



FOI REF: 23/245

9th May 2023

Tel: 0300 131 4500
Website: www.esht.nhs.uk

FREEDOM OF INFORMATION ACT

I am responding to your request for information under the Freedom of Information Act. The answers to your specific questions are as follows:

I am looking at the accounts and financial statements of NHS Trusts. Some previous annual reports are already available on your website. However, these only include a summary of the financial report. Therefore, I would like to ask you to please send me the complete Accounts or Financial Statements for the following years:

2013/14
2014/15
2015/16
2016/17

[Please see the attached documents.](#)

If I can be of any further assistance, please do not hesitate to contact me.

Should you be dissatisfied with the Trust's response to your request, you have the right to request an internal review. Please write to the Freedom of Information Department (esh-tr.foi@nhs.net), quoting the above reference, within 40 working days. The Trust is not obliged to accept an internal review after this date.

Cont.../

Should you still be dissatisfied with your FOI request, you have the right of complaint to the Information Commissioner at the following address:

The Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire SK9 5AF

Telephone: 0303 123 1113

Yours sincerely

Linda Thornhill (Mrs)
Corporate Governance Manager
esh-tr.foi@nhs.net

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE TRUST

The Chief Executive of the NHS Trust Development Agency has designated that the Chief Executive should be the Accountable Officer to the trust. The relevant responsibilities of Accountable Officers are set out in the Accountable Officers Memorandum issued by the Department of Health. These include ensuring that:

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;
- value for money is achieved from the resources available to the Trust;
- the expenditure and income of the Trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;
- effective and sound financial management systems are in place; and
- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as an Accountable Officer except for the Value for Money opinion being qualified due to the Trust making a financial deficit of £23.094m in year compared to a planned deficit of £19.4m.

Signed.....Chief Executive

Date.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are required under the National Health Service Act 2006 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure, recognised gains and losses and cash flows for the year. In preparing those accounts, directors are required to:

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction of the Secretary of State. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm to the best of their knowledge and belief they have complied with the above requirements in preparing the accounts.

By order of the Board

.....Date.....Chief Executive

.....Date.....Finance Director

Independent auditor's report to the Directors of East Sussex Healthcare NHS Trust

Financial statements

We have audited the financial statements of East Sussex Healthcare NHS Trust for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

This report is made solely to the Board of Directors of East Sussex Healthcare NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in April 2014.

Respective responsibilities of Directors and auditors

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trust; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Sussex Healthcare NHS Trust as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

Opinion on other matters

In our opinion:

- the part of the remuneration report subject to audit has been prepared properly in accordance with the requirements directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England; and
- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following other matters which the Code of Audit Practice for local NHS bodies (March 2010) requires us to report to you if:

- we have been unable to satisfy ourselves that the annual governance statement reflects compliance with the Trust Development Authority's Guidance or is misleading or inconsistent with other information that is forthcoming from the audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998.

We have a duty under the Audit Commission Act 1998 to refer the matter to the Secretary of State if we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency.

As reported in the Trust's financial breakeven performance Note 33, the cumulative deficit to 31 March 2014 is £25.1 million. The Trust remains in breach of its three year cumulative breakeven duty. We made a referral to the Secretary of State on 14 June 2013 stating that the Trust was in breach of this financial duty as at 31 March 2013.

Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Trust and auditors

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Trust has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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.

Basis for adverse conclusion

In considering the Trust's arrangements for securing financial resilience, we identified that:

- the Trust reported a deficit for the year of £33.4 million, of which £23.1 million is assessed as the underlying performance after adjusting for impairments and other sundry items that do not count against the breakeven duty
- the Trust drew down net Public Dividend Capital support of £40 million from the Department of Health to provide sufficient cash resources to manage working capital and fund its capital programme
- the cumulative breakeven position remains in deficit of £25.1 million.

In considering the Trust's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified that:


- the Trust has budgeted for a deficit of £18.5 million in 2014/15 and £14 million in 2015/16.
- the medium term financial plans require significant cost reductions to maintain spending with available resources.

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, the matters reported in the basis for adverse conclusion paragraph above prevent us from being satisfied that in all significant respects East Sussex Healthcare NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Certificate

We certify that we have completed the audit of the accounts of East Sussex Healthcare NHS Trust in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit


For and on behalf of BDO LLP, Appointed Auditor
London, UK
09-Jun-14

**Statement of Comprehensive Income for year ended
31 March 2014**

	NOTE	2013-14 £000s	2012-13 £000s
Gross employee benefits	9.1	(255,250)	(255,800)
Other operating costs	7	(135,873)	(124,583)
Revenue from patient care activities	4	337,098	357,885
Other Operating revenue	5	27,142	29,515
Operating surplus/(deficit)		(26,883)	7,017
Investment revenue	11	18	25
Other gains	12	9	22
Finance costs	13	(305)	(368)
Surplus/(deficit) for the financial year		(27,161)	6,696
Public dividend capital dividends payable		(6,251)	(6,224)
Retained surplus/(deficit) for the year		(33,412)	472

Other Comprehensive Income

	2013-14 £000s	2012-13 £000s
Impairments and reversals taken to the Revaluation Reserve	0	(3,747)
Net gain on revaluation of property, plant & equipment	9,915	0
Total Comprehensive Income for the year	(23,497)	(3,275)

Financial performance for the year

Retained surplus/(deficit) for the year	(33,412)	472
Impairments (excluding IFRIC 12 impairments)	10,018	0
Adjustments in respect of donated gov't grant asset reserve elimination	300	50
Adjusted retained surplus/(deficit)	(23,094)	522

The notes on pages 76 to 103 form part of this account.

**Statement of Financial Position as at
31 March 2014**

	NOTE	31 March 2014 £000s	31 March 2013 £000s
Non-current assets:			
Property, plant and equipment	14	257,258	202,953
Intangible assets	15	826	285
Trade and other receivables	20.1	708	898
Total non-current assets		258,792	204,136
Current assets:			
Inventories	19	6,238	6,869
Trade and other receivables	20.1	25,426	14,051
Other current assets	21	0	107
Cash and cash equivalents	22	2,257	2,250
Total current assets		33,921	23,277
Total assets		292,713	227,413
Current liabilities			
Trade and other payables	23	(32,062)	(33,044)
Provisions	27	(463)	(476)
Borrowings	24	(320)	(308)
Working capital loan from Department	24	(1,331)	(1,334)
Capital loan from Department	24	(343)	(340)
Total current liabilities		(34,519)	(35,502)
Net current liabilities		(598)	(12,225)
Non-current assets less net current liabilities		258,194	191,911
Non-current liabilities			
Provisions	27	(2,631)	(2,671)
Borrowings	24	(598)	(916)
Working capital loan from Department	24	0	(1,331)
Capital loan from Department	24	(3,535)	(3,878)
Total non-current liabilities		(6,764)	(8,796)
Total Assets Employed:		251,430	183,115
FINANCED BY:			
TAXPAYERS' EQUITY			
Public Dividend Capital		153,130	111,969
Retained earnings		(8,096)	(11,029)
Revaluation reserve		106,396	82,175
Total Taxpayers' Equity:		251,430	183,115

The financial statements on pages 67 to 103 were approved by the Board on 4 June 2014 and signed on its behalf by

Chief Executive:

Date:

**Statement of Changes in Taxpayers' Equity
For the year ended 31 March 2014**

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Total reserves £000s
Balance at 1 April 2013	111,969	(11,029)	82,175	183,115
Transfers under Modified Absorption Accounting - PCTs & SHAs		50,651		50,651
Transfers between reserves in respect of modified absorption - PCTs & SHAs		(14,318)	14,318	0
Revised Balance at 1 April 2013	111,969	25,304	96,493	233,766
Changes in taxpayers' equity for the year ended 31 March 2013-14				
Retained deficit for the year		(33,412)		(33,412)
Net gain on revaluation of property, plant, equipment			9,915	9,915
Transfers between reserves		12	(12)	0
Reclassification Adjustments				
New PDC Received - Cash	69,408			69,408
New PDC Received - PCTs and SHAs Legacy items paid for by Department of Health	753			753
PDC Repaid In Year	(29,000)			(29,000)
Net recognised revenue for the year	41,161	(33,400)	9,903	17,664
Balance at 31 March 2014	153,130	(8,096)	106,396	251,430
Balance at 1 April 2012	111,891	(11,555)	85,976	186,312
Changes in taxpayers' equity for the year ended 31 March 2013				
Retained surplus for the year		472		472
Impairments and reversals			(3,747)	(3,747)
Transfers between reserves		54	(54)	0
New PDC Received	78			78
Net recognised revenue/(expense) for the year	78	526	(3,801)	(3,197)
Balance at 31 March 2013	111,969	(11,029)	82,175	183,115

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2014**

	NOTE	2013-14 £000s	2012-13 £000s
Cash Flows from Operating Activities			
Operating Surplus/(Deficit)	SOCI	(26,883)	7,017
Depreciation and Amortisation	7	11,385	10,040
Impairments and Reversals	7	10,018	0
Donated Assets received credited to revenue but non-cash		0	(70)
Interest Paid	13	(305)	(294)
Dividend Paid		(6,454)	(6,318)
Decrease in Inventories	19	631	106
(Increase)/Decrease in Trade and Other Receivables		(10,028)	6,443
(Increase)/Decrease in Other Current Assets		107	(38)
Decrease in Trade and Other Payables		(3,070)	(1,122)
Provisions Utilised	27	(458)	(463)
Increase in Provisions		405	508
Net Cash Inflow/(Outflow) from Operating Activities		(24,652)	15,809
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Received	11	18	25
Payments for Property, Plant and Equipment		(13,955)	(13,060)
Payments for Intangible Assets		(595)	(161)
Proceeds of disposal of assets held for sale (PPE)		9	22
Net Cash Outflow from Investing Activities		(14,523)	(13,174)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		(39,175)	2,635
CASH FLOWS FROM FINANCING ACTIVITIES			
Public Dividend Capital Received	SCTE	70,161	78
Public Dividend Capital Repaid	SCTE	(29,000)	0
Loans repaid to DH - Capital Investment Loans Repayment of Principal	24	(340)	(340)
Loans repaid to DH - Revenue Support Loans	24	(1,334)	(1,334)
Repayment of finance leases	26	(305)	(289)
Net Cash Inflow/(Outflow) from Financing Activities		39,182	(1,885)
NET INCREASE IN CASH AND CASH EQUIVALENTS		7	750
Cash and Cash Equivalents at Beginning of the Year		2,250	1,500
Cash and Cash Equivalents at Year End		2,257	2,250

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trusts Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2013-14 NHS Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the NHS Trusts Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Movement of assets within the Department of Health Group

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

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

For transfers of assets and liabilities from those NHS bodies that closed on 1 April 2013, Treasury has agreed that a modified absorption approach should be applied. For these transactions only, gains and

1.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the East Sussex Healthcare NHS 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.

