Solent NHS Trust

Audit results report for the year ended 31 March 2016

25 May 2016

Ernst & Young LLP

Building a better working world

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25 May 2016

Dear Sir

Audit results report

We are pleased to attach our audit results report for the Audit and Risk Committee. This report summarises our preliminary audit conclusion on Solent NHS Trust's financial position and results of operations for the year ended 31 March 2016. We will issue our final conclusion following the Board meeting on 31 May 2016.

The audit is designed to express an opinion on the 2015/16 financial statements, to reach a conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources, and to address current statutory and regulatory requirements. This report contains our findings on the areas of audit emphasis, our views on the Trust's accounting policies and judgments, and any significant deficiencies in internal control.

It is intended solely for the information and use of the Audit and Risk Committee and the Trust. It is not intended to be and should not be used by anyone other than these specified parties. A copy of this report will be sent to the National Audit Office in accordance with group audit instructions dated December 2015.

We welcome the opportunity to discuss the contents of the report with you at the forthcoming Audit and Risk Committee meeting.

Yours faithfully
For and on behalf of Ernst & Young LLP

Helen Thompson
Ernst & Young LLP
United Kingdom
Enc.

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ''Statement of responsibilities of auditors and audited bodies 2015-16'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Audit and Risk Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

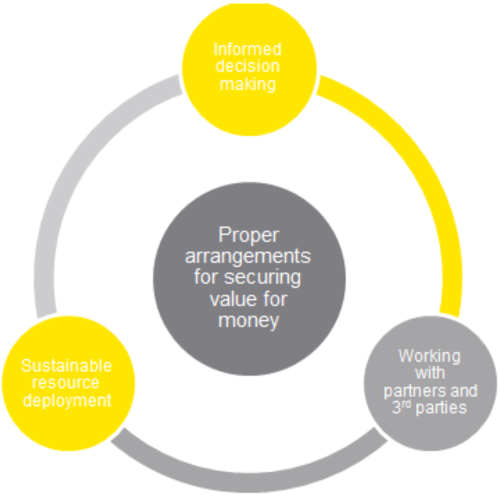
Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

1. Significant audit risks

Significant risk	Conclusion reached
Management override of controls	We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied.
Revenue and expenditure recognition	Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.
Accounts closedown	There have been clear improvements in the accounts closedown process, notably in the extent and quality of supporting working papers produced, and in the responsiveness of the finance team to audit requests. However, there were two discrete areas that required extensive reworking during the audit: income and property plant and equipment (PPE).
Agreement of balances	The Trust has improved its engagement with the agreement of balances exercise, which is evidenced by fewer mismatches and a clearer understanding of the Trust's position in those instances. However, there is still scope to improve coding in the ledger.

2. Value for money



We considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. We identified one significant risk in relation to these arrangements: the delivery of cost improvement plans (CIPs).

We performed the procedures outlined in our Audit Plan and noted a general improvement in management arrangements. The Trust is demonstrating a clear improvement focus and, as issues are identified, is using the learning to further tighten control in key areas.

However, we identified the following weaknesses in the Trust's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people:

- The Trust reported a deficit of £5.1 million in its financial statements for the year ending 31 March 2016 and is forecasting a further deficit of £4.5 million for 2016/17, driven by planned non-recurrent investment. This would result in a cumulative deficit, at the end of the three year breakeven recovery period, of £11.3 million, which would mean the Trust breaches its duty, under paragraph 2 (1) of Schedule 5 the National Health Service Act 2006, to break even.
- There is a gap in the 2016/17 budget that the Trust is working to close in discussion with commissioners, and through identification of further savings plans. Similarly work is on-going to ensure service line plans are aligned to, and integrated with, the Trust's corporate plans and strategies:

We therefore anticipate issuing a qualified 'except for' value for money conclusion.

3. Annual Report including Annual Governance Statement

We have reviewed the information presented in the Annual Report and Annual Governance Statement (AGS) for consistency with our knowledge of the Trust. We have audited those disclosures that are required to be audited. The Trust made a number of changes to ensure disclosures meet the Manual for Accounts requirements, so we have no matters to report as a result of this work.

5. Whole of Government Accounts

We have not yet completed the procedures requested of the National Audit Office with respect to the Trust's Whole of Government Accounts submission, as this is most efficiently done at the end of the ongoing audit process.

6. Audit progress

We have performed the procedures outlined in our Audit Plan and our audit is further ahead than it was at this stage last year. The following are the remaining areas we are required to complete to finalise the audit:

- Whole of Government Accounts
- Agreement of balances
- Journal testing
- Updating our review of events since 31 March 2016
- Receipt of signed management representation letter.

We are working to complete these outstanding audit matters and will update you in respect of any significant modifications to the findings or opinions contained in this report that arise on completion of these matters.

We note that the resolution of the open matters referred to above may warrant additional representations from the Trust. If this is the case we will discuss these with you in advance of finalising the letter of representation.

Subject to satisfactory conclusion of the above matters, we anticipate issuing an unqualified opinion on the Trust's financial statements. We also expect to report that the figures in your summarisation schedules agree to these financial statements.

We expect to issue the audit certificate at the same time as the audit opinion.

2. Scope update

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan issued on 01 February 2016, the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

Our work comprises a number of elements. Our Audit Plan provided you with an overview of our audit scope and approach for:

- expressing an opinion on:
    - the 2015/16 financial statements;
    - the part of the remuneration and staff report to be audited;
    - the consistency of information given in the Trust's annual report with the financial statements;
- examining the summarisation schedules and providing an opinion as to whether the figures agree to the Trust's financial statements for the relevant reporting period;
- the work we are required to perform on the information prepared by the Trust for the Whole of Government Accounts purposes;
- reporting by exception where the AGS does not comply with relevant guidance;
- forming a conclusion on the Trust's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- discharging the powers and duties set out in the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.

We carried out our work in accordance with our Audit Plan.

3. Significant findings from the financial statement audit

In this section of our report we outline the main findings from our audit of your financial statements, including our conclusions on the areas of risk/ audit emphasis outlined in our Audit Plan.

Accounts closedown - (significant risk)

Description and conclusion

Over recent year's staff turnover, and the capacity of the Trust's small financial accounting team, have affected the Trust's ability to produce good quality accounts and supporting working papers; and to respond promptly to queries raised during the course of the audit. As a result we have needed to raise additional fees in the past two years to reflect the unplanned additional resources we have had to use to complete our audit by the reporting deadline.

We held a workshop with officers to:

- agree shared expectations;
- refine the client assistance schedule we produce that sets out the working papers we believe we will require to complete the audit;
- explain what makes a good audit working paper; and
- agree joint working arrangements for the audit of the financial statements.

We also critically reviewed the Trust's closedown plan to identify any pinch points or obvious omissions, and reviewed working papers before the start of the audit to assess whether it was efficient to proceed, or whether the Trust needed further time before we started the audit.

We held the workshop on 29 January 2016, which was attended by a wide range of the staff responsible for the year end closedown, and covered the critical success factors for a smooth audit.

Our review of the Trust's closedown plan did not identify any significant issues, and its adequacy was further validated by the Trust submitting the draft accounts before the deadline.

Whilst we didn't receive a complete set of working papers at the start of the audit, we noted clear signs of improvement in both the quality and extent of working papers made available. We received working papers for property, plant and equipment two weeks into the audit, which did not affect the progress of our work, but the Trust subsequently found two significant errors within them. The working papers supporting income needed further work and this work has continued throughout the audit.

However, we also noted clear improvements in the accessibility and responsiveness of the finance team to audit requests, which are being turned around much faster than in previous years.

Agreement of balances - (significant risk)

Description and conclusion

In previous years we have detected significant issues with the classification and agreement of Intra NHS balances.

We assessed the Trust's controls over the coding of intra-NHS transactions and its arrangements for engaging with third parties to reach agreement over intra-NHS balances, and then designed appropriate substantive procedures to validate the correct classification within the accounts and Whole of Government Accounts schedules.

The Trust's arrangements have improved overall from the previous year, with the allocation of additional resources to the exercise allowing more detailed engagement with other organisations. The Trust used the M9 exercise to focus on resolving long-standing disputes. We also noted improvements in the audit trail supporting the Trust's notified position.

However, because of the issues with income coding, highlighted elsewhere in the report, we have not been able to complete our work in this area yet.

Risk of fraud in revenue recognition - (significant risk)

Description and conclusion

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We:

- reviewed and tested revenue and expenditure recognition policies;
- reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- developed a testing strategy to test material revenue and expenditure streams;

- reviewed and tested revenue cut-off at the period end date; and
- reviewed Department of Health (DH) agreement of balances data and investigated significant differences (outside of DH tolerances).

Our work on income is now complete. We identified significant issues with classification but have not identified any issues with the cut-off or completeness of income and expenditure.

Risk of management override of controls - (significant risk)

Description and conclusion

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We:

- tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- reviewed accounting estimates for evidence of management bias; and
- identified and evaluated the business rationale for any significant unusual transactions.

Our testing on journals is not yet complete, but those we have tested were appropriate. We have not identified any instances of controls being overridden, any bias in accounting estimates, or any significant unusual transactions.

Accounting for the CGI contract - (Other financial statement risk)

Description and conclusion

The CGI contract has proved challenging for both parties and there have been significant delays in delivery against service milestones. These have made accounting for payments to CGI more complicated. The Trust needs to analyse payments into capital and revenue elements, and ensure costs are recorded in the correct year of account

We reviewed the Trust's arrangements for gaining an understanding of the substance of transactions and determining the related accounting entries, and undertook additional substantive procedures to validate the accounting for CGI in the financial statements.

The Trust has worked with CGI to get better supporting documentation for transactions, which has enabled a clearer understanding of the capital and revenue elements of payments. No significant issues or errors were identified this year.

Accounting for the clinical records system - (Other financial statement risk)

Description and conclusion

The Trust has made a significant investment in the development of the new clinical records system, much of this coming from internal staff costs.

