

**BRIGHTON AND SUSSEX UNIVERSITY
HOSPITALS NHS TRUST**

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 MARCH 2017

**Statement of Comprehensive Income for year ended
31 March 2017**

	NOTE	2016-17 £000s	2015-16 £000s	Consolidated 2016-17 £000s	Consolidated 2015-16 £000s
Gross employee benefits	10.1	(349,025)	(330,433)	(349,507)	(330,840)
Other operating costs	8	(278,247)	(257,068)	(278,380)	(258,684)
Revenue from patient care activities	5	496,583	479,497	496,690	479,588
Other operating revenue	6	53,786	49,978	54,504	52,001
Operating deficit		(76,903)	(58,026)	(76,693)	(57,935)
Investment revenue	12	31	48	370	609
Other gains	13	76	75	1,415	(111)
Finance costs	14	(6,127)	(4,399)	(6,132)	(4,399)
Deficit for the financial year		(82,923)	(62,302)	(81,040)	(61,836)
Public dividend capital dividends payable		(6,201)	(7,678)	(6,201)	(7,678)
Tax		0	0	(144)	(14)
Retained deficit for the year		(89,124)	(69,980)	(87,385)	(69,528)
Other Comprehensive Income		2016-17 £000s	2015-16 £000s	2016-17 £000s	2015-16 £000s
Impairments and reversals taken to the revaluation reserve		(2,347)	(3,249)	(2,347)	(3,249)
Net gain on revaluation of property, plant & equipment		9,586	7,306	9,586	7,306
Total comprehensive income for the year*		(81,885)	(65,923)	(80,146)	(65,471)

* This sums the rows above and the deficit for the year.

Financial performance for the year

Retained deficit for the year	(89,124)	(69,980)
IFRIC 12 adjustment (including IFRIC 12 impairments)	1,397	1,646
Impairments (excluding IFRIC 12 impairments)	18,572	22,789
Adjustments in respect of donated asset reserve elimination	654	726
Adjusted retained deficit	(68,501)	(44,819)

A trust's reported financial performance position is derived from it's retained surplus/(deficit), but adjusted for the following:

a) The incremental revenue expenditure resulting from the application of IFRS to PFI, which has no cash impact and is not chargeable for overall budgeting purposes, is reported as technical. This additional cost is not considered part of the organisation's operating position.

b) The Treasury FRem for 2011-12 changed the accounting treatment for the funding element of charitable donations so that NHS bodies no longer hold Donated Asset Reserves. Where assets are funded by donations the financing element of the transaction is recognised as income and taken through the statement of income and expenditure. The impact of the change in policy is not considered part of the organisation's operating position.

c) Prior year performance is not re-assessed following accounting restatements.

The notes on pages 7 to 49 form part of this account.

**Statement of Financial Position as at
31 March 2017**

		31 March 2017	31 March 2016	Consolidated 31 March 2017	Consolidated 31 March 2016
	NOTE	£000s	£000s	£000s	£000s
Non-current assets:					
Property, plant and equipment	16	388,164	351,401	388,394	351,687
Intangible assets	17	681	758	681	758
Other Investments - Charitable					
Other financial assets	23	1,101	1,101	0	0
Trade and other receivables	22.1	3,048	1,644	3,048	1,644
Total non-current assets		392,994	354,904	403,903	364,530
Current assets:					
Inventories	21	8,109	7,118	8,816	7,692
Trade and other receivables	22.1	50,477	53,312	48,406	61,356
Cash and cash equivalents	25	7,407	3,344	8,639	4,970
Sub-total current assets		65,993	63,774	65,861	74,018
Non-current assets held for sale	26	0	63	0	63
Total current assets		65,993	63,837	65,861	74,081
Total assets		458,987	418,741	469,764	438,611
Current liabilities					
Trade and other payables	27	(70,471)	(72,875)	(68,568)	(81,793)
Other liabilities	28	0	0	0	0
Provisions	32	(4,136)	(236)	(4,136)	(236)
Borrowings	29	(3,020)	(3,146)	(3,020)	(3,146)
DH revenue support loan	29	0	(1,500)	0	(1,500)
DH capital loan	29	(4,357)	(2,969)	(4,357)	(2,969)
Total current liabilities		(81,984)	(80,726)	(80,081)	(89,644)
Net current liabilities		(15,991)	(16,889)	(14,220)	(15,563)
Total assets less current liabilities		377,003	338,015	389,683	348,967
Non-current liabilities					
Trade and other payables	27	(687)	0	(687)	0
Other liabilities	28	0	0	0	0
Provisions	32	(1,937)	(1,786)	(1,983)	(1,843)
Borrowings	29	(28,344)	(29,761)	(28,344)	(29,761)
Other financial liabilities	30	0	0	0	0
DH revenue support loan	29	(107,181)	(37,685)	(107,181)	(37,685)
DH capital loan	29	(59,739)	(54,807)	(59,739)	(54,807)
Total non-current liabilities		(197,888)	(124,039)	(197,934)	(124,096)
Total assets employed:		179,115	213,976	191,749	224,871
FINANCED BY:					
Public Dividend Capital		294,776	247,752	294,776	247,752
Retained earnings		(167,019)	(79,400)	(167,019)	(81,268)
Revaluation reserve		51,358	45,624	51,358	45,624
Charitable Funds Reserve				12,251	12,435
Pharm@Sea Reserve				383	328
Total Taxpayers' Equity:		179,115	213,976	191,749	224,871

The notes on pages 7 to 49 form part of this account.

The financial statements on pages 2 to 6 were approved by the Audit Committee and signed on its behalf by ... (with delegated authority by the Board) on ...

Chief Executive:

Date:

Statement of Changes in Taxpayers' Equity For the year ending 31 March 2017

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Other reserves £000s	Total reserves £000s
Balance at 1 April 2016	247,752	(79,400)	45,624	0	213,976
Changes in taxpayers' equity for 2016-17					
Retained deficit for the year		(89,124)			(89,124)
Net gain on revaluation of property, plant, equipment			9,586		9,586
Impairments and reversals			(2,347)		(2,347)
Transfers between reserves		1,505	(1,505)	0	0
Reclassification Adjustments					
Temporary and permanent PDC received - cash	47,024				47,024
Net recognised revenue/(expense) for the year	47,024	(87,619)	5,734	0	(34,861)
Balance at 31 March 2017	294,776	(167,019)	51,358	0	179,115
Balance at 1 April 2015	236,123	(17,866)	50,013	0	268,270
Changes in taxpayers' equity for 2015-16					
Retained deficit for the year		(69,980)			(69,980)
Net gain on revaluation of property, plant, equipment			7,306		7,306
Impairments and reversals			(3,249)		(3,249)
Transfers between reserves		8,446	(8,446)	0	0
Reclassification Adjustments					
New PDC received - cash	11,629				11,629
Net recognised revenue/(expense) for the year	11,629	(61,534)	(4,389)	0	(54,294)
Balance at 31 March 2016	247,752	(79,400)	45,624	0	213,976

Statement of Changes in Taxpayers' Equity For the year ending 31 March 2017

Consolidated

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Charitable Funds Reserve £000s	Pharm@Sea Reserve £000s	Total reserves £000s
Balance at 1 April 2016	247,752	(81,268)	45,624	12,435	328	224,871
Changes in taxpayers' equity for 2016-17						
Retained (deficit)/surplus for the year		(89,124)		1,684	55	(87,385)
Net gain on revaluation of property, plant, equipment			9,586			9,586
Impairments and reversals			(2,347)			(2,347)
Transfers between reserves		1,505	(1,505)			0
Reclassification Adjustments						
Permanent PDC received - cash	47,024					47,024
Consolidation Adjustment		1,868		(1,868)	0	0
Net recognised revenue/(expense) for the year	47,024	(85,751)	5,734	(184)	55	(33,122)
Balance at 31 March 2017	294,776	(167,019)	51,358	12,251	383	191,749
Balance at 1 April 2015	236,123	(19,734)	50,013	12,157	154	278,713
Changes in taxpayers' equity for 2015-16						
Retained (deficit)/surplus for the year		(69,980)		278	174	(69,528)
Net gain on revaluation of property, plant, equipment			7,306	0	0	7,306
Impairments and reversals			(3,249)			(3,249)
Transfers between reserves		8,446	(8,446)		0	0
Reclassification Adjustments						
New PDC received - cash	11,629					11,629
Consolidation Adjustment						0
Net recognised revenue/(expense) for the year	11,629	(61,534)	(4,389)	278	174	(53,842)
Balance at 31 March 2016	247,752	(81,268)	45,624	12,435	328	224,871

Information on reserves

1. Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities. Additional PDC may also be issued to NHS trusts by the Department of Health. A charge, reflecting the cost of capital utilised by the NHS trust, is payable to the Department of Health as the public dividend capital dividend.

2. Income and expenditure reserve

The balance of this reserve is the accumulated surpluses and deficits of the Trust.

3. 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 recognised in operating income. 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.

4. Charitable Funds Reserve.

This balance represents the ring-fenced funds held by the Charity consolidated within these accounts. These reserves are classified as restricted or unrestricted.

5. Pharm@Sea Reserve.

This balance represents the accumulated reserves of the Trust's wholly owned subsidiary, Pharm@Sea Limited.