1.4 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing material adjustment to the carrying value of assets and liabilities in the next financial year.

1.5 Going Concern

The Manual for Accounts sets out the interpretations of "going concern" for the public sector. An NHS body would not need to have concerns about its "going concern" status unless there is prospect of services ceasing altogether. For the Trust there are no uncertainties in this respect as continuity of service provision in the future can be demonstrated by signed contracts and future commissioning intentions with/from commissioners. Access to sufficient cash is available through application to Department of Health via the Trust Development Authority and where applicable, the Independent Trust Financing Facility.

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

Asset Lives

Each year the Trust reviews all of its plant and equipment assets to ensure that the existing asset lives are accurate, this review results in both increases and decreases in lives at an asset level, and the depreciation charge of those assets.

Provisions

The Trust uses information provided by the NHS Litigation Authority and NHS Pensions in the calculation of its pension provisions including forecast liabilities based on age, mortality tables and discount rates. These are shown in Note 1.16.

Part Completed Spells

Partially completed spells for inpatient services are accounted for by accruing for the income due to the 31 March 2014. This is calculated by applying the reference cost per bed day to the number of bed days by inpatient at midnight on the 31 March 2014. Bed stays over 70 days are ignored and then a 72% collection rate is assumed based on previous years amounts billed under PBR tariff arrangements once patients are discharged.

1.6 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are accrued for by applying the reference cost per bed day to the number of bed days per inpatient at midnight on 31 March 2014.

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

The East Sussex Healthcare NHS 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 East Sussex Healthcare NHS Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts 15.8%

1.7 Employee Benefits

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements.

Retirement benefit costs

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

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

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

1.8 Other expenses

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

1.9 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. All assets are measured subsequently at fair value. Land and buildings used for the East Sussex Healthcare NHS Trust's services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any impairment.

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

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

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

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

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

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

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.

1.10 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 £5000.

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

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

Measurement

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

Following initial recognition, intangible assets are carried at fair value by reference to an active market, or, where no active market exists, at amortised replacement cost (modern equivalent assets basis), indexed for relevant price increases, as a proxy for fair value. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

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

1.11 Depreciation, amortisation and impairments

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

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

At each reporting period end, the East Sussex Healthcare NHS Trust checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually.

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

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

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

1.12 Donated assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.13 Government grants

The value of assets received by means of a government grant are credited directly to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.14 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.

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

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.

1.15 Inventories

Inventories are valued at the lower of cost and net realisable value. The majority of inventories are valued using the first-in first-out methodology. However, the pharmacy system uses the weighted average cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stock.

1.16 Cash and cash equivalents

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

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

1.17 Provisions

Provisions are recognised when the East Sussex Healthcare NHS Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's long term discount rate of 2.20% in real terms (1.8% for employee early departure obligations).

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

1.18 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at Note 27.

1.19 Non-clinical risk pooling

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

1.20 Carbon Reduction Commitment Scheme (CRC)

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

1.21 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 East Sussex Healthcare NHS 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.

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

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 East Sussex Healthcare NHS 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.

1.22 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. The Trust does not currently hold any financial assets at fair value through the profit and loss, held to maturity investments or available for sale assets.

1.22.1 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.

Fair value is determined by reference to quoted market prices where possible otherwise by valuation techniques.

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

At the end of the reporting period, the Trust assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

1.23 Financial liabilities

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

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

1.23.1 Financial Liabilities

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

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

1.24 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.

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

1.25 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 34 to the accounts.

1.26 Public Dividend Capital (PDC) and PDC dividend

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

An annual charge, reflecting the cost of capital utilised by the Trust, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities (except for donated assets, net assets transferred from NHS bodies dissolved on 1 April 2013 and cash balances with the Government Banking Service). The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

1.27 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).

1.28 Research and Development

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

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

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2013-14. The application of the Standards as revised would not have a material impact on the accounts for 2013-14, were they applied in that year:

IAS 27 Separate Financial Statements - subject to consultation
IAS 28 Investments in Associates and Joint Ventures - subject to consultation
IFRS 9 Financial Instruments - subject to consultation
IFRS 10 Consolidated Financial Statements - subject to consultation
IFRS 11 Joint Arrangements - subject to consultation
IFRS 12 Disclosure of Interests in Other Entities - subject to consultation
IFRS 13 Fair Value Measurement - subject to consultation
IPSAS 32 - Service Concession Arrangement - subject to consultation

1.30 Charitable Funds

The Trust has not consolidated its associated Charitable Funds on the basis of non-materiality.

1.31 Legacy Balance Transfers

On the 1st April 2013 the following asset balances were transferred to the Trust from the bodies as stated below:

Hastings and Rother PCT - Purchased assets: £16,140,198.58
Hastings and Rother PCT - Donated assets: £2,098,005.16
East Sussex Downs and Weald PCT - Purchased assets: £23,574,053.02
East Sussex Downs and Weald PCT - Donated assets: £7,515,503.51

The following notes show the financial impact of these transfers which are shown as adjustments to the opening balances:

Statement of Taxpayers Equity
Note 14.1 - Property plant and equipment
Note 27 - Provisions

2. Operating segments

The Trust operates internally as five divisions. This structure is used to report operational and financial performance, including performance against statutory KPIs, to the Trust's chief operating decision makers. The divisions are: Urgent Care, Planned Care, Integrated Care, Commercial and Corporate. The three clinical divisions generate the majority of the Trust's income under the PBR framework from both local and non-local commissioners. The Commercial Division's main income drivers are private patient income via the Michelham Private Patient ward and through its Eastbourne Hospital Services commercial wing. The latter holds contracts with NHS and non-NHS organisations across the country.

	Urgent care		Planned Care		Integrated care	
	2013-14 £000s	2012-13 £000s	2013-14 £000s	2012-13 £000s	2013-14 £000s	2012-13 £000s
Income	<u>96,092</u>	<u>111,451</u>	<u>134,607</u>	<u>118,533</u>	<u>70,844</u>	<u>74,651</u>
Expenditure	<u>(76,942)</u>	<u>(75,763)</u>	<u>(101,477)</u>	<u>(103,628)</u>	<u>(115,074)</u>	<u>(116,246)</u>
Surplus/(deficit) before interest	<u>19,150</u>	<u>35,688</u>	<u>33,130</u>	<u>14,905</u>	<u>(44,230)</u>	<u>(41,595)</u>

	Commercial		Corporate		Total	
	2013-14 £000s	2012-13 £000s	2013-14 £000s	2012-13 £000s	2013-14 £000s	2012-13 £000s
Income	<u>12,394</u>	<u>13,193</u>	<u>3,349</u>	<u>4,042</u>	<u>317,286</u>	<u>321,870</u>
Expenditure	<u>(41,532)</u>	<u>(42,492)</u>	<u>(34,512)</u>	<u>(32,212)</u>	<u>(369,537)</u>	<u>(370,341)</u>
Surplus/(deficit) before interest	<u>(29,138)</u>	<u>(29,299)</u>	<u>(31,163)</u>	<u>(28,170)</u>	<u>(52,251)</u>	<u>(48,471)</u>

Disclosures

- All recharges between segments are at cost other than the internal transfer pricing of some Commercial Directorate services.
- Urgent Care income: 99.2% of income is from CCGs and NHS England (2012-13 = 99.4% from PCT's)
Planned Care income: 97.9% of income is from CCGs and NHS England (2012-13 = 97.8% from PCT's)
Integrated Care: 95.5% of income is from CCGs and NHS England (2012-13 = 94.7% from PCT's)
- The cumulative deficit at segment level for 2013-14, differs from the operating surplus shown in the Statement of Comprehensive Income as not all revenues and expenses are allocated to the operating segments.
- The reconciliations below link segmental income and financial performance to total income and operating surplus for the year.
- Non segmented costs relate to capital charges (including impairments), interest and PDC dividend payments.

Reconciliations

- Total Segment income to Trust Income	2013-14	2012-13
	£000s	£000s
Total Segment income	317,286	321,870
Non-segmented income	46,954	65,530
Statement of Comprehensive Income	<u>364,240</u>	<u>387,400</u>

The non-segmented income relates to revenue for high cost drugs and medical devices (£23.9m) and other unattributed income (£23.1m)

- Total segment deficit to Operating Surplus	2013-14	2012-13
	£000s	£000s
Total segment deficit	(52,251)	(48,471)
Non-segmented costs	(28,114)	(16,587)
Non-segmented income	46,953	65,530
Retained Surplus / (Deficit) for the year	<u>(33,412)</u>	<u>472</u>

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. The following provides details of income generation activities whose full cost exceeded £1m.

Summary Table - aggregate of all schemes	2013-14	2012-13
	£000s	£000s
Income	2,025	2,194
Full cost	2,003	2,347
Surplus/(deficit)	22	(153)

The income and expenditure values summarised in the above table relates to the Michelham Unit, the Trust's private patient centre. In 2013-14 its financial objective was to generate a £626,000 operating surplus. Actual performance resulted in a £22,000 surplus. In 2012-13 the unit made a deficit of £153,000 against a target surplus of £1.14m

4. Revenue from patient care activities and transitional support	2013-14	2012-13
	£000s	£000s
NHS Trusts	20	0
NHS England	41,505	0
Clinical Commissioning Groups	284,655	0
Primary Care Trusts - Patient Care Activities		337,192
Primary Care Trusts - Transitional Supporting Funding		16,160
Non-NHS:		
Local Authorities	7,155	538
Private patients	2,480	2,647
Overseas patients (non-reciprocal)	52	27
Injury costs recovery	729	904
Other	451	417
Total Revenue from patient care activities	337,047	357,885

5. Other operating revenue	2013-14	2012-13
	£000s	£000s
Recoveries in respect of employee benefits	1,398	1,804
Education, training and research	9,840	9,177
Charitable and other contributions to revenue expenditure -non- NHS	275	341
Receipt of donations for capital acquisitions - NHS Charity	999	939
Non-patient care services to other bodies	8,565	10,347
Income generation	5,699	5,864
Other revenue	366	1,043
Total Other Operating Revenue	27,142	29,515
Total operating revenue	364,189	387,400

6. Revenue

Revenue is almost totally from the supply of services. Revenue from the sale of goods is immaterial.