We reviewed the Trust's arrangements for identifying and validating staff time to be capitalised and undertook additional substantive procedures to validate costs taken to the balance sheet.

The majority of the capitalised costs related to external specialist resources bought in for the development and roll-out of the system. Our testing did not identify any errors.

4. Economy, efficiency and effectiveness

We are required to consider whether the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. For 2015-16 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we will have drawn on the requirements of the NHS Trust Development Authority's Governance Statement guidance to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice which defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

The table below presents the findings of our work in response to the risk areas in our Audit Plan.

Delivery of cost improvement plans (CIPs)

Impacts arrangements for: taking informed decisions, deploying resources in a sustainable manner and working with partners and other third parties

Description of risk and audit response

In recent years the Trust has struggled to identify and deliver its target CIP programme. In 2014/15 the target was £9.3 million and £8.8 million of savings were delivered. However, only 40% were recurrent savings which increased the pressure on the 2015/16 budget.

The 2015/16 CIP target was £16.7 million and, at the time of presenting our Audit Plan, the Trust was forecasting that it would deliver only £10.7 million. Although the effect of this shortfall was being mitigated by non-recurrent savings, the Trust needs to permanently reduce the cost base to be able to demonstrate financial sustainability.

Planning for 2016/17 suggested a further large CIP target would be needed. Officers undertook a formal review of CIP non-delivery in January 2016.

We carried out the following work:

- reviewed the scope and outcomes of the Trust's review of CIP non-delivery and considered investigating schemes that aren't delivering;
- reviewed the quality assurance arrangements for 2016/17 CIP schemes; and
- considered the need to assess the robustness of planning for a sample of key schemes

Audit Findings:

- In the month 12 financial position update to the April Finance Committee, the Trust reported it delivered £10.7 million (65%) of savings against its target of £16.7million and that the shortfall was primarily due to a failure to identify savings (£4.4 million) rather than failing to deliver plans (£1.6 million).
- However, looking beyond these headline numbers, we consider the underlying position to be more positive and that arrangements are steadily improving.
  - The Trust managed to better its control total, which demonstrates its ability to manage the savings gap non-recurrently, largely through vacancy management. As vacant posts are often partially or wholly covered by overtime or temporary arrangements, the Trust has elected not to simply remove the posts, but is focusing instead on the longer-term organisational development agenda to ensure workforce plans align to business plans, rosters and changing staffing models. This will provide a more sustainable basis to work from in moving from the current to future operating model.
  - The savings programme (at c.9% of total expenditure) was highly ambitious and heavily profiled towards the year end. There were a large number of schemes, many with interdependences, and a complex associated change agenda. Delivering this with limited management capacity, while developing additional savings plans and driving a large transformation agenda, would have been a notable achievement. We consider that delivering 87% of the value of schemes identified, against this background, is a creditable reflection on management performance.
  - The Trust is continually learning and refining its arrangements as issues arise. The CIP - lessons learned exercise is a good example, but there are many others, including their response to the Independent Financial Investigation. It provided a clear analysis of the problems and their root causes, and the resultant action plan is wide-ranging.
- 2016/17 is a critical year for the Trust, as it needs to complete its long transformation journey and return to recurrent breakeven by the year end. There are three key areas that need to be prioritised to achieve this:
  - delivery of 2016/17 CIP programme – the Trust needs to embed the learning from its review of 2015/16 as soon as possible, to enable it to deliver the £14.4 million 2016/17 savings programme, and ensure future programmes are robust and developed in full before the start of 2017/18. There is currently a gap of c.£1 million in 2016/17;
  - strategic alignment – the Trust needs to finalise its key strategies (IT, Estates and HR) to enable services to develop longer-term plans that align to budgets, corporate plans, and to the local Sustainability and Transformation Plan; and
  - organisational development – the Trust has recognised it needs to accelerate this, and has brought in specialist resources to do so. It is critical the Trust completes its workforce modernisation plans by finalising the establishment, team structures, job descriptions and embeds this in rotas.

Whilst we note the clear improvement in the Trust's arrangements, we cannot conclude that you have had appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources throughout the year.

The Trust reported a deficit of £5.1 million in its financial statements for the year ending 31 March 2016 and is forecasting a further deficit of £4.5 million for 2016/17, driven by planned non-recurrent investment. The Trust reported a cumulative breakeven position of £6.8 million as at 31 March 2016, which is the second year of cumulative deficit. This would result in a likely cumulative deficit, at the end of the three year breakeven recovery period, of £11.3 million, which would mean the Trust will breach its duty, under paragraph 2 (1) of Schedule 5 the National Health Service Act 2006, to break even.

The Trust has delivered its control total for 2015/16, demonstrating strengthened financial management, and there is evidence of progress in delivering its significant transformation agenda. However, the Trust was unable to deliver its planned CIP target, and this is subject to further work in 2016/17. There is a gap in the 2016/17 budget that the Trust is working to close in discussion with commissioners and through identification of further savings plans. Similarly work is on-going to ensure service line plans are aligned to, and integrated with, the Trust's corporate plans and strategies.

We therefore anticipate issuing an 'except for' qualified value for money conclusion, based on non-delivery of CIPs in 2015/16, the 2016/17 CIP gap, and the need to ensure service planning is aligned to the Trust's vision and strategies, and to those of the local health economy.

5. Control themes and observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

5.1 Current year observations

Description	Impact
The Trust did not maintain its Real Asset Management asset register during the year and so was unable to reconcile it on a timely basis with the general ledger at the year end. Completion of this work identified two significant errors in the draft accounts.	There is a risk the Trust may understate its capital expenditure, or not depreciate it accurately.
There are ongoing issues with the coding of income that are the root cause of many of the difficulties encountered during the audit, but the controls over income need to be strengthened more generally. The Trust needs to be able to tie income back to its contracts, ensure all income due is identified, invoice this on a regular and timely basis, and then enter it accurately into the ledger.	The Trust has recognised this is an area that needs much more work and is planning an end-to-end review of income processes and controls. This needs to be a priority for the Finance team as at present there are risks that income is not invoiced, or is invoiced very late reducing the likelihood of recovery.
We noted there were large amounts of un-cleared reconciling items in the NatWest commercial bank account reconciliation, some of which are over a year old.	Discrepancies between the accounting records of the Trust and the bank, other than normal timing differences, may mean errors on either side are not identified and amended on a timely basis. Differences could involve misappropriation of assets.

5.2 Status of previous year's recommendations

Description	Impact
The Head of Internal Audit reported in his 2014/15 opinion that 'partial assurance with improvements required can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'. As part of our 2015/16 audit strategy we considered management's progress in implementing Internal Audit recommendations and the associated impact on our audit strategy.	Review of the latest recommendations tracker shows the Trust has generally made progress in addressing the issues identified by Internal Audit in 2014/15. However in many cases there was slippage against agreed deadlines. Key areas still being developed are: • Trust strategies; • Assurance Committee governance; and • data quality.

5.3 Challenges for the coming year

Description	Impact
The move from the Trust's old clinical record system (RIO) to its replacement (SystmOne) has identified the need for further work to ensure data quality is robust and reporting functionality enables a clear measure of the Trust's performance.	Without accurate and timely data, there is the risk the Trust may not meet its contractual commitments or ensure it recovers all the income it is due.

6. Status of our work

6.1 Financial statement audit

Our audit work for our opinion on the Trust's financial statements, is steadily nearing completion. The following items were outstanding at the date of this report.

Item	Actions to resolve	Responsibility
Letter of representation	To be tabled at Audit and Risk Committee on 27 May 2016.	Management and Audit and Risk Committee/Board
Whole of Government Accounts	► Agreement of TRU forms to the audited accounts ► Reporting to the NAO to inform their audit of the NHS consolidation	Management and EY
Income	► Completion of work on the agreement of balances exercise	Management and EY
Payroll	► Testing of disclosures in the remuneration report	Management and EY
Journals testing	► Obtaining supporting evidence for the journals we select for testing	Management and EY
Any other outstanding work	► Management and EY to work together to complete any outstanding work	Management and EY

On the basis of our audit work to date, we anticipate issuing an unqualified auditor's report on the Trust's financial statements and summarisation schedules.

However, until we have completed our outstanding procedures, it is possible that further matters requiring amendment may arise.

6.2 Economy, efficiency and effectiveness

Our work in respect of our conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete.

We expect to present an 'except for' qualified value for money conclusion on the Trust's arrangements to ensure economy, efficiency and effectiveness in its use of resources.

7. Fees update

A breakdown of our fee is shown below.

	Proposed final fee 2015/16 £	Planned fee 2015/16 £	Scale fee 2015/16 £
Total Audit Fee – Code work	60,500	60,500	52,525

Our actual fee is in line with the fee agreed at the Audit and Risk Committee in February 2016. As the fee is above the scale fee, this still needs to be approved by Public Sector Audit Appointments Ltd.

8. Summary of audit differences

In the normal course of any audit, we identify differences between amounts we believe should be recorded in the financial statements and amounts actually recorded. These differences are classified as either 'factual' or 'judgemental'. Factual differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances which are uncertain or open to interpretation.

We have included all amounts greater than £0.096 million relating to Solent NHS Trust in our summary of misstatements below. As set out elsewhere in this report, there are a number of areas where our work is not complete at the time of writing. Should further misstatements be identified in concluding this work, we will discuss with officers in the first instance and report back to you by exception.

