964	(51)	3,913
Public dividend capital received	1,444	0	0	0	1,444	0	1,444
PDC adjustment for cash impact of legacy transfer	(102)	0	0	0	(102)	0	(102)
Other transfers between reserves	0	991	(991)	0	0	0	0
Taxpayers' equity at 31 March 2014	155,449	(104,810)	34,643	26,476	111,758	6,909	118,667
Taxpayers' equity at 1 April 2014	155,449	(104,810)	34,643	26,476	111,758	6,909	118,667
Changes in taxpayers' equity for 2014/15							
Deficit for the year	0	(16,831)	0	0	(16,831)	(136)	(16,967)
Revaluation gains and impairment losses on property, plant and equipment.	0	0	(2,651)	0	(2,651)	0	(2,651)
Total comprehensive expense for the year	0	(16,831)	(2,651)	0	(19,482)	(136)	(19,618)
Public dividend capital received	15,129	0	0	0	15,129	0	15,129
Public dividend capital repaid	(14,400)	0	0	0	(14,400)	0	(14,400)
Other transfers between reserves	0	366	(366)	0	0	0	0
Taxpayers' equity at 31 March 2015	156,178	(121,275)	31,626	26,476	93,005	6,773	99,778

Note: Additional PDC received by the Trust during the year related to funding from the Department of Health for investment in Nursing technology. The amount shown as 'Other Reserves' represents the value of assets transferred to South Tees Hospitals NHS Foundation Trust following the acquisition of the former Northallerton Health Services NHS Trust, over and above the value of Public Dividend Capital repayable on dissolution of that Trust.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2015

		GROUP		TRUST	
		2014/15	2013/14	**2014/15**	2013/14
	NOTE	**£000**	£000	**£000**	£000
Cash flows from operating activities					
Operating surplus from continuing operations		**1,341**	13,143	**1,848**	13,582
Non-cash income and expense					
Depreciation and amortisation	4	**13,580**	14,155	**13,580**	14,155
Impairments	4	**22,030**	3,418	**22,030**	3,418
Reversal of impairments	3	**(17,878)**	(4,004)	**(17,878)**	(4,004)
(Increase)in trade and other receivables	17	**(8,409)**	(5,736)	**(8,367)**	(5,961)
Decrease in inventories	15	**107**	352	**107**	352
Increase/ (decrease) in trade and other payables	18	**2,271**	(2,457)	**2,104**	(2,580)
Increase/(decrease)in provisions	22	**2,073**	(63)	**2,073**	(63)
Other movements in operating cash flows		**(261)**	25	**(453)**	176
Net cash generated from operations		**14,854**	18,833	**15,044**	19,075
Cash flows from investing activities					
Interest received	7	**205**	313	**62**	171
Purchase of intangible assets	10	**(2,734)**	(205)	**(2,734)**	(205)
Purchase of property, plant and equipment	9	**(12,327)**	(13,546)	**(12,327)**	(13,546)
PFI lifecycle prepayments		**(4,173)**	(5,281)	**(4,173)**	(5,281)
Sales of property, plant and equipment		**(49)**	6	**(49)**	6
Net cash used in investing activities		**(19,078)**	(18,713)	**(19,221)**	(18,855)
Cash flows from financing activities					
Public dividend capital received		**15,129**	1,444	**15,129**	1,444
Public dividend capital repaid		**(14,400)**	0	**(14,400)**	0
Public dividend capital received adjustment for adsorption transfer of receivables		**0**	(102)	**0**	(102)
Loans received		**24,900**	11,100	**24,900**	11,100
Loans repaid		**(3,017)**	(1,989)	**(3,017)**	(1,989)
Capital element of finance lease rental payments		**(1,681)**	(1,867)	**(1,681)**	(1,867)
Capital element of private finance initiative obligations		**(3,309)**	(2,363)	**(3,309)**	(2,363)
Interest paid	8	**(793)**	(695)	**(793)**	(695)
Interest element of finance leases	8	**(792)**	(738)	**(792)**	(738)
Interest element of private finance initiative obligations	8	**(14,221)**	(13,738)	**(14,221)**	(13,738)
PDC dividend paid		**(2,630)**	(2,585)	**(2,630)**	(2,585)
Net cash used in financing activities		**(814)**	(11,533)	**(814)**	(11,533)
Decrease in cash and cash equivalents		**(5,038)**	(11,413)	**(4,991)**	(11,313)
Cash and cash equivalents at 1 April		**17,854**	29,267	**16,133**	27,446
Cash and cash equivalents at 31 March	16	**12,816**	17,854	**11,142**	16,133