7. Operating expenses

	2013-14 £000s	2012-13 £000s
Services from other NHS Trusts	2,157	1,425
Services from CCGs/NHS England	134	-
Services from other NHS bodies	1,309	12
Services from NHS Foundation Trusts	1,350	725
Services from Primary Care Trusts	-	8,305
Total Services from NHS bodies	4,950	10,467
Purchase of healthcare from non-NHS bodies	1,357	5,984
Trust Chair and Non-executive Directors	57	60
Supplies and services - clinical	73,226	67,481
Supplies and services - general	4,606	4,752
Consultancy services	695	1,391
Establishment	5,721	5,275
Transport	1,050	963
Premises	11,331	8,840
Insurance	388	-
Legal Fees	157	-
Impairments and Reversals of Receivables	210	116
Depreciation	11,331	10,010
Amortisation	54	30
Impairments and reversals of property, plant and equipment	10,018	0
Audit fees	128	156
Clinical negligence	7,141	6,082
Education and Training	914	588
Change in Discount Rate	105	95
Other	2,434	2,293
Total Operating expenses (excluding employee benefits)	135,873	124,583
Employee Benefits		
Employee benefits excluding Board members	253,867	254,409
Board members	1,383	1,391
Total Employee Benefits	255,250	255,800
Total Operating Expenses	391,123	380,383

8 Operating Leases

The Trust enters in to operating leases of motor vehicles, photocopiers and equipment for a fixed term with no escalation clauses where it is beneficial to the Trust. Contracts are entered into for the following periods:

Motor Vehicles	3 years
Photocopiers	3-5 years
Equipment	3-8 years

At the end of the lease period the motor vehicles, photocopiers and equipment are returned to the leasing company. Leases for motor vehicles and photocopiers do not include a purchase option. The principle restriction under operating leases is to retain the asset for the lease period.

8.1 Trust as lessee

	Buildings £000s	Other £000s	2013-14 Total £000s	2012-13 £000s
Payments recognised as an expense				
Minimum lease payments			1,393	1,055
Total			1,393	1,055
Payable:				
No later than one year	33	1,410	1,443	1,117
Between one and five years	0	2,363	2,363	1,743
After five years	0	127	127	0
Total	33	3,900	3,933	2,860

9 Employee benefits and staff numbers

9.1 Employee benefits

	2013-14		
	Total £000s	Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure			
Salaries and wages	215,398	196,014	19,384
Social security costs	15,524	14,816	708
Employer Contributions to NHS BSA - Pensions Division	24,427	23,316	1,111
Other pension costs	14	14	0
Termination benefits	1,157	1,157	0
Total employee benefits	256,520	235,317	21,203
Less Employee costs capitalised	1,270	1,267	3
Gross Employee Benefits excluding capitalised costs	255,250	234,050	21,200

	2012-13		
	Total £000s	Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure			
Salaries and wages	216,215	197,292	18,923
Social security costs	16,055	15,290	765
Employer Contributions to NHS BSA - Pensions Division	23,328	22,212	1,116
Termination benefits	357	357	0
TOTAL - including capitalised costs	255,955	235,151	20,804
Less Employee costs capitalised	155	155	0
Gross Employee Benefits excluding capitalised costs	255,800	234,996	20,804

9.2 Staff Numbers

	2013-14			2012-13
	Total Number	Permanently employed Number	Other Number	Total Number
Average Staff Numbers				
Medical and dental	606	552	54	602
Administration and estates	1,154	1,089	65	1,193
Healthcare assistants and other support staff	1,684	1,458	226	1,686
Nursing, midwifery and health visiting staff	1,979	1,895	84	2,022
Nursing, midwifery and health visiting learners	65	65	0	51
Scientific, therapeutic and technical staff	832	802	30	887
Other	86	86	0	92
TOTAL	6,406	5,946	460	6,532
Of the above - staff engaged on capital projects	22	22	0	4

9.3 Staff Sickness absence and ill health retirements

	2013-14 Number	2012-13 Number
Total Days Lost	62,920	61,143
Total Staff Years	6,025	6,120
Average working Days Lost	10.44	9.99

	2013-14 Number	2012-13 Number
Number of persons retired early on ill health grounds	12	10

	2013-14 £000s	2012-13 £000s
Total additional pensions liabilities accrued in the year	929	402

9.4 Exit Packages agreed in 2013-14

Exit package cost band (including any special payment element)	2013-14					2012-13						
	Number of compulsory redundancies	Cost of compulsory redundancies	Number of other departures agreed	Cost of other departures	Total number of exit packages by cost band	Number of compulsory redundancies	Cost of compulsory redundancies	Number of other departures agreed	Cost of other departures	Total number of exit packages by cost band	Total cost of exit packages	
	Number	£s	Number	£s	Number	Number	£s	Number	£s	Number	£s	
Less than £10,000	3	23,237	34	163,896	37	187,133	1	2,503	0	0	1	2,503
£10,000-£25,000	1	18,914	21	303,592	22	322,506	2	28,615	0	0	2	28,615
£25,001-£50,000	0	0	13	487,662	13	487,662	3	114,973	0	0	3	114,973
£50,001-£100,000	0	0	3	172,826	3	172,826	2	153,772	1	56,813	3	210,585
Total number of exit packages by type (total cost)	4	42,151	71	1,127,976	75	1,170,127	8	299,863	1	56,813	9	356,676
Total resource cost (£000s)							300		57			

The Mutually Agreed Resignation Scheme (MARS) is a scheme under which an individual employee, in agreement with the Trust as their employer, chooses to leave employment in return for a severance payment. The scheme is designed to support the flexibility of the Trust to address periods of rapid change and service re-design. It creates job vacancies which can be filled by redeployment of staff from other jobs or as a suitable alternative for those facing redundancy and offers a more cost effective and mutually agreeable solution to reducing workforce cost than redundancy. The cost of the 2013/14 MARS scheme is included in the table above.

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

9.5 Exit packages - Other Departures analysis

	2013-14		2012-13	
	Agreements Number	Total value of agreements £000s	Agreements Number	Total value of agreements £000s
Mutually agreed resignations (MARS) contractual costs	61	897	1	57
Contractual payments in lieu of notice	10	231	0	0
Total	71	1,128	1	57

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

As single exit packages can be made up of several components, each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note 9.4 which will be the number of individuals.

The Remuneration Report includes disclosure of exit payments payable to individuals named in that Report.

9.6 Pension costs

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

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 the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2014, is based on valuation data as 31 March 2013, updated to 31 March 2014 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts, published annually. These accounts can be viewed on the NHS Pensions website. 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 scheme (taking into account its recent demographic experience), and to recommend the contribution rates.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes were suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions, and while future scheme terms are developed as part of the reforms to public service pension provision due in 2015.

The Scheme Regulations were changed to allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next formal valuation to be used for funding purposes will be carried out as at March 2012 and will be used to inform the contribution rates to be used from 1 April 2015.

c) Scheme provisions

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

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

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

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the employer.

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

10 Better Payment Practice Code

10.1 Measure of compliance

	2013-14 Number	2013-14 £000s	2012-13 Number	2012-13 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	111,060	124,189	106,662	120,135
Total Non-NHS Trade Invoices Paid Within Target	52,185	50,705	54,870	53,734
Percentage of Non NHS Trade Invoices Paid Within Target	46.99%	40.83%	51.44%	44.73%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	4,193	28,125	3,319	31,792
Total NHS Trade Invoices Paid Within Target	1,512	14,551	909	13,282
Percentage of NHS Trade Invoices Paid Within Target	36.06%	51.74%	27.39%	41.78%

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

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

	2013-14 £000s	2012-13 £000s
Amounts included in finance costs from claims made under this legislation	6	16
Total	6	16

11 Investment Revenue

	2013-14 £000s	2012-13 £000s
Interest revenue		
Bank interest	18	25
Subtotal	18	25

12 Other Gains and Losses

	2013-14 £000s	2012-13 £000s
Gain on disposal of assets other than by sale (PPE)	9	22
Total	9	22

13 Finance Costs

	2013-14 £000s	2012-13 £000s
Interest		
Interest on loans and overdrafts	185	210
Interest on obligations under finance leases	51	66
Interest on late payment of commercial debt	6	16
Total interest expense	242	292
Provisions - unwinding of discount	63	76
Total	305	368

14.1 Property, plant and equipment

2013-14	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Assets under construction & payments on account £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
Cost or valuation:									
At 1 April 2013	27,615	153,122	9,318	3,014	59,603	399	17,169	2,980	273,220
Transfers under Modified Absorption Accounting - PCTs & SHAs	12,185	36,519	0	0	392	0	231	0	49,327
Adjusted Opening Balance	39,800	189,641	9,318	3,014	59,995	399	17,400	2,980	322,547
Additions Purchased	0	5,398	0		4,732	0	3,305	221	13,656
Additions Donated	0	0	0	0	970	0	2	27	999
Additions under construction	0	0	0	1,757	0	0	0	0	1,757
Reclassifications	0	4,771	0	(4,771)	0	0	0	0	0
Disposals other than for sale	0	0	0	0	(754)	(14)	(887)	(1)	(1,656)
Revaluations	11,239	(31,902)	1,504	0	0	0	0	0	(19,159)
At 31 March 2014	51,039	167,908	10,822	0	64,943	385	19,820	3,227	318,144
Depreciation									
At 1 April 2013	0	17,984	1,072	0	38,222	375	10,178	2,436	70,267
Disposals other than for sale	0	0	0		(762)	(13)	(879)	(2)	(1,656)
Revaluations	0	(28,002)	(1,072)		0	0	0	0	(29,074)
Impairments	0	10,018	0	0	0	0	0	0	10,018
Charged During the Year	0	4,757	279		4,325	9	1,830	131	11,331
At 31 March 2014	0	4,757	279	0	41,785	371	11,129	2,565	60,886
Net Book Value at 31 March 2014	51,039	163,151	10,543	0	23,158	14	8,691	662	257,258
Asset financing:									
Owned - Purchased	48,539	153,693	10,543	0	19,387	14	8,454	489	241,119
Owned - Donated	2,500	9,458	0	0	2,985	0	237	173	15,353
Held on finance lease	0	0	0	0	786	0	0	0	786
Total at 31 March 2014	51,039	163,151	10,543	0	23,158	14	8,691	662	257,258
Revaluation Reserve Balance for PPE									
At 1 April 2013	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Transfers between reserves in respect of modified absorption - PCTs & SHAs	6,798	7,516	0	0	4	0	0	0	14,318
Movements as a result of revaluation	16,321	59,927	4,561	0	1,223	16	0	127	82,175
In Year Movement	11,238	(3,899)	2,575	0	(11)	(1)	0	0	9,902
At 31 March 2014	34,357	63,544	7,136	0	1,216	15	0	127	106,395

