

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

Opinion

We have audited the financial statements of Solent NHS Trust for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Comprehensive Income and Expenditure Statement, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes 1 to 41.4. 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 2017-18 HM Treasury's Financial Reporting Manual (the 2017-18 FReM) as contained in the Department of Health and Social Care Group Accounting Manual 2017/18 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).

In our opinion the financial statements:

- give a true and fair view of the financial position of Solent NHS Trust as at 31 March 2018 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Use of our report

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 for no other purpose. 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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Health Services Act 2006

In our opinion the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Health Services Act 2006 and the Accounts Directions issued thereunder.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the governance statement does not comply with NHS Improvement's guidance; 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; or
- we are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We have nothing to report in these respects.

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

- Referral to the Secretary of State

We referred a matter to the Secretary of State under section 30(1)(b) 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.

On 25 May 2017 we referred a matter to the Secretary of State under Section 30(1)(a) of the Local Audit and Accountability Act 2014 on the basis that the Trust breached its break-even duty. That was on the basis that the unaudited financial statements for 2016/17 showed an in year £2.084 million deficit with a cumulative breakeven position of £8.923 million deficit. For 2017/18 the Trust has reported an in year £757,000 surplus with a cumulative breakeven position of £8.186 million deficit.

The Trust has therefore incurred a deficit in financial years 2014/15, 2015/16, 2016/17 with a surplus in 2017/18 and remains in a cumulative deficit position of £8.186 million. On 22 May 2018 we made a further referral to the Secretary of State under Section 30(1)(b) to confirm that the Trust is still in breach of its break-even duty.

Responsibilities of the Directors and Accountable Officer

As explained more fully in the Statement of Directors' Responsibilities in respect of the Accounts, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. In preparing the financial statements, the Accountable Officer is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Accountable Officer either intends to cease operations, or have no realistic alternative but to do so.

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.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's 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 August 2017, 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 2018.

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.

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.

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.

Suresh Patel
Ernst & Young LLP (Local Auditor), Southampton
29 May 2018

The maintenance and integrity of the Solent NHS Trust web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Solent NHS Trust

Annual accounts for the year ended 31 March 2018

Statement of Comprehensive Income for year ended 31 March 2018

| | Note | 2017/18 £000 | 2016/17 £000 |
|---|------|-----------------------|-----------------------|
| Operating income from patient care activities | 4 | 167,059 | 163,019 |
| Other operating income | 5 | 20,160 | 17,656 |
| Operating expenses | 6 | <u>(179,726)</u> | <u>(182,084)</u> |
| Operating surplus/(deficit) from continuing operations | | <u>7,493</u> | <u>(1,409)</u> |
| Finance income | 9 | 24 | 23 |
| Finance expenses | 10 | (151) | (159) |
| PDC dividends payable | | <u>(2,305)</u> | <u>(2,314)</u> |
| Net finance costs | | <u>(2,432)</u> | <u>(2,450)</u> |
| Other gains / (losses) | 11 | (4) | (11) |
| Surplus / (deficit) for the year | | <u>5,057</u> | <u>(3,870)</u> |
| Other comprehensive income | | | |
| Will not be reclassified to income and expenditure: | | | |
| Impairments | 13.3 | (630) | (4,032) |
| Revaluations | 13.3 | 351 | 0 |
| Total comprehensive income / (expense) for the period | | <u>4,778</u> | <u>(7,902)</u> |
| Financial performance for the year | | | |
| Retained surplus/(deficit) for the year | | 5,057 | (3,870) |
| Impairments (excluding IFRIC 12 impairments) | 13.3 | (4,310) | 1,740 |
| Adjustments in respect of donated asset reserve elimination | | <u>(10)</u> | 46 |
| Adjusted retained surplus/(deficit) | | <u>737</u> | <u>(2,084)</u> |

Statement of Financial Position as at 31 March 2018

| | | 31 March 2018 | 31 March 2017 |
|--|-------------|-----------------------------|-----------------------------|
| | Note | £000 | £000 |
| Non-current assets | | | |
| Intangible assets | 14 | 2,422 | 2,844 |
| Property, plant and equipment | 13 | 81,276 | 77,001 |
| Trade and other receivables | 19 | 2,653 | 3,113 |
| Total non-current assets | | <u>86,351</u> | <u>82,958</u> |
| Current assets | | | |
| Inventories | 18 | 394 | 407 |
| Trade and other receivables | 19 | 13,533 | 12,011 |
| Non-current assets held for sale / assets in disposal groups | 24 | 1,100 | 1,200 |
| Cash and cash equivalents | 23 | 9,601 | 6,291 |
| Total current assets | | <u>24,628</u> | <u>19,909</u> |
| Current liabilities | | | |
| Trade and other payables | 25 | (20,338) | (18,552) |
| Borrowings | 27 | (4,792) | (4,623) |
| Other liabilities | 26 | (1,320) | (1,038) |
| Total current liabilities | | <u>(26,450)</u> | <u>(24,213)</u> |
| Total assets less current liabilities | | <u>84,529</u> | <u>78,654</u> |
| Non-current liabilities | | | |
| Trade and other payables | 25 | - | - |
| Borrowings | 27 | (5,098) | (3,980) |
| Other liabilities | 26 | (125) | (146) |
| Total non-current liabilities | | <u>(5,223)</u> | <u>(4,126)</u> |
| Total assets employed | | <u><u>79,306</u></u> | <u><u>74,528</u></u> |
| Financed by | | | |
| Public dividend capital | | 6,435 | 6,435 |
| Revaluation reserve | | 7,625 | 8,163 |
| Income and expenditure reserve | | 65,246 | 59,930 |
| Total taxpayers' equity | | <u><u>79,306</u></u> | <u><u>74,528</u></u> |

The notes on pages 5 to 25 form part of these accounts.