8.1 Uncorrected misstatements

We highlight the following misstatement which has not been corrected by management:

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	CIES
Uncorrected misstatements	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period
Known differences:					
► NHS debt provided for against MFA guidance	499,671				(499,671)

8.2 Corrected misstatements

We highlight in particular the following misstatements identified during the course of our audit and which have been corrected by management:

- Additional impairments to the Trust's estate arising from correction of an error in the schedules provided by the valuer, and the correction of an error in the calculation of the impairment that arose because of delayed posting of capital expenditure incurred in year to the fixed asset register.
- Misclassification of income within and between notes 4 and 5 to the accounts.
- Misclassification of provision for the impairment of receivables.
- Misclassification of accruals between NHS and Non-NHS.
- We also identified a number of misstatements in the disclosure notes, including segmental reporting, financial instruments, staff numbers and Better Payment Practice Code

9. Independence confirmation: update

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 01 February 2016. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the PSAA Terms of Appointment: in our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the Audit and Risk Committee on 27 May 2016.

Appendix A Required communications with the Audit and Risk Committee

There are certain communications that we must provide to the Audit and Risk Committee. These are detailed here:

Required communication	Reference
Terms of engagement	The Statement of responsibilities serves as the formal terms of engagement between the Public Sector Audit Appointments Ltd (PSAA)'s appointed auditors and audited bodies.
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Any significant difficulties encountered during the audit ► Any significant matters, arising from the audit that were discussed with management ► Written representations we are seeking ► Expected modifications to the audit report ► Any other matters significant to the oversight of the financial reporting process	Audit results report
Misstatements ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant	Audit results report
Fraud ► Enquiries of the Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud we have identified or information we have obtained t indicating that a fraud may exist ► A discussion of any other matters related to fraud	Request for assurance letter sent 3 February 2016 and response received 23 February 2016
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	No significant matters were identified.
External confirmations ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures	No issues identified to report

Required communication	Reference
Consideration of laws and regulations ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Risk Committee may be aware of	Request for assurance letter sent 3 February 2016 and response received 23 February 2016
Independence Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► The principal threats ► Safeguards adopted and their effectiveness ► An overall assessment of threats and safeguards ► Information about the general policies and process within the firm to maintain objectivity and independence	Audit Plan and update in section 8 of this report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ► Whether the events or conditions constitute a material uncertainty ► Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ► The adequacy of related disclosures in the financial statements	Request for assurance letter sent 3 February 2016 and response received 23 February 2016
Significant deficiencies in internal controls identified during the audit	Audit results report
Fee reporting ► Final, planned and scale fee broken down into the headings of Code audit work; certification of claims and returns; and any non-audit work (or a statement to confirm that no non-audit work has been undertaken for the body).	Audit Plan and Audit results report

Appendix B Letter of representation

Ernst & Young
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Solent NHS Trust ("the Trust") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Solent NHS Trust as of 31 March 2016 and of its financial performance and its cash flows for the year then ended in accordance with the NHS Manual for Accounts.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the PPSA Terms of Appointment, for the preparation of the financial statements in accordance with the NHS Manual for Accounts.
2. We acknowledge, as members of management of the Trust, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Trust in accordance with the NHS Manual for Accounts, and are free of material misstatements, including omissions. We have approved the financial statements.
3. We consider:
    - the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Trust's performance, business model and strategy.
    - it appropriate to adopt the going concern basis of accounting in preparing the Annual Report and Accounts , and have not identified any material uncertainties to the Trusts ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements
    - a robust assessment of the principal risks facing the Trust, including those that would threaten its business model, future performance, solvency or liquidity has been carried out and those risks are described in the Annual Report and Accounts, together with an explanation of how they are being managed or mitigated.
    - the report on our review of the effectiveness of the Trust's risk management and internal control systems is accurately reflected in the Annual Report and Accounts.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Trust we believe that the Trust has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the NHS Manual for Accounts that are free from material misstatement, whether due to fraud or error.

6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Trust's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Trust.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - additional information that you have requested from us for the purpose of the audit; and
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all the papers and minutes of the meetings of the Board, and its committees, held through the year to the most recent meeting on the following date: 31 May 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Trust's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such

parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Trust has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 34 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Agreement of Balances and key judgments

1. We have disclosed to you details of all transactions and judgments we have made on income and expenditure, payable and receivable balances with counter-parties irrespective of whether or not they have been included in the 2015/16 Agreement of Balances Exercise

2. We have agreed balances, disputes and claims with all NHS bodies via the Agreement of Balances process and where not agreed, we have reported the matter to you.

3. We have disclosed to you all of the risks and judgments we have made in arriving at the Trust's reported financial outturn for financial year ended 31 March 2016.

H. Segmental reporting

1. We have reviewed the operating segments reported internally to the Board and We are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8:Operating Segments, they are similar in each of the following respects:

   - the nature of the products and services;
   - the nature of the production processes;
   - the type or class of customer for their products and services; and
   - the methods used to distribute their products.

I. Consolidation of charitable funds

1. We recognize that, as corporate trustee to the charitable funds, we meet the IFRS10 criteria for control and therefore are required to prepare consolidated accounts, which is our stated accounting policy.

2. However, because we believe the values involved are immaterial to any user of the accounts, we have not prepared consolidated accounts and have disclosed key financial information in the related party note instead. We believe this is consistent

with IAS 1, Presentation of Financial Statements, which says accounting policies need not be applied if the impact of applying them would be immaterial.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of the Trust's property plant and equipment and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

K. CGI contract

1. We have considered the CGI contract and are satisfied we have correctly accounted for its capital and revenue transactions.

L. NHS Property Services

1. We have recognized what we believe to be the full liability due to NHS Property Services within the accounts.

Yours faithfully,

____

(Director of Finance and Performance)

____

(Chairman of the Audit and Risk Committee)

EY | Assurance | Tax | Transactions | Advisory

Ernst & Young LLP

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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Solent NHS
NHS Trust

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SO14 3QB

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Highpoint Venue
Bursledon Rd
Southampton
SO19 8BR

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www.solent.nhs.uk

Dear Helen

31st May 2016

Letter of Representation

This letter of representations is provided in connection with your audit of the financial statements of Solent NHS Trust ("the Trust") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Solent NHS Trust as of 31 March 2016 and of its financial performance and its cash flows for the year then ended in accordance with the NHS Manual for Accounts.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the PPSA Terms of Appointment, for the preparation of the financial statements in accordance with the NHS Manual for Accounts.

2. We acknowledge, as members of management of the Trust, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Trust in accordance with the NHS Manual for Accounts, and are free of material misstatements, including omissions. We have approved the financial statements.

3. We consider:

   a. the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for stakeholders to assess the Trust's performance, business model and strategy.

   b. it appropriate to adopt the going concern basis of accounting in preparing the Annual Report and Accounts , and have not identified any material uncertainties to the Trusts ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements

   c. a robust assessment of the principal risks facing the Trust, including those that would threaten its business model, future performance, solvency or liquidity has been carried out and those risks are described in the Annual Report and Accounts, together with an explanation of how they are being managed or mitigated.

   d. the report on our review of the effectiveness of the Trust's risk management and internal control systems is accurately reflected in the Annual Report and Accounts.

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

5. As members of management of the Trust we believe that the Trust has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the NHS Manual for Accounts that are free from material misstatement, whether due to fraud or error.

6. We believe that the effects of the unadjusted audit difference, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole. We have not corrected this difference identified by and brought to our attention from the auditor because although the Manual for Accounts states that provisions for bad debts should not be made for organisations within the Department of Health accounting boundaries, i.e. NHS organisations, the Trust has taken a prudent approach. It is aware of outstanding debt with NHS organisations, which is unlikely to result in future cash flows and as a result has fully provided for this debt.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Trust's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Trust.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

   - access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

   - additional information that you have requested from us for the purpose of the audit; and

   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have made available to you all the papers and minutes of the meetings of the Board, and its committees, held through the year to the most recent meeting on the following date: 31 May 2016.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Trust's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Trust has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 34 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Agreement of Balances and key judgments

1. We have disclosed to you details of all transactions and judgments we have made on income and expenditure, payable and receivable balances with counter-parties irrespective of whether or not they have been included in the 2015/16 Agreement of Balances Exercise

2. We have agreed balances, disputes and claims with all NHS bodies via the Agreement of Balances process and where not agreed, we have reported the matter to you.

3. We have disclosed to you all of the risks and judgments we have made in arriving at the Trust's reported financial outturn for financial year ended 31 March 2016.

H. Segmental reporting

1. We have reviewed the operating segments reported internally to the Board and We are satisfied that it is appropriate to aggregate these as, in accordance with IFRS 8:Operating Segments, they are similar in each of the following respects:

   - the nature of the products and services;

   - the nature of the production processes;

   - the type or class of customer for their products and services; and

   - the methods used to distribute their products

I. Consolidation of charitable funds

1. We recognise that, as corporate trustee to the charitable funds, we meet the IFRS10 criteria for control and therefore are required to prepare consolidated accounts, which is our stated accounting policy.

2. However, because we believe the values involved are immaterial to any user of the accounts, we have not prepared consolidated accounts and have disclosed key financial information in the related party note instead. We believe this is consistent with IAS 1, Presentation of Financial Statements, which says accounting policies need not be applied if the impact of applying them would be immaterial.

J. Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the valuation of the Trust's property plant and equipment and have adequately considered the qualifications of the experts in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the experts.

J. CGI contract

1. We have considered the CGI contract and are satisfied we have correctly accounted for its capital and revenue transactions.

K. NHS Property Services

1. We have recognised what we believe to be the full liability due to NHS Property Services within the accounts.

Yours sincerely,

____

(Director of Finance and Performance)

____

(Chairman of the Audit and Risk Committee)

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF SOLENT NHS TRUST

We have audited the financial statements of Solent NHS Trust for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Trust's Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Taxpayers' Equity, Statement of Cash Flows, and the related notes 1 to 40. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015-16 Government Financial Reporting Manual (the 2015-16 FReM) as contained in the Department of Health Group Manual for Accounts 2015-16 and the Accounts Direction issued by the Secretary of State with the approval of HM Treasury as relevant to the National Health Service in England (the Accounts Direction).

We have also audited the information in the Remuneration and Staff Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes on pages 49 and 50;
- the table of pension benefits of senior managers and related narrative notes on page 51;
- the tables of exit packages and related notes on pages 47-49;
- the analysis of staff numbers and related notes on page 53; and
- the table of pay multiples and related narrative notes on page 47.