14.2 Property, plant and equipment prior-year

2012-13	Land £000s	Buildings excluding dwellings £000s	Dwellings £000s	Assets under construction & payments on account £000s	Plant & machinery £000s	Transport equipment £000s	Information technology £000s	Furniture & fittings £000s	Total £000s
Cost or valuation:									
At 1 April 2012	31,362	148,789	9,286	900	59,215	411	15,626	2,985	268,574
Additions - Assets Under Construction				2,114					2,114
Additions - purchased	0	4,333	32		1,973	0	1,398	12	7,748
Additions - donated	0	0	0	0	789	0	145	5	939
Disposals other than by sale	0	0	0	0	(2,374)	(12)	0	(22)	(2,408)
Impairments	(3,747)	0	0	0	0	0	0	0	(3,747)
At 31 March 2013	27,615	153,122	9,318	3,014	59,603	399	17,169	2,980	273,220
Depreciation									
At 1 April 2012	0	14,129	856	0	36,382	377	8,594	2,327	62,665
Disposals other than for sale	0	0	0		(2,374)	(12)	0	(22)	(2,408)
Charged During the Year	0	3,855	216		4,214	10	1,584	131	10,010
At 31 March 2013	0	17,984	1,072	0	38,222	375	10,178	2,436	70,267
Net book value at 31 March 2013	27,615	135,138	8,246	3,014	21,381	24	6,991	544	202,953
Purchased	27,615	133,349	8,246	3,014	18,467	24	6,705	361	197,781
Donated	0	1,789	0	0	2,914	0	286	183	5,172
Total at 31 March 2013	27,615	135,138	8,246	3,014	21,381	24	6,991	544	202,953
Asset financing:									
Owned	27,615	135,138	8,246	3,014	20,309	24	6,991	544	201,881
Held on finance lease	0	0	0	0	1,072	0	0	0	1,072
Total at 31 March 2013	27,615	135,138	8,246	3,014	21,381	24	6,991	544	202,953

14.3 (cont). Property, plant and equipment

14.3 Donations

The following organisations donated assets to the Trust during 2013-14:

- ESHT Charitable funds - £29,000 (2012-13 £47,000)
- EDGH League of Friends - £462,000 (2012-13 £552,000)
- Bexhill League of Friends - £293,000 (2012-13 £36,000)
- Conquest League of Friends - £208,000 (2012-13 £65,000)
- Lewes Victoria Hospital League of Friends - £0,000 (2012-13 £118,000)
- Ucfield League of Friends - £6,000 (2012-13 £51,000)
- Crowborough League of Friends - £0,000 (2012-13 £60,000)
- Oliver Curd Trust - £0,000 (2012-13 £6,000)
- MS Society - £0,000 (2012-13 £6,000)

14.4 Depreciation, impairments and valuation assessments

Land, buildings and dwellings were valued by an independent valuer (the District Valuer, DVS Property specialists) on 1 April 2013, using a modern equivalent asset for specialist buildings. Since that date, indices for land values and buildings Costing Information Service (BCIS) tender prices for buildings and dwellings remained in line with those published as at 1 April 2013, therefore no indexation has been applied in 2013-14 as the movement was not considered to be material.

As a result of the valuation conducted as at 1 April 2013, an impairment of £10.216m was generated, where there were falls in the market value of assets. Assets previously impaired increased in value by £198,000. The impairment value charged to expenses is therefore £10.018m. The following table shows the distribution of the impairment across East Sussex Healthcare NHS Trust assets.

	£'000
Community assets transferred	6,787
Acute hospitals assets	3,429
	<u>10,216</u>
Reversal of previous impairments expenses to the SOCI	(198)
Impairment	<u><u>10,018</u></u>

Standard lives for property, plant & equipment are adopted as follows:

- buildings, as per the District Valuer
- short life plant and equipment, 5 to 7 years
- medium life plant and equipment, 10 years
- long life plant and equipment, 15 years
- motor vehicles, 4 to 7 years
- furniture, 5 to 10 years
- IT equipment, up to 15 years

The annual review of asset lives for plant and machinery, furniture and IT equipment resulted in an in year reduction in depreciation of £143,000 (2012-13 £145,000 reduction). Extending asset lives reduces in-year depreciation costs but increases the number of years depreciation is charged for individual assets.

The gross carrying amount of all fully depreciated assets still in use is:

- Purchased - £21.58m (2012-13 - £19.47m).
- Donated - £8.16m (2012-13 - £7.67m)

15.1 Intangible non-current assets

Standard lives for intangible assets are adjusted as follows:

- software, 6 years
- development expenditure, 6 years

2013-14	IT - in-house & 3rd party software £000's	Development Expenditure - Internally Generated £000's	Total £000's
At 1 April 2013	95	359	454
Additions - purchased	0	595	595
At 31 March 2014	<u>95</u>	<u>954</u>	<u>1,049</u>
Amortisation			
At 1 April 2013	95	74	169
Charged during the year	0	54	54
At 31 March 2014	<u>95</u>	<u>128</u>	<u>223</u>
Net Book Value at 31 March 2014	<u>0</u>	<u>826</u>	<u>826</u>
Asset Financing: Net book value at 31 March 2014 comprises:			
Purchased	0	826	826
Total at 31 March 2014	<u>0</u>	<u>826</u>	<u>826</u>

15.2 Intangible non-current assets prior year

2012-13	Software Internally Generated £000s	Development Expenditure - Internally Generated £000s	Total £000s
Cost or valuation:			
At 1 April 2012	95	198	293
Additions - purchased	0	161	161
At 31 March 2013	<u>95</u>	<u>359</u>	<u>454</u>
Amortisation			
At 1 April 2012	95	44	139
Charged during the year	0	30	30
At 31 March 2013	<u>95</u>	<u>74</u>	<u>169</u>
Net book value at 31 March 2013	0	285	285
Net book value at 31 March 2013 comprises:			
Purchased	0	285	285
Total at 31 March 2013	<u>0</u>	<u>285</u>	<u>285</u>

16 Analysis of impairments and reversals recognised in 2013-14

	Total £000s	£000s
Property, Plant and Equipment		
Changes in market price	10,018	10,018
Total charged to Annually Managed Expenditure	10,018	10,018
Total Impairments of Property, Plant and Equipment changed to SoCI	10,018	10,018

Impairments

The Trust obtained a full site valuation of its land using market value for existing use and buildings and dwellings using depreciated replacement cost based on modern equivalent assets on 1 April 2013. This resulted in a fall in value of £10.216m where there was no available revaluation reserve balance available. An increase in previously impaired assets enabled £198,000 to be reversed. A total of £10.018m was therefore charged to expenditure.

17 Commitments

17.1 Capital commitments

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

	31 March 2014 £000s	31 March 2013 £000s
Property, plant and equipment	0	813
Total	0	813

18 Intra-Government and other balances

	Current receivables £000s	Non-current receivables £000s	Current payables £000s
Balances with other Central Government Bodies	16,745	0	11,176
Balances with Local Authorities	422	0	5
Balances with NHS bodies outside the Departmental Group	3	0	23
Balances with NHS Trusts and Foundation Trusts	3,355	0	2,196
Balances with Public Corporations and Trading Funds	0	0	0
Balances with bodies external to government	4,901	708	18,662
At 31 March 2014	25,426	708	32,062
prior period:			
Balances with other Central Government Bodies	5,461	0	13,068
Balances with Local Authorities	707	0	0
<i>Balances with NHS bodies outside the Departmental Group</i>	4	0	93
Balances with NHS Trusts and Foundation Trusts	2,322	0	1,977
Balances with Public Corporations and Trading Funds	0	0	0
Balances with bodies external to government	5,557	898	17,906
At 31 March 2013	14,051	898	33,044

19 Inventories

	Drugs £000s	Consumables £000s	Energy £000s	Other £000s	Total £000s
Balance at 1 April 2013	1,775	4,878	190	26	6,869
Additions	30,191	21,429	175	508	52,303
Inventories recognised as an expense in the period	(30,163)	(22,062)	(174)	(535)	(52,934)
Balance at 31 March 2014	1,803	4,245	191	(1)	6,238

20.1 Trade and other receivables

	Current		Non-current	
	31 March 2014 £000s	31 March 2013 £000s	31 March 2014 £000s	31 March 2013 £000s
NHS receivables - revenue	18,614	7,702	0	0
NHS prepayments and accrued income	1,510	42	0	0
Non-NHS receivables - revenue	3,129	2,532	0	0
Non-NHS receivables - capital	82	236	0	0
Non-NHS prepayments and accrued income	886	2,390	0	0
Provision for the impairment of receivables	(414)	(300)	(133)	(129)
VAT	65	41	0	0
Other receivables	1,554	1,408	841	1,027
Total	25,426	14,051	708	898
Total current and non current	26,134	14,949		

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

20.2 Receivables past their due date but not impaired

	31 March 2014 £000s	31 March 2013 £000s
By up to three months	16,580	6,419
By three to six months	2,419	379
By more than six months	1,220	803
Total	20,219	7,601

20.3 Provision for impairment of receivables

	2013-14 £000s	2012-13 £000s
Balance at 1 April 2013	(429)	(318)
Amount written off during the year	92	5
Increase in receivables impaired	(210)	(116)
Balance at 31 March 2014	(547)	(429)

Trade receivables are shown in the balance sheet at a fair estimation of their true value. Impairments to receivables are based on the previous knowledge and experience of the payment record for similar debts. To reflect the expected rates of collection, injury cost recovery income is subject to a provision for impairment of receivables of 15.8% (2012-13, 12.6%) and overpayment of salary to leavers of 50%.

21 Other current assets

	31 March 2014 £000s	31 March 2013 £000s
EU Emissions Trading Scheme Allowance	0	107
Total	0	107

22 Cash and Cash Equivalents

	31 March 2014 £000s	31 March 2013 £000s
Opening balance	2,250	1,500
Net change in year	7	750
Closing balance	2,257	2,250

Made up of

Cash with Government Banking Service	2,151	2,072
Commercial banks	89	160
Cash in hand	17	18

Cash and cash equivalents as in statement of financial position and statement of cash flows

	2,257	2,250
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Patients' money held by the Trust, not included above

	1	4
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23 Trade and other payables

	Current	
	31 March 2014 £000s	31 March 2013 £000s
NHS payables - revenue	2,358	6,462
NHS payables - capital	53	173
NHS accruals and deferred income	2,864	308
Non-NHS payables - revenue	6,162	8,364
Non-NHS payables - capital	4,467	2,246
Non-NHS accruals and deferred income	8,842	6,244
Social security costs	2,356	2,420
Tax	2,489	2,684
Other	2,471	4,143
Total	32,062	33,044

Included above:

outstanding Pension Contributions at the year end	3,275	3,091
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24 Borrowings

	Current		Non-current	
	31 March 2014 £000s	31 March 2013 £000s	31 March 2014 £000s	31 March 2013 £000s
Loans from Department of Health	1,674	1,674	3,535	5,209
Finance lease liabilities	320	308	598	916
Total	1,994	1,982	4,133	6,125
Total other liabilities (current and non-current)	6,127	8,107		

Loans - repayment of principal falling due in:

	31 March 2014		
	DH £000s	Other £000s	Total £000s
0-1 Years	1,674	320	1,994
1 - 2 Years	340	598	938
2 - 5 Years	1,020	0	1,020
Over 5 Years	2,175	0	2,175
TOTAL	5,209	918	6,127

Borrowings include: capital investment loans for £1.5m and £4m repaid over 10 and 20 years respectively (drawn down 15 December 2008 and 15 December 2009) and finance leases totalling £2.7m over 10 years.