The financial statements on pages 1 to 4 were approved by the Board on 29 May 2018 and signed on its behalf by

Chief Executive:

Date:

Statement of Changes in Equity for the year ending 31 March 2018

| | Public dividend capital £000 | Revaluation reserve £000 | Income and expenditure reserve £000 | Total £000 |
|--|---------------------------------------|--------------------------------|--|---------------|
| Taxpayers' equity at 1 April 2017 - brought forward | 6,435 | 8,163 | 59,930 | 74,528 |
| Surplus for the year | 0 | 0 | 5,057 | 5,057 |
| Other transfers between reserves | 0 | (259) | 259 | 0 |
| Impairments | 0 | (630) | 0 | (630) |
| Revaluations | 0 | 351 | 0 | 351 |
| Taxpayers' equity at 31 March 2018 | 6,435 | 7,625 | 65,246 | 79,306 |

Statement of Changes in Equity for the year ending 31 March 2017

| | Public dividend capital £000 | Revaluation reserve £000 | Income and expenditure reserve £000 | Total £000 |
|--|---------------------------------------|--------------------------------|--|----------------|
| Taxpayers' equity at 1 April 2016 - brought forward | 6,435 | 12,557 | 63,438 | 82,430 |
| (Deficit) for the year | 0 | 0 | (3,870) | (3,870) |
| Other transfers between reserves | 0 | (362) | 362 | 0 |
| Impairments | 0 | (4,032) | 0 | (4,032) |
| Taxpayers' equity at 31 March 2017 | 6,435 | 8,163 | 59,930 | 74,528 |

Statement of Cash Flows for the year ended 31 March 2018

| | Note | 2017/18 £000 | 2016/17 £000 |
|---|------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Operating surplus / (deficit) | | 7,493 | (1,409) |
| Non-cash income and expense: | | | |
| Depreciation and amortisation | 6 | 3,954 | 4,206 |
| Net impairments | 13.3 | (4,310) | 1,740 |
| Income recognised in respect of capital donations | | (56) | 0 |
| (Increase) / decrease in receivables and other assets | | (1,436) | (2,258) |
| (Increase) / decrease in inventories | | 13 | 51 |
| Increase / (decrease) in payables and other liabilities | | 1,965 | 1,978 |
| Net cash generated from operating activities | | <u>7,623</u> | <u>4,308</u> |
| Cash flows from investing activities | | | |
| Interest received | | 24 | 23 |
| Purchase of intangible assets | | (141) | (511) |
| Purchase of property, plant, equipment and investment property | | (3,406) | (3,514) |
| Net cash used in investing activities | | <u>(3,523)</u> | <u>(4,002)</u> |
| Cash flows from financing activities | | | |
| Movement on loans from the Department of Health and Social Care | | 1,595 | 3,460 |
| Capital element of finance lease rental payments | | (393) | (306) |
| Interest paid on finance lease liabilities | | (38) | (39) |
| Other interest paid | | (106) | (120) |
| PDC dividend (paid) / refunded | | (1,848) | (2,585) |
| Net cash used in financing activities | | <u>(790)</u> | <u>410</u> |
| Increase / (decrease) in cash and cash equivalents | | <u>3,310</u> | <u>716</u> |
| Cash and cash equivalents at 1 April - brought forward | | <u>6,291</u> | <u>5,575</u> |
| Cash and cash equivalents at 31 March | 23 | <u><u>9,601</u></u> | <u><u>6,291</u></u> |

Notes to the Accounts

1. Accounting policies and other information

1.1 Basis of preparation

The Department of Health and Social Care has directed that the financial statements of the trust shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM), which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the GAM 2017/18 issued by the Department of Health and Social Care. The accounting policies contained in the GAM 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 GAM permits a choice of accounting policy, the accounting policy that 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 are described below. These have been applied consistently in dealing with items considered material in relation to accounts.

1.2 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.

These accounts have been prepared on a going concern basis. This is supported by the recent contract negotiations with NHS and Local Authority organisations to provide continuing services throughout 2018/19. Having considered the challenges the Trust face, particularly with reference to the operating plan for the next twelve months, and having reviewed with the external auditors, the Board has a reasonable expectation that the Trust has access to adequate resources to continue in operational existence in the foreseeable future. For this reason the Trust continues to adopt the going concern basis in preparing the annual accounts.

1.3 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.

1.4 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 FR&M. The FR&M does not require retrospective adoption, so prior year transactions (which have been accounted for under merger accounting) have not been restated. Absorption accounting requires that entities account for their transactions in the period in which they took place, with no restatement of performance required when functions transfer within the public sector. Where assets and liabilities transfer, the gain or loss resulting is recognised in the SOCI, and is disclosed separately from operating costs.

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

1.5 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 38, Related Party Transactions.

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.

1.7 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.

1.8 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.

1.9 Revenue

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the trust is contracts with commissioners in respect of health care services. Income 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 which is to be delivered in a subsequent financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

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.

Revenue grants and other contributions to expenditure

Government grants are grants from government bodies other than income from commissioners or trusts for the provision of services. Where a grant is used to fund revenue expenditure it is taken to the Statement of Comprehensive Income to match that expenditure.

The value of the benefit received when accessing funds from the Government's apprenticeship service is recognised as income at the point of receipt of the training service. Where these funds are paid directly to an accredited training provider, the corresponding notional expense is also recognised at the point of recognition for the benefit.

1.10 Expenditure on employee benefits

Short-term employee benefits

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

Pension costs

NHS Pension Scheme

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

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

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

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

Employees that are not eligible to join the NHS Pensions Scheme can join the National Employment Savings Scheme (NEST). NEST is a defined contribution workplace pension scheme and the expense is recognised in the SOCI. The expenditure recognised in SOCI for the financial year to 31 March 2018 was £4,680 (financial year to 31 March 2017 £4,023).

1.11 Expenditure on other goods and services

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

1.12 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised where:

- it is held for use in delivering services or for administrative purposes
- it is probable that future economic benefits will flow to, or service potential be provided to, the trust
- it is expected to be used for more than one financial year
- the cost of the item can be measured reliably
- the item has cost of at least £5,000, or
- collectively, a number of items have a cost of at least £5,000 and individually have cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single managerial control.

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

Valuation

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Current values in existing use are determined as follows:

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

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

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

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

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

Subsequent expenditure

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

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

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

Measurement

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

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

Revaluations and impairments are treated in the same manner as for property, plant and equipment.

1.14 Depreciation, amortisation and impairments

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

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

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

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

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life, unless the Trust expects to acquire the asset at the end of the lease term, in which case the asset is depreciated in the same manner as for owned assets.

1.15 Donated assets

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

1.16 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.

1.17 Private Finance Initiative (PFI) and Local Improvement Finance Trust (LIFT) transactions

The Trust has no PFI or LIFT 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.

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. Cash, bank and overdraft balances are recorded at current values.

1.20 Carbon Reduction Commitment Scheme (CRC)

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

1.21 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 of 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.

1.22 The 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 to reflect a constant periodic rate of return on the Trusts' 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 as an expense on a straight-line basis over the lease term.

1.23 Provisions

The Trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the discount rates published and mandated by HM Treasury.

1.24 Clinical negligence costs

NHS Resolution operates a risk pooling scheme under which the Trust pays an annual contribution to NHS Resolution, which, in return, settles all clinical negligence claims. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with the Trust. The total value of clinical negligence provisions carried by NHS resolution on behalf of the Trust is disclosed at Note 30 but is not recognised in the Trust's accounts.

1.25 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 NHS Resolution and in return receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses when the liability arises.

1.26 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.

1.27 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.