NOTES TO THE ACCOUNTS

1. Accounting policies

Monitor has directed that the accounts of NHS Foundation Trusts shall meet the accounting requirements of the NHS Foundation Trust Annual Reporting Manual, which shall be agreed with HM Treasury. Consequently, the accounts have been prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2014/15 issued by Monitor. The accounting policies contained in that manual follow International Financial Reporting Standards (IFRS) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to NHS Foundation Trusts. Where the NHS Foundation Trust Annual Reporting Manual permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Trust are described below. They have been applied consistently during the financial year when dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and certain financial assets and financial liabilities.

1.2 Basis of consolidation

The Trust is the corporate trustee to South Tees Hospitals Charity and Associated Funds which is registered with the Charity Commission, registration number 1056061. The Trust has assessed its relationship to the charitable fund and determined it to be a subsidiary as the Trust has the power to govern the financial and operating policies of the charitable fund to obtain benefits from its activities for the Trust, its patients and its staff.

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

• recognise and measure them in accordance with the Trust's accounting policies; and
• eliminate in full all intra-group transactions and balances.

1.2.1 Alignment to accounting policies

The accounting policies and accounts of the charitable fund have been reviewed and are consistent with those of the Trust apart from the charitable fund's accounting policies on funds and investments. Details of the accounting policies that are different and have been aligned to those of the trust are outlined below:

Fund balances

Funds held by the charitable fund can be both restricted and un-restricted. Donations come in for specific funds and each fund has its own objectives/purpose. If a general donation is made and no specific fund is identified then the monies will be paid into the General Purpose Fund, which is used to benefit patients and staff of the Group and Trust. Funds specific to wards or departments are held as un-restricted designated funds. Legacies and donations received for a specific purpose or ‘trust’ are recorded and accounted for as restricted funds.

Investments

Investments are stated at market value as at the balance sheet date. The Consolidated Statement of Financial Position includes the net gains and losses arising on revaluation and disposals throughout the year.

At the financial reporting date, the Trust does not have any other interests in organisations that would classify as a subsidiary. Further information covering the nature and value of the consolidation of the charitable fund is included in Note 13 to the Accounts.

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

1.3 Critical accounting judgements and key sources of estimation in applying the Trust's accounting policies

In the application of the Group and Trust's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates and the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

The estimates and assumptions that have a significant risk of causing a material adjustment to the accounts are highlighted below:

a) Incomplete inpatient and critical care spells - the Group and Trust prepares an estimate of income generated for incomplete spells at the year end. This estimate is based on an equivalent month end date and partially coded data to provide a basis for calculation.

b) Asset valuation and indices - the valuation of land and buildings is based on building cost indices provided by and used by the District Valuer in his valuation work. These indices are based on an indication of trend of accepted tender prices within the construction industry as applied to the Public Sector.

c) Asset impairments - an assessment is made each year as to whether an asset has suffered an impairment loss. VAT has been excluded from the full trust estate asset valuations from 1 April 2014. The Trust estate is split between PFI and non-PFI assets in the proportion of 85% and 15%. This significant managment judgement was made on the basis that the majority of the James Cook Hospital is under a PFI arrangement and there was no VAT liability on construction in 2003. The majority of non-PFI assets relate to the Friarage Hospital, which transferred to the Trust in 2006. The Friarage Hospital would have formed part of this development if it had been part of the Trusts assets at the date of the development.

d) Private Finance Initiative (PFI) schemes - as part of the South Tees Hospitals PFI scheme, the Group and Trust is required to pay the operator for lifecycle replacement assets. A judgement has been made that payment for the assets is accounted for in line with the operator's model over the life of the scheme. Where there is a variation between the model and the timing of actual asset replacement, the variation is dealt with as a prepayment. The prepayment is reversed at the point when asset replacement occurs.