This report is made solely to the Board of Directors of Solent NHS Trust, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Directors of the Trust those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors, the Accountable Officer and auditor

As explained more fully in the Directors' Responsibility Statement in relation to the Accounts, set out on pages 64 and 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

As explained in the Statement of the Chief Executive's responsibilities, as the Accountable Officer of the Trust, the Accountable Officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources.

We are required under section 21(3)(c), as amended by schedule 13 paragraph 10(a), of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Section 21(5)(b) of the Local Audit and Accountability Act 2014 requires that our report must not contain our opinion if we are satisfied that proper arrangements are in place.

We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Trust had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Solent NHS Trust as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the National Health Service Act 2006 and the Accounts Directions issued thereunder.

Opinion on other matters

In our opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with the Accounts Direction made under the National Health Service Act 2006; and
- the other information published together with the audited financial statements in the annual report and accounts is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters:

- in our opinion the governance statement does not comply with the NHS Trust Development Authority's guidance; or
- we refer a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014; or
- we make a written recommendation to the Trust under section 24 of the Local Audit and Accountability Act 2014.

In respect of the following we have matters to report by exception:

- Proper arrangements to secure economy, efficiency and effectiveness

We report to you by exception if we are not satisfied that the Trust has put in place proper arrangements to secure economy efficiency and effectiveness in its use of resources.

Basis for qualified conclusion on reporting by exception

The Trust planned a deficit of £5.2million for the year ended 31 March 2016 and reported a deficit of £5.1 million in its financial statements for the year then ended. The Trust is forecasting a further deficit of £4.5 million for 2016/17, driven by planned non-recurrent investment. This forecast is dependent upon achieving £14.4 million from a cost improvement plan, of which c.£1 million is still to be identified. The Trust reported a cumulative breakeven deficit position of £6.8 million as at 31 March 2016, which is the second year of cumulative deficit. This would result in a likely cumulative deficit, at the end of the three year breakeven recovery period, of £11.3 million, which would mean the Trust will breach its duty, under paragraph 2 (1) of Schedule 5 the National Health Service Act 2006, to break even.

This issue is evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Qualified conclusion on reporting by exception

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2015, with the exception of the matters reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Solent NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Solent NHS Trust in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Helen Thompson
for and on behalf of Ernst & Young LLP
Southampton
XX June 2016

Trust name	Solent NHS Trust
This year	2015-16
Last year	2014-15
This year ended	31 March 2016
Last year ended	31 March 2015
This year commencing:	1 April 2015
Last year commencing:	1 April 2014

Accounts 2015-16

Statement of Comprehensive Income for year ended 31 March 2016

	NOTE	2015-16 £000s	2014-15 £000s
Gross employee benefits	8.1	**(118,911)**	(124,709)
Other operating costs	6	**(71,662)**	(65,455)
Revenue from patient care activities	4	**161,968**	165,152
Other operating revenue	5	**16,886**	22,088
Operating surplus/(deficit)		**(11,719)**	(2,924)
Investment revenue	10	**21**	29
Other gains and (losses)	11	**(94)**	(189)
Finance costs	12	**(133)**	(40)
Surplus/(deficit) for the financial year		**(11,925)**	(3,124)
Public dividend capital dividends payable		**(3,239)**	(3,376)
Retained surplus/(deficit) for the year		**(15,164)**	(6,500)

Other Comprehensive Income

	2015-16 £000s	2014-15 £000s
Impairments and reversals taken to the revaluation reserve	**(17,207)**	(557)
Net gain/(loss) on revaluation of property, plant & equipment	**419**	13,027
Total comprehensive income for the year	**(31,952)**	5,970

Financial performance for the year

	2015-16 £000s	2014-15 £000s
Retained surplus/(deficit) for the year	**(15,164)**	(6,500)
Impairments (excluding IFRIC 12 impairments)	**10,165**	423
Adjustments in respect of donated asset reserve elimination	**(63)**	(197)
Adjusted retained surplus/(deficit)	**(5,062)**	(6,274)

The notes on pages 5 to 26 form part of this account.

Statement of Financial Position as at 31 March 2016

	NOTE	31 March 2016 £000s	31 March 2015 £000s
Non-current assets:			
Property, plant and equipment	13	**84,031**	112,124
Intangible assets	14	**2,930**	1,153
Investment property	16	**0**	0
Other financial assets		**0**	0
Trade and other receivables	20.1	**1,760**	1,936
Total non-current assets		**88,721**	115,213
Current assets:			
Inventories	19	**458**	713
Trade and other receivables	20.1	**11,005**	15,474
Other financial assets	22	**0**	0
Other current assets	23	**0**	0
Cash and cash equivalents	24	**5,575**	785
Sub-total current assets		**17,038**	16,972
Non-current assets held for sale	25	**0**	0
Total current assets		**17,038**	16,972
Total assets		**105,759**	132,185
Current liabilities			
Trade and other payables	26	**(17,713)**	(16,178)
Other liabilities	27	**0**	0
Provisions	33	**0**	0
Borrowings	28	**(306)**	(317)
Other financial liabilities	29	**0**	0
Total current liabilities		**(18,019)**	(16,495)
Net current assets/(liabilities)		**(981)**	477
Total assets less current liabilities		**87,740**	115,690
Non-current liabilities			
Trade and other payables	26	**(167)**	(188)
Other liabilities	27	**0**	0
Provisions	33	**0**	0
Borrowings	28	**(839)**	(1,120)
Other financial liabilities	29	**0**	0
DH revenue support loan	28	**(4,304)**	0
Total non-current liabilities		**(5,310)**	(1,308)
Total assets employed:		**82,430**	114,382
FINANCED BY:			
Public Dividend Capital		**6,435**	6,435
Retained earnings		**63,438**	77,690
Revaluation reserve		**12,557**	30,257
Other reserves		**0**	0
Total Taxpayers' Equity:		**82,430**	114,382

The notes on pages 5 to 26 form part of this account.

The financial statements on pages 1 to 4 were approved by the Board on 31 May 2016 and signed on its behalf by

Chief Executive: Date:

Statement of Changes in Taxpayers' Equity
For the year ending 31 March 2016

	Public Dividend capital	Retained earnings	Revaluation reserve	Total reserves
	£000s	£000s	£000s	£000s
Balance at 1 April 2015	**6,435**	**77,690**	**30,257**	**114,382**
Changes in taxpayers' equity for 2015-16				
Retained surplus/(deficit) for the year		(15,164)		**(15,164)**
Net gain / (loss) on revaluation of property, plant, equipment			419	**419**
Impairments and reversals			(17,207)	**(17,207)**
Transfers between reserves		912	(912)	**0**
Net recognised revenue/(expense) for the year	**0**	**(14,252)**	**(17,700)**	**(31,952)**
Balance at 31 March 2016	**6,435**	**63,438**	**12,557**	**82,430**
Balance at 1 April 2014	**213**	**83,753**	**18,224**	**102,190**
Changes in taxpayers' equity for the year ended 31 March 2015				
Retained surplus/(deficit) for the year		(6,500)		(6,500)
Net gain / (loss) on revaluation of property, plant, equipment			13,027	13,027
Impairments and reversals			(557)	(557)
Transfers between reserves		437	(437)	0
Reclassification Adjustments				
New temporary and permanent PDC received - cash	11,222			11,222
New temporary and permanent PDC repaid in year	(5,000)			(5,000)
Net recognised revenue/(expense) for the year	**6,222**	**(6,063)**	**12,033**	**12,192**
Balance at 31 March 2015	**6,435**	**77,690**	**30,257**	**114,382**

Statement of Cash Flows for the Year ended 31 March 2016

	2015-16 £000s	2014-15 £000s
Cash Flows from Operating Activities		
Operating surplus/(deficit)	**(11,719)**	(2,924)
Depreciation and amortisation	**4,172**	3,569
Impairments and reversals	**10,165**	423
Interest paid	**(133)**	(40)
PDC Dividend (paid)/refunded	**(3,358)**	(3,360)
(Increase)/Decrease in Inventories	**255**	(460)
(Increase)/Decrease in Trade and Other Receivables	**4,645**	2,464
Increase/(Decrease) in Trade and Other Payables	**2,982**	(11,554)
Net Cash Inflow/(Outflow) from Operating Activities	**7,009**	(11,882)
Cash Flows from Investing Activities		
Interest Received	**21**	29
(Payments) for Property, Plant and Equipment	**(5,050)**	(3,685)
(Payments) for Intangible Assets	**(2,208)**	(7)
Proceeds of disposal of assets held for sale (PPE)	**714**	0
Net Cash Inflow/(Outflow) from Investing Activities	**(6,523)**	(3,663)
Net Cash Inform / (outflow) before Financing	**486**	(15,545)
Cash Flows from Financing Activities		
Gross Temporary (2014/15 only) and Permanent PDC Received	**0**	11,222
Gross Temporary (2014/15 only) and Permanent PDC Repaid	**0**	(5,000)
Loans received from DH - New Revenue Support Loans	**8,604**	0
Loans repaid to DH - Working Capital Loans/Revenue Support Loans	**(4,300)**	0
Capital Element of Payments in Respect of Finance Leases and On-SoFP PFI and LIFT	**0**	(192)
Net Cash Inflow/(Outflow) from Financing Activities	**4,304**	6,030
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**4,790**	(9,515)
Cash and Cash Equivalents (and Bank Overdraft) at Beginning of the Period	**785**	10,300
Cash and Cash Equivalents (and Bank Overdraft) at year end	**5,575**	785

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 Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DH Group Manual for Accounts 2015-16 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 Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Trust are described below. They have been applied consistently 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.

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

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 SOCNI, and is disclosed separately from operating costs.

Other transfers of assets and liabilities within the Group are accounted for in line with IAS20 and similarly give rise to income and expenditure entries.