Statement of Cash Flows for the Year ended 31 March 2017

	NOTE	2016-17 £000s	2015-16 £000s	Consolidated 2016-17 £000s	Consolidated 2015-16 £000s
Cash Flows from Operating Activities					
Operating deficit		(76,903)	(58,026)	(76,697)	(57,935)
Depreciation and amortisation	8	19,995	21,740	20,051	21,796
Impairments and reversals	18	19,969	23,963	19,969	23,963
Other gains on foreign exchange	13	84	54	84	54
(Increase)/Decrease in Inventories		(991)	60	(1,124)	241
Decrease/(Increase) in Trade and Other Receivables		1,431	(17,482)	11,546	(26,541)
(Decrease)/Increase in Trade and Other Payables		(5,137)	5,216	(15,451)	14,161
Provisions utilised		(93)	(356)	(93)	(1,702)
Increase in movement in non cash provisions		4,138	4,753	4,138	6,142
Corporation Tax paid		0	0	26	0
Net Cash Outflow from Operating Activities		(37,507)	(20,078)	(37,551)	(19,821)
Cash Flows from Investing Activities					
Interest Received		31	48	31	48
Payments for Property, Plant and Equipment		(65,815)	(55,169)	(66,502)	(55,169)
Payments for Intangible Assets		(88)	(421)	(88)	(421)
Proceeds of disposal of assets held for sale (PPE)		0	575	0	575
NHS Charitable Funds - net cash flows relating to investing activities				339	561
Net Cash Outflow from Investing Activities		(65,872)	(54,967)	(66,220)	(54,406)
Net Cash Outflow before Financing		(103,379)	(75,045)	(103,771)	(74,227)
Cash Flows from Financing Activities					
Gross Temporary and Permanent PDC Received		47,024	11,629	47,024	11,629
Loans received from DH - New Capital Investment Loans		9,289	22,963	9,289	22,963
Loans received from DH - New Revenue Support Loans		69,496	45,628	69,496	45,628
Loans repaid to DH - Capital Investment Loans Repayment of Principal		(2,969)	(2,233)	(2,969)	(2,233)
Loans repaid to DH - Working Capital Loans/Revenue Support Loans		(1,500)	(10,943)	(1,500)	(10,943)
Capital Element of Payments in Respect On-SoFP PFI		(1,543)	(1,220)	(1,543)	(1,220)
Interest paid		(6,121)	(4,326)	(6,123)	(4,326)
PDC Dividend paid		(6,234)	(8,504)	(6,234)	(8,504)
Net Cash Inflow from Financing Activities		107,442	52,994	107,440	52,994
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		4,063	(22,051)	3,669	(21,233)
Cash and Cash Equivalents at Beginning of the Period		3,344	25,395	4,970	26,203
Effect of exchange rate changes in the balance of cash held in foreign currencies		0	0	0	0
Cash and Cash Equivalents at year end	25	7,407	3,344	8,639	4,970

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the Department of Health Group Accounting Manual, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the Department of Health Group Accounting Manual 2016-17 issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the Department of Health Group Accounting permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Group for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Group are described below. They have been applied consistently in 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.

Going concern

These accounts have been prepared on the basis the Trust is a going concern as there is no indication that the healthcare and other services will not continue to be provided by the public sector for the foreseeable future and that continuing financial support will be provided by DH.

This year the Trust has struggled to meet its financial targets against a backdrop of increased financial pressure across the NHS. The Trust has returned a control total deficit of £68.5m but has achieved £20.8m savings through the Cost Improvement Programme. The DH provided deficit funding of £69.5m as revenue support loans in year bringing the total revenue support loan funding to £107.2m at 31 March 2017.

three years. From 1 April 2017 the Executive Team and Chairman of Western Sussex Hospitals NHS Foundation Trust are also the Executive Team and Chairman of the Group. This is to provide some strong and stable leadership to the Group for at least three years. New regulatory oversight arrangements have also been agreed which will provide a focus on supporting the Group to exit from Financial Special Measures and Quality Special Measures.

The Trust has agreed a revision to the financial control totals for the next two years with NHSI. The basis upon which these have been agreed will limit the financial efficiency requirement upon the Trust over this period. It is expected the Trust will deliver a deficit of £65.4m in 2017/18. The plans reflect agreed continued revenue deficit support funding from DH for both years. The deficit support funding is authorised by the DH monthly in advance and is conditional on the achievement of the agreed financial control total for the year. Deficit support funding totalling £12.8m for April and May 2017 has been provided to the Trust.

The healthcare contracts with local Clinical Commissioning Groups and NHS England for 2017/18 have been agreed. These are all on a Payment by Results basis and amount to approximately £471m.

The Trust's 2017/18 cash flow forecast is based on the assumptions in the 2017/18 financial plan. The key assumptions underpinning the cash flow are:

- a) Receipt of £65.4m revenue support loan from the DH to finance the revenue deficit.
- b) Receipt of £98m PDC from DH to fund the 3Ts capital build.

The cash flow position is reported to the Finance and Investment Committee and the Board monthly and this is based on the Trust's detailed 12 month cash flow forecast which is updated daily.

The Trust's financial priority for the next two years is to deliver its control total deficit as agreed with NHS Improvement. This includes the development and embedding of robust and transparent processes for financial improvement and control as well as a new infrastructure to support delivery of a sustainable efficiency programme.

The new Executive leadership of the Trust has agreed the following priorities with NHS Improvement over the next 3 years:

- Moving out of Quality Special Measures
- Improvement and delivery of A&E performance
- Moving out of Financial Special Measures
- Addressing underlying Leadership and Cultural challenges
- Assuring delivery of 3Ts programme and integration into the Trust

Taking into account all these factors, the assumption that the healthcare and other services will continue to be provided by the public sector for the foreseeable future and that the DH will continue to provide financial support, the Directors consider the Trust will continue to operate as a going concern. The conditions described above do, however, indicate the existence of material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern.

1.2 Acquisitions and discontinued operations

Activities are considered to be 'acquired' only if they are taken on from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one public sector body to another.

1.3 Movement of assets within the DH Group

NOTES TO THE ACCOUNTS

Transfers as part of reorganisation fall to be accounted for by use of absorption accounting in line with the Treasury FReM. The FReM does not require retrospective adoption, so prior year transactions (which have been accounted for under merger accounting) have not been restated. Absorption accounting requires that entities account for their transactions in the period in which they took place, with no restatement of performance required when functions transfer within the public sector. Where assets and liabilities transfer, the gain or loss resulting is recognised in the SOCI, and is disclosed separately from operating costs.

Other transfers of assets and liabilities within the Group are accounted for in line with IAS 20 and similarly give rise to income and expenditure entries.

1.4 Consolidation

Material entities over which the Group has the power to exercise control so as to obtain economic or other benefits are classified as subsidiaries and are consolidated. Their income and expenses; gains and losses; assets, liabilities and reserves; and cash flows are consolidated in full into the appropriate financial statement lines.

The results of Brighton and Sussex University Hospitals NHS Charitable Funds, over which the Group considers it has the power to exercise control in accordance with IFRS10 requirements, and the results of the wholly owned subsidiary, Pharm@Sea Limited, have been consolidated.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated in full on consolidation.

Separate notes have not been prepared for the Trust.

1.5 Pooled Budgets

The Group has not entered into any pooled budget arrangements during the Financial Year 2016-17

1.6 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group'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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.6.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Valuation of Buildings

Department of Health guidance specifies that the Group's land and buildings should be valued on the basis of depreciated replacement cost, applying the Modern Equivalent Asset (MEA) concept. The MEA is defined as "the cost of a modern replacement asset that has the same productive capacity as the property being valued." Therefore the MEA is not a valuation of the existing land and buildings that the Group holds, but a theoretical valuation for accounting purposes of what the Group could need to spend in order to replace the current assets. In determining the MEA, the Trust has to make assumptions that are practically achievable, however the Group is not required to have any plans to make such changes.

The Group is satisfied that the assumptions underpinning the MEA valuation are practically achievable, would not change the services provided by the Group, and would not impact on service delivery or the level and volume of service provided. The Group does not intend to implement any of the theoretical assumptions that underpin the MEA valuation.

For the purpose of the MEA valuation, the Group has defined all of the Royal Sussex County Hospital, The Royal Alexandra Children's Hospital, the Sussex Eye Hospital and the Royal Princess Royal Hospital as buildings that provide specialist health care services. The MEA valuation in the accounts assumes that the Brighton based hospitals could theoretically be provided from a location on the outskirts of Brighton.

The MEA valuations used by the Group have been provided to the Group by the external valuers, GERLADEVE. The Group has used component lives based upon contractual information provided by the GERLADEVE to depreciate buildings and dwellings on a component basis.

PFI

The Group uses the standard Department of Health model to account for its PFI scheme.

Assets Under Construction

NOTES TO THE ACCOUNTS

The costs of the 3T's project (the redevelopment of the Royal Sussex County Hospital), which represent costs capitalised on assets not currently complete, are included in Assets Under Construction. At 31 March 2017 these amounted to £90.1m (2015-16 - £68.32m). The project, which has a cost of £486m, was approved by HMT in December 2015 with an expected completion date of 2024. The project is estimated to be completed in 2024. There are three phases to the build. The Group has taken the judgement that capitalised expenditure will be classified as Assets Under Construction until completion of each stage of the phases of the build, at which point the assets will be reclassified as operational buildings. Changes in the valuation basis between cost and fair value, when these reclassifications occur, may result in significant changes in the carrying value of the assets.