25 Deferred revenue

	Current	
	31 March 2014	31 March 2013
	£000s	£000s
Opening balance at 1 April 2013	136	72
Deferred revenue addition	1,399	96
Transfer of deferred revenue	(136)	(32)
Current deferred Income at 31 March 2014	1,399	136

26 Finance lease obligations as lessee

Where substantially all the risks and rewards of ownership pass to the Trust, leases are recognised as finance leases. The outstanding lease is a 10 year lease in respect of laundry equipment for Eastbourne Hospital Services.

The lease was agreed under NHS PASA standard terms and conditions. It does not have contingent rent or escalation clauses. The principal restriction on assets held under finance leases is a restriction on the right to dispose of the asset during the period.

Amounts payable under finance leases (Other)

	Minimum lease		Present	
	31 March 2014	31 March 2013	31 March 2014	31 March 2013
	£000s	£000s	£000s	£000s
Within one year	384	359	320	308
Between one and five years	598	980	598	916
After five years	0	0	0	0
Less future finance charges	(64)	(115)		
Minimum Lease Payments / Present value of minimum lease payments	918	1,224	918	1,224
Included in:				
Current borrowings			320	308
Non-current borrowings			598	916
			918	1,224

27 Provisions

	Total £000s	Early Departure Costs £000s	Legal Claims £000s	Other £000s	2012-13 Total £000s
Balance at 1 April 2013	3,147	2,891	95	161	3,064
Transfers under Modified Absorption Accounting - PCTs & SHAs	15	0	15	0	0
Arising During the Year	323	64	151	108	408
Utilised During the Year	(458)	(224)	(99)	(135)	(463)
Reversed Unused	(101)	(48)	(31)	(22)	(33)
Unwinding of Discount	63	63	0	0	76
Change in Discount Rate	105	105	0	0	95
Balance at 31 March 2014	3,094	2,851	131	112	3,147

Expected Timing of Cash Flows:

No Later than One Year	463	220	131	112
Later than One Year and not later than Five Years	827	827	0	0
Later than Five Years	1,804	1,804	0	0

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

	£'000
As at 31 March 2014	56,661
As at 31 March 2013	37,407

There are two types of provision within pensions: injury benefit and pre-1995 premature retirements. Pension provisions comprise of the forecast liability for specific cases, calculated in accordance with Department of Health guidance and data provided by the NHS Pensions Agency.

Legal claims provisions are the estimated Trust liabilities arising from specific claims against the Trust. The majority of claims, if successful, will be settled within one year. Other costs arising from these are paid by the Trust. The 'Other' provision is in respect of Energy Trading and the Carbon Reduction Commitment scheme.

28 Contingencies

	31 March 2014 £000s	31 March 2013 £000s
Contingent liabilities		
Equal Pay	(70)	(70)
NHSLA Staff Negligence	(35)	(52)
Net Value of Contingent Liabilities	(105)	(122)

The contingent liabilities arise from legal claims as stated in the Provisions note, these arise due to uncertainties of estimation and timing.

The contingent liabilities relating to equal pay claims have arisen due to the large number of claims currently awaiting litigation nationally. The Trust cannot accurately estimate the probable timing of any potential claims or their financial impact.

29 Financial Instruments

29.1 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 NHS Healthcare Commissioners and the way the latter bodies are financed, the Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

The Trust borrows from government for capital expenditure, subject to affordability as confirmed by the Trust Development Authority. The borrowings are for 1 – 20 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The Trust therefore has low exposure to interest rate fluctuations.

Credit risk

Because the majority of the Trust's revenue comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2014 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.

29.2 Financial Assets

	Loans and receivables £000s	Total £000s
Receivables - NHS	19,914	19,914
Receivables - non-NHS	4,330	4,330
Cash at bank and in hand	2,257	2,257
Total at 31 March 2014	26,501	26,501
Receivables - NHS	7,702	7,702
Receivables - non-NHS	3,483	3,483
Cash at bank and in hand	2,250	2,250
Total at 31 March 2013	13,435	13,435

The fair value of receivables and cash is consistent with the carrying value included in the Statement of Financial Position. Receivables comprise amounts to be collected within 1 year and non-current receivables for Injury Cost Recovery income. Non-current receivables are not discounted as the difference to carrying values is not considered to be material. Cash is available on demand.

29.3 Financial Liabilities

	Other £000s	Total £000s
NHS payables	4,217	4,217
Non-NHS payables	21,601	21,601
Other borrowings	5,209	5,209
PFI & finance lease obligations	918	918
Total at 31 March 2014	31,945	31,945
NHS payables	6,943	6,943
Non-NHS payables	20,997	20,997
Other borrowings	6,883	6,883
PFI & finance lease obligations	1,224	1,224
Total at 31 March 2013	36,047	36,047

Payables arising under statutory obligations such as payroll taxes, are not classified as financial liabilities. The fair value of payables and finance leases is consistent with the carrying value included in the Statement of Financial Position. Payables comprise amounts to be paid within 1 year and finance leases are valued using discounted cash flows in accordance with IAS17. Other borrowings comprise four fixed interest loans from the Department of Health included at amortised cost. The fair value of these loans is calculated by discounting the value of each loan by the difference of the original fixed interest rates (1.09%, 3.48%, 3.95% and 3.92%) and the current rate for equivalent loans (1.43%, 2.12%, 3.52% and 3.52%).

30 Events after the end of the reporting period

Clinical Strategy

The Trust's Clinical Strategy, the aim of which, is to safeguard patient care whilst reorganising provision and location of services, care pathways and driving efficiency changes through the whole organisation, began its implementation in 2013-14. Acute and hyper acute stroke services were centralised on the Eastbourne site in July 2013 and emergency and high risk surgery services were centralised on the Hastings site in December 2013. On 11 December 2013 the Board unanimously approved the Phase 1 Shaping our Future Clinical Strategy Full Business Case for £30m of capital investment which has now been submitted to the Trust Development Authority for consideration. The Trust's financial plans include the expectation that capital works will begin in 2014-15.

31 Related party transactions

Details of related party transactions with individuals are as follows:

Payments to Winchelsea and District Memorial Hospital Ltd: £263,708
 Related party: Barry Nealon, Non-executive Director

The above payments were made in respect of rent and management charge to the Winchelsea and District Memorial Hospital Ltd, of which Mr Nealon is the Chairman.

The Department of Health is regarded as a related party. During the year 2013-14 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. The bodies listed below have entered into income or expenditure transactions with the Trust of over £500,000 :

Brighton And Hove CCG
 Brighton and Sussex University Hospitals NHS Trust
 Department for Work & Pension (DWP)
 East Sussex Healthcare NHS Trust Charitable Fund
 Eastbourne, Hailsham And Seaford CCG
 Hastings And Rother CCG
 Health Education England
 High Weald Lewes Havens CCG
 NHS England
 NHS Property Services
 Queen Victoria Hospital NHS Foundation Trust
 South London CSU
 Surrey & Sussex (Area Teams)
 Surrey & Sussex Healthcare NHS Trust
 Sussex Community NHS Trust
 Sussex Partnership NHS Foundation Trust
 The NHS Blood and Transplant Agency
 The NHS Litigation Authority
 The NHS Pensions Agency
 West Kent CCG
 Western Sussex Hospitals NHS Foundation Trust

In addition, the Trust has had a number of material transactions (over £500,000) with other government departments and other central and local government bodies.

East Sussex County Council
 Eastbourne Borough Council
 Hastings Borough Council
 National Insurance Fund

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the trustees for which are also members of the Trust board. The amount received was £503,000, comprising of donations of assets amounting to £79,000 and cash support of £424,000 (2012-13 £416,000).

32 Losses and special payments

The total number of losses cases in 2013-14 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	176,480	487
Special payments	110,350	68
Total losses and special payments	286,830	555

The total number of losses cases in 2012-13 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	140,614	604
Special payments	168,394	70
Total losses and special payments	309,008	674

33. Financial performance targets

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

33.1 Breakeven performance

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	223,811	235,415	245,777	267,122	282,807	299,623	385,281	387,400	364,240
Retained surplus/(deficit) for the year	(4,864)	1,503	3,448	1,017	51	(4,704)	(402)	472	(33,412)
Adjustment for:									
Timing/non-cash impacting distortions:									
Adjustments for Impairments				641	299	0	(32)	0	10,018
Adjustments for impact of policy change re donated/government grants assets							521	50	300
Other agreed adjustments	4,983	0	0	0	0	0	0	0	0
Break-even in-year position	119	1,503	3,448	1,658	350	(4,704)	87	522	(23,094)
Break-even cumulative position	(4,864)	(3,361)	87	1,745	2,095	(2,609)	(2,522)	(2,000)	(25,094)

Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, East Sussex Hospital NHS Trust's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves) to maintain comparability year to year.

The Trust aims to achieve break-even in 2016-17

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
	%	%	%	%	%	%	%	%	%
Materiality test (I.e. is it equal to or less than 0.5%):									
Break-even in-year position as a percentage of turnover	0.05	0.64	1.40	0.62	0.12	-1.57	0.02	0.13	-6.34
Break-even cumulative position as a percentage of turnover	-2.17	-1.43	0.04	0.65	0.74	-0.87	-0.65	-0.52	-6.89

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

33.2 Capital cost absorption rate

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

33.3 External financing

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

	2013-14 £000s	2012-13 £000s
External financing limit (EFL)	39,242	(1,645)
Cash flow financing	39,175	(2,635)
Unwinding of Discount Adjustment	63	0
External financing requirement	<u>39,238</u>	<u>(2,635)</u>
Underspend against EFL	<u>4</u>	<u>990</u>

33.4 Capital resource limit

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

	2013-14 £000s	2012-13 £000s
Gross capital expenditure	17,008	10,962
Less: donations towards the acquisition of non-current assets	<u>(999)</u>	<u>(939)</u>
Charge against the capital resource limit	16,009	10,023
Capital resource limit	<u>16,013</u>	<u>10,034</u>
Underspend against the capital resource limit	<u>4</u>	<u>11</u>

34 Third party assets

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

	31 March 2014 £000s	31 March 2013 £000s
Third party assets held by the Trust	<u>1</u>	<u>4</u>

All of the above is patients' monies held by the Trust

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE TRUST

The Chief Executive of the NHS Trust Development Authority has designated that the Chief Executive should be the Accountable Officer to the Trust. The relevant responsibilities of Accountable Officers are set out in the Accountable Officers Memorandum issued by the Chief Executive of the NHS Trust Development Authority. These include ensuring that:

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;
- value for money is achieved from the resources available to the Trust;
- the expenditure and income of the Trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;
- effective and sound financial management systems are in place; and
- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as an Accountable Officer.