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. Interest is recognised using the effective interest method.

1.28 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 and Social Care are recognised at historic 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 and Social Care, 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.

1.29 Public dividend capital (PDC) and PDC dividend

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS organisation. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32 as PDC is issued under legislation rather than under contract, it is not treated as an equity financial instrument.

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.

A charge, reflecting the cost of capital utilised by the trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for

- (i) donated assets (including lottery funded assets),
- (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and
- (iii) any PDC dividend balance receivable or payable.

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

1.30 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.

1.31 Foreign exchange

The Trust's functional and presentational currency is sterling. Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March. Resulting exchange gains and losses for either of these are recognised in the Trust's surplus/deficit in the period in which they arise.

1.32 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 37 to the accounts in accordance with the requirements of HM Treasury's FReM.

1.33 Losses and special payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled. Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had the trust not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

1.34 Gifts

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

1.35 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 NHS trust 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'.

1.36 Associates

The Trust has no associates.

1.37 Joint arrangements

The Trust has no joint arrangements.

1.38 Research and Development

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

2.35 Accounting standards that have been issued but have not yet been adopted

The DHSC GAM does not require the following Standards and Interpretations to be applied in 2017-18. These standards are still subject to HM Treasury FReM adoption, with IFRS 9 and IFRS 15 being for implementation in 2018-19, and the government implementation date for IFRS 16 and IFRS 17 still subject to HM Treasury consideration.

- IFRS 9 Financial Instruments – Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted.
- IFRS 15 Revenue from Contracts with Customers – Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted.
- IFRS 16 Leases – Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted.
- IFRS 17 Insurance Contracts – Application required for accounting periods beginning on or after 1 January 2021, but not yet adopted by the FReM: early adoption is not therefore permitted.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – Application required for accounting periods beginning on or after 1 January 2018.
- IFRIC 23 Uncertainty over Income Tax Treatments – Application required for accounting periods beginning on or after 1 January 2019.

2. Operating Segments

In 2017-18 Trust activity was organised into eight service lines. Details of the eight service line are as follows;

| | |
|-------------------------------|--|
| Children's East | Children's nursing, child and adolescent mental health, health visiting, paediatric medical, paediatric therapies and school nursing |
| Children's West | Children's nursing, child and adolescent mental health, health visiting, paediatric medical, paediatric therapies and school nursing |
| Sexual Health Services | Gum, reproductive health, HIV outpatient services, sexual health promotion, termination of pregnancies, vasectomy services, sexual assault referral centre |
| Dental | Specialist dental care, GA's, Prisons and Oral Health |
| Adults Southampton | Neuro rehab services, 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, care home support, heart failure, admission avoidance, stoma care and supported discharge services |
| Primary Care & LTC | TB, homeless healthcare, GP services, pain, rheumatology, physiotherapy, specialist physiotherapy, translation and interpretation services, behaviour change services, podiatry and podiatric surgery |
| 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 |
| Mental Health Services | 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 The monthly performance report to the COMD reports the performance of each services operating contribution towards infrastructure

| | 2017-18 | | | Operating surplus / (deficit) £000s |
|--|----------------|-------------------------|-----------------------------|-------------------------------------|
| | Revenue £000s | Employee Benefits £000s | Other Operating Costs £000s | |
| Children's East | 16,015 | (11,651) | (627) | 3,737 |
| Children's West | 22,363 | (15,041) | (1,408) | 5,914 |
| Sexual Health Services | 27,374 | (6,898) | (14,614) | 5,862 |
| Dental | 8,926 | (5,161) | (1,537) | 2,228 |
| Adults Southampton | 28,197 | (19,860) | (2,865) | 5,472 |
| Primary Care & LTC | 16,247 | (11,380) | (2,094) | 2,773 |
| Adults Portsmouth | 20,158 | (13,883) | (1,710) | 4,565 |
| Mental Health Services | 29,446 | (19,363) | (3,518) | 6,565 |
| Total Services | 168,726 | (103,237) | (28,373) | 37,116 |
| Infrastructure | 6,462 | (8,030) | (22,555) | (24,123) |
| Corporate Costs | 11,840 | (9,968) | (7,703) | (5,831) |
| Depreciation, amortisation, impairment | | | (2,105) | (2,105) |
| Operating surplus/(deficit) | 187,028 | (121,235) | (60,736) | 5,057 |
| | 2016-17 | | | Operating surplus / (deficit) £000s |
| | Revenue £000s | Employee Benefits £000s | Other Operating Costs £000s | |
| Children's East | 16,551 | (11,500) | (670) | 4,381 |
| Children's West | 22,071 | (14,394) | (1,330) | 6,347 |
| Sexual Health Services | 27,550 | (7,159) | (14,811) | 5,580 |
| Dental | 8,328 | (4,818) | (1,506) | 2,004 |
| Adults Southampton | 27,207 | (18,454) | (2,936) | 5,817 |
| Primary Care & LTC | 16,243 | (10,855) | (2,610) | 2,778 |
| Adults Portsmouth | 18,801 | (13,612) | (1,662) | 3,527 |
| Mental Health Services | 27,761 | (18,715) | (4,082) | 4,964 |
| Total Services | 164,512 | (99,507) | (29,607) | 35,398 |
| Infrastructure | 7,679 | (8,025) | (22,821) | (23,167) |
| Corporate Costs | 8,507 | (10,098) | (6,077) | (7,668) |
| Depreciation, amortisation, impairment | | | (8,433) | (8,433) |
| Operating surplus/(deficit) | 180,698 | (117,630) | (66,938) | (3,870) |

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. Operating income from patient care activities

| 4.1 Income from patient care activities (by nature) | 2017/18 £000 | 2016/17 £000 |
|--|-------------------------|-------------------------|
| Mental health services | | |
| Block contract income | 35,478 | 32,256 |
| Community services | | |
| Community services income from CCGs and NHS England | 105,783 | 102,603 |
| Income from other sources (e.g. local authorities) | 25,355 | 27,585 |
| All services | | |
| Private patient income | 251 | 193 |
| Other clinical income | 192 | 382 |
| Total income from activities | <u>167,059</u> | <u>163,019</u> |

4.2 Income from patient care activities (by source)

| | 2017/18 £000 | 2016/17 £000 |
|---------------------------------------|-------------------------|-------------------------|
| NHS England | 22,372 | 21,784 |
| Clinical commissioning groups | 118,881 | 113,075 |
| Other NHS providers | 962 | 209 |
| Local authorities | 24,392 | 27,585 |
| Non-NHS: private patients | 251 | 193 |
| NHS injury scheme | 20 | 27 |
| Non NHS: other | 181 | 146 |
| Total income from activities * | <u>167,059</u> | <u>163,019</u> |
| Of which: | | |
| Related to continuing operations | 167,059 | 163,019 |