1.4 Charitable Funds

Under the provisions of IAS 27 *Consolidated and Separate Financial Statements*, those Charitable Funds that fall under common control with NHS bodies are consolidated within the entity's financial statements. In accordance with IAS 1 *Presentation of Financial Statements*, restated prior period accounts are presented where the adoption of the new policy has a material impact.

As the corporate trustee of Solent NHS Charity, the Trust has the power to exercise control. However the transactions of the charity are immaterial and have not been consolidated. Details of the transactions with the charity are included in note 37, Related Party Transactions.

1.5 Pooled Budgets

The Trust does not have any Pooled Budget arrangements.

1.6 Critical accounting judgements and key sources of estimation uncertainty

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

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

1.6.2 Key sources of estimation uncertainty

Other than the valuation of non current assets the Trust has made no assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period which may cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Non current assets have been revalued using indices relevant to the asset class and the exercise has been carried out by District Valuers who are RICS qualified.

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 Trust is from commissioners for healthcare services. Revenue relating to patient treatment plans that are part-completed at the year end are apportioned across the financial years on the basis of percentage of treatment completed at the end of the reporting period compared to expected total treatment planned.

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

The Trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer. The Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit.

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

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 Trust commits itself to the retirement, regardless of the method of payment.

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.

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 Trust;
● it is expected to be used for more than one financial year;
● the cost of the item can be measured reliably; and
● the item has cost of at least £5,000; or
● Collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
● Items form part of the initial equipping and setting-up cost of a new building, ward or unit, irrespective of their individual or collective cost.

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

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. All assets are measured subsequently at fair value.

Land and buildings used for the Trust's services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any impairment.

Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Fair values are determined as follows:

- Land and non-specialised buildings – market value for existing use
- Specialised buildings – depreciated replacement cost

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 but not borrowing costs, which are recognised as expenses immediately, as allowed by IAS 23 for assets held at fair value. Assets are revalued and depreciation commences when they are brought into use.

Fixtures and equipment are carried at depreciated historic cost as this is not considered to be materially different from fair value.

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 Trust's business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the Trust; 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 fair value. Software that is integral to the operating 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, unless it meets the specific conditions as detailed in note 1.35.

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

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
- 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

- 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 fair value by reference to an active market, or, where no active market exists, at amortised replacement cost (modern equivalent assets basis), indexed for relevant price increases, as a proxy for fair value. 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, properties under construction, and assets held for sale are not depreciated.

Otherwise, depreciation and amortisation are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, over their estimated useful lives, in a manner that reflects the consumption of economic benefits or service potential of the assets. The estimated useful life of an asset is the period over which the Trust expects to obtain economic benefits or service potential from the asset. This is specific to the Trust and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over their estimated useful lives.

At each reporting period end, the Trust checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, 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.

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. 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.

Impairments are analysed between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). This is necessary to comply with Treasury's budgeting guidance. DEL limits are set in the Spending Review and Departments may not exceed the limits that they have been set.

AME budgets are set by the Treasury and may be reviewed with departments in the run-up to the Budget. Departments need to monitor AME closely and inform Treasury if they expect AME spending to rise above forecast. Whilst Treasury accepts that in some areas of AME inherent volatility may mean departments do not have the ability to manage the spending within budgets in that financial year, any expected increases in AME require Treasury approval.

1.13 Donated assets

Donated non-current assets are capitalised at their fair 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 as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

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

1.14 Government grants

The value of assets received by means of a government grant are credited directly 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.

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.

The Trust 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 on interest on the remaining balance of the liability. Finance charges are recognised in calculating the Trust’s surplus/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 NHS Trust as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Trust’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 Trust’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

The Trust has no PFI transactions.

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.

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

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.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of the Trust's cash management.

1.20 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision 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 rate of 0.7% in real terms (1.37 % for employee early departure obligations).

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 Trust 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 on-going activities of the entity.

1.21 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 33.

1.22 Non-clinical risk pooling

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

1.23 Carbon Reduction Commitment Scheme (CRC)

The Trust is not part of the Carbon Reduction Commitment Scheme.

1.24 Contingencies

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 Trust, 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 Trust. 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 Trust 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.

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

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
The Trust has no financial assets at fair value through profit and loss.

Held to maturity investments
The Trust has no maturity investments.

Available for sale financial assets
The Trust has no available for sale financial assets.

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.

1.26 Financial liabilities
Financial liabilities are recognised on the statement of financial position when the Trust 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 historical cost. Otherwise, financial liabilities are initially recognised at fair value.

Financial guarantee contract liabilities
The Trust has no financial guarantee contract liabilities.

Financial liabilities at fair value through profit and loss
The Trust has no financial liabilities at fair value through profit and loss.

Other financial liabilities
After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method, except for loans from 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 Trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.28 Foreign currencies
The Trust's functional currency 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 Trust’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 Trust has no beneficial interest in them. Details of third party assets are given in note 40 to the accounts.

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

1.30 Public Dividend Capital (PDC) and PDC dividend

Public dividend capital represents taxpayers' equity in the Trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the Trust. PDC is recorded at the value received. 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 Trust, 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.

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 Trust not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

1.32 Subsidiaries

Material entities over which the Trust has the power to exercise control are classified as subsidiaries and are consolidated. The Trust 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 Trust's 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

The Trust has no associates.

1.34 Joint arrangements

The Trust has no joint arrangements.

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 SOCNI on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

1.36 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 2015-16. 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 for Contracts with Customers - Application required for accounting periods beginning on or after 1 January 2017, 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.

2. Operating segments

In 2014-15 Trust activity was organised into eight service lines. In 2015-16 the Substance Misuse service moved into the Adult Mental Health service line. Details of the seven service line are as follows;

Child & Family Health Services	children's nursing; child and adolescent mental health; health visiting, paediatric medical , paediatric therapies and school nursing
Sexual Health Services	chlamydia screening, HIV outpatient services, sexual health promotion, termination of pregnancies, vasectomy services, sexual assault referral centre
Dental	specialist dental care referrals
Adults Southampton	physiotherapy, community nursing, cardiac burse service, speech therapy, stoma care, palliative care, learning disabilities.
Primary Care & LTC	health promotion, community diabetes service, podiatry, minor injuries, homeless healthcare, dermatology, phlebotomy service, GP services, MSK services, physiotherapy
Adults Portsmouth	Specialist Palliative Care, Rehab and re-ablement, community nursing, end of life and continuing healthcare inpatient unit, elderly frail inpatient unit, occupational therapy, physiotherapy, speech and language therapy, pulmonary rehab and home oxygen, learning disabilities, care home support, heart failure, admission avoidance and supported discharge services
Adult Mental Health	Inpatient and Community Mental Health and Substance Misuse services for people who require specialist assessment, care and treatment by a dedicated multidisciplinary team

Each service has its own senior management team. The Chief Operating Decision Maker (COMD) of the Trust is the Trust Board which is required to approve the budget and all major operating decisions.
The monthly performance report to the COMD reports the performance of each services operating contribution towards infrastructure and overhead costs against approved budgets. The financial information below is consistent with the monthly reporting.

		2015-16		
	Revenue £000s	Employee Benefits £000s	Other Operating Costs **£000s**	**Operating surplus / (deficit) £000s**
Child & Family Health Services	38,908	(27,260)	(2,061)	9,587
Sexual Health Services	28,148	(6,856)	(14,251)	7,041
Dental	8,843	(4,661)	(1,416)	2,766
Adults Southampton	27,060	(18,776)	(2,865)	5,419
Primary Care & LTC	16,677	(11,546)	(1,928)	3,203
Adults Portsmouth	24,637	(17,269)	(1,851)	5,517
Adult Mental Health	23,071	(14,576)	(4,526)	3,969
Discontinued Operations	48		(17)	31
Total Services	**167,392**	**(100,944)**	**(28,915)**	**37,533**
Infrastructure	7,843	(8,716)	(23,675)	(24,548)
Corporate Costs	3,640	(9,251)	(4,758)	(10,369)
Depreciation, amortisation, impairment			(17,780)	(17,780)
Operating surplus/(deficit)	**178,875**	**(118,911)**	**(75,128)**	**(15,164)**

		2014-15		
	Revenue £000s	Employee Benefits £000s	Other Operating Costs **£000s**	**Operating surplus / (deficit) £000s**
Child & Family Health Services	38,911	(28,789)	(2,048)	8,074
Sexual Health Services	27,398	(6,906)	(13,361)	7,131
Dental	8,023	(4,706)	(1,454)	1,863
Adults Southampton	26,342	(18,341)	(3,037)	4,964
Primary Care & LTC	18,411	(13,176)	(2,236)	2,999
Adults Portsmouth	24,751	(17,867)	(2,323)	4,561
Adult Mental Health *	24,485	(14,400)	(5,584)	4,501
Discontinued Operations	650	(455)	(50)	145
Total Services	**168,971**	**(104,640)**	**(30,093)**	**34,238**
Infrastructure	7,967	(7,320)	(24,215)	(23,568)
Corporate Costs	10,331	(12,749)	(10,738)	(13,156)
Depreciation, amortisation, impairment			(4,014)	(4,014)
Operating surplus/(deficit)	**187,269**	**(124,709)**	**(69,060)**	**(6,500)**

* Adult Mental Health restated to include Substance Misuse service line.

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. None of the activities which generate income had full costs which exceeded £1m.