Signed..........Chief Executive

Date.....3/6/15.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are required under the National Health Service Act 2006 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure, recognised gains and losses and cash flows for the year. In preparing those accounts, directors are required to:

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction of the Secretary of State. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm to the best of their knowledge and belief they have complied with the above requirements in preparing the accounts.

By order of the Board

3/6/15 Date  Chief Executive

3/6/15 Date  Finance Director

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF EAST SUSSEX HEALTHCARE NHS TRUST

Financial statements

We have audited the financial statements of East Sussex Healthcare NHS Trust for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies directed by the Secretary of State with the approval of the Treasury as relevant to the National Health Service in England.

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

- the table of salaries and allowances of senior managers and related narrative notes;
- the table of pension benefits of senior managers and related narrative notes; and
- the table of pay multiples.

This report is made solely to the Board of Directors of East Sussex Healthcare NHS Trust, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in April 2014. Our audit work has been undertaken so that we might state to the Board of Directors 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 NHS Trust and the Board of Directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

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

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Sussex healthcare NHS Trust as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the accounting policies directed by the Secretary of State with the approval of the Treasury as relevant to the National Health Service in England.

Opinion on other matters

In our opinion:

- the part of the Remuneration Report subject to audit has been prepared properly in accordance with the requirements directed by the Secretary of State with the approval of the Treasury as relevant to the National Health Service in England; and

- the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the governance statement does not comply with the NHS Trust Development Authority's guidance;
- we refer the matter to the Secretary of State under section 19 of the Audit Commission Act 1998 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998.

Exception report

On 29 May 2015 we referred a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 because we have reason to believe that the Trust is in breach, and plans to be in breach, of the 'breakeven duty' set out at paragraph 2(1) of Schedule 5 to the National Health Service Act 2006.

Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Trust and auditor

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the 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 criteria, published by the Audit Commission in October 2014, as to whether the Trust has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission determined these two criteria as those necessary for us to consider under its 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 2015.

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.

Basis for adverse conclusion

In considering the Trust's arrangements for securing financial resilience, we identified that:

- the Trust reported a small surplus for the year following receipt of non-recurrent funding of £18 million from the Department of Health. In the absence of such funding a significant deficit would have been reported; and
- the cumulative breakeven position remains in deficit of £25 million as at 31 March 2015

In considering the Trust's arrangements for challenging how it secures economy, efficiency and effectiveness, we identified that:


- the Trust has budgeted for a deficit £36.9 million in 2015/16;
- the Trust's medium term financial plans require revision in the light of the budgeted deficit for 2015/16; and
- significant cost reductions are required to maintain spending with available resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, the matters reported in the basis for adverse conclusion paragraph above prevent us from being satisfied that in all significant respects East Sussex Healthcare NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Certificate

We certify that we have completed the audit of the accounts of East Sussex Healthcare NHS Trust in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.


For and on behalf of BDO LLP, Appointed Auditor
London UK

4 June 2015

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Statement of Comprehensive Income for year ended
31 March 2015**

	NOTE	2014-15 £000s	2013-14 £000s
Gross employee benefits	9.1	(245,460)	(255,250)
Other operating costs	7	(130,698)	(135,873)
Revenue from patient care activities	4	354,042	337,098
Other operating revenue	5	30,834	27,142
Operating surplus/(deficit)		8,718	(26,883)
Investment revenue	11	34	18
Other gains	12	29	9
Finance costs	13	(235)	(305)
Surplus/(deficit) for the financial year		8,546	(27,161)
Public dividend capital dividends payable		(8,073)	(6,251)
Retained surplus/(deficit) for the year		473	(33,412)

**Items that may subsequently be reclassified to the retained
surplus/(deficit)**

Other Comprehensive Income	2014-15 £000s	2013-14 £000s
Impairments and reversals taken to the revaluation reserve	(3,319)	0
Net gain on revaluation of property, plant & equipment	16,660	9,915
Total comprehensive income for the year	13,814	(23,497)

Financial performance for the year

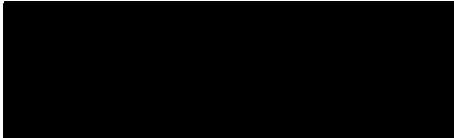
Retained surplus/(deficit) for the year	473	(33,412)
Impairments (excluding IFRIC 12 impairments)	(629)	10,018
Adjustments in respect of donated gov't grant asset reserve elimination	244	300
Adjusted retained surplus/(deficit)	88	(23,094)

The notes on pages 76 to 102 form part of this account.

**Statement of Financial Position as at
31 March 2015**

		31 March 2015	31 March 2014
	NOTE	£000s	£000s
Non-current assets:			
Property, plant and equipment	14	271,373	257,258
Intangible assets	15	1,293	826
Trade and other receivables	19.1	1,184	708
Total non-current assets		273,850	258,792
Current assets:			
Inventories	18	6,599	6,238
Trade and other receivables	19.1	19,464	25,426
Cash and cash equivalents	20	1,008	2,257
Total current assets		27,071	33,921
Total assets		300,921	292,713
Current liabilities			
Trade and other payables	21	(27,534)	(32,062)
Provisions	25	(591)	(463)
Borrowings	22	(335)	(320)
DH revenue support loan	22	0	(1,331)
DH capital loan	22	(383)	(343)
Total current liabilities		(28,843)	(34,519)
Net current liabilities		(1,772)	(598)
Total assets less current liabilities		272,078	258,194
Non-current liabilities			
Provisions	25	(2,588)	(2,631)
Borrowings	22	(263)	(598)
DH capital loan	22	(3,583)	(3,535)
Total non-current liabilities		(6,434)	(6,764)
Total assets employed:		265,644	251,430
FINANCED BY:			
Public Dividend Capital		153,530	153,130
Retained earnings		(7,597)	(8,096)
Revaluation reserve	14	119,711	106,396
Total Taxpayers' Equity:		265,644	251,430

The financial statements on pages 67 to 102 were approved by the Board on 3 June 2015 and signed on its behalf by

Chief Executive: 

Date: 3/6/15

**Statement of Changes in Taxpayers' Equity
For the year ending 31 March 2015**

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Total reserves £000s
Balance at 1 April 2014	153,130	(8,096)	106,396	251,430
Changes in taxpayers' equity for 2014-15				
Retained surplus for the year		473		473
Net gain on revaluation of property, plant, equipment Impairments and reversals			16,660 (3,319)	16,660 (3,319)
Reclassification Adjustments				
New temporary and permanent PDC received - cash	16,900			16,900
New temporary and permanent PDC repaid in year	(16,500)			(16,500)
Other movements	0	26	(26)	0
Net recognised revenue for the year	400	499	13,315	14,214
Balance at 31 March 2015	153,530	(7,597)	119,711	265,644
Balance at 1 April 2013	111,969	(11,029)	82,175	183,115
Transfers under Modified Absorption Accounting - PCTs & SHAs		50,651		50,651
Transfers between reserves in respect of modified absorption - PCTs & SHAs		(14,318)	14,318	0
Revised Balance at 1 April 2013	111,969	25,304	96,493	233,766
Changes in taxpayers' equity for the year ended 31 March 2014				
Retained deficit for the year		(33,412)		(33,412)
Net gain on revaluation of property, plant, equipment			9,915	9,915
Transfers between reserves		12	(12)	0
Reclassification Adjustments				
New temporary and permanent PDC received - cash	69,408			69,408
New PDC received - PCTs and SHAs legacy items paid for by DH	753			753
New temporary and permanent PDC repaid in year	(29,000)			(29,000)
Net recognised revenue for the year	41,161	(33,400)	9,903	17,664

Statement of Cash Flows for the Year ended 31 March 2015

	NOTE	2014-15 £000s	2013-14 £000s
Cash Flows from Operating Activities			
Operating surplus/(deficit)	SOCI	8,718	(26,883)
Depreciation and amortisation	7	12,266	11,385
Impairments and reversals	7	(629)	10,018
Donated Assets received credited to revenue but non-cash		(1,107)	0
Interest paid	13	(235)	(305)
Dividend paid		(7,588)	(6,454)
(Increase)/Decrease in Inventories	18	(361)	631
Decrease/(Increase) in Trade and Other Receivables		5,165	(10,028)
(Increase)/Decrease in Other Current Assets		0	107
Decrease in Trade and Other Payables		(3,202)	(3,070)
Provisions utilised	25	(280)	(458)
Increase in movement in non cash provisions		365	405
Net Cash Inflow/(Outflow) from Operating Activities		13,112	(24,652)
Cash Flows from Investing Activities			
Interest Received	11	34	18
Payments for Property, Plant and Equipment		(12,654)	(13,955)
Payments for Intangible Assets		(607)	(595)
Proceeds of disposal of assets held for sale (PPE)		29	9
Net Cash Outflow from Investing Activities		(13,198)	(14,523)
Net Cash Outflow before Financing		(86)	(39,175)
Cash Flows from Financing Activities			
Gross Temporary and Permanent PDC Received	SOCITE	16,900	70,161
Gross Temporary and Permanent PDC Repaid	SOCITE	(16,500)	(29,000)
Loans received from DH - New Capital Investment Loans	22	428	0
Loans repaid to DH - Capital Investment Loans Repayment of Principal	22	(340)	(340)
Loans repaid to DH - Working Capital Loans/Revenue Support Loans	22	(1,331)	(1,334)
Capital Element of Payments in Respect of Finance Leases	22	(320)	(305)
Net Cash Inflow/(Outflow) from Financing Activities		(1,163)	39,182
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,249)	7
Cash and Cash Equivalents at Beginning of the Period		2,257	2,250
Cash and Cash Equivalents at year end		1,008	2,257

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS Trusts shall meet the accounting requirements of the Department of Health Group Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DH Group Manual for Accounts 2014-15 issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Movement of assets within the DH Group

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

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

For transfers of assets and liabilities from those NHS bodies that closed on 1 April 2013, Treasury agreed that a modified absorption approach should be applied. For these transactions and only in the prior-period, gains and losses are recognised in reserves rather than the SOCNE/SOCNI.

1.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the East Sussex Healthcare NHS 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.

Going Concern

The Manual for Accounts sets out the interpretations of "going concern" for the public sector. An NHS body would not need to have concerns about its "going concern" status unless there is prospect of services ceasing altogether. For the Trust there are no uncertainties in this respect as continuity of service provision in the future can be demonstrated by signed contracts and future commissioning intentions with/from commissioners. Access to sufficient cash is available through application to Department of Health via the Trust Development Authority the Independent Trust Financing Facility.

1.4 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing material adjustment to the carrying value of assets and liabilities in the next financial year.

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

Asset Lives

Each year the Trust reviews all of its plant and equipment assets to ensure that the existing asset lives are accurate, this review results in both increases and decreases in lives at an asset level, and the depreciation charge of those assets.

Provisions

The Trust uses information provided by NHS Pensions in the calculation of its pension provisions including forecast liabilities based on age, mortality tables and discount rates. These are shown in Note 1.16.