5. Other operating income

| | 2017/18 £000 | 2016/17 £000 |
|---|-------------------------|-------------------------|
| Research and development | 3,028 | 2,384 |
| Education and training | 4,147 | 4,180 |
| Receipt of capital grants and donations | 56 | 0 |
| Non-patient care services to other bodies | 2,605 | 2,537 |
| Sustainability and transformation fund income | 3,027 | 2,208 |
| Income generation (Other fees and charges) | 2,896 | 2,674 |
| Rental revenue from operating leases ** | 970 | 791 |
| Other income | 3,431 | 2,882 |
| Total other operating income | <u>20,160</u> | <u>17,656</u> |
| Of which: | | |
| Related to continuing operations | 20,160 | 17,656 |
| Total operating revenue | <u>187,219</u> | <u>180,675</u> |

6. Operating expenses

| | 2017/18 | 2016/17 |
|---|-----------------------|-----------------------|
| | £000 | £000 |
| Purchase of healthcare from NHS and DHSC bodies | 4,782 | 4,778 |
| Purchase of healthcare from non-NHS and non-DHSC bodies | 1,337 | 1,445 |
| Staff and executive directors costs | 121,142 | 116,951 |
| Remuneration of non-executive directors | 67 | 45 |
| Supplies and services - clinical (excluding drugs costs) | 9,024 | 9,583 |
| Supplies and services - general | 1,842 | 1,850 |
| Drug costs (drugs inventory consumed and purchase of non-inventory drugs) | 10,203 | 10,943 |
| Consultancy costs | 101 | 120 |
| Establishment | 5,463 | 4,877 |
| Premises | 13,977 | 12,987 |
| Transport (including patient travel) | 702 | 618 |
| Depreciation on property, plant and equipment | 3,391 | 3,519 |
| Amortisation on intangible assets | 563 | 687 |
| Net impairments | (4,310) | 1,740 |
| Increase/(decrease) in provision for impairment of receivables | (272) | 23 |
| Audit fees payable to the external auditor | | |
| audit services- statutory audit | 65 | 73 |
| other auditor remuneration (external auditor only) | 0 | 0 |
| Internal audit costs | 59 | 55 |
| Clinical negligence | 449 | 381 |
| Legal fees | 71 | 591 |
| Insurance | 5 | 0 |
| Research and development | 2,024 | 1,685 |
| Education and training | 1,015 | 1,152 |
| Rentals under operating leases | 5,458 | 6,155 |
| Redundancy | 148 | 679 |
| Car parking & security | 83 | 0 |
| Hospitality | 5 | 14 |
| Losses, ex gratia & special payments | 138 | 0 |
| Other | 2,194 | 1,133 |
| Total | <u>179,726</u> | <u>182,084</u> |
| Of which: | | |
| Related to continuing operations | 179,726 | 182,084 |

7. Operating Leases

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

7.1 Trust as lessee

| | 2017/18 | 2016/17 |
|--|---------------------|----------------------|
| | £000 | £000 |
| Operating lease expense | | |
| Minimum lease payments | 5,458 | 6,155 |
| Total | <u>5,458</u> | <u>6,155</u> |
| Future minimum lease payments due: | | |
| - not later than one year; | 5,596 | 6,062 |
| - later than one year and not later than five years; | 1,668 | 2,934 |
| - later than five years. | 691 | 2,428 |
| Total | <u>7,955</u> | <u>11,424</u> |
| Future minimum sublease payments to be received: | £nil | |

7.2 Trust as lessor

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

| | 2017/18 | 2016/17 |
|--|---------------------|---------------------|
| | £000 | £000 |
| Operating lease revenue | | |
| Minimum lease receipts | 970 | 791 |
| Total | <u>970</u> | <u>791</u> |
| Future minimum lease receipts due: | | |
| - not later than one year; | 976 | 791 |
| - later than one year and not later than five years; | 2,244 | 2,091 |
| - later than five years. | 2,893 | 2,911 |
| Total | <u>6,113</u> | <u>5,793</u> |

8. Employee benefits

| 8.1 Employee benefits | 2017/18 Total £000 | 2016/17 Total £000 |
|--|-----------------------------------|-----------------------------------|
| Salaries and wages | 94,812 | 92,161 |
| Social security costs | 8,784 | 8,536 |
| Apprenticeship levy | 465 | 0 |
| Employer's contributions to NHS pensions | 12,211 | 11,760 |
| Pension cost - other | 5 | 4 |
| Termination benefits | 148 | 679 |
| Temporary staff (including agency) | 4,960 | 4,706 |
| Total gross staff costs | 121,385 | 117,846 |
| Recoveries in respect of seconded staff | <u>0</u> | <u>0</u> |
| Total staff costs | 121,385 | 117,846 |
| Of which | | |
| Costs capitalised as part of assets | 95 | 216 |

8.2 Retirements due to ill-health

During 2017/18 there were 6 early retirements from the Trust agreed on the grounds of ill-health (2 in the year ended 31 March 2017). The estimated additional pension liabilities of these ill-health retirements is £348k (£45k in 2016/17).

The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.

8.3 Pension costs

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. Both are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal valuations shall be four years, with approximate assessments in intervening years". An outline of these follows:

a) Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2018, is based on valuation data as 31 March 2017, updated to 31 March 2018 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 report of the scheme actuary, which forms part of the annual NHS Pension Scheme 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 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 employee and employer representatives as deemed appropriate.

Employees that are not eligible to join the NHS Pensions Scheme can join the National Employment Savings Scheme (NEST). NEST is a defined contribution workplace pension scheme and the expense is recognised in the SOCI. The expenditure recognised in SOCI for the financial year to 31 March 2018 was £4,680 (financial year to 31 March 2017 £4,023).

9. Finance income

Finance income represents interest received on assets and investments in the period.

| | 2017/18 £000 | 2016/17 £000 |
|---------------------------|-------------------------|-------------------------|
| Interest on bank accounts | 24 | 23 |
| Total | 24 | 23 |

10. Finance expenditure

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

| | 2017/18 £000 | 2016/17 £000 |
|---|-----------------|-----------------|
| Interest expense: | | |
| Loans from the Department of Health and Social Care | 113 | 120 |
| Finance leases | 38 | 39 |
| Total interest expense | <u>151</u> | <u>159</u> |
| Total finance costs | <u>151</u> | <u>159</u> |

11. Other gains / (losses)

| | 2017/18 £000 | 2016/17 £000 |
|---|-----------------|-----------------|
| Gains on disposal of assets | 0 | 32 |
| Losses on disposal of assets | (4) | (43) |
| Total gains / (losses) on disposal of assets | <u>(4)</u> | <u>(11)</u> |
| Total other gains / (losses) | <u>(4)</u> | <u>(11)</u> |

12. Auditor disclosures**12.1 Other auditor remuneration**

The Trust has no other auditor remuneration.