Provision for Pensions

The Group has estimated the provision for pensions relating to former staff using estimates provided by the NHS Pension Agency provided at the time of the member's early retirement. These are updated annually using national life expectancy tables and if the if it becomes apparent that the provision is not sufficient to meet the liability.

NOTES TO THE ACCOUNTS

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

1.6.2 Key sources of estimation uncertainty

Fully Depreciated Plant and Equipment

The Group is in the process of reviewing fully depreciated items of plant and equipment held on the capital asset register which may no longer exist. Based on the work undertaken the Group continues to estimate that it holds approximately £17m of fully depreciated assets of its capital asset register which no longer exist that are excluded from the financial statements.

Software Development

During the year the Group decided to discontinue development of a software system. Negotiations are ongoing with the main software provider to terminate the contract early. Full provision has been made for the costs of early termination at £3.5m.

Revenue

The basis of calculation for partially completed spells is detailed in note 1.7 below.

Depreciation

The reported amounts for depreciation of property, plant and equipment and amortisation of non-current intangible assets can be materially affected by the judgements exercised in determining their estimated economic lives. Economic lives are determined in a number of different ways such as valuations (external professional opinion) and physical asset verification exercises.

The estimated economic lives of each class of asset are disclosed in note 1.12, and the carrying values of property, plant and equipment and intangible assets in note 16.1 and 17.1 respectively.

Land and Buildings Valuations

All land and buildings are restated at current value by way of annual professional valuations carried out by an independent external valuer.

Provision for impairment of receivables

Provisions are based on a combination of the age of the debt and disputes with debtors. The Group follows the guidance issued in the Department of Health Group Accounting Manual 2016-17 in relation to the recommended rate for Injury Cost Recovery receivables.

1.7 Revenue

Revenue 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 revenue for the Group is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end is measured at the price per day for each patient spell apportioned across the financial years.

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

The Group 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 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.

1.8 Employee Benefits

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 leave 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.

Retirement benefit costs

Past and present employees are covered by the provisions of the NHS Pension Schemes. These schemes are unfunded, defined benefit schemes that cover NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. The schemes are 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 schemes are accounted for as though they were defined contribution schemes: the cost to the NHS body of participating in a scheme is taken as equal to the contributions payable to the scheme for the accounting period.

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 expenditure at the time the Group commits itself to the retirement, regardless of the method of payment.

The schemes are subject to a full actuarial valuation every four years and an accounting valuation every year.

Past and present employees unable to join the NHS Pension Schemes are covered by the National Employers Savings Trust ("NEST"). NEST is a defined contribution pension scheme.

NOTES TO THE ACCOUNTS

1.9 Other expenses

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

NOTES TO THE ACCOUNTS

1.10 Property, plant and equipment

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;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and either
- the item cost at least £5,000; or
- Collectively, a number of items have a total 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.

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

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. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date.

Revaluations of property, plant and equipment 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. Current values in existing use are determined as follows:

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

HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site can be valued.

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 they 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 economic lives or low values or both, as this is not considered to be materially different from current value in existing use.

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive income in the Statement of Comprehensive Income.

Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

1.11 Intangible assets

Recognition

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of the Group'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; where the cost of the asset can be measured reliably, and where the cost is at least £5,000.

Intangible assets acquired separately are initially recognised at cost. Software that is integral to the operation of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset. Expenditure on research is not capitalised: it is recognised as an operating expense in the period in which it is incurred. Internally-generated assets are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use;

NOTES TO THE ACCOUNTS

- the intention to complete the intangible asset and use it;
- the ability to sell or use the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Measurement

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the criteria above are initially met. Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

Following initial recognition, intangible assets are carried at current value in existing use by reference to an active market, or, where no active market exists, at the lower of amortised replacement cost (modern equivalent assets basis) and value in use where the asset is income generating. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

1.12 Depreciation, amortisation and impairments

Freehold land, assets under construction or development, and assets held for sale are not depreciated/amortised.

Otherwise, depreciation or amortisation is charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, on a straight line basis over their estimated useful lives. The estimated useful life of an asset is the period over which the Group expects to obtain economic benefits or service potential from the asset. This is specific to the Group 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 the lease term and the estimated useful lives.

The estimated useful lives are:

	Years
Buildings	1-90
Medical equipment and engineering plant and equipment	5-16
Furniture	5-15
Soft furnishings	5-15
Office and information technology equipment	5-10

At each financial year-end, the Group checks whether there is any indication that its property, plant and equipment or intangible non-current assets have suffered an impairment loss. If there is indication of such an impairment, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually at the financial year end.

A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit are taken to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.13 Donated assets

Donated non-current assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are treated in the same way as for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.14 Government grants

Government grant funded assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at fair value on receipt, with a matching credit to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.15 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

The profit or loss arising on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the Statement of Comprehensive Income. On disposal, the balance for the asset on the revaluation reserve is transferred to retained earnings.

NOTES TO THE ACCOUNTS

Property, plant and equipment that is to be scrapped or demolished does not qualify for recognition as held for sale. Instead, it is retained as an operational asset and its economic life is adjusted. The asset is de-recognised when it is scrapped or demolished.

1.16 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.

NOTES TO THE ACCOUNTS

The Group as lessee

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the Group's deficit.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.17 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, following the principles of the requirements of IFRIC 12. The Group therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

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'.

Services received

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

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 or, if lower, at the present value of the minimum lease payments, in accordance with the principles of IAS 17. Subsequently, the assets are measured at current value in existing use.

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 initial 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.

Lifecycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Group'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 short-term accrual or prepayment is recognised respectively.

NOTES TO THE ACCOUNTS

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.

Assets contributed by the Group 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's Statement of Financial Position.

Other assets contributed by the Group to the operator

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

1.18 Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

1.19 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.

1.20 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group 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 is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rates.

Early retirement provisions are discounted using HM Treasury's pension discount rate of positive 0.24% (2015-16: positive 1.37%) in real terms. All other provisions are subject to three separate discount rates according to the expected timing of cashflows from the Statement of Financial Position date:

- A short term rate of negative 2.70% (2015-16: negative 1.55%) for expected cash flows up to and including 5 years
- A medium term rate of negative 1.95% (2015-16: negative 1.00%) for expected cash flows over 5 years up to and including 10 years
- A long term rate of negative 0.80% (2015-16: negative 0.80%) for expected cash flows over 10 years.

All percentages are in real terms.

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.

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

1.21 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Group 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. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Group is disclosed at Note 32.

1.22 Non-clinical risk pooling

The NHS Group participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the Group 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.

1.23 Carbon Reduction Commitment Scheme (CRC)

CRC and similar allowances are accounted for as government grant funded intangible assets if they are not expected to be realised within twelve months, and otherwise as other current assets. They are valued at open market value. As the Group makes emissions, a provision is recognised with an offsetting transfer from deferred income. The provision is settled on surrender of the allowances. The asset, provision and deferred income amounts are valued at fair value at the end of the reporting period.

1.24 Contingencies

NOTES TO THE ACCOUNTS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably. A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingencies are disclosed at their present value.

1.25 Financial assets

Financial assets are recognised when the Group becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are classified into the following categories: financial assets at fair value through profit and loss; held to maturity investments; available for sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in calculating the Group's deficit for the year. The net gain or loss incorporates any interest earned on the financial asset. Fair value is determined by reference to quoted market prices where possible, otherwise they are held at amortised cost using the effective interest method, less impairment. Interest is recognised using the effective interest method.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and where there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

NOTES TO THE ACCOUNTS

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to surplus/deficit on de-recognition. Fair value is determined by reference to quoted market prices where possible, otherwise they are held at amortised cost using the effective interest method, less impairment. Interest is recognised using the effective interest method.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Financial assets are initially recognised at fair value. Fair value is determined by reference to quoted market prices where possible, otherwise they are held at amortised costs using the effective interest method, less impairment. Interest is recognised using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the initial fair value of the financial asset.

At the end of the reporting period, the Group assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that have 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 expenditure and the carrying amount of the asset is reduced through 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.

1.26 Financial liabilities

Financial liabilities are recognised on the statement of financial position when the Group becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Loans from the Department of Health are recognised at historic cost. Otherwise, financial liabilities are initially recognised at fair value.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The premium received (or imputed) for entering into the guarantee less cumulative amortisation.

Financial liabilities at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the Group's deficit. The net gain or loss incorporates any interest payable on the financial liability. Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

Other financial liabilities

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method, except for loans from the Department of Health, which are carried at historic cost. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

1.27 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.

NOTES TO THE ACCOUNTS

1.28 Foreign currencies

The Group's functional and presentational currency is sterling. Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. 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 surplus/deficit in the period in which they arise.

1.29 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 has no beneficial interest in them. Details of third party assets are given in Note 44 to the accounts.

1.30 Public Dividend Capital (PDC) and PDC dividend

Public dividend capital represents taxpayers' equity in the Group. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the Group. PDC is recorded at the value received. As PDC is issued under legislation rather than under contract, it is not treated as an equity financial instrument.

An annual charge, reflecting the cost of capital utilised by the Group, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities (except for donated assets and cash balances with the Government Banking Service). The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

In accordance with the requirements laid down by the Department of Health (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.

