

Trust Board

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| Date of Meeting: 19/06/2012 | Agenda Item No: 10.2 | Enclosure: 12 | | | | | | | | | | |
| Intended Outcome: | | | | | | | | | | | | |
| For noting ✓ | For information | For decision | | | | | | | | | | |
| Title of Report: Annual Report and Accounts 2011/12 | | | | | | | | | | | | |
| Aims: To provide the Trust Board with the final version of the Annual Report and Accounts following their approval at the Trust Board meeting of the 6 June 2012. | | | | | | | | | | | | |
| Executive Summary: The final year-end accounts have been prepared using International Financial Reporting Standards, in accordance with Department of Health timetables, and with regard to the NHS manual for accounts and the associated pro-forma accounts format required. A number of amendments have been made to the accounts based on issues highlighted by External Audit. There are also a small number of unadjusted errors and uncertainties which the Trust and External Audit have agreed will not be adjusted for in the accounts as they do not impact materially on their overall accuracy of the accounts. A summary of the performance is shown below: <table border="0"> <tr> <td>Income and expenditure plan</td> <td>Achieved</td> </tr> <tr> <td>External Financing Limit</td> <td>Achieved</td> </tr> <tr> <td>Capital Resource Limit</td> <td>Achieved</td> </tr> <tr> <td>3.5% Rate of Return</td> <td>Achieved</td> </tr> <tr> <td>BPPC</td> <td>Failed</td> </tr> </table> | | | Income and expenditure plan | Achieved | External Financing Limit | Achieved | Capital Resource Limit | Achieved | 3.5% Rate of Return | Achieved | BPPC | Failed |
| Income and expenditure plan | Achieved | | | | | | | | | | | |
| External Financing Limit | Achieved | | | | | | | | | | | |
| Capital Resource Limit | Achieved | | | | | | | | | | | |
| 3.5% Rate of Return | Achieved | | | | | | | | | | | |
| BPPC | Failed | | | | | | | | | | | |
| Financial Duties and Targets NHS Trusts have a number of statutory financial duties which are listed below together with the performance for North Cumbria University Hospitals NHS Trust. | | | | | | | | | | | | |
| Primary Duty To achieve a break even income and expenditure position taking one year with another (on a 3 year rolling period). The Trust achieved a surplus of £1.1m in 2011/12 (2010/11 £1.4m restated), which has reduced the cumulative deficit to £2.4m after taking into account IFRIC12 adjustments. | | | | | | | | | | | | |
| Secondary Duties <ol style="list-style-type: none"> 1. The Trust must pay a dividend to the Department of Health equal to 3.5% of its capital employed. The dividend paid in cash terms was £2.09m. 2. To manage within the external financing limit (EFL). The Trust's external financing limit (EFL) was negative £2.3m and the Trust achieved a negative £2.9m, an undershoot of £0.6m which satisfies the requirement. 3. Not to exceed the capital resource limit (CRL). The Trust's capital resource limit was £10.5m and gross expenditure was £7.9m. This was reduced by £0.4m as a | | | | | | | | | | | | |

result of donated assets received of £0.4m and £0.1m for disposals to non-NHS organisations, a total reduction of £0.5m, resulting in net capital expenditure of £7.4m. The CRL was therefore underspent by £3.1m.

4. To Comply with the Better Payment Practice Code (BPPC). The Trust is required to pay 95% its creditors by value and volume within 30 days of receipt of a valid invoice. The Trust achieved the following results.

| | Number | £000 |
|---|--------|--------|
| Non-NHS Payables | | |
| Percentage of NHS Trade Invoices Paid Within Target | 51.95% | 76.76% |
| NHS Payables | | |
| Percentage of NHS Trade Invoices Paid Within Target | 33.83% | 43.87% |

The Trust has not achieved the BPPC due to ongoing liquidity issues faced by the Trust.

Summary Financial Position

A surplus of £1.01m is reported (2010/11 restated £1.6m) and is after delivery of £7.9m cost improvements (20010/11 £12.1m). The Trust needs to generate an annual surplus of circa £1m each year as part of its strategy to repay its working capital loans of £12.8m, the annual loan repayments are £0.9m in addition to interest payable.

In order to achieve a balanced financial position the Trust has been supported with £28m non-recurrent, non-repayable resource from the North of England Strategic Health Authority. This resource has bridged the gap between the on-going imbalance of expenditure in excess of income which must be addressed through the turnaround process.

PFI Life Cycle Costs

Since the introduction of IFRS, the Trust has capitalised the life cycle costs associated with the PFI. Life cycle costs as per the PFI model were £1.782m in 2011/12. These costs are an element of the unitary payment – calculated by the model - which supports the capital spend on the hospital infrastructure to ensure that upon completion of the contract the facility is returned to the NHS in at least 'condition B' as described by NHS Estates.

The Trust requested an analysis of these costs from the PFI Provider and were supplied with details of actual expenditure amounting to only £285k. Of this amount £116k was treated as capital under the Trust's accounting policies and the balance of £169k was written off to Income and Expenditure. The remainder of the £1.497m has been recorded as a payment in advance and shown as a long term debtor.

Asset Register

The Trust migrated its asset register in April 2011 to Oracle systems, as part of the overall migration of Finance & Accounting services to NHS Shared Business Services (SBS). As the Trust revalued its estate in late 2011/12, it proved difficult to post additions and revaluations to the asset register, and reporting from the system has proved problematic. As a result, the asset register was transferred to spreadsheets in order to be able to make the necessary adjustments.

The overall position will be reviewed in the following weeks and a decision made on how best to manage the assets in the short term, ensuring the Trust can meet its reporting requirements.

Goods Received Not Invoiced (GRNI)

Prior to the migration of NHS Shared Business Services (SBS), Procurement used to review outstanding GRNI orders on a monthly basis to determine if they were still valid or needed to be closed. External Audit noted that there was a balance of £2.36m GRNIs which had not been fully reviewed to ensure the validity of the items. Prior to the year-end £905,000 of these items had been removed leaving £1.455m possible overstatement of expenditure for goods and services not received.

Limited audit testing of the balance suggested an overstatement of expenditure of £608,000. However, it is not possible to assess with certainty by how much expenditure is overstated without a full review which was not possible within the timescale of the audit. A full review of related processes and procedures will be undertaken with the involvement of Internal Audit over the coming weeks to ensure controls are improved.

Other Issues

External Audit has yet to provide their final Annual Governance Report, although a draft has been reviewed by the Audit Committee. This report makes reference to other areas in which the Trust needs to improve controls and assure itself that it is adequately managing the risks. The final Annual Governance Report will be reviewed in detail at a future Audit Committee.

Annual Report

The Annual Report has been through a number of drafts, with feedback being received after each draft and updates being added to the report. The final version of the report includes revisions to section 4 regarding the performance measurements to enable all the targets to be more easily understood, section 7 regarding the workforce to improve the wording, changes to the summary financial statements to reflect the final accounts, inclusion of the final Annual Governance Statement, and numerous minor grammatical and typographical changes.

External Audit have been involved in the evolution of the report and have been sent this version of report, we await their feedback.

Recommendations:

To note the final version of the Annual Report and Accounts following their approval at the previous Trust Board meeting held on the 6 June 2012.

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