13.1 Property, plant and equipment - 2017/18

| | Land £000 | Buildings excluding dwellings £000 | Assets under construction £000 | Plant & machinery £000 | Transport equipment £000 | Information technology £000 | Furniture & fittings £000 | Total £000 |
|--|---------------|---|--------------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------|
| Cost or valuation: | | | | | | | | |
| At 1 April 2017 | 12,115 | 65,070 | 1,076 | 3,446 | 70 | 5,858 | 451 | 88,086 |
| Additions | 0 | 0 | 3,149 | 370 | 0 | 135 | 0 | 3,654 |
| Impairments | 0 | (657) | 0 | 0 | 0 | 0 | 0 | (657) |
| Reversals of impairments | 2,460 | 1,977 | 0 | 0 | 0 | 0 | 0 | 4,437 |
| Revaluations | 90 | 261 | 0 | 0 | 0 | 0 | 0 | 351 |
| Reclassifications | 0 | 2,969 | (3,041) | 0 | 0 | 72 | 0 | 0 |
| Disposals / derecognition | 0 | 0 | 0 | 0 | 0 | (1,096) | 0 | (1,096) |
| Valuation/gross cost at 31 March 2018 | <u>14,665</u> | <u>69,620</u> | <u>1,184</u> | <u>3,816</u> | <u>70</u> | <u>4,969</u> | <u>451</u> | <u>94,775</u> |

Depreciation:

| | | | | | | | | |
|--|----------|--------------|----------|--------------|-----------|--------------|------------|---------------|
| At 1 April 2017 | 0 | 4,915 | 0 | 2,587 | 44 | 3,117 | 422 | 11,085 |
| Provided during the year | 0 | 2,098 | 0 | 234 | 11 | 1,043 | 5 | 3,391 |
| Disposals / derecognition | 0 | 0 | 0 | 0 | 0 | (977) | 0 | (977) |
| Accumulated depreciation at 31 March 2018 | <u>0</u> | <u>7,013</u> | <u>0</u> | <u>2,821</u> | <u>55</u> | <u>3,183</u> | <u>427</u> | <u>13,499</u> |

Net book value at 31 March 2018

14,665 62,607 1,184 995 15 1,786 24 81,276

Net book value at 1 April 2017

12,115 60,155 1,076 859 26 2,741 29 77,001

| | Land £000 | Buildings excluding dwellings £000 | Assets under construction £000 | Plant & machinery £000 | Transport equipment £000 | Information technology £000 | Furniture & fittings £000 | Total £000 |
|--|---------------|---|--------------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------|
| Asset financing: | | | | | | | | |
| Net book value at 31 March 2018 | | | | | | | | |
| Owned - purchased | 14,665 | 62,558 | 1,184 | 703 | 15 | 1,407 | 24 | 80,556 |
| Finance leased | 0 | 0 | 0 | 186 | 0 | 379 | 0 | 565 |
| Owned - donated | 0 | 49 | 0 | 106 | 0 | 0 | 0 | 155 |
| NBV total at 31 March 2018 | <u>14,665</u> | <u>62,607</u> | <u>1,184</u> | <u>995</u> | <u>15</u> | <u>1,786</u> | <u>24</u> | <u>81,276</u> |

Revaluation reserve balance for Property, Plant & Equipment

| | Land £000 | Buildings excluding dwellings £000 | Assets under construction £000 | Plant & machinery £000 | Transport equipment £000 | Information technology £000 | Furniture & fittings £000 | Total £000 |
|-------------------------|--------------|---|--------------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------|
| At 1 April 2017 | 381 | 7,782 | 0 | 0 | 0 | 0 | 0 | 8,163 |
| Movements | 89 | 1,075 | 0 | 0 | 0 | 0 | 0 | 1,164 |
| At 31 March 2017 | <u>470</u> | <u>8,857</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>9,327</u> |

Additions to Assets Under Construction in 2017-18

| | £000 |
|-------------------------------|--------------|
| Buildings excluding dwellings | 3,119 |
| Total | <u>3,119</u> |

13.2 Property, plant and equipment - 2016/17

| Cost or valuation: | Buildings | | | | | | | Total £000 |
|--|---------------|--------------------------------|--------------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------|
| | Land £000 | excluding dwellings £000 | Assets under construction £000 | Plant & machinery £000 | Transport equipment £000 | Information technology £000 | Furniture & fittings £000 | |
| At 1 April 2016 | 12,500 | 68,634 | 1,335 | 3,325 | 70 | 5,363 | 435 | 91,662 |
| Additions | 0 | 0 | 3,277 | 113 | 0 | 275 | 0 | 3,665 |
| Impairments | 325 | (5,797) | 0 | 0 | 0 | 0 | 0 | (5,472) |
| Reclassifications | 0 | 3,132 | (3,536) | 8 | 0 | 225 | 16 | (155) |
| Transfers to / from assets held for sale | (710) | (790) | 0 | 0 | 0 | 0 | 0 | (1,500) |
| Disposals / derecognition | 0 | (109) | 0 | 0 | 0 | (5) | 0 | (114) |
| Valuation/gross cost at 31 March 2017 | 12,115 | 65,070 | 1,076 | 3,446 | 70 | 5,858 | 451 | 88,086 |
| Depreciation: | | | | | | | | |
| At 1 April 2016 | 0 | 2,859 | 0 | 2,357 | 33 | 1,969 | 413 | 7,631 |
| Provided during the year | 0 | 2,125 | 0 | 230 | 11 | 1,148 | 5 | 3,519 |
| Reclassifications | 0 | (4) | 0 | 0 | 0 | 0 | 4 | 0 |
| Disposals/ derecognition | 0 | (65) | 0 | 0 | 0 | 0 | 0 | (65) |
| Accumulated depreciation at 31 March 2017 | 0 | 4,915 | 0 | 2,587 | 44 | 3,117 | 422 | 11,085 |
| Net book value at 31 March 2017 | 12,115 | 60,155 | 1,076 | 859 | 26 | 2,741 | 29 | 77,001 |
| Net book value at 1 April 2016 | 12,500 | 65,775 | 1,335 | 968 | 37 | 3,394 | 22 | 84,031 |

| Asset financing: | Buildings | | | | | | | Total £000 |
|--|---------------|--------------------------------|--------------------------------------|------------------------------|--------------------------------|-----------------------------------|---------------------------------|---------------|
| | Land £000 | excluding dwellings £000 | Assets under construction £000 | Plant & machinery £000 | Transport equipment £000 | Information technology £000 | Furniture & fittings £000 | |
| Net book value at 31 March 2017 | | | | | | | | |
| Owned - purchased | 12,115 | 60,115 | 1,076 | 721 | 26 | 1,944 | 29 | 76,026 |
| Finance leased | 0 | 0 | 0 | 0 | 0 | 797 | 0 | 797 |
| Owned - donated | 0 | 40 | 0 | 138 | 0 | 0 | 0 | 178 |
| NBV total at 31 March 2017 | 12,115 | 60,155 | 1,076 | 859 | 26 | 2,741 | 29 | 77,001 |

13.3 Property, plant and equipment

The Trust received donated assets from Southampton Clinical Commissioning Group and Leagues of Friends in the year.