1.31 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 should 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, including losses which would have been made good through insurance cover had the Group not been bearing its own risks (with insurance premiums then being included as normal revenue expenditure).

1.32 Subsidiaries

Material entities over which the Group has the power to exercise control are classified as subsidiaries and are consolidated. The Group has control when it is exposed to or has rights to variable returns through its power over another entity. The income and expenses; gains and losses; assets, liabilities and reserves; and cash flows of the subsidiary are consolidated in full into the appropriate financial statement lines. Appropriate adjustments are made on consolidation where the subsidiary's accounting policies are not aligned with the Group or where the subsidiary's accounting date is not co-terminus.

Subsidiaries that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'.

1.33 Associates

Material entities over which the Group has the power to exercise significant influence so as to obtain economic or other benefits are classified as associates and are recognised in the Group's accounts using the equity method. The investment is recognised initially at cost and is adjusted subsequently to reflect the Group share of the entity's profit/loss and other gains/losses. It is also reduced when any distribution is received by the Group from the entity.

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

1.34 Joint arrangements

Material entities over which the Group has joint control with one or more other entities are classified as joint arrangements. Joint control is the contractually agreed sharing of control of an arrangement. A joint arrangement is either a joint operation or a joint venture.

A joint operation exists where the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where the Group is a joint operator it recognises its share of, assets, liabilities, income and expenses in its own accounts.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are recognised as an investment and accounted for using the equity method.

NOTES TO THE ACCOUNTS

1.35 Research and Development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the SOCI on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

1.36 Charitable Funds Structure

Charitable Funds are classified into three categories, Restricted, Unrestricted and Endowment Funds.

Restricted funds are those which are to be used in accordance with specific restrictions imposed by the donor and/or Trustee at the inception of the fund. Unrestricted funds are those which the Trustee is free to use for any purpose in furtherance of the charitable objectives. Unrestricted funds include designated funds which are not legally restricted but which the Trustee has chosen to earmark for set purposes. Endowment funds are funds where the capital is held in perpetuity to generate income for charitable purposes and cannot itself be spent.

1.37 Accounting Standards that have been issued but have not yet been adopted

The HM Treasury FReM does not require the following Standards and Interpretations to be applied in 2016-17. These standards are still subject to HM Treasury FReM interpretation, with IFRS 9 and IFRS 15 being for implementation in 2018-19, and the government implementation date for IFRS 16 still subject to HM Treasury consideration.

- IFRS 9 Financial Instruments – Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 15 Revenue from Contracts with Customers - Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 16 Leases – Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted.

1.38 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.

2. Pooled budget

The Group has not entered into any pooled budget arrangements during the Financial Year 2016-17

3. Operating segments

The nature of the Group's services is the provision of healthcare. Similar methods are used to provide services across all locations and all policies, procedures and governance arrangements are Group wide. As an NHS Group, all services are subject to the same regulatory environment and standards set by the Group's external performance managers. Accordingly, the Group operates one segment and in 2016-17 reported to the Board in this format. No discrete activities of the business have individual revenue exceeding 10% of the total combined revenue, profit or assets.

Income from transactions with a single external customer which amount to 10% or more of total income is as follows:

	2016-17	2015-16
	£m's	£m's
CCG *	276	270
NHS England	177	163
	<u>453</u>	<u>433</u>

This income all relates to patient activity.

* As commissioners are under common control they are classed as a single customer for this purpose.

4. Income generation activities

The Group undertakes income generation activities with an aim of achieving profit, which is then used in patient care, but has not undertaken any income generation activities whose full cost exceeded £1m.

5. Revenue from patient care activities

	2016-17	2015-16
	£000s	£000s
NHS Trusts	3,090	3,080
NHS England	173,825	160,756
Clinical Commissioning Groups	275,617	269,859
Foundation Trusts	3,000	2,430
Department of Health	1,545	1,777
NHS Other (including Public Health England and Prop Co)	340	721
Non-NHS:		
Local Authorities	4,490	4,419
Private patients	4,496	4,534
Overseas patients (non-reciprocal)	338	234
Injury costs recovery	2,625	1,663
Other Non-NHS patient care income	27,217	30,024
Total Revenue from patient care activities	<u>496,583</u>	<u>479,497</u>

6. Other operating revenue

	2016-17	2015-16
	£000s	£000s
Recoveries in respect of employee benefits	2,785	2,885
Patient transport services	0	0
Education, training and research	33,385	37,255
Receipt of charitable donations for capital acquisitions	88	86
Non-patient care services to other bodies	5,736	1,992
Sustainability & Transformation Fund Income	3,600	0
Income generation (Other fees and charges)	7,052	7,185
Rental revenue from operating leases	515	575
Other revenue	625	0
Total Other Operating Revenue	<u>53,786</u>	<u>49,978</u>
Total operating revenue	<u>550,369</u>	<u>529,475</u>

7. Overseas Visitors Disclosure

	2016-17	2015-16
	£000s	£000s
Income recognised during 2016-17 (invoiced amounts and accruals)	338	234
Cash payments received in-year (re receivables at 31 March 2016)	20	39
Cash payments received in-year (iro invoices issued 2016-17)	42	82
Amounts added to provision for impairment of receivables (re receivables at 31 March 2016)	0	0
Amounts added to provision for impairment of receivables (iro invoices issued 2016-17)	130	62
Amounts written off in-year (irrespective of year of recognition)	5	12

8. Operating expenses

	2016-17 £000s	2015-16 £000s
Services from other NHS Trusts	2,151	5,945
Services from CCGs/NHS England	114	0
Services from other NHS bodies	14	363
Services from NHS Foundation Trusts	6,202	1,882
Total Services from NHS bodies*	8,481	8,190
Purchase of healthcare from non-NHS bodies	7,162	7,366
Trust Chair and Non-executive Directors	67	72
Supplies and services - clinical	138,343	124,955
Supplies and services - general	8,228	11,650
Consultancy services	4,459	901
Establishment	4,016	4,396
Transport	1,745	1,059
Service charges - ON-SOFP PFIs and other service concession arrangements	1,407	1539
Business rates paid to local authorities	2,377	2,184
Premises	17,074	16,765
Hospitality	0	0
Insurance	416	445
Legal Fees	2,137	1,579
Impairments and Reversals of Receivables	11,791	6,237
Inventories write down	175	45
Depreciation	19,830	21,586
Amortisation	165	154
Impairments and reversals of property, plant and equipment	19,969	23,963
Internal Audit Fees	121	120
Audit fees	109	132
Other auditor's remuneration	13	1
Clinical negligence	19,276	16,257
Research and development (excluding staff costs)	2,542	1,887
Education and Training	4,067	5,599
Change in Discount Rate	233	(14)
Other	4,044	0
Total Operating expenses (excluding employee benefits)	278,247	257,068
Employee Benefits		
Employee benefits excluding Board members	348,106	329,447
Board members	919	986
Total Employee Benefits	349,025	330,433
Total Operating Expenses	627,272	587,501

*Services from NHS bodies does not include expenditure which falls into a category below this line.

9. Operating Leases

The Group leases four properties which are for periods of between ten and twenty years. The leases cannot be cancelled unless through agreed break clauses. There are no contingent rents and the Group may not assign any of the leases without the landlord's permission.

Details of the leases are set out below:

	Term Yrs	Start Date	End Date	Break Clause	Break Clause Notice
Sussex House, Brighton	18	29.03.07	28.03.25	N/A	N/A
Freshfield, Brighton	19	24.06.03	23.06.22	23.06.2017	12 months
Preston Road, Brighton	20	21.05.13	10.02.33	11.02.2022	6 months
Bloomsbury, Brighton	10	29.05.09	28.05.19	N/A	N/A

The Group has entered into service level agreements with other local NHS organisations for use of facilities on their sites. The service level agreements are renegotiated annually and include cancellation clauses of between 0 and 1 year.

There are four other properties that the Group uses where the terms of a lease are under negotiation and are currently agreed annually. Two of these expire in 17-18.

9.1. Group as lessee

	Land £000s	Buildings £000s	Other £000s	2016-17 Total £000s	2015-16 £000s
Payments recognised as an expense					
Minimum lease payments				4,024	5,133
Contingent rents				0	0
Sub-lease payments				0	0
Total				4,024	5,133
Payable:					
No later than one year		3,539	27	3,566	4,019
Between one and five years	0	4,650	0	4,650	5,106
After five years	0	5,726	0	5,726	7,994
Total	0	13,915	27	13,942	17,119
Total future sublease payments expected to be received:				0	0

The comparative figures for 2015-16 have been restated to exclude costs that had incorrectly been categorised as lease payments. The impact of this is a decrease in the 2015-16 lease costs payable in future years of £5,363.

9.2. Group as lessor

The Group leases space to third parties to provide food, beverages and newspapers, the swimming pool on the St Mary's Hall site in Brighton, office space and use of sites for the location of aerials. The terms of these leases vary between one and fifteen years.