1.3.1 Going concern

The day to day operations of the Trust are funded from agreed contracts with NHS commissioners. The uncertainty in the current economic climate has been mitigated by agreeing contracts with Clinical Commissioning Groups, Local Authorities and NHS England for a further year and these payments provide a reliable stream of funding reducing the Trust's exposure to liquidity and financing problems.

The Trust's budget and expenditure plans have been prepared using national guidance on tariff and inflationary factors with income based on agreements with Commissioners. These plans show a deficit in 2015/16 amounting to £13.7 million with a borrowing requirement of £17.5 million. In total, in 2014/15 the Trust has borrowed £14.4 million (£7.2 million as Interim Capital and £7.2 million as Interim Revenue Support) from the Department of Health in February 2015 and a further £10.5 million at the end of March in advance for 2015/16 to fund trust commitments in early April. The Interim Support was converted into loan funding on 23 March 2015 with £7.2 million becoming interest only with repayment of the principal due in March 2020 and the remaining £7.2 million being on repayment terms commencing at the end of September 2015 and concluding in March 2030.

Of the £10.5 million drawdown in March 2015, £3 million was repaid in April and it is anticipated that the final drawdown of borrowing in 2015/16 will take place in February 2016. The Trust has set testing efficiency targets in 2015/16 which includes cost improvement plans amounting to £36.0 million. The Trust believes that this forward plan provides a realistic assessment of the Trust's position.

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

1.3.1 Going concern (continued)

The Trust recognised that there was an urgent need to develop a wider programme for delivery of recurrent savings and to derive benefits from transformational change. The Trust has, therefore, formed a Transformation Team to build on the work undertaken by McKinsey & Company and develop these cost reduction programmes with the Trust with the aim of delivering a stable financial plan.

The Trust does not have any evidence indicating that the going concern basis is not appropriate as the Trust has not been informed by Monitor that there is any prospect of intervention or dissolution within the next 12 months. In terms of the sustainable provision of services, there has been no indication from the Department of Health that the Trust will not continue to be a going concern and the Trust has received support through the Department of Health in 2014/15 that includes an advance of funds for 2015/16. The Trust is taking forward discussions with the Department of Health over the additional funding requirement expected to amount to £10 million in February 2016. Although support has been received, there is no certainty that the efficiencies required in 2015/16 will be delivered or the additional funding will be obtained in 2015/16 and this indicates the existence of a material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Trust was unable to continue as a going concern.

The Trust is currently subject to enforcement action from Monitor regarding its financial sustainability, Board governance and target breaches. In 2014/15 the Trust submitted a Recovery Plan to Monitor that outlined an underlying deficit of £18.4 million (excluding impairments and restructuring costs). At the year end the Trust reported a £7.0 million deficit, an improvement of £11.4million on the Recovery Plan. The Trust has demonstrated significant progress during 2014/15 and continues to provide monhtly performance updates to Monitor.

Taking the above into account, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

1.3.2 Key sources of estimation uncertainty

The amounts included within Provisions, Note 22, are based upon advice from relevant external bodies, including the NHS Litigation Authority and NHS Pensions Agency.

On 31 March 2015 Land and Buildings were revalued using the Modern Equivalent Valuation methodology by the District Valuer (who is an appropriately qualified member of the Royal Institute of Chartered Surveyors). From 1 April 2014 these valuations did not include VAT.

1.4 Income

Income in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of income for the Group and Trust is contracts with commissioners in respect of healthcare

Income relating to inpatient and critical care spells that are part-completed at the year end are apportioned across the financial years as follows:

- Inpatient spells are apportioned on the basis of the average month end value of the part completed spells; and
- Critical care is valued by applying local tariffs agreed with commissioners to estimate the level of income due to be recognised at the point of discharge.