Land and buildings are held at revalued amounts. A desktop revaluation exercise was carried out on these assets as at 31 March 2018 using optimisation methodology (delivery of services from modern facilities) and indices relevant to the asset class. The exercise was carried out by the District Valuers who are RICS qualified. The impact of the exercise is:

| | Land £000 | Buildings excluding dwellings £000 | Total £000 |
|---------------------------------------|--------------|---|---------------|
| Increase to revaluation reserve | 90 | 261 | 351 |
| Decrease to revaluation reserve | 0 | (630) | (630) |
| Impairment charge to SOCI | 0 | (27) | (27) |
| Reversal of impairment charge to SOCI | 2,460 | 1,977 | 4,437 |
| | 2,550 | 1,581 | 4,131 |

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

| | Min Life (yrs) | Max Life (yrs) |
|-------------------------------|----------------|----------------|
| Buildings excluding dwellings | 2 | 94 |
| Plant & machinery | 5 | 25 |
| Transport equipment | 5 | 10 |
| Information technology | 4 | 10 |
| Furniture & fittings | 9 | 10 |

14. Intangible non-current assets**14.1 Intangible non-current assets - 2017/18**

| | Internally generated information technology £000 | Intangible assets under construction £000 | Total £000 |
|--|--|--|---------------|
| Cost or valuation: | | | |
| At 1 April 2017 | 3,952 | 641 | 4,593 |
| Additions | 0 | 141 | 141 |
| Reclassifications | 749 | (749) | 0 |
| Gross cost at 31 March 2018 | <u>4,701</u> | <u>33</u> | <u>4,734</u> |
| Amortisation: | | | |
| At 1 April 2017 | 1,749 | 0 | 1,749 |
| Provided during the year | 563 | 0 | 563 |
| Amortisation at 31 March 2018 | <u>2,312</u> | <u>0</u> | <u>2,312</u> |
| Net book value at 31 March 2018 | 2,389 | 33 | 2,422 |
| Net book value at 1 April 2017 | 2,203 | 641 | 2,844 |
| Asset financing: | | | |
| Owned - purchased | 2,389 | 33 | 2,422 |
| NBV total at 31 March 2018 | <u>2,389</u> | <u>33</u> | <u>2,422</u> |

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 Note 14.2 Intangible assets - 2016/17

| | Internally generated information technology £000 | Intangible assets under construction £000 | Total £000 |
|--|--|--|---------------|
| Cost or valuation: | | | |
| At 1 April 2016 | 3,992 | 0 | 3,992 |
| Additions | 0 | 455 | 455 |
| Reclassifications | (31) | 186 | 155 |
| Disposals / derecognition | (9) | 0 | (9) |
| Gross cost at 31 March 2017 | <u>3,952</u> | <u>641</u> | <u>4,593</u> |
| Amortisation: | | | |
| At 1 April 2016 | 1,062 | 0 | 1,062 |
| Provided during the year | 687 | 0 | 687 |
| Amortisation at 31 March 2017 | <u>1,749</u> | <u>0</u> | <u>1,749</u> |
| Net book value at 31 March 2017 | 2,203 | 641 | 2,844 |
| Net book value at 1 April 2016 | 2,930 | 0 | 2,930 |

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:

Internally generated information technology

| Min Life (yrs) | Max Life (yrs) |
|----------------|----------------|
| 2 | 10 |

15. Analysis of impairments and reversals

| | 2017/18 £000 | 2016/17 £000 |
|---|-----------------|-----------------|
| Net impairments charged to operating surplus / deficit resulting from: | | |
| Changes in market price | (4,310) | 1,740 |
| Total net impairments charged to operating surplus / deficit | <u>(4,310)</u> | <u>1,740</u> |
| Impairments charged to the revaluation reserve | 630 | 4,032 |
| Total net impairments | <u>(3,680)</u> | <u>5,772</u> |

No impairment on donated assets 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 2018 £000 | 31 March 2017 £000 |
|-------------------------------|-----------------------------------|-----------------------------------|
| Property, plant and equipment | 494 | 887 |
| Intangible assets | 80 | 51 |
| Total | 574 | 938 |

17.2 Other financial commitments

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

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------------------|-----------------------------------|
| Not later than 1 year | 5,078 | 4,522 |
| Later than 1 year and not later than 5 years | 1,976 | 1,089 |
| Total | 7,054 | 5,611 |

18. Inventories

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--------------------------|-----------------------------------|-----------------------------------|
| Drugs | 202 | 223 |
| Consumables | 192 | 184 |
| Total inventories | 394 | 407 |

Inventories recognised in expenses for the year were £11,863k (2016/17: £11,969k). Write-down of inventories recognised as expenses for the year were £0k (2016/17: £0k).

19.1 Trade receivables and other receivables

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------------------|-----------------------------------|
| Current | | |
| NHS receivables - revenue | 4314 | 5082 |
| NHS prepayments and accrued income | 3572 | 3076 |
| Non-NHS receivables - revenue | 3281 | 1606 |
| Non-NHS prepayments and accrued income | 2545 | 2677 |
| PDC Dividend prepaid to DH | 0 | 374 |
| Provision for the impairment of receivables | (1,346) | (1,480) |
| VAT | 986 | 524 |
| Other receivables | 181 | 152 |
| Total current trade and other receivables | 13,533 | 12,011 |
| Non-current | | |
| Prepayments (non-PFI) | 2,653 | 3,113 |
| Total non-current trade and other receivables | 2,653 | 3,113 |

Of which receivables from NHS and DHSC group bodies:

| | | |
|---------|-------|-------|
| Current | 7,886 | 8,532 |
|---------|-------|-------|

19.2 Provision for impairment of receivables

| | 2017/18 £000 | 2016/17 £000 |
|-------------------------|-------------------------|-------------------------|
| At 1 April 2017 | 1,480 | 1,471 |
| Increase in provision | (272) | (1,065) |
| Amounts utilised | 138 | (14) |
| Unused amounts reversed | 0 | 1,088 |
| At 31 March | 1,346 | 1,480 |

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 specialist teams.