Part Completed Spells

Partially completed spells for inpatient services are accounted for by accruing for the income due to the 31 March 2015. This is calculated by applying the reference cost per bed day to the number of bed days by inpatient at midnight on the 31 March 2015. Bed stays over 70 days are ignored and then a 72% collection rate is assumed based on previous years amounts billed under PBR tariff arrangements once patients are discharged.

1.5 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are accrued for by applying the reference cost per bed day to the number of bed days per inpatient at midnight on 31 March 2015.

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

The East Sussex Healthcare NHS 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 East Sussex Healthcare NHS Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts 18.9%

1.6 Employee Benefits

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements.

Retirement benefit costs

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

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

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

1.7 Other expenses

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

1.8 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. All assets are measured subsequently at fair value.

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

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

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

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

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

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

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

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

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.

**1.9 Intangible assets
Recognition**

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

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

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

Measurement

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

Following initial recognition, intangible assets are carried at fair value by reference to an active market, or, where no active market exists, at amortised replacement cost (modern equivalent assets basis), indexed for relevant price increases, as a proxy for fair value. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

1.10 Depreciation, amortisation and impairments

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

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

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

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

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

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

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

1.11 Donated assets

Donated non-current assets are capitalised at their fair value on receipt with a matching credit to Income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.12 Government grants

The value of assets received by means of a government grant are credited directly to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.13 Leases

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

The Trust as lessee

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

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

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.

1.14 Inventories

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

1.15 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 NHS Trust's cash management.

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

1.16 Provisions

Provisions are recognised when East Sussex Healthcare NHS Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using the appropriate HM Treasury's short-term, medium-term or long-term rate dependant on the timing of the cash flows. The rates for 2014- 15 are; Short-Term - 1.5% (previously 1.9%); Medium-Term - 1.05% (previously 0.65%); Long-Term - 2.20% (unchanged).

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

1.17 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the NHS Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 25.

1.18 Non-clinical risk pooling

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

1.19 Carbon Reduction Commitment Scheme (CRC)

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

1.20 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 NHS 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 NHS 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.

1.21 Financial assets

Financial assets are recognised when the NHS 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 de-recognised 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. The Trust does not currently hold any financial assets at fair value through the profit and loss, held to maturity or available for sale assets.

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

1.22 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.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques which include: the use of recent arm's length market transactions carried out between the Trust and knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis.

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

At the end of the reporting period, the NHS Trust assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

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

1.23 Financial liabilities

Financial liabilities are recognised on the statement of financial position when the NHS 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.

Other financial liabilities

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

1.24 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.

1.25 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 31 to the accounts.

1.26 Public Dividend Capital (PDC) and PDC dividend

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

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

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

1.27 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).

1.28 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 SOCNE/SOCI on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

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

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2014-15. The application of the Standards as revised would not have a material impact on the accounts for 2014-15, were they applied in that year .

IFRS 9 Financial Instruments - subject to consultation
IFRS 13 Fair Value Measurement - subject to consultation
IFRS 15 Revenue from Contracts with Customers

1.3 Charitable Funds

The Trust has not consolidated its associated Charitable Funds on the basis of non-materiality.

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2. Operating segments

During 2014/15 the Trust went through a corporate management restructure and as a consequence changed its clinical structure from five divisions, to seven clinical units and two support functions. The Clinical Units are Urgent, Specialist Medicine, Surgery, W&C, Clinical Support, Cardiovascular, Out of Hospital with Commercial and Corporate as the support functions. This structure is used to report operational and financial performance, including performance against statutory KPIs, to the Trust's management. The clinical units generate the majority of the Trust's income from both local, non-local commissioners & private patients. The Estates & Facilities income is generated through the Eastbourne Hospital Services commercial wing. The latter holds contracts with NHS and non-NHS organisations across the country.

The 2013-14 year figures have been restated on the basis of the 2014-15 clinical structure to facilitate year-on-year comparisons.

	Urgent Care		Specialist Medicine		Cardio-Vascular	
	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s
Income	<u>43,119</u>	<u>43,589</u>	<u>31,207</u>	<u>29,162</u>	<u>19,303</u>	<u>21,503</u>
Expenditure	<u>(23,074)</u>	<u>(21,966)</u>	<u>(21,781)</u>	<u>(27,369)</u>	<u>(20,638)</u>	<u>(20,176)</u>
Surplus/(deficit) before interest	<u>20,045</u>	<u>21,623</u>	<u>9,426</u>	<u>1,793</u>	<u>(1,335)</u>	<u>1,327</u>

	Surgery		Women & Children		Out of Hospital	
	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s
Income	<u>87,231</u>	<u>91,305</u>	<u>46,558</u>	<u>51,930</u>	<u>42,430</u>	<u>44,667</u>
Expenditure	<u>(40,194)</u>	<u>(40,264)</u>	<u>(32,121)</u>	<u>(32,944)</u>	<u>(35,060)</u>	<u>(36,027)</u>
Surplus/(deficit) before interest	<u>47,037</u>	<u>51,041</u>	<u>14,437</u>	<u>18,986</u>	<u>7,370</u>	<u>8,640</u>

	Clinical Support		Commercial		Corporate	
	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s
Income	<u>26,504</u>	<u>24,760</u>	<u>7,119</u>	<u>7,462</u>	<u>12,936</u>	<u>11,953</u>
Expenditure	<u>(82,126)</u>	<u>(88,581)</u>	<u>(35,353)</u>	<u>(36,641)</u>	<u>(35,329)</u>	<u>(33,433)</u>
Surplus/(deficit) before interest	<u>(55,622)</u>	<u>(63,821)</u>	<u>(28,234)</u>	<u>(29,179)</u>	<u>(22,393)</u>	<u>(21,480)</u>

	Chief Operating Officer		Total	
	2014-15 £000s	2013-14 £000s	2014-15 £000s	2013-14 £000s
Income	<u>78</u>	<u>3</u>	<u>316,485</u>	<u>326,334</u>
Expenditure	<u>(12,130)</u>	<u>(8,431)</u>	<u>(337,806)</u>	<u>(345,832)</u>
Surplus/(deficit) before interest	<u>(12,052)</u>	<u>(8,428)</u>	<u>(21,321)</u>	<u>(19,498)</u>

Disclosures

- All recharges between segments are at cost other than the internal transfer pricing of some Commercial Directorate Services.
- Urgent Care income: 100% of income is from CCGs and NHS England.
- Specialist Medicine income: 93.2% of income is from CCGs and NHS England.
- Cardiovascular income: 88.9% of income is from CCGs and NHS England.
- Surgery income: 99.3% of income is from CCGs and NHS England.
- Women & Children income: 98.7% of income is from CCGs and NHS England.
- Out of Hospital income: 97.2% of income is from CCGs and NHS England.
- Clinical Support income: 78.3% of income is from CCGs and NHS England.

Reconciliations

	2014-15 £000s	2013-14 £000s
- Total segment income to Trust income		
Total segment income	316,485	326,334
Non-segmented income	68,391	37,906
Statement of Comprehensive Income	<u>384,876</u>	<u>364,240</u>

The non-segmented income relates to revenue for high cost drugs and medical devices (£28.3m) and other unattributed income

	2014-15 £000s	2013-14 £000s
- Total segment deficit to Operating Surplus		
Total segment deficit	(21,321)	(19,498)
Non-segmented costs	(46,597)	(51,820)
Non-segmented income	68,391	37,906
Retained Surplus / (Deficit) for the year	<u>473</u>	<u>(33,412)</u>

The non-segmented costs relates to capital charges, PDC dividend, interest and other unattributed costs.

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used for patient care. The following provides details of income generation activities whose full cost exceeded £1m or was otherwise material.

Summary Table - aggregate of all schemes	2014-15	2013-14
	£000s	£000s
Income	2,050	2,025
Full cost	(1,820)	(2,003)
Surplus	<u>230</u>	<u>22</u>

The income and expenditure values summarised in the above table relates to the Michelham Unit, the Trust's private patient centre. In 2014-15 its financial objective was to generate a £725,000 operating surplus. Actual performance resulted in a £230,000 surplus. In 2013-14 the unit made a surplus of £22,000 against a target surplus of £626,000.

4. Revenue from patient care activities

	2014-15	2013-14
	£000s	£000s
NHS Trusts	23	20
NHS England	46,642	41,505
Clinical Commissioning Groups	276,373	284,655
Foundation Trusts	0	0
Department of Health	21	0
NHS Other (including Public Health England and Prop Co)	0	51
Additional income for delivery of healthcare services	18,000	
Non-NHS:		
Local Authorities	4,210	7,155
Private patients	2,564	2,480
Overseas patients (non-reciprocal)	54	52
Injury costs recovery	1,123	729
Other	5,032	451
Total Revenue from patient care activities	<u>354,042</u>	<u>337,098</u>

5. Other operating revenue

	2014-15	2013-14
	£000s	£000s
Recoveries in respect of employee benefits	1,826	1,398
Education, training and research	10,422	9,840
Charitable and other contributions to revenue expenditure - non-NHS	247	275
Receipt of donations for capital acquisitions - Charity	1,107	999
Non-patient care services to other bodies	10,457	8,565
Income generation	5,504	5,699
Other revenue	1,271	366
Total Other Operating Revenue	<u>30,834</u>	<u>27,142</u>
Total operating revenue	<u>384,876</u>	<u>364,240</u>

6. Overseas Visitors Disclosure

	2014-15	2013-14
	£000	£000s
Income recognised during 2014-15 (invoiced amounts and accruals)	54	52
Cash payments received in-year	54	0

7. Operating expenses

	2014-15 £000s	2013-14 £000s
Services from other NHS Trusts	2,391	2,157
Services from CCGs/NHS England	0	134
Services from other NHS bodies	2,750	1,309
Services from NHS Foundation Trusts	1,351	1,350
Total Services from NHS bodies	6,492	4,950
Purchase of healthcare from non-NHS bodies	2,165	1,357
Trust Chair and Non-executive Directors	59	57
Supplies and services - clinical	73,978	73,226
Supplies and services - general	3,697	4,606
Consultancy services	2,435	695
Establishment	4,996	5,721
Transport	975	1,050
Business rates paid to local authorities	1,903	
Premises	9,797	11,331
Insurance	453	388
Legal Fees	159	157
Impairments and Reversals of Receivables	50	210
Depreciation	12,126	11,331
Amortisation	140	54
Impairments and reversals of property, plant and equipment	(629)	10,018
Audit fees	124	128
Clinical negligence	7,868	7,141
Education and Training	864	914
Change in Discount Rate	180	105
Other	2,866	2,434
Total Operating expenses (excluding employee benefits)	130,698	135,873
Employee Benefits		
Employee benefits excluding Board members	244,111	253,867
Board members	1,349	1,383
Total Employee Benefits	245,460	255,250
Total Operating Expenses	376,158	391,123

8 Operating Leases

The Trust enters in to operating leases of motor vehicles, photocopiers and equipment for a fixed term with no escalation clauses where it is beneficial to the Trust. Contracts are entered into for the following periods:

Motor Vehicles	3 years
Photocopiers	3-5 years
Equipment	3-8 years

At the end of the lease period the motor vehicles, photocopiers and equipment are returned to the leasing company. Leases for motor vehicles and photocopiers do not include a purchase option. The principle restriction under operating leases is to retain the asset for the lease period.