Where income is received for a specific activity that is to be delivered in the following financial year, that income is deferred.

The Group and Trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer. The Group and Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

Research and development income is recognised when the conditions attached to the grant are met. Education and training income is recognised either in equal instalments over the financial year or if the income can be identified with specific expenditure, in line with the expenditure. Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

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

1.5 Employee benefits

1.5.1 Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the accounts to the extent that employees are permitted to carry forward leave into the following period.

1.5.2 Pension costs

NHS Pension Scheme

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

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

For early retirements, other than those due to ill health, the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to operating expenses at the time the Group and Trust commits itself to the retirement, regardless of the method of payment.

1.6 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 and inventories unused at the end of the financial year.

1.7 Property, plant and equipment

1.7.1 Recognition

Property, plant and equipment is capitalised if:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential will be supplied to, the Group and Trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably;
- the item has a cost of at least £5,000; and
- collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- items form part of the initial equipping and setting-up cost of a new building, ward or unit, irrespective of their individual or collective cost.

Where a large asset, for example a building, includes a number of components with significant cost and different asset lives, the components are treated as separate assets and depreciated over their own useful economic lives.

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

1.7 Property, plant and equipment (continued)

1.7.2 Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. All assets are measured subsequently at fair value. Land and buildings used for the Group and Trust’s services or for administrative purposes are stated in the Statement of Financial Position at their re-valued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

Fair values are determined as follows:

- Land and non-specialised buildings (dwellings) – market value for existing use; or
- Specialised buildings – depreciated replacement cost.

A standard approach to depreciated replacement cost valuations has been adopted based on HM Treasury guidance and the concept of Modern Equivalent Asset (MEA) Valuations. The valuation included in the Statement of Financial Position at 31 March 2015 is based on an alternative site MEA valuation, undertaken specifically in accordance with the HM Treasury guidance which states that such valuations are an option if the Group and Trust's service requirements can be met from the alternative site. The valuation has been adjusted at 1 April 2014 to exclude VAT in line with existing VAT regulations on recovery from the cost of construction (in line with the existing PFI arrangement on the James Cook Site). Information detailing the impact of this revaluation is available in Note 9.3 to the Accounts.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by IAS 23 for assets held at fair value. Assets are re-valued and depreciation commences when they are brought into use.

Professional valuations are carried out by the District Valuer of the Revenue and Customs Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual in so far as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. Asset lives have been reviewed by the District Valuer as at 1 April 2014.

1.7.3 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 enterprise 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 Statement of Comprehensive Income in the period in which it is incurred.

1.7.4 Depreciation

Freehold land is considered to have an infinite life and is not depreciated. Otherwise, depreciation is charged to write off the costs or valuation of property, plant and equipment on a straight line basis over their remaining useful economic lives, in a manner consistent with the consumption of economic or service delivery benefits.

The estimated useful life of an asset is the period over which the Group and Trust expects to obtain economic benefits or service potential from the asset. This is specific to the Group and Trust and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease term. See note 9.4 for further information on asset lives.

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

1.7 Property, plant and equipment (continued)

1.7.5 Revaluation gains and losses

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation impairment previously recognised in operating expenses, in which case they are recognised in operating income.

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 Statement of Comprehensive Income as an item of "other comprehensive income".

1.7.6 Impairments

In accordance with the NHS Foundation Trust Annual Reporting Manual, impairments that are due to a loss of economic benefits or 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 arising from a loss of economic benefit or 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 income 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.

1.8 Intangible assets

1.8.1 Recognition

Intangible assets are non-monetary assets without physical substance, which are capable of being sold separately from the rest of the Group and Trust's business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the Group and Trust; where the cost of the asset can be measured reliably, and where the cost is at least £5,000 and where the asset has a life of 1 year or more.

1.8.2 Software

Software which is integral to the operation of hardware e.g. 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 e.g. application software, is capitalised as an intangible asset.