19.3 Credit quality of financial assets

| | 31 March 2018 | 31 March 2017 |
|--|---|---|
| | Trade and other receivables £000 | Trade and other receivables £000 |
| Ageing of impaired financial assets | | |
| 0 - 30 days | 374 | 560 |
| 30-60 Days | 206 | 139 |
| 60-90 days | 0 | 16 |
| 90- 180 days | 118 | 194 |
| Over 180 days | 648 | 571 |
| Total | 1,346 | 1,480 |
| Ageing of non-impaired financial assets past their due date | | |
| 0 - 30 days | 4,929 | 3,281 |
| 30-60 Days | 634 | 670 |
| 60-90 days | 613 | 327 |
| 90- 180 days | 168 | 212 |
| Over 180 days | 165 | 380 |
| Total | 6,509 | 4,870 |

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

20. NHS LIFT investments

The Trust has no NHS LIFT investments.

21. Other financial assets

The Trust has no other financial assets.

22. Other current assets

The Trust has no other current assets.

23. Cash and cash equivalents

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

| | 2017/18 £000 | 2016/17 £000 |
|--|-----------------|-----------------|
| At 1 April 2017 | 6,291 | 5,575 |
| Net change in year | 3,310 | 716 |
| At 31 March 2018 | 9,601 | 6,291 |
| Broken down into: | | |
| Cash at commercial banks and in hand | 10 | 15 |
| Cash with the Government Banking Service | 9,591 | 6,276 |
| Total cash and cash equivalents as in SoCF | 9,601 | 6,291 |
| Patients' money held by the Trust, not included in above | 3 | 3 |

24. Non-current assets held for sale

| | 2017/18 £000 | 2016/17 £000 |
|---|-----------------|-----------------|
| Balance at 1 April 2017 | 1,200 | 0 |
| Assets classified as available for sale in the year | 0 | 1,500 |
| Assets sold in year | 0 | 0 |
| Impairment of assets held for sale | (100) | (300) |
| Balance at 31 March 2018 | 1,100 | 1,200 |

The assets held for sale are the land and buildings of the area at St James Hospital, Portsmouth, know as Oakdene. The asset has been marketed and interest has been shown. The sale is expected to complete within the first quarter of 2018-19 financial year.

25. Trade and other payables

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|-----------------------------------|-----------------------------------|
| Current | | |
| NHS payables - revenue | 325 | 586 |
| NHS payables - capital | 0 | 0 |
| NHS accruals and deferred income | 4,288 | 4,542 |
| Non-NHS payables - revenue | 3,130 | 2,958 |
| Non-NHS payables - capital | 240 | 248 |
| Non-NHS accruals and deferred income | 10,027 | 7,631 |
| Social security costs | 1,267 | 1,219 |
| Accrued Interest on DH Loans | 22 | 15 |
| Tax | 581 | 608 |
| PDC dividend payable | 83 | 0 |
| Other payables | 1,695 | 1,783 |
| Total current trade and other payables | <u>21,658</u> | <u>19,590</u> |

Of which payables from NHS and DHSC group bodies:

| | | |
|---------|-------|-------|
| Current | 4,266 | 4,620 |
|---------|-------|-------|

Included above:

| | | |
|-------------------------------------|-------|-------|
| - outstanding pension contributions | 1,673 | 1,610 |
|-------------------------------------|-------|-------|

26. Other liabilities

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------------------|-----------------------------------|
| Current | | |
| Deferred income | 1,320 | 1,038 |
| Total other current liabilities | <u>1,320</u> | <u>1,038</u> |
| Non-current | | |
| Deferred income | 125 | 146 |
| Total other non-current liabilities | <u>125</u> | <u>146</u> |

27. Borrowings

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|-----------------------------------|-----------------------------------|
| Current | | |
| Loans from the Department of Health and Social Care | 4,554 | 4,304 |
| Obligations under finance leases | 238 | 319 |
| Total current borrowings | <u>4,792</u> | <u>4,623</u> |
| Non-current | | |
| Loans from the Department of Health and Social Care | 4,805 | 3,460 |
| Obligations under finance leases | 293 | 520 |
| Total non-current borrowings | <u>5,098</u> | <u>3,980</u> |

28. Other financial liabilities

The Trust has no other financial liabilities.

29. Finance leases**29.1 Finance lease obligations as lessor**

The Trust has no finance lease receivables as lessor.

29.2 Finance lease obligations as lessee

Obligations under finance leases where the Trust is the lessee.

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------------------|-----------------------------------|
| Gross lease liabilities | <u>551</u> | <u>882</u> |
| of which liabilities are due: | | |
| - not later than one year; | 282 | 345 |
| - later than one year and not later than five years; | 269 | 537 |
| Finance charges allocated to future periods | (20) | (43) |
| Net lease liabilities | <u>531</u> | <u>839</u> |
| of which payable: | | |
| - not later than one year; | 238 | 319 |
| - later than one year and not later than five years; | 293 | 520 |

30. Provisions

The Trust has no provisions.

At 31 March 2018, £894k was included in provisions of NHS Resolution in respect of clinical negligence liabilities of Solent NHS Trust (31 March 2017: £929k).

31. Contingent assets and liabilities

| | 31 March 2018 £000 | 31 March 2017 £000 |
|--|-----------------------------------|-----------------------------------|
| Contingent liabilities | | |
| NHS Resolution legal claims | (23) | (18) |
| Net value of contingent liabilities | <u><u>(23)</u></u> | <u><u>(18)</u></u> |

Contingent assets

The Trust has no contingent assets.

32. Financial Instruments**32.1 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, Local Authorities and NHS England and the way those Clinical Commissioning Groups, Local Authorities 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. The Trust's 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 NHS Improvement. The borrowings are for 1 – 25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The Trust therefore has low exposure to interest rate fluctuations. The Trust may also borrow from government for revenue financing subject to approval by NHS Improvement. Interest rates are confirmed by the Department of Health (the lender) at the point borrowing is undertaken. The 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 2018 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.