	2016-17 £000s	2015-16 £000s
Recognised as revenue		
Rental revenue	515	575
Contingent rents	0	0
Total	515	575
Receivable:		
No later than one year	522	435
Between one and five years	1,458	1,313
After five years	157	88
Total	2,137	1,836

10. Employee benefits**10.1. Employee benefits**

	2016-17 Total £000s	2015-16 Total £000s
Employee Benefits - Gross Expenditure		
Salaries and wages	288,048	278,910
Social security costs	28,367	20,652
Employer Contributions to NHS BSA - Pensions Division	33,002	31,284
Other pension costs	0	5
Termination benefits	73	144
Total employee benefits	349,490	330,995
Employee costs capitalised	465	562
Gross Employee Benefits excluding capitalised costs	349,025	330,433

10.2. Retirements due to ill-health

	2016-17 Number	2015-16 Number
Number of persons retired early on ill health grounds	5	6
	£000s	£000s
Total additional pensions liabilities accrued in the year	429	339

10.3. Pension costs

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 are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are 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, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period.

In order that the defined benefit obligations recognised in the financial statements 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 are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2017, is based on valuation data as 31 March 2016, updated to 31 March 2017 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 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this "employer cap" assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

NEST

The Pensions Act 2008 and 2001 Automatic Enrolment Regulations required all employers to enrol workers meeting certain criteria into a pension scheme and pay contributions toward their retirement. Employees who are unable to join the NHS Pensions Scheme are covered by the National Employers Savings Trust ("NEST").

The auto enrolment "staging" date for the Group compliance was 1 April 2013. This was followed by a re-enrolment date of 1 April 2016. For those staff not entitled to join the NHS Pension Scheme, the Group utilised an alternative pension scheme called NEST to fulfil its automatic enrolment obligations. NEST stands for National Employment Savings Group and is a defined contribution pension scheme established by law to support the introduction of auto enrolment.

Contributions are taken from qualifying earnings, which are currently from £5,832 up to £42,384, but will be reviewed every year by the government. The initial contribution is 1% of qualifying earnings, with an employer contribution of 1%. This will increase in stages to meet levels set by government.

Date	Employee Contribution	Employer Contribution	Total Contribution
1st March 2013	1%	1%	2%
1st October 2017	3%	2%	5%
1st October 2018	5%	3%	8%

Pension members can make additional contributions to their pension fund at any time up to the annual limit.

Pension members can choose to let NEST manage their retirement fund or can take control themselves and alter contribution levels and switch between different funds. If pension members leave the Group they can continue to pay into NEST.

NEST pension members can take their money out of NEST at any time from age 55. If suffering from ill health or incapable of working due to illness members can request to take their money out of NEST early. They can take the entire retirement fund as cash, use it to buy a retirement income or a combination. Additionally members can transfer their NEST retirement fund to another scheme.

NEST is run by NEST Corporation, a trustee body which is a non-department public body operating at arm's length from government and is accountable to Parliament through the Department for Work and Pensions.

11. Better Payment Practice Code**11.1. Measure of compliance**

	2016-17 Number	2016-17 £000s	2015-16 Number	2015-16 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	151,449	424,709	125,098	302,352
Total Non-NHS Trade Invoices Paid Within Target	52,790	210,711	60,235	155,943
Percentage of Non-NHS Trade Invoices Paid Within Target	<u>34.86%</u>	<u>49.61%</u>	<u>48.15%</u>	<u>51.58%</u>
NHS Payables				
Total NHS Trade Invoices Paid in the Year	2,794	44,931	1,974	49,663
Total NHS Trade Invoices Paid Within Target	956	22,123	919	28,884
Percentage of NHS Trade Invoices Paid Within Target	<u>34.22%</u>	<u>49.24%</u>	<u>46.56%</u>	<u>58.16%</u>

The Better Payment Practice Code requires the NHS body to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.

11.2. The Late Payment of Commercial Debts (Interest) Act 1998

	2016-17 £000s	2015-16 £000s
Amounts included in finance costs from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	24	3
Total	<u>24</u>	<u>3</u>

12. Investment Revenue

	2016-17 £000s	2015-16 £000s
Interest revenue		
Bank interest	31	48
Other loans and receivables	0	0
Other financial assets	0	0
Subtotal	<u>31</u>	<u>48</u>
Total investment revenue	<u>31</u>	<u>48</u>

13. Other Gains and Losses

	2016-17 £000s	2015-16 £000s
Gain on disposal of assets other than by sale (PPE)	(8)	(74)
Gain on disposal of assets held for sale	0	95
Gain/(loss) on foreign exchange	84	54
Total	<u>76</u>	<u>75</u>

14. Finance Costs

	2016-17 £000s	2015-16 £000s
Interest		
Interest on loans and overdrafts	3,522	1,811
Interest on obligations under PFI contracts:		
- main finance cost	1,774	1,844
- contingent finance cost	825	669
Interest on late payment of commercial debt	0	0
Total interest expense	<u>6,121</u>	<u>4,324</u>
Other finance costs	0	2
Provisions - unwinding of discount	6	73
Total	<u>6,127</u>	<u>4,399</u>

15. Finance Costs**15.1. Other auditor remuneration**

	2016-17 £000s	2015-16 £000s
Other auditor remuneration paid to the external auditor:		
1. Audit of accounts of any associate of the trust	0	0
2. Audit-related assurance services	0	0
6. All assurance services not falling within items 1 to 5	0	0
7. Corporate finance transaction services not falling within items 1 to 6 above	0	0
8. Other non-audit services not falling within items 2 to 7 above	13	1
Total	<u>13</u>	<u>1</u>

16.1. Property, plant and equipment

2016-17

Cost or valuation:

	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2016	28,350	188,683	544	97,720	88,426	217	33,085	4,317	441,342
Additions of Assets Under Construction	0	0	0	67,379	0	0	0	0	67,379
Additions Purchased	0	0	0	0	1,037	0	764	0	1,801
Additions - Non Cash Donations (i.e. physical assets)	0	0	0	0	0	0	0	0	0
Additions - Purchases from Cash Donations & Government Grants	0	0	0	88	0	0	0	0	88
Additions Leased (including PFI/LIFT)	0	0	0	0	0	0	0	0	0
Reclassifications	5	33,937	(5)	(52,071)	10,655	0	7,479	0	0
Reclassifications as Held for Sale and reversals	9	0	54	0	0	0	0	0	63
Disposals other than for sale	0	(28)	0	0	0	0	(8)	0	(36)
Revaluation	151	2,083	40	0	0	0	0	0	2,274
Impairments/reversals charged to operating expenses	187	(14,434)	(22)	0	0	0	(5,700)	0	(19,969)
Impairments/reversals charged to reserves	(179)	(2,150)	(18)	0	0	0	0	0	(2,347)
At 31 March 2017	28,523	208,091	593	113,116	100,118	217	35,620	4,317	490,595

Depreciation

At 1 April 2016	0	0	0	0	64,981	217	20,724	4,019	89,941
Reclassifications	0	0	0	0	(7)	0	7	0	0
Reclassifications as Held for Sale and reversals	0	0	0	0	0	0	0	0	0
Disposals other than for sale	0	(28)	0	0	0	0	0	0	(28)
Revaluation	0	(7,297)	(15)	0	0	0	0	0	(7,312)
Impairment/reversals charged to reserves	0	0	0	0	0	0	0	0	0
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	0	0	0
Charged During the Year	0	7,325	15	0	9,197	0	3,162	131	19,830
At 31 March 2017	0	0	0	0	74,171	217	23,893	4,150	102,431
Net Book Value at 31 March 2017	28,523	208,091	593	113,116	25,947	0	11,727	167	388,164

Asset financing:

Owned - Purchased	28,423	176,269	593	113,084	25,519	0	11,697	136	355,721
Owned - Donated	100	1,207	0	32	428	0	30	31	1,828
On-SOFP PFI contracts	0	30,615	0	0	0	0	0	0	30,615
Total at 31 March 2017	28,523	208,091	593	113,116	25,947	0	11,727	167	388,164

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2016	5,631	39,136	169	0	660	0	0	0	45,596
Movements (specify)	(22)	5,729	56	0	0	0	0	0	5,763
At 31 March 2017	<u>5,609</u>	<u>44,865</u>	<u>225</u>	<u>0</u>	<u>660</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,359</u>

Additions to Assets Under Construction in 2016-17

Land	0
Buildings excl Dwellings	59,658
Dwellings	0
Plant & Machinery	7,721
Balance as at YTD	<u>67,379</u>