4. Revenue from patient care activities

	2015-16 £000s	2014-15 £000s
NHS Trusts	**28**	0
NHS England	**26,258**	28,040
Clinical Commissioning Groups	**106,241**	105,532
Foundation Trusts	**455**	293
Department of Health	**0**	0
NHS Other (including Public Health England and Prop Co)	**33**	0
Non-NHS:		
Local Authorities	**28,294**	30,811
Private patients	**392**	357
Injury costs recovery	**77**	0
Other	**190**	119
Total Revenue from patient care activities	**161,968**	165,152

5. Other operating revenue

	2015-16 £000s	2014-15 £000s
Education, training and research	**7,335**	8,305
Receipt of donations for capital acquisitions	**97**	197
Non-patient care services to other bodies	**2,007**	5,197
Income generation	**2,075**	2,424
Rental revenue from operating leases	**1,823**	1,696
Other revenue	**3,549**	4,269
Total Other Operating Revenue	**16,886**	22,088
Total operating revenue	**178,854**	187,240

6. Operating expenses

	2015-16 £000s	2014-15 £000s
Services from other NHS Trusts	**2,809**	3,077
Services from CCGs/NHS England	**0**	25
Services from other NHS bodies	**0**	1
Services from NHS Foundation Trusts	**2,629**	2,348
Total Services from NHS bodies*	**5,438**	5,451
Purchase of healthcare from non-NHS bodies	**1,756**	2,012
Trust Chair and Non-executive Directors	**47**	55
Supplies and services - clinical	**19,293**	18,926
Supplies and services - general	**1,948**	2,237
Consultancy services	**719**	2,084
Establishment	**4,511**	4,405
Transport	**642**	586
Business rates paid to local authorities	**448**	740
Premises	**19,002**	19,440
Legal Fees	**375**	484
Impairments and Reversals of Receivables	**(250)**	830
Depreciation	**3,741**	3,229
Amortisation	**431**	340
Impairments and reversals of property, plant and equipment	**10,165**	423
Internal Audit Fees	**46**	79
Audit fees	**73**	109
Clinical negligence	**357**	379
Research and development (excluding staff costs)	**1,679**	2,598
Education and Training	**928**	847
Other	**313**	201
Total Operating expenses (excluding employee benefits)	**71,662**	65,455
Employee Benefits		
Employee benefits excluding Board members	**117,975**	123,617
Board members	**936**	1,092
Total Employee Benefits	**118,911**	124,709
Total Operating Expenses	**190,573**	190,164

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

7. Operating Leases

The Trust occupies properties using operating lease arrangements with NHS and non NHS organisations.

7.1 Trust as lessee

	Buildings £000s	Other £000s	2015-16 Total £000s	2014-15 Total £000s
Payments recognised as an expense				
Minimum lease payments			**5,029**	7,587
Total			**5,029**	7,587
Payable:				
No later than one year	4,749	260	**5,009**	6,142
Between one and five years	9,636	185	**9,821**	11,143
After five years	8,443	0	**8,443**	11,673
Total	**22,828**	**445**	**23,273**	28,958

Total future sublease payments expected to be received: £nil

7.2 Trust as lessor

The Trust receives rental income from a number of tenants for rental of properties.

	2015-16 £000	2014-15 £000
Recognised as revenue		
Rental revenue	1,823	1,696
Total	**1,823**	1,696
Receivable:		
No later than one year	1,211	1,535
Between one and five years	2,298	2,296
After five years	3,431	4,579
Total	**6,940**	8,410

2014-15 has been restated following a review of rental income leases.

8.0 Employee benefits and staff numbers

8.1 Employee benefits

	2015-16 Total £000s	Permanently £000s	Other £000s
Employee Benefits - Gross Expenditure			
Salaries and wages	**100,360**	94,594	5,766
Social security costs	**6,875**	6,875	0
Employer Contributions to NHS BSA - Pensions Division	**12,090**	12,090	0
Termination benefits	**558**	558	0
Total employee benefits	**119,883**	**114,117**	**5,766**
Employee costs capitalised	**972**	551	421
Gross Employee Benefits excluding capitalised costs	**118,911**	**113,566**	**5,345**

Employee Benefits - Gross Expenditure 2014-15	**Total £000s**	**Permanently £000s**	**Other £000s**
Salaries and wages	104,459	99,162	5,297
Social security costs	7,214	7,214	0
Employer Contributions to NHS BSA - Pensions Division	12,241	12,241	0
Other pension costs	1	1	0
Termination benefits	1,076	1,076	0
TOTAL - including capitalised costs	124,991	119,694	5,297
Employee costs capitalised	282	94	188
Gross Employee Benefits excluding capitalised costs	124,709	119,600	5,109

8.2 Staff Numbers

	2015-16 Total Number	Permanently employed Number	Other Number	2014-15 Total Number
Average Staff Numbers				
Medical and dental	**149**	142	7	162
Administration and estates	**730**	718	12	761
Healthcare assistants and other support staff	**767**	756	11	777
Nursing, midwifery and health visiting staff	**875**	853	22	883
Nursing, midwifery and health visiting learners	**0**	0	0	30
Scientific, therapeutic and technical staff	**564**	560	4	613
Social Care Staff	**0**	0	0	0
Other	**1**	1	0	0
TOTAL	**3,086**	**3,030**	**56**	3,226
Of the above - staff engaged on capital projects	**16**	14	2	11

8.3 Staff Sickness absence and ill health retirements

	2015-16 Number	2014-15 Number
Total Days Lost	29,397	32,566
Total Staff Years	2,954	3,152
Average working Days Lost	9.95	10.33

	2015-16 Number	2014-15 Number
Number of persons retired early on ill health grounds	**8**	7
	£000s	£000s
Total additional pensions liabilities accrued in the year	**644**	391

8.4 Exit Packages agreed in 2014-15

	2015-16			2014-15		
Exit package cost band (including any special payment element)	***Number of compulsory redundancies**	***Number of other departures agreed**	**Total number of exit packages by cost band**	*Number of compulsory redundancies	*Number of other departures agreed	Total number of exit packages by cost band
	Number	**Number**	**Number**	Number	Number	Number
Less than £10,000	5	9	**14**	13	12	**25**
£10,000-£25,000	5	6	**11**	14	6	**20**
£25,001-£50,000	7	0	**7**	2	9	**11**
£50,001-£100,000	1	0	**1**	1	4	**4**
£100,001 - £150,000	0	0	**0**	0	0	**0**
£150,001 - £200,000	0	0	**0**	0	0	**0**
>£200,000	0	0	**0**	0	0	**0**
Total number of exit packages by type (total cost)	**18**	**15**	**33**	**30**	**31**	**61**
Total resource cost (£000s)	**422**	**136**	**558**	403	704	**1,107**

This note provides an analysis of Exit Packages agreed during the year. Redundancy and other departure costs have been paid in accordance with the provisions of the NHS redundancy arrangements. Other departures have been paid in accordance with the Mutually Agreed Resignation Scheme (MARS). Where the Trust has agreed early retirements, the additional costs are met by the Trust and not by the NHS Pensions Scheme. Ill-health retirement costs are met by the NHS Pensions Scheme and are not included in the table.

This disclosure reports the number and value of exit packages agreed in the year. Note: The expense associated with these departures may have been recognised in part or in full in a previous period.

8.5 Pension costs *[to update - details from NHS BSA]*

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 2016, is based on valuation data as 31 March 2015, updated to 31 March 2016 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.

c) Scheme provisions

The NHS Pension Scheme provided defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained:

The Scheme is a “final salary” scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as “pension commutation”.

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year’s pensionable pay for death in service, and five times their annual pension for death after retirement is payable

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 the statement of comprehensive income at the time the Trust commits itself to the retirement, regardless of the method of payment.

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVC’s run by the Scheme’s approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

9. Better Payment Practice Code

9.1 Measure of compliance

	2015-16 Number	**2015-16 £000s**	2014-15 Number	2014-15 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	**26,399**	**51,159**	28,684	46,274
Total Non-NHS Trade Invoices Paid Within Target	**24,109**	**46,770**	23,961	37,341
Percentage of NHS Trade Invoices Paid Within Target	**91%**	**91%**	84%	81%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	**1,395**	**18,376**	1,560	**38,627**
Total NHS Trade Invoices Paid Within Target	**1,196**	**14,778**	1,224	**28,820**
Percentage of NHS Trade Invoices Paid Within Target	**86%**	**80%**	78%	75%

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.

9.2 The Late Payment of Commercial Debts (Interest) Act 1998

The Trust had no claims made under this legislation and paid no compensation.

10. Investment Revenue

	2015-16 £000s	2014-15 £000s
Bank interest	**21**	29
Total investment revenue	**21**	29

11. Other Gains and Losses

	2015-16 £000s	2014-15 £000s
Gain/(Loss) on disposal of assets other than by sale (PPE)	**(126)**	(189)
Gain (Loss) on disposal of assets held for sale	**32**	0
Total	**(94)**	(189)

12. Finance Costs

	2015-16 £000s	2014-15 £000s
Interest		
Interest on loans and overdrafts	**81**	0
Interest on obligations under finance leases	**52**	40
Total interest expense	**133**	40
Total	**133**	40

13.1 Property, plant and equipment

2015-16	Land	Buildings excluding 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
Cost or valuation:								
At 1 April 2015	**25,855**	**79,822**	**3,243**	**3,236**	**70**	**3,723**	**435**	**116,384**
Additions of Assets Under Construction			5,524					**5,524**
Additions Purchased	0	0	0	0	0	0	0	**0**
Additions - Purchases from Cash Donations & Government Grants	0	0	35	62	0	0	0	**97**
Reclassifications	0	3,244	(7,467)	27	0	1,988	0	**(2,208)**
Reclassifications as Held for Sale and reversals	(240)	(460)	0	0	0	0	0	**(700)**
Disposals other than for sale	0	(134)	0	0	0	(348)	0	**(482)**
Upward revaluation/positive indexation	50	369	0	0	0	0	0	**419**
Impairments/negative indexation	(13,165)	(14,207)	0	0	0	0	0	**(27,372)**
At 31 March 2016	**12,500**	**68,634**	**1,335**	**3,325**	**70**	**5,363**	**435**	**91,662**
Depreciation								
At 1 April 2015	**0**	**399**	**0**	**2,102**	**22**	**1,344**	**393**	**4,260**
Reclassifications as Held for Sale and reversals	0	(15)	0	0	0	0	0	**(15)**
Disposals other than for sale	0	(37)	0	(14)	0	(304)	0	**(355)**
Charged During the Year	0	2,512	0	269	11	929	20	**3,741**
At 31 March 2016	**0**	**2,859**	**0**	**2,357**	**33**	**1,969**	**413**	**7,631**
Net Book Value at 31 March 2016	**12,500**	**65,775**	**1,335**	**968**	**37**	**3,394**	**22**	**84,031**
Asset financing:								
Owned - Purchased	12,500	65,734	1,335	819	37	1,974	22	**82,421**
Owned - Donated	0	41	0	149	0	0	0	**190**
Held on finance lease	0	0	0	0	0	1,420	0	**1,420**
Total at 31 March 2016	**12,500**	**65,775**	**1,335**	**968**	**37**	**3,394**	**22**	**84,031**