33. Financial assets

| | Loans and receivables £000 | Total book value £000 |
|--|---|--------------------------------------|
| Trade and other receivables excluding non financial assets | 4,798 | 4,798 |
| Other investments / financial assets | 3,718 | 3,718 |
| Cash and cash equivalents at bank and in hand | 9,601 | 9,601 |
| Total at 31 March 2018 | <u><u>18,117</u></u> | <u><u>18,117</u></u> |
| Trade and other receivables excluding non financial assets | 7,661 | 7,661 |
| Other investments / financial assets | 1,383 | 1,383 |
| Cash and cash equivalents at bank and in hand | 6,291 | 6,291 |
| Total at 31 March 2017 | <u><u>15,335</u></u> | <u><u>15,335</u></u> |

34. Financial liabilities

| | Other £000 | Total book value £000 |
|--|---------------|-----------------------------|
| Borrowings excluding finance lease and PFI liabilities | 9,359 | 9,359 |
| Obligations under finance leases | 531 | 531 |
| Trade and other payables excluding non financial liabilities | 18,391 | 18,391 |
| Total at 31 March 2018 | 28,281 | 28,281 |
| Borrowings excluding finance lease and PFI liabilities | 7,764 | 7,764 |
| Obligations under finance leases | 839 | 839 |
| Trade and other payables excluding non financial liabilities | 16,785 | 16,785 |
| Total at 31 March 2017 | 25,388 | 25,388 |

35. Maturity of financial liabilities

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|--------------------------|--------------------------|
| In one year or less | 23,212 | 16,785 |
| In more than one year but not more than two years | 213 | 4,455 |
| In more than two years but not more than five years | 4,856 | 4,148 |
| Total | 28,281 | 25,388 |

36. Losses and special payments

| | 2017/18 | |
|---|---------------------------------------|---------------------------------|
| | Total number of cases Number | Total value of cases £000 |
| Bad debts and claims abandoned | 158 | 128 |
| Ex-gratia payments | 1 | 10 |
| Total losses and special payments | 159 | 138 |
| Compensation payments received | | |
| | 2016/17 | |
| | Total number of cases Number | Total value of cases £000 |
| Bad debts and claims abandoned | 5 | 14 |
| Compensation under court order or legally binding arbitration award | 1 | 354 |
| Ex-gratia payments | 4 | 1 |
| Total losses and special payments | 10 | 369 |
| Compensation payments received | | |

The Trust received no gifts in 2017-18.

37. Third party assets

The Trust held £2,728 cash and cash equivalents at 31 March 2018 (£2,728 at 31 March 2017) 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.

38. Related party transactions

During the year none of the Department of Health and Social Care 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 and Social Care 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 £000s | Receipts from Related Party £000s | Amounts owed to Related Party £000s | Amounts due from Related Party £000s |
|--|--|---|---|--|
| NHS England | 81 | 25,769 | 20 | 4,099 |
| <u>Clinical Commissioning Groups</u> | | | | |
| NHS Portsmouth | 0 | 56,177 | 235 | 635 |
| NHS Southampton | 0 | 38,283 | 98 | 542 |
| NHS West Hampshire | 0 | 9,421 | 37 | 79 |
| NHS South Eastern Hampshire | 281 | 6,189 | 131 | 354 |
| NHS Fareham & Gosport | 0 | 5,294 | 163 | 115 |
| NHS North East Hampshire & Farnham | 0 | 1,386 | 0 | 8 |
| NHS North Hampshire | 35 | 2,262 | 0 | 24 |
| <u>NHS Trust and Foundation Trust</u> | | | | |
| Hampshire Hospitals Foundation Trust | 927 | 18 | 124 | 4 |
| Portsmouth Hospitals NHS Trust | 3,124 | 1,692 | 373 | 486 |
| University of Southampton NHS Foundation Trust | 1,466 | 1,586 | 489 | 522 |
| Southern Health NHS Foundation Trust | 1,971 | 2,707 | 223 | 224 |
| <u>NHS Business Services Authority</u> | | | | |
| NHS Business Services Authority | 564 | 0 | 0 | 0 |
| NHS Resolution | 449 | 0 | 0 | 0 |
| NHS Property Services Ltd | 4,657 | 141 | 2,144 | 498 |
| Community Health Partnerships | 2,018 | 0 | 145 | 0 |
| Solent NHS Charity | 0 | 23 | 0 | 0 |

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.

39. Events after the reporting date

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

40. Better Payment Practice code

| | 2017/18 Number | 2017/18 £000 | 2016/17 Number | 2016/17 £000 |
|---|-------------------|-----------------|-------------------|-----------------|
| Non-NHS Payables | | | | |
| Total non-NHS trade invoices paid in the year | 24,989 | 50,562 | 22,744 | 45,625 |
| Total non-NHS trade invoices paid within target | 23,479 | 47,509 | 21,345 | 42,703 |
| Percentage of non-NHS trade invoices paid within target | 94% | 94% | 94% | 94% |
| NHS Payables | | | | |
| Total NHS trade invoices paid in the year | 1,230 | 17,446 | 1,090 | 14,465 |
| Total NHS trade invoices paid within target | 1,067 | 16,514 | 938 | 13,609 |
| Percentage of NHS trade invoices paid within target | 87% | 95% | 86% | 94% |

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 valid invoice, whichever is later.

41. Financial performance targets

41.1 Breakeven duty financial performance

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

| | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Operating income | 193,935 | 192,146 | 187,756 | 187,240 | 178,854 | 180,675 | 187,219 |
| Retained surplus/(deficit) for the year | 1,863 | 776 | 1,858 | (6,500) | (15,164) | (3,870) | 5,057 |
| Adjustment for: | | | | | | | |
| Impairments | 0 | 0 | 0 | 423 | 10,165 | 1,740 | (4,310) |
| Impact of policy change re donated assets | 0 | 0 | 0 | (197) | (63) | 46 | (10) |
| Breakeven duty in-year financial performance | 1,863 | 776 | 1,858 | (6,274) | (5,062) | (2,084) | 737 |
| Breakeven duty cumulative position | 1,863 | 2,639 | 4,497 | (1,777) | (6,839) | (8,923) | (8,186) |
| Cumulative breakeven position as a percentage of operating income | 0.96% | 1.37% | 2.40% | (0.95%) | (3.82%) | (4.94%) | (4.37%) |

41.2 Capital cost absorption rate

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

41.3 External financing

The trust is given an external financing limit against which it is permitted to undershoot:

| | 2017/18 | 2016/17 |
|---|---------------------|---------------------|
| | £000 | £000 |
| External financing limit (EFL) | 6,518 | 7,783 |
| Cash flow financing | (2,163) | 2,438 |
| External financing requirement | (2,163) | 2,438 |
| Under / (over) spend against EFL | <u>8,681</u> | <u>5,345</u> |

41.4 Capital Resource Limit

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

| | 2017/18 | 2016/17 |
|--|---------------------|---------------------|
| | £000 | £000 |
| Gross capital expenditure | 3,795 | 4,120 |
| Less: Disposals | (119) | (58) |
| Less: Donated and granted capital additions | (56) | 0 |
| Plus: Loss on disposal of donated/granted assets | 0 | 0 |
| Charge against Capital Resource Limit | <u>3,620</u> | <u>4,062</u> |
| Capital Resource Limit | <u>3,944</u> | <u>4,926</u> |
| Under / (over) spend against CRL | <u>324</u> | <u>864</u> |