16.2. Property, plant and equipment prior-year

	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
2015-16									
Cost or valuation:									
At 1 April 2015	30,998	206,945	345	49,910	89,712	236	35,472	4,317	417,935
Additions of Assets Under Construction				55,193					55,193
Additions Purchased	0	0	0	0	3,718	0	4,173	0	7,891
Additions - Non Cash Donations (i.e. Physical Assets)	0	0	0	0	0	0	0	0	0
Additions - Purchases from Cash Donations & Government Grants	0	0	0	86	0	0	0	0	86
Additions Leased (including PFI/LIFT)	0	0	0	0	0	0	0	0	0
Reclassifications	0	7,478	0	(7,478)	0	0	0	0	0
Reclassifications as Held for Sale and Reversals	77	0	143	0	0	0	0	0	220
Disposals other than for sale	0	0	0	0	(5,004)	(19)	(6,560)	0	(11,583)
Revaluation	1,102	(2,346)	56	0	0	0	0	0	(1,188)
Impairment/reversals charged to reserves	(578)	(23,394)	0	9	0	0	0	0	(23,963)
Impairments/reversals charged to operating expenses	(3,249)	0	0	0	0	0	0	0	(3,249)
At 31 March 2016	28,350	188,683	544	97,720	88,426	217	33,085	4,317	441,342
Depreciation									
At 1 April 2015	0	0	0	0	60,114	232	24,062	3,810	88,218
Reclassifications	0	0	0	0	0	0	30	0	30
Reclassifications as Held for Sale and Reversals	0	0	0	0	0	0	0	0	0
Disposals other than for sale	0	0	0	0	(4,837)	(16)	(6,546)	0	(11,399)
Revaluation	0	(8,476)	(18)	0	0	0	0	0	(8,494)
Impairment/reversals charged to reserves	0	0	0	0	0	0	0	0	0
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	0	0	0
Charged During the Year	0	8,476	18	0	9,704	1	3,178	209	21,586
At 31 March 2016	0	0	0	0	64,981	217	20,724	4,019	89,941
Net Book Value at 31 March 2016	28,350	188,683	544	97,720	23,445	0	12,361	298	351,401
Asset financing:									
Owned - Purchased	28,250	153,312	544	97,645	22,418	0	12,302	298	314,769
Owned - Donated	100	1,039	0	75	1,027	0	59	0	2,300
On-SOFP PFI contracts	0	34,332	0	0	0	0	0	0	34,332
Total at 31 March 2016	28,350	188,683	544	97,720	23,445	0	12,361	298	351,401

16.3. (cont). Property, plant and equipment

The Group undertakes a full estates revaluation annually. This year an initial valuation was carried out on 31 March 2017 by the external valuers GERALD EVE. The valuations were carried out in accordance with the terms of the Royal Institution of Chartered Surveyors' Valuation Standards, 6 Edition, insofar as these terms are consistent with the requirements of the HM Treasury, the National Health Service and the Department of Health.

The valuations were carried out on the basis of fair value. Fair value is determined at the amount which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction. The fair value of land and buildings is determined from market based evidence and is therefore on the basis of Market Value. For non specialised operational assets this equates to Existing Use Value and for specialised operational assets fair value. It is estimated using Depreciated Replacement Cost subject to the assumption of continuing use.

Most of the Group's assets qualify as specialised operational assets and therefore fall to be assessed using the Depreciated Replacement Cost approach and have been valued on an optimal site modern equivalent asset basis. That is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation.

Non operational assets, including surplus land, are valued on the basis of Market Value on the assumption that the property is no longer required for existing operations, which have ceased.

The estimated remaining lives of the buildings have been adjusted in line with the GERALD EVE's valuation. The lives range from 1 year to 89 years. The estimated remaining lives of the other assets are as follows:

	Years
Medical equipment and engineering plant and equipment	1-16
Furniture	1-5
Soft furnishings	1-8
Office and information technology equipment	1-13

The Group has fully depreciated assets with a gross book value of £30.4m that are still in use and remain on the capital asset register.

17. Intangible non-current assets**17.1. Intangible non-current assets**

	IT - in-house & 3rd party software	Computer Licenses	Total
	£000's	£000's	£000's
2016-17			
At 1 April 2016	980	679	1,659
Additions of Assets Under Construction	0	0	0
Additions Purchased	88	0	88
At 31 March 2017	1,068	679	1,747
Amortisation			
At 1 April 2016	262	639	901
Charged During the Year	135	30	165
At 31 March 2017	397	669	1,066
Net Book Value at 31 March 2017	671	10	681
Asset Financing: Net book value at 31 March 2017 comprises:			
Purchased	671	10	681
Donated	0	0	0
Total at 31 March 2017	671	10	681
Revaluation reserve balance for intangible non-current assets			
	£000's	£000's	£000's
At 1 April 2016	0	0	0
Movements (specify)	0	0	0
At 31 March 2017	0	0	0

17.2. Intangible non-current assets prior year

2015-16	IT - in-house & 3rd party software £000's	Computer Licenses £000's	Total £000's
Cost or valuation:			
At 1 April 2015	645	679	1,324
Additions - purchased	421	0	421
Disposals other than by sale	(86)	0	(86)
At 31 March 2016	<u>980</u>	<u>679</u>	<u>1,659</u>
Amortisation			
At 1 April 2015	286	577	863
Reclassifications	(30)	0	(30)
Disposals other than by sale	(86)	0	(86)
Charged during the year	92	62	154
At 31 March 2016	<u>262</u>	<u>639</u>	<u>901</u>
Net book value at 31 March 2016	718	40	758
Net book value at 31 March 2016 comprises:			
Purchased	718	40	758
Donated	0	0	0
Total at 31 March 2016	<u>718</u>	<u>40</u>	<u>758</u>

17.3. Intangible non-current assets

The estimated remaining lives of the other intangible non-current assets ranges from 5 to 10 years.

The Group has fully depreciated assets with a gross book value of £801,361 that are still in use and remain on the capital asset register.

18. Analysis of impairments and reversals recognised in 2016-17

	Property Plant and Equipment	Intangible Assets	Non- Current Assets Held for Sale	Total £000s
Impairments and reversals taken to SoCI				
Loss or damage resulting from normal operations	0	0	0	0
Over-specification of assets	0	0	0	0
Abandonment of assets in the course of construction	0	0	0	0
Total charged to Departmental Expenditure Limit	0	0	0	0
Unforeseen obsolescence	0	0	0	0
Loss as a result of catastrophe	0	0	0	0
Other	0	0	0	0
Changes in market price	19,969	0	0	19,969
Total charged to Annually Managed Expenditure	19,969	0	0	19,969
Total Impairments of Property, Plant and Equipment changed	19,969	0	0	19,969

Donated and Gov Granted Assets, included above

PPE - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	£000s (6)
Intangibles - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	0

The impairments resulting from the revaluation exercises at the 31 March 2017 were spread across the whole estate. The largest impairments related to the Royal Sussex County Hospital site as follows:

	£000s
Barry Building	3,504
Park Centre	2,165
Hanbury Building	6,313
Courtyard Building	3,623

19. Other Investments - Charitable

	31 March 2017 £000s	31 March 2016 £000s
Market value at 31 March b/f	0	0
Less: Disposals at carrying value	0	0
Add: Acquisitions at cost	0	0
Add: Net gain on revaluation	0	0
Increase in cash	0	0
Market value at 31 March c/f	0	0
Historic cost at 31 March		

20. Commitments**20.1. Capital commitments**

Contracted capital commitments at 31 March not otherwise included in these financial statements:

	31 March 2017 £000s	31 March 2016 £000s
Property, plant and equipment	299,026	318,806
Intangible assets	0	0
Total	299,026	318,806

20.2. Other financial commitments

The Group has entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements). The payments to which the Group is committed are as follows

	31 March 2017 £000s	31 March 2016 £000s
Not later than one year	1,808	624
Later than one year and not later than five year	20,087	15,972
Later than five years	0	5,673
Total	21,895	22,269

21. Inventories

	Drugs	Consumables	Total	Of which held at NRV
	£000s	£000s	£000s	£000s
Balance at 1 April 2016	1,735	5,383	7,118	0
Additions	74,588	38,624	113,212	0
Inventories recognised as an expense in the period	(74,111)	(37,935)	(112,046)	0
Write-down of inventories (including losses)	(175)	0	(175)	0
Balance at 31 March 2017	2,037	6,072	8,109	0

22.1. Trade and other receivables

	Current		Non-current	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	£000s	£000s	£000s	£000s
NHS receivables - revenue	12,314	14,776	0	0
NHS receivables - capital	0	0	0	0
NHS prepayments and accrued income	24,585	29,163	0	0
Non-NHS receivables - revenue	9,029	5,073	423	0
Non-NHS receivables - capital	0	0	0	0
Non-NHS prepayments and accrued income	9,016	8,001	2,625	1,644
PDC Dividend prepaid to DH	592	559	0	0
Provision for the impairment of receivables	(7,019)	(7,954)	0	0
VAT	794	1,661	0	0
Interest receivables	0	0	0	0
Finance lease receivables	0	0	0	0
Operating lease receivables	0	0	0	0
Other receivables	1,166	2,033	0	0
Total	50,477	53,312	3,048	1,644
Total current and non current	53,525	54,956		
Included in NHS receivables are prepaid pension contributions:			0	

The great majority of trade is with Clinical Commissioning Groups. As these bodies are funded by Government to buy NHS patient care services, no credit scoring of them is considered necessary.

22.2. Receivables past their due date but not impaired

	31 March 2017	31 March 2016
	£000s	£000s
By up to three months	2,830	3,519
By three to six months	6,628	1,086
By more than six months	4,000	2,559
Total	13,458	7,164

22.3. Provision for impairment of receivables

	2016-17	2015-16
	£000s	£000s
Balance at 1 April 2016	(7,954)	(3,205)
Amount written off during the year	12,726	1,488
Amount recovered during the year	88	119
(Increase)/decrease in receivables impaired	(11,879)	(6,356)
Balance at 31 March 2017	(7,019)	(7,954)

The creation and release of provisions for impaired receivables has been included in Operating Expenses in the Statement of Comprehensive Income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash. Receivables are impaired based on the age of the debt and disputes with debtors. Full provision is made for all outstanding overseas debts.