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	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
At 1 April 2015	5,447	24,810	0	0	0	0	0	**30,257**
Movements (specify)	(5,111)	(12,589)	0	0	0	0	0	**(17,700)**
At 31 March 2016	**336**	**12,221**	**0**	**0**	**0**	**0**	**0**	**12,557**

Additions to Assets Under Construction in 2015-16

	£000's
Land	0
Buildings excl Dwellings	1,950
Plant & Machinery	2,028
IT - in-house & 3rd party software	1,546
Balance as at YTD	**5,524**

13.2 Property, plant and equipment prior-year

2014-15	Land	Buildings excluding 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
Cost or valuation:								
At 1 April 2014	**24,168**	**72,088**	**131**	**2,897**	**97**	**2,753**	**435**	**102,569**
Additions of Assets Under Construction	0	0	5,068	0	0	0	0	**5,068**
Additions Purchased	0	0	0	162	0	0	0	**162**
Additions - Purchases from Cash Donations & Government Grants	0	0	0	16	0	0	0	**16**
Additions Leased	0	0	0	0	0	810	0	**810**
Reclassifications	0	1,348	(1,956)	195	0	189	0	**(224)**
Disposals other than for sale	0	(36)	0	(34)	(27)	(29)	0	**(126)**
Upward revaluation/positive indexation	1,982	6,684	0	0	0	0	0	**8,666**
Impairments/negative indexation	(295)	(262)	0	0	0	0	0	**(557)**
At 31 March 2015	**25,855**	**79,822**	**3,243**	**3,236**	**70**	**3,723**	**435**	**116,384**
Depreciation								
At 1 April 2014	**0**	**2,077**	**0**	**1,807**	**13**	**700**	**381**	**4,978**
Disposals other than for sale	0	0	0	(9)	0	0	0	**(9)**
Upward revaluation/positive indexation	(70)	(4,291)	0	0	0	0	0	**(4,361)**
Impairments	70	353	0	0	0	0	0	**423**
Charged During the Year	0	2,260	0	304	9	644	12	**3,229**
At 31 March 2015	**0**	**399**	**0**	**2,102**	**22**	**1,344**	**393**	**4,260**
Net Book Value at 31 March 2015	**25,855**	**79,423**	**3,243**	**1,134**	**48**	**2,379**	**42**	**112,124**
Asset financing:								
Owned - Purchased	25,855	79,374	3,243	1,024	48	960	42	**110,546**
Owned - Donated	0	49	0	110	0	0	0	**159**
Held on finance lease	0	0	0	0	0	1,419	0	**1,419**
Total at 31 March 2015	**25,855**	**79,423**	**3,243**	**1,134**	**48**	**2,379**	**42**	**112,124**

13.3 Property, plant and equipment

The Trust received donated assets from Solent NHS Charity, Southampton Clinical Commissioning Group, SCA and League of Friends in the year.

Land and buildings are held at revalued amounts. These assets were revalued as at 31 March 2016 using optimisation methodology (delivery of services from modern facilities) and indices relevant to the asset class. The exercise was carried out by District Valuers who are RICS qualified. The impact of the revaluation is:

	Land £000's	Buildings £000's	Total £000's
Increase to revaluation reserve	50	369	419
Decrease to revaluation reserve	(5,036)	(12,171)	(17,207)
Impairment charged to SOCNI	(8,129)	(2,036)	(10,165)
	(13,115)	(13,838)	(26,953)

The economic lives of the property, plant and equipment range from:

	Min Life (yrs)	Max Life (yrs)
Buildings excluding dwellings	1	92
Plant & machinery	1	25
Transport equipment	4	10
Information technology	1	7
Furniture & fittings	1	10

14.1 Intangible non-current assets

2015-16	**IT - in-house & 3rd party software £000's**	**Total £000's**
At 1 April 2015	**1,784**	**1,784**
Additions Purchased	0	0
Reclassifications	2,208	2,208
At 31 March 2016	**3,992**	**3,992**
Amortisation		
At 1 April 2015	**631**	**631**
Charged during the year	431	431
At 31 March 2016	**1,062**	**1,062**
Net Book Value at 31 March 2016	**2,930**	**2,930**
Asset Financing: Net book value at 31 March 2016 comprises:		
Purchased	2,930	**2,930**
Total at 31 March 2016	**2,930**	**2,930**

Revaluation reserve balance for intangible non-current assets

The Trust does not hold any revaluation reserves for intangible non-current assets. No revaluation of intangible assets was carried out in the period.

14.2 Intangible non-current assets prior year

2014-15	**IT - in-house & 3rd party software £000's**	**Total £000's**
At 1 April 2014	**1,635**	**1,635**
Additions Purchased	7	**7**
Reclassifications	224	**224**
Disposals other than by sale	(82)	**(82)**
At 31 March 2015	**1,784**	**1,784**
Amortisation		
At 1 April 2014	**303**	**303**
Disposals other than by sale	(12)	**(12)**
Charged during the year	340	**340**
At 31 March 2015	**631**	**631**
Net Book Value at 31 March 2015	**1,153**	**1,153**
Asset Financing: Net book value at 31 March 2015 comprises:		
Purchased	1,153	**1,153**
Total at 31 March 2015	**1,153**	**1,153**

14.3 Intangible non-current assets

The Trust received no donated intangible assets in the year.

The economic lives of the intangible assets range from:

	Min Life (yrs)	Max Life (yrs)
IT - in-house & 3rd party software	2	7

15. Analysis of impairments and reversals recognised in 2015-16

	Property Plant and Equipment £000s	Total £000s
Other	10,165	**10,165**
Total charged to Annually Managed Expenditure	**10,165**	**10,165**
Total Impairments of Property, Plant and Equipment changed to SoCI	**10,165**	**10,165**

No impairment losses on Donated and Government Granted Assets is included above.

16. Investment property

The Trust has no investment property.

17. Commitments

17.1 Capital commitments

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

	31 March 2016 £000s	31 March 2015 £000s
Property, plant and equipment	**1,205**	1,955
Intangible assets	**51**	145
Total	**1,256**	2,100

17.2 Other financial commitments

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

	31 March 2016 £000s	31 March 2015 £000s
Not later than one year	8,158	8,246
Later than one year and not later than five year	1,093	10,338
Later than five years	0	0
Total	**9,251**	**18,584**

18. Intra-Government and other balances

	Current receivables £000s	Non-current receivables £000s	Current payables £000s	Non-current payables £000s
Balances with Other Central Government Bodies	347	0	3,497	0
Balances with Local Authorities	3,811	0	0	0
Balances with NHS bodies inside the Departmental Group	6,636	0	4,524	4,304
Balances with Bodies External to Government	211	1,760	9,998	1,006
At 31 March 2016	**11,005**	**1,760**	**18,019**	**5,310**
prior period:				
Balances with Other Central Government Bodies	1,207	0	2,045	0
Balances with Local Authorities	3,459	0	978	0
Balances with NHS Trusts and FTs	9,951	0	4,265	0
Balances with Bodies External to Government	857	1,936	9,207	1,308
At 31 March 2015	**15,474**	**1,936**	**16,495**	**1,308**

19. Inventories

	Drugs £000s	Consumables £000s	Total £000s
Balance at 1 April 2015	**397**	**316**	**713**
Additions	9,901	2,788	**12,689**
Inventories recognised as an expense in the period	(10,050)	(2,894)	**(12,944)**
Balance at 31 March 2016	**248**	**210**	**458**

20.1 Trade and other receivables

	Current		Non-current	
	31 March 2016 £000s	31 March 2015 £000s	**31 March 2016 £000s**	31 March 2015 £000s
NHS receivables - revenue	**4,850**	7,272	**0**	0
NHS prepayments and accrued income	**1,685**	2,679	**0**	0
Non-NHS receivables - revenue	**3,726**	4,807	**0**	0
Non-NHS receivables - capital	**0**	0	**0**	0
Non-NHS prepayments and accrued income	**1,482**	989	**1,760**	1,936
PDC Dividend prepaid to DH	**103**	0		
Provision for the impairment of receivables	**(1,471)**	(1,721)	**0**	0
VAT	**347**	1,207	**0**	0
Other receivables	**283**	241	**0**	0
Total	**11,005**	15,474	**1,760**	1,936
Total current and non current	**12,765**	17,410		
Included in NHS receivables are prepaid pension contributions:	**0**			

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

Other trade receivables are reviewed on a regular basis with the person responsible. Provisions are established if debtors exceed the following time intervals past their agreed terms - after 90 days 100%. Any overdue debts are actively pursued by specialised teams.

20.2 Receivables past their due date but not impaired	**31 March 2016 £000s**	31 March 2015 £000s
By up to three months	**5,038**	4,091
By three to six months	**633**	1,607
By more than six months	**564**	1,002
Total	**6,235**	6,700

20.3 Provision for impairment of receivables	**2015-16 £000s**	2014-15 £000s
Balance at 1 April 2014	**(1,721)**	(891)
Amount recovered during the year	**1,209**	510
(Increase)/decrease in receivables impaired	**(959)**	(1,340)
Balance at 31 March 2015	**(1,471)**	(1,721)

No collateral is held against these debts.