1.8.3 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.

Intangible assets are amortised over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Revaluation gains and losses and impairments are treated in the same manner as for property, plant and equipment.

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

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

1.8 Intangible assets (continued)

1.8.4 Amortisation

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

1.9 Donated, government grant and other funded assets

Donated and grant funded non-current assets are capitalised at their fair value on receipt. These are valued, depreciated and impaired as described above for purchased assets. The donation/grant is credited to income at the same time that the asset is capitalised, unless the donor has imposed a condition that the future economic benefits embodied in the grant/donation 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.

1.10 Revenue government and other grants

Government grants are grants from government bodies other than revenue from NHS bodies for the provision of services. Grants from the Department of Health, including those from the Big Lottery Fund, are accounted for as Government Grants. Where the Government Grant is used to fund revenue expenditure, it is taken to the Statement of Comprehensive Income to match the expenditure.

1.11 Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

1.11.1 Finance lease

Where substantially all risks and rewards of ownership of a leased asset are borne by the Group and Trust, the asset along with the corresponding liability is recorded at the commencement of the lease as property, plant and equipment. The value that both are recognised at 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 annual rental is split between the repayment of the liability and a finance cost to achieve a constant rate of finance over the life of the lease. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to Finance Costs in the Statement of Comprehensive Income. The lease liability is de-recognised when the liability is discharged, cancelled or expires.

1.11.2 Operating leases

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the lease term. Operating lease incentives received are added to the lease rentals and charged to operating expenses over the life of the lease.

1.11.3 Leases of Land and Buildings

Where a lease is for land and buildings, the land and building components are separated and assessed as to whether they are operating or finance leases.

1.12 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, as interpreted in HM Treasury's Financial Reporting Manual and following the principles of the requirements of IFRIC 12. The PFI asset is recognised as an item of property, plant and equipment at its fair value together with a financial liability to pay for it in accordance with IAS 17.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) Payment for the fair value of services received;

b) Payment for the PFI asset, including finance costs; and

c) Payment for the replacement of components of the asset during the contract ‘lifecycle replacement’.

The service charge is recognised in operating expenses and the finance cost is charged to Finance Costs in the Statement of Comprehensive Income.

1.12.1 Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within ‘operating expenses’.

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

1.12 Private Finance Initiative (PFI) transactions (continued)

1.12.2 PFI Asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IAS 17. Subsequent measurements to fair value are kept up to date in accordance with the Group and Trust's approach for each relevant class of asset in line with the principles of IAS 16.

1.12.3 PFI liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to 'Finance Costs' within the Statement of Comprehensive Income.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IAS 17, this amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent finance cost in the Statement of Comprehensive Income.

1.12.4 Lifecycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Group and Trust's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

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

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

1.12.5 Assets contributed by the Trust to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Group Statement of Financial Position.

1.12.6 Other assets contributed by the Trust to the operator

Assets contributed (e.g. cash payments, surplus property) by the Group and Trust to the operator before the asset is brought into use, which are intended to defray the operator's capital costs, were recognised initially as prepayments during the construction phase of the contract. Subsequently, when the asset was made available to the Trust, the prepayment was treated as an initial payment towards the finance lease liability and was set against the carrying value of the liability.

1.13 Inventories

Inventories are valued at either current or net realisable value using the weighted average cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

Provision is made for obsolete, slow moving and defective stock whenever evidence exists that a provision is required.

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

1.14 Cash and cash equivalents

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.15 Provisions

Provisions are recognised when the Group and Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Group and Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision in the Statement of Financial Position is the best estimate of the expenditure required to settle the obligation, taking into account the risks and uncertainties. Where the effect of the time value of money is significant, the estimated risk adjusted cash flows required to settle the obligation are discounted using 3 real time HM Treasury discount rates that range from -1.9% in the short term to 2.2% for long term cash flow expectations. This excludes early retirement provisions and injury benefit provisions which both use the HM Treasury's pension discount rate of 1.8% in real terms.