23 Other Financial Assets - Non Current

	31 March	31 March
	2017	2016
	£000s	£000s
Opening balance 1 April	1,101	1,101
Additions	0	0
Total Other Financial Assets - Non Current	1,101	1,101

24. Other current assets

	31 March 2017 £000s	31 March 2016 £000s
EU Emissions Trading Scheme Allowance	0	0
Other Assets	0	0
Total	<u>0</u>	<u>0</u>

25. Cash and Cash Equivalents

	31 March 2017 £000s	31 March 2016 £000s
Opening balance	3,344	25,395
Net change in year	4,063	(22,051)
Closing balance	<u>7,407</u>	<u>3,344</u>
Made up of		
Cash with Government Banking Service	7,341	3,321
Cash in hand	66	23
Cash and cash equivalents as in statement of cash flows	<u>7,407</u>	<u>3,344</u>
Third Party Assets - Bank balance (not included above)	0	1
Third Party Assets - Monies on deposit	0	0

26. Non-current assets held for sale

	£000s	£000s	£000s
	Land	Dwellings	Total
Balance at 1 April 2016	9	54	63
Plus assets classified as held for sale in the year	0	0	0
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(9)	(54)	(63)
Balance at 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
Liabilities associated with assets held for sale at 31 March 2017	<u>0</u>	<u>0</u>	<u>0</u>
Balance at 1 April 2015	134	519	653
Plus assets classified as held for sale in the year	0	0	0
Less assets sold in the year	(48)	(322)	(370)
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(77)	(143)	(220)
Balance at 31 March 2016	<u>9</u>	<u>54</u>	<u>63</u>
Liabilities associated with assets held for sale at 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>

The assets held for sale represent the remaining dwellings and buildings that were placed on the market as part of the Estates rationalisation strategy. The remaining property was taken off the market in the year and transferred back to Dwellings.

27. Trade and other payables

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
NHS payables - revenue	6,149	2,897	0	0
NHS payables - capital	12	0	0	0
NHS accruals and deferred income	2,074	5,553	0	0
Non-NHS payables - revenue	18,561	23,100	0	0
Non-NHS payables - capital	11,841	9,087	687	0
Non-NHS accruals and deferred income	18,962	20,410	0	0
Social security costs	8,484	7,701		
PDC Dividend payable to DH	0	0		
Accrued Interest on DH Loans	837	220		
VAT	0	0	0	0
Tax	3,442	3,363		
Payments received on account	0	0	0	0
Other	109	544	0	0
Total	70,471	72,875	687	0
Total payables (current and non-current)	71,158	72,875		
Included above:				
outstanding Pension Contributions at the year end	4,500	4,453		

28. Other liabilities

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Lease incentives	0	0	0	0
Other	0	0	0	0
Total	0	0	0	0
Total other liabilities (current and non-current)	0	0		

29. Borrowings

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Loans from Department of Health	4,357	4,469	166,920	92,492
PFI liabilities - main liability	3,020	3,146	28,344	29,761
Total	7,377	7,615	195,264	122,253
Total other liabilities (current and non-current)	202,641	129,868		

Borrowings / Loans - repayment of principal falling due in:

	DH £000s	31 March 2017	
		Other £000s	Total £000s
0-1 Years	4,357	1,492	5,849
1 - 2 Years	22,280	542	22,822
2 - 5 Years	47,295	5,059	52,354
Over 5 Years	97,345	24,271	121,616
TOTAL	171,277	31,364	202,641

30. Other financial liabilities

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Embedded derivatives at fair value through SoCI	0	0	0	0
Financial liabilities carried at fair value through profit and loss	0	0	0	0
Amortised cost	0	0	0	0
Total	0	0	0	0
Total other financial liabilities (current and non-current)	0	0		

31. Deferred income

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Opening balance at 1 April 2016	7,872	9,061	0	579
Deferred revenue addition	1,341	15,906	0	0
Transfer of deferred revenue	(7,666)	(17,095)	0	(579)
Current deferred income at 31 March 2017	1,547	7,872	0	0
Total deferred income (current and non-current)	1,547	7,872		

32. Provisions

	Total	Comprising:				
		£000s	Early Departure Costs	Legal Claims	Equal Pay (incl. Agenda for Change)	Other
Balance at 1 April 2016	2,022	1,821	201	0	0	0
Arising during the year	3,975	0	76	0	3,899	0
Utilised during the year	(93)	(93)	0	0	0	0
Reversed unused	(70)	0	(70)	0	0	0
Unwinding of discount	6	6	0	0	0	0
Change in discount rate	233	233	0	0	0	0
Balance at 31 March 2017	6,073	1,967	207	0	3,899	0
Expected Timing of Cash Flows:						
No Later than One Year	4,136	98	139	0	3,899	0
Later than One Year and not later than Five Years	456	388	68	0	0	0
Later than Five Years	1,481	1,481	0	0	0	0

Amount included in the Provisions of the NHS Litigation Authority in Respect of Clinical Negligence Liabilities:

As at 31 March 2017	0
As at 31 March 2016	236,470

The provision for Early Departure Costs is for the reimbursement of injury benefit allowances to the NHS Pensions Agency and the timing of these payments is based on the age of the recipients.

The provision for Legal Claims provides for the Liability to Third Party Schemes (LTPS) and Public & Employers Liability Scheme (PES). This provision covers the excess amount payable by the Group and not the full liability of claims which is covered by the NHSLA under the non-clinical risk pooling scheme. The timings of the cash flows are based on estimated dates for the finalisation of the claims.

33. Contingencies

	31 March 2017	31 March 2016
	£000s	£000s
Contingent liabilities		
NHS Litigation Authority legal claims	(132)	(107)
Employment Tribunal and other employee related litigation	0	0
Redundancy	0	0
Other	0	0
Net value of contingent liabilities	(132)	(107)
Contingent assets		
Contingent assets	0	0
Net value of contingent assets	0	0

34. Analysis of charitable fund reserves

	31 March 2017 £000s	31 March 2016 £000s
Restricted / Endowment Funds	10,294	
Non-Restricted Funds	1,956	
	<u>12,250</u>	<u>0</u>

Non-restricted funds are accumulated income funds that are expendable at the discretion of the trustees in furtherance of the charity's objects. Unrestricted funds may be earmarked or designated for specific future purposes which reduces the amount that is readily available to the charity.

Restricted funds may be accumulated income funds which are expendable at the trustee's discretion only in furtherance of the specified conditions of the donor and the objects of the charity. Capital funds (e.g. endowments) are those funds where the assets are required to be invested, or retained for use rather than expended.

35. PFI - additional information

The information below is required by the Department of Health for inclusion in national statutory accounts

Charges to operating expenditure and future commitments in respect of ON and OFF SOFP PFI

	2016-17 £000s	2015-16 £000s
Total charge to operating expenses in year - Off SoFP PFI	0	0
Service element of on SOFP PFI charged to operating expenses in year	1,407	1,539
Total	1,407	1,539

Payments committed to in respect of off SOFP PFI and the service element of on SOFP PFI

No Later than One Year	918	896
Later than One Year, No Later than Five Years	3,910	3,814
Later than Five Years	14,637	15,651
Total	19,465	20,361

The estimated annual payments in future years are not expected to be materially different from those which the Group is committed to make during the next year.

Imputed "finance lease" obligations for on SOFP PFI contracts due

	2016-17 £000s	2015-16 £000s
No Later than One Year	3,182	3,316
Later than One Year, No Later than Five Years	11,704	11,631
Later than Five Years	33,363	36,619
Subtotal	48,249	51,566
Less: Interest Element	(16,885)	(18,659)
Total	31,364	32,907

Present Value Imputed "finance lease" obligations for on SOFP PFI contracts due

	2016-17 £000s	2015-16 £000s
Analysed by when PFI payments are due		
No Later than One Year	3,020	3,146
Later than One Year, No Later than Five Years	9,672	9,667
Later than Five Years	18,672	20,094
Total	31,364	32,907

Number of on SOFP PFI Contracts

Total Number of on PFI contracts	1	1
Number of on PFI contracts which individually have a total commitments value in excess of £500m	0	0

Number of off SOFP PFI Contracts

Total Number of off PFI contracts	0	0
Number of off PFI contracts which individually have a total commitments value in excess of £500m	0	0

36. Impact of IFRS treatment - current year

The information below is required by the Department of Health for budget reconciliation purposes

Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12 (e.g PFI)

	2016-17 Income £000s	2016-17 Expenditure £000s	2015-16 Income £000s	2015-16 Expenditure £000s
Depreciation charges		886		883
Interest Expense		1,774		1,844
Impairment charge - AME		1,397		1,174
Impairment charge - DEL		0		0
Other Expenditure		2,232		2,208
Revenue Receivable from subleasing	0		0	
Impact on PDC dividend payable		(162)		69
Total IFRS Expenditure (IFRIC12)	0	6,127	0	6,178
Revenue consequences of PFI schemes under UK GAAP / ESA95 (net of any sublease revenue)		5,548		4,532
Net IFRS change (IFRIC12)		579		1,646

Capital Consequences of IFRS : PFI and other items under IFRIC12

Capital expenditure 2015-16	0		0	
UK GAAP capital expenditure 2015-16 (Reversionary Interest)	766		740	

Revenue costs of IFRS12 compared with ESA10

	2016-17 Income/ Expenditure IFRIC 12 YTD £000s	2016-17 Income/ Expenditure ESA 10 YTD £000s	2015-16 Income/ Expenditure IFRIC 12 YTD £000s	2015-16 Income/ Expenditure ESA 10 YTD £000s
Depreciation charges	886		883	
Interest Expense	1,774		1,844	
Impairment charge - AME	1,397		1,174	
Impairment charge - DEL	0		0	
Other Expenditure		5,548		4,532
Service Charge	1,016		851	
Contingent Rent	825		669	
Lifecycle	391		688	
Impact on PDC Dividend Payable	(162)		69	
Total Revenue Cost under IFRIC12 vs ESA10	6,127	5,548	6,178	4,532
Revenue Receivable from subleasing	0	0	0	0
Net Revenue Cost/(income) under IFRIC12 vs ESA10	6,127	5,548	6,178	4,532

37. Financial Instruments

37.1. Financial risk management

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the Group has with commissioners and the way those commissioners are financed, the Group is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The Group has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Group in undertaking its activities.