21. NHS LIFT investments
The Trust has no NHS LIFT investments.

22. Other Financial Assets
The Trust has no other financial assets.

23. Other current assets
The Trust has no other current assets.

24. Cash and Cash Equivalents	**31 March 2016 £000s**	**31 March 2015** £000s
Opening balance	**785**	10,300
Net change in year	**4,790**	(9,515)
Closing balance	**5,575**	785
Made up of		
Cash with Government Banking Service	**5,551**	752
Commercial banks	**0**	12
Cash in hand	**24**	21
Cash and cash equivalents as in statement of financial position	**5,575**	785
Cash and cash equivalents as in statement of cash flows	**5,575**	785
Patients' money held by the Trust, not included above	**5**	5

25. Non-current assets held for sale
The Trust has no non-current assets held for sale.

26. Trade and other payables	**Current**		**Non-current**	
	31 March 2016 £000s	31 March 2015 £000s	**31 March 2016 £000s**	31 March 2015 £000s
NHS payables - revenue	**310**	807	**0**	0
NHS payables - capital	**106**	0	**0**	0
NHS accruals and deferred income	**4,108**	3,442	**0**	0
Non-NHS payables - revenue	**1,785**	1,373	**0**	0
Non-NHS payables - capital	**264**	1,838	**0**	0
Non-NHS accruals and deferred income	**7,397**	6,608	**167**	188
Social security costs	**992**	1,053	**0**	0
PDC Dividend payable to DH	**0**	16	**0**	0
Accrued Interest on DH Loans	**3**	0	**0**	0
VAT	**0**	0	**0**	0
Tax	**904**	992	**0**	0
Other	**1,844**	49	**0**	0
Total	**17,713**	16,178	**167**	188
Total payables (current and non-current)	**17,880**	16,366		
Included above:				
to Buy Out the Liability for Early Retirements Over 5 Years	**0**	0		
number of Cases Involved (number)	**0**	0		
outstanding Pension Contributions at the year end	**1,601**	6		

27. Other liabilities

The Trust has no other liabilities.

28. Borrowings

	Current		Non-current	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000s	£000s	**£000s**	£000s
Loans from Department of Health	**0**	0	**4,304**	0
Finance lease liabilities	**306**	317	**839**	1,120
Total	**306**	**317**	**5,143**	**1,120**
Total borrowings (current and non-current)	**5,449**	**1,437**		

The loan from Department of Health is a Revenue Support Loan, repayment is due February 2018 and attracts interest at 1.5%.

Borrowings / Loans - repayment of principal falling due in:

	31 March 2016	
	Other	**Total**
	£000s	**£000s**
0-1 Years	306	**306**
1 - 2 Years	5,143	**5,143**
TOTAL	**5,449**	**5,449**

29. Other financial liabilities

The Trust has no other financial liabilities.

30. Deferred revenue

	Current		Non-current	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000s	£000s	**£000s**	£000s
Opening balance at 1 April 2015	**1,440**	1,861	**187**	208
Deferred revenue addition	**1,433**	1,461	**0**	0
Transfer of deferred revenue	**(2,255)**	(1,882)	**(21)**	(21)
Current deferred Income at 31 March 2016	**618**	1,440	**166**	187
Total deferred income (current and non-current)	**784**	1,627		

31. Finance lease obligations as lessee

Amounts payable under finance leases (Other)	Minimum lease payments		Present value of minimum lease	
	31 March 2016	31 March 2015	**31 March 2016**	31 March 2015
	£000s	£000s	**£000s**	£000s
Within one year	**345**	345	**306**	317
Between one and five years	**881**	1,176	**839**	1,069
After five years	**0**	50	**0**	51
Less future finance charges	**(81)**	(134)		
Minimum Lease Payments / Present value of minimum lease payments	**1,145**	1,437	**1,145**	1,437
Included in:				
Current borrowings			**306**	317
Non-current borrowings			**839**	1,120
			1,145	1,437

32. Finance lease receivables as lessor

The Trust has no finance lease receivables as lessor.

33. Provisions

The Trust has no provisions.

£2,034,981 is included in the provisions of the NHS Litigation Authority at 31 March 2016 (£916,265 at 31 March 2015) in respect of clinical negligence liabilities of the Trust.

34. Contingencies

	31 March 2016	31 March 2015
	£000s	£000s
Contingent liabilities		
NHS Litigation Authority legal claims	**16**	9
Net value of contingent liabilities	**16**	9

Contingent assets

The Trust has no contingent assets.

35. Financial Instruments

35.1 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 Trust has with Clinical Commissioning Groups and NHS England and the way those Clinical Commissioning Groups and NHS England are financed, the Trust 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 Trust 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 Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

The Trust borrows from government for capital expenditure, subject to affordability as confirmed by the Trust Development Agency. 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 Trust therefore has low exposure to interest rate fluctuations.

Credit risk

Because the majority of the Trust's revenue comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2016 are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk

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

35.2 Financial Assets

	Loans and receivables £000s	Total £000s
Receivables - NHS	6,137	**6,137**
Receivables - non-NHS	3,711	**3,711**
Cash at bank and in hand	5,575	**5,575**
Total at 31 March 2015	**15,423**	**15,423**
Receivables - NHS	9,951	9,951
Receivables - non-NHS	5,016	5,016
Cash at bank and in hand	785	785
Total at 31 March 2014	**15,752**	15,752

35.3 Financial Liabilities

	Other £000s	Total £000s
NHS payables	4,307	**4,307**
Non-NHS payables	10,894	**10,894**
Other borrowings	4,304	**4,304**
Total at 31 March 2015	**19,505**	**19,505**
NHS payables	3,891	3,891
Non-NHS payables	8,801	8,801
Total at 31 March 2014	**12,692**	12,692

36. Events after the end of the reporting period

There have been no events after the end of the reporting period.

37. Related party transactions

During the year none of the Department of Health Ministers, Trust board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with the Trust.

The Department of Health is regarded as a related party. During the year the Trust 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. These entities are:

	Payments to Related Party	Receipts from Related Party	Amounts owed to Related Party	Amounts due from Related Party
	£	£	£	£
NHS England	30	27,010	750	1,915
<u>Clinical Commissioning Groups</u>				
NHS Southampton	15	32,237	0	648
NHS Portsmouth	0	52,173	0	710
NHS West Hampshire	0	7,818	56	297
NHS South Eastern Hampshire	0	5,592	0	105
NHS Fareham & Gosport	0	5,180	0	55
NHS North East Hampshire & Farnham	0	1,407	53	120
NHS North Hampshire	29	2,018	0	27
<u>NHS Trust and Foundation Trust</u>				
Hampshire Hospitals Foundation Trust	1,280	17	34	1
Portsmouth Hospitals NHS Trust	3,419	1,401	284	331
University of Southampton NHS Foundation Trust	2,163	1,571	645	529
Southern Health NHS Foundation Trust	1,418	2,014	442	591
NHS Business Services Authority	1,589	0	239	0
NHS Litigation Authority	358	0	0	0
NHS Property Services Ltd	5,315	876	737	411
Community Health Partnerships	2,295	0	1,005	0
Solent NHS Charity	2	51	0	1

In addition, the Trust 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 HM Revenue and Customs, NHS Pensions Agency, Portsmouth City Council, Southampton City Council and Hampshire County Council.

The Trust has also received revenue from Solent NHS Charity of which the NHS Trust Board is the Corporate Trustee.

38. Losses and special payments

There were 3 cases of losses and special payments totalling £4,381 accrued during 2015-16 (10 cases totalling £39,888 during 2014-15).

39. Financial performance targets

The Trust has a duty to achieve breakeven or a surplus in each accounting period.

39.1 Breakeven performance

	2011-12 £000s	2012-13 £000s	2013-14 £000s	2014-15 £000s	**2015-16 £000s**
Turnover	193,935	192,146	187,756	187,240	**178,854**
Retained surplus/(deficit) for the year	1,863	776	1,858	(6,500)	**(15,164)**
Adjustment for:					
Adjustments for impairments	0	0	0	423	**10,165**
Adjustments for impact of policy change re donated/government grants assets	0	0	0	(197)	**(63)**
Break-even in-year position	**1,863**	**776**	**1,858**	**(6,274)**	**(5,062)**
Break-even cumulative position	**1,863**	**2,639**	**4,497**	**(1,777)**	**(6,839)**

	2011-12 %	2012-13 %	2013-14 %	2014-15 %	**2015-16 %**
Materiality test (I.e. is it equal to or less than 0.5%):					
Break-even in-year position as a percentage of turnover	0.96	0.40	0.99	-3.35	**-2.83**
Break-even cumulative position as a percentage of turnover	0.96	1.37	2.40	-0.95	**-3.82**

39.2 Capital cost absorption rate

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

39.3 External financing

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

	2015-16 £000s	2014-15 £000s
External financing limit (EFL)	**3,897**	16,884
Cash flow financing	**(486)**	15,545
Unwinding of Discount Adjustment		
Finance leases taken out in the year	**0**	810
External financing requirement	**(486)**	16,355
Under/(over) spend against EFL	**4,383**	529

39.4 Capital resource limit

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

	2015-16 £000s	2014-15 £000s
Gross capital expenditure	**5,623**	6,054
Less: book value of assets disposed of	**(811)**	(63)
Less: donations towards the acquisition of non-current assets	**(100)**	(17)
Charge against the capital resource limit	**4,712**	5,974
Capital resource limit	**4,740**	6,793
(Over)/underspend against the capital resource limit	**28**	819

40. Third party assets

The Trust held £5,359 cash and cash equivalents at 31 March 2016 (£4,970 at 31 March 2015) which relate to monies held by the Trust on behalf of patients or other parties. This has been excluded from the cash and cash equivalents figure reported in the accounts.