8.1 Trust as lessee

	Buildings £000s	Other £000s	Total £000s	2013-14 £000s
Payments recognised as an expense				
Minimum lease payments			1,037	1,393
Total			1,037	1,393
Payable:				
No later than one year	38	1,321	1,359	1,443
Between one and five years	0	1,830	1,830	2,363
After five years	0	70	70	127
Total	38	3,221	3,259	3,933

9 Employee benefits and staff numbers

9.1 Employee benefits

	Total £000s	2014-15 Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure			
Salaries and wages	207,792	184,459	23,333
Social security costs	14,882	14,141	741
Employer Contributions to NHS BSA - Pensions Division	23,273	22,114	1,159
Termination benefits	356	356	0
Total employee benefits	246,303	221,070	25,233
Employee costs capitalised	843	843	0
Gross Employee Benefits excluding capitalised costs	245,460	220,227	25,233

	Total £000s	Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure 2013-14			
Salaries and wages	215,398	196,014	19,384
Social security costs	15,524	14,816	708
Employer Contributions to NHS BSA - Pensions Division	24,427	23,316	1,111
Other pension costs	14	14	0
Termination benefits	1,157	1,157	0
TOTAL - including capitalised costs	256,520	235,317	21,203
Employee costs capitalised	1,270	1,267	3
Gross Employee Benefits excluding capitalised costs	255,250	234,050	21,200

9.2 Staff Numbers

	Total Number	2014-15 Permanently employed Number	Other Number	2013-14 Total Number
Average Staff Numbers				
Medical and dental	592	527	65	606
Administration and estates	1,113	1,034	79	1,154
Healthcare assistants and other support staff	1,733	1,493	240	1,684
Nursing, midwifery and health visiting staff	1,871	1,776	95	1,979
Nursing, midwifery and health visiting learners	60	60	0	65
Scientific, therapeutic and technical staff	677	643	34	832
Social Care Staff	0	0	0	0
Other	83	83	0	86
TOTAL	6,129	5,616	513	6,406
Of the above - staff engaged on capital projects	20	20	0	22

9.3 Staff Sickness absence and ill health retirements

	2014-15 Number	2013-14 Number
Total Days Lost	62,138	62,920
Total Staff Years	5,819	6,025
Average working Days Lost	10.68	10.44
	2014-15 Number	2013-14 Number
Number of persons retired early on ill health grounds	16	12
	£000s	£000s
Total additional pensions liabilities accrued in the year	667	929

9.4 Exit Packages agreed in 2014-15

Exit package cost band	2014-15			2013-14		
	*Number of compulsory redundancies Number	*Number of other departures agreed Number	Total number of exit packages by cost band Number	*Number of compulsory redundancies Number	*Number of other departures agreed Number	Total number of exit packages by cost band Number
Less than £10,000	0	6	6	3	34	37
£10,000-£25,000	2	0	2	1	21	22
£25,001-£50,000	0	2	2	0	13	13
£50,001-£100,000	2	1	3	0	3	3
Total number of exit packages by type	4	9	13	4	71	75
Total resource cost (£s)	180,828	175,347	356,175	42,151	1,127,976	1,170,127

Redundancy and other departure costs have been paid in accordance with the provisions of the NHS standard terms and conditions of service (Section 16 of the handbook) or the Mutually Agreed Resignation Scheme. Exit Costs in this note are accounted for in full in the year of departure. Where the Trust has agreed early retirements, the additional costs are met by the Trust and not by the NHS pensions scheme. Ill-health retirement costs are met by the NHS pensions scheme and are not included in the table.

The Mutually Agreed Resignation Scheme (MARS) is a scheme under which an individual employee, in agreement with the Trust as their employer, chooses to leave employment in return for a severance payment. The scheme is designed to support the flexibility of the Trust to address periods of rapid change and service re-design. It creates job vacancies which can be filled by redeployment of staff from other jobs or as a suitable alternative for those facing redundancy and offers a more cost effective and mutually agreeable solution to reducing workforce cost than redundancy.

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

9.5 Exit packages - Other Departures analysis

	2014-15		2013-14	
	Agreements Number	Total value of Agreements £000s	Agreements Number	Total value of Agreements £000s
Mutually agreed resignations (MARS) contractual costs	1	68	61	897
Contractual payments in lieu of notice	8	107	10	231
Total	9	175	71	1,128

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

As single exit packages can be made up of several components, each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note 9.4 which will be the number of individuals.

9.6 Pension costs

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

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 follow

a) Accounting valuation

a) Full actuarial (funding) valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2015, is based on valuation data as 31 March 2014, updated to 31 March 2015 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts, published annually. These accounts can be viewed on the NHS Pensions website. 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 scheme (taking into account its recent demographic experience), and to recommend the contribution rates.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow contribution rates to be set by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

c) Scheme provisions

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

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

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

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the employer.

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

10 Better Payment Practice Code

10.1 Measure of compliance

	2014-15 Number	2014-15 £000s	2013-14 Number	2013-14 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	112,678	133,978	111,060	124,189
Total Non-NHS Trade Invoices Paid Within Target	101,816	122,561	52,185	50,705
Percentage of Non-NHS Trade Invoices Paid Within Target	90.36%	91.48%	46.99%	40.83%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	3,398	22,132	4,193	28,125
Total NHS Trade Invoices Paid Within Target	2,240	15,904	1,512	14,551
Percentage of NHS Trade Invoices Paid Within Target	65.92%	71.86%	36.06%	51.74%

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

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

	2014-15 £000s	2013-14 £000s
Amounts included in finance costs from claims made under this legislation	0	6
Total	0	6

11 Investment Revenue

	2014-15 £000s	2013-14 £000s
Bank interest	34	18
Total investment revenue	34	18

12 Other Gains and Losses

	2014-15 £000s	2013-14 £000s
Gain on disposal of assets	29	9
Total	29	9

13 Finance Costs

	2014-15 £000s	2013-14 £000s
Interest		
Interest on loans and overdrafts	150	185
Interest on obligations under finance leases	36	51
Interest on late payment of commercial debt	0	6
Total interest expense	186	242
Provisions - unwinding of discount	49	63
Total	235	305

14.1 Property, plant and equipment

2014-15	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
Cost or valuation:								
At 1 April 2014	51,039	167,908	10,822	64,943	385	19,820	3,227	318,144
Additions Purchased	0	4,500	0	4,178	0	2,442	44	11,164
Additions - Donated Assets	0	258	0	818	0	0	31	1,107
Disposals in year - Gross Cost	0	0	0	(841)	(55)	0	(16)	(912)
Upward revaluation/positive indexation	0	15,396	1,264	0	0	0	0	16,660
Impairments/negative indexation	0	(3,319)	0	0	0	0	0	(3,319)
At 31 March 2015	51,039	184,743	12,086	69,098	330	22,262	3,286	342,844

Depreciation								
At 1 April 2014	0	4,757	279	41,785	371	11,129	2,565	60,886
Impairments	0	0	0	2,427	0	0	0	2,427
Reversal of impairments	0	(3,056)	0	(841)	(55)	0	(16)	(912)
Charged During the Year	0	5,014	279	4,953	9	1,751	120	12,126
At 31 March 2015	0	6,715	558	48,324	325	12,880	2,669	71,471
Net Book Value at 31 March 2015	51,039	178,028	11,528	20,774	5	9,382	617	271,373

Asset financing:								
Owned - Purchased	48,539	167,497	11,528	17,416	5	9,197	455	254,637
Owned - Donated	2,500	10,531	0	2,858	0	185	162	16,236
Held on finance lease	0	0	0	500	0	0	0	500
Total at 31 March 2015	51,039	178,028	11,528	20,774	5	9,382	617	271,373

Revaluation Reserve Balance for Property, Plant & Equipment

	Land £000's	Buildings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2014	34,357	63,544	7,136	1,216	15	0	127	106,395
Movements as a result of indexation increase	0	15,396	1,264	0	0	0	0	16,660
Movements as a result of revaluation decrease	0	(3,318)	0	(21)	(3)	0	(2)	(3,318)
Movements in respect of disposal of assets	0	0	0	0	0	0	0	(26)
At 31 March 2015	34,357	75,622	8,400	1,195	12	0	125	119,711

14.2 Property, plant and equipment prior-year

2013-14	Land £000s	Buildings excluding dwellings £000s	Dwellings £000s	Assets under construction & payments on account £000s	Plant & machinery £000s	Transport equipment £000s	Information technology £000s	Furniture & fittings £000s	Total £000s
Cost or valuation:									
At 1 April 2013	27,615	153,122	9,318	3,014	59,603	399	17,169	2,980	273,220
Transfers under Modified Absorption Accounting - PCTs & SHAs	12,185	36,519	0	0	392	0	231	0	49,327
Additions of Assets Under Construction				1,757					1,757
Additions Purchased	0	5,398	0		4,732	0	3,305	221	13,656
Additions - Non Cash Donations (i.e. Physical Assets)	0	0	0	0	970	0	2	27	999
Reclassifications	0	4,771	0	(4,771)	0	0	0	0	0
Disposals other than for sale	0	0	0	0	(754)	(14)	(887)	(1)	(1,656)
Revaluation	11,239	(31,902)	1,504	0	0	0	0	0	(19,159)
At 31 March 2014	51,039	167,908	10,822	0	64,943	385	19,820	3,227	318,144
Depreciation									
At 1 April 2013	0	17,984	1,072	0	38,222	375	10,178	2,436	70,267
Disposals other than for sale	0	0	0		(762)	(13)	(879)	(2)	(1,656)
Revaluation	0	(28,002)	(1,072)	0	0	0	0	0	(29,074)
Impairments/negative indexation charged to operating expenses	0	10,018	0	0	0	0	0	0	10,018
Charged During the Year	0	4,757	279		4,325	9	1,830	131	11,331
At 31 March 2014	0	4,757	279	0	41,785	371	11,129	2,565	60,886
Net Book Value at 31 March 2014	51,039	163,151	10,543	0	23,158	14	8,691	662	257,258
Asset financing:									
Owned - Purchased	48,539	153,693	10,543	0	19,387	14	8,454	489	241,119
Owned - Donated	2,500	9,458	0	0	2,985	0	237	173	15,353
Held on finance lease	0	0	0	0	786	0	0	0	786
Total at 31