The Group's treasury management operations are carried out by the finance department, within parameters defined formally within the Group's standing financial instructions and policies agreed by the board of directors. The Group treasury activity is subject to review by the Group's internal auditors.

Currency risk

The Group is principally a domestic organisation with the great majority of transactions, assets and liabilities being in the UK and sterling based. The Group has no overseas operations. The Group therefore has low exposure to currency rate fluctuations.

Interest rate risk

The Group borrows from government for capital expenditure, subject to affordability as confirmed by NHS Improvement. The borrowings are for 1 – 25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The Group therefore has low exposure to interest rate fluctuations.

The Group may also borrow from government for revenue financing subject to approval by NHS Improvement. Interest rates are confirmed by the Department of Health (the lender) at the point borrowing is undertaken.

The Group therefore has low exposure to interest rate fluctuations.

Credit risk

Because the majority of the Group's revenue comes from contracts with other public sector bodies, the Group has low exposure to credit risk. The maximum exposures as at 31 March 2017 are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk

The Group's operating costs are incurred under contracts with Clinical Commissioning Groups and NHS England, which are financed from resources voted annually by Parliament. The Group funds its capital expenditure from funds obtained within its prudential borrowing limit. The Group is not, therefore, exposed to significant liquidity risks.

37.2. Financial Assets

	At 'fair value through profit and loss'	Loans and receivables	Available for sale	Total
	£000s	£000s	£000s	£000s
Embedded derivatives	0	0	0	0
Receivables - NHS	0	12,315	0	12,315
Receivables - non-NHS	0	6,389	0	6,389
Cash at bank and in hand	0	7,407	0	7,407
Other financial assets	1,100	0	0	1,100
Total at 31 March 2017	1,100	26,111	0	27,211
Embedded derivatives	0	0	0	0
Receivables - NHS	0	14,776	0	14,776
Receivables - non-NHS	0	1,355	0	1,355
Cash at bank and in hand	0	3,344	0	3,344
Other financial assets	1,100	0	0	1,100
Total at 31 March 2016	1,100	19,475	0	20,575

37.3. Financial Liabilities

	At 'fair value through profit and loss'	Other	Total
	£000s	£000s	£000s
Embedded derivatives	0	0	0
NHS payables	0	6,159	6,159
Non-NHS payables	0	32,034	32,034
Other borrowings	0	171,277	171,277
PFI & finance lease obligations	0	19,134	19,134
Other financial liabilities	0	0	0
Total at 31 March 2017	0	228,604	228,604
Embedded derivatives	0	0	0
NHS payables	0	2,897	2,897
Non-NHS payables	0	32,951	32,951
Other borrowings	0	96,961	96,961
PFI & finance lease obligations	0	20,095	20,095
Other financial liabilities	0	0	0
Total at 31 March 2016	0	152,904	152,904

38. Events after the end of the reporting period

There are no events after the reporting period that have a material effect on these accounts.

Brighton and Sussex University Hospitals NHS Trust - Consolidated Annual Accounts 2016-17

39. Related party transactions

There were no related party transactions with individuals reported during the year.

The Department of Health is regarded as a related party. During the year the Group has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. For example :

NHS England
Public Health England
Health Education England
NHS Blood & Transplant
NHS Litigation Authority
NHS Business Services Authority
Brighton & Hove City CCG
Coastal West Sussex CCG
Crawley CCG
East Surrey CCG
East Sussex Healthcare NHS Trust
Eastbourne Hailsham & Seaford CCG
Frimley Park Hospitals NHS FT
Guys & St Thomas NHS Trust
Hastings and Rother CCG

High Weald Lewes & Haven CCG
Horsham & Mid Sussex CCG
Kings College Hospitals NHS FT
Oxford Health NHS FT
Pennine Acute Hospitals NHS Trust
Portsmouth CCG
Queen Victoria Hospital NHS FT
Royal Surrey County NHS FT
South East Coast Ambulance NHS FT
Surrey Downs CCG
Surrey & Sussex Healthcare NHS Trust
Sussex Community NHS Foundation Trust
Sussex Partnership NHS FT
Wandsworth CCG
West Kent CCG
Western Sussex Hospitals NHS FT

In addition, the Group has had a number of material transactions with other government departments and other central and local government bodies. Most of these transactions have been with Brighton and Hove City Council, East Sussex County Council and West Sussex Council in respect of clinical services.

40. Losses and special payments

The total number of losses cases in 2016-17 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	40,492	4
Special payments	24,705	81
Gifts	0	0
Total losses and special payments and gifts	65,197	85

The total number of losses cases in 2015-16 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	11,760	4
Special payments	26,509	94
Total losses and special payments	38,269	98

There were no cases exceeding £300,000.

41. Financial performance targets

The figures given for periods prior to 2009-10 are on a UK GAAP basis as that is the basis on which the targets were set for those years.

41.1. Breakeven performance

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	326,320	352,694	398,447	415,950	439,750	574,218	606,074	558,555	520,765	529,475	550,369
Retained surplus/(deficit) for the year	(5,278)	106	9,925	4,603	(11,860)	(16,245)	(22)	(9,572)	(1,309)	(69,980)	(89,124)
Adjustment for:											
Timing/non-cash impacting distortions:											
Pre FDL(97)24 agreements	0	0	0	0	0	0	0	0	0	0	0
Prior Period Adjustments	0	0	0	0	0	0	0	0	0	0	0
Adjustments for impairments	0	0	1,161	5,414	15,972	16,022	3,213	14,272	190	23,963	19,969
Adjustments for impact of policy change re donated/government grants assets						469	134	414	669	726	654
Consolidated Budgetary Guidance - adjustment for dual accounting under IFRIC12*	0	0	0	210	400	(204)	0	0	0	472	0
Other agreed adjustments											
Break-even in-year position	(5,278)	106	11,086	10,227	4,512	42	3,325	5,114	(450)	(44,819)	(68,501)
Break-even cumulative position	(29,026)	(28,920)	(17,834)	(7,607)	(3,095)	(3,053)	272	5,386	4,936	(39,883)	(108,384)

* Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, the Group's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS to IFRIC 12 schemes (which would include PFI schemes), which has no cash impact and is not chargeable for overall budgeting purposes, is excluded when measuring Breakeven performance. Other adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves) to maintain comparability year to year.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	%	%	%	%	%	%	%	%	%	%	%
Materiality test (i.e. is it equal to or less than 0.5%):											
Break-even in-year position as a percentage of turnover	-1.62	0.03	2.78	2.46	1.03	0.01	0.55	0.92	-0.09	-8.46	-12.45
Break-even cumulative position as a percentage of turnover	-8.89	-8.20	-4.48	-1.83	-0.70	-0.53	0.04	0.96	0.95	-7.53	-19.69

The amounts in the above tables in respect of financial years 2005/06 to 2008/09 inclusive have not been restated to IFRS and remain on a UK GAAP basis.

41.2. Capital cost absorption rate

The dividend payable on public dividend capital is based on the actual (rather than forecast) average relevant net assets based on the pre audited accounts and therefore the actual capital cost absorption rate is automatically 3.5%.

41.3. External financing

The Trust is given an external financing limit which it is permitted to undershoot.

	2016-17	2015-16
	£000s	£000s
External financing limit (EFL)	118,187	88,060
Cash flow financing	115,734	87,875
Finance leases taken out in the year	0	0
Other capital receipts	0	0
External financing requirement	<u>115,734</u>	<u>87,875</u>
Under spend against EFL	2,453	185

41.4. Capital resource limit

The Trust is given a capital resource limit which it is not permitted to exceed.

	2016-17	2015-16
	£000s	£000s
Gross capital expenditure	69,348	63,591
Less: book value of assets disposed of	0	(554)
Less: capital grants	0	0
Less: donations towards the acquisition of non-current assets	(88)	(86)
Charge against the capital resource limit	<u>69,260</u>	<u>62,951</u>
Capital resource limit	<u>72,885</u>	<u>67,516</u>
Underspend against the capital resource limit	3,625	4,565

42. Third party assets

The Group held cash and cash equivalents which relate to monies held by the Group on behalf of patients or other parties. This has been excluded from the cash and cash equivalents figure reported in the accounts.

	31 March	31 March
	2017	2016
	£000s	£000s
Third party assets held by the Group	<u>0</u>	<u>1</u>