The Trust created a provision for redundancy in the year to cover the costs of restructuring required to deliver the efficiency targets identified within the Annual Plan. The provision will cover cost arising from severance and early retirements.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursements will be received and the amount of the receivable can be measured reliably.

1.15.1 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Group and Trust pays an annual contribution to the NHSLA which, in return, settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the Group and Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Group and Trust is disclosed at Note 22 but is not recognised in the Group and Trust's accounts. Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2014/15 relates to the contribution to the Clinical Negligence Scheme for Trusts.

1.15.2 Non-clinical risk pooling

The Group and Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the Group and Trust pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses as and when they become due.

1.16 Carbon Reduction Commitment Energy Efficiency (CRC) Scheme

The CRC scheme is a mandatory cap and trade scheme for non-transport CO_2 emissions. The Group and Trust is registered with the CRC scheme and has surrendered to the Government an allowance for every tonne of CO_2 emitted during the year. The Group and Trust has accounted for the purchase of the allowances from government, their subsequent actual surrender and has recognised a liability, in settlement of the obligation amounting to £12 per tonne of CO_2 emissions.

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

1.17 Financial Instruments and financial liabilities

1.17.1 Recognition

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items, which are entered into in accordance with the Group's normal purchase, sale or usage requirements. They are recognised when the Group becomes party to the financial instrument contract or when performance occurs i.e. when receipt or delivery of the goods or services is made.

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 are described in policy 1.11.1.

1.17.2 De-recognition

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or the Group has transferred substantially all of the risks and rewards of ownership. Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

1.17.3 Classification and measurement

The Group currently holds financial assets 'at fair value through income and expenditure' in the form of Investments. The Group does not hold any financial liabilities 'at fair value thtrough income and expenditure' or any 'available for sale' financial assets that would require a fair value calculation and adjustment to the income statement.

1.17.4 Loans and receivables

Loans and receivables are non-derivative financial assets and liabilities with fixed or determinable payments which are not quoted in an active market. They are included in current assets and non-current and current liabilites. After initial recognition, they are measured at amortised cost, less any impairment. The Group's outstanding NHS borrowings, NHS and non-NHS receivables balances, accrued income and cash and cash equivalents have been classified as financial instruments and further information is available in Note 23.

1.17.5 Financial liabilities

All other financial liabilities, after initial recognition, are measured at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability. They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities. The Group's outstanding NHS and non-NHS payables balances have been classified as financial instruments and further information is available in Note 23.

Loans from the Department of Health are recognised at historical cost. The Group does hold instruments that would fall into this category in the form of finance leases and the PFI Scheme (see Accounting Policy 1.11 and 1.12 for further information).

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to Finance Costs. Interest on financial liabilities taken out to finance property, plant and equipment is not capitalised as part of the cost of those assets.

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

1.17.6 Impairment of financial assets

At the end of the reporting period, the Group assesses whether any financial assets carried at amortised cost should be impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Statement of Comprehensive Income and the carrying amount of the asset is reduced through the creation of a provision for impairment of receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

1.18 Value Added Tax

Most of the activities of the Group are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.19 Foreign currencies

The Group's functional currency and presentational currency is sterling. A transaction which is denominated in a foreign currency is translated into sterling at the spot exchange rate ruling on the date of the transaction. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March. Resulting exchange gains and losses for either of these are recognised in the Group’s income or expense in the period in which they arise.

1.20 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Group and Trust has no beneficial interest in them. However, details of third party assets are disclosed in Note 26 to the accounts in accordance with the requirements of HM Treasury's Financial Reporting Manual.

1.21 Public Dividend Capital (PDC) and PDC dividend

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 predecessor NHS Trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the Trust. PDC is recorded at the value received. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32 and 39.

An annual charge, reflecting the cost of capital utilised by the Group and Trust, is payable to the Department of Health as PDC dividend. The charge is calculated at the real 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 donated assets, average daily cash balances held with the Government Banking Services (GBS), excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health, 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 of the audit of the annual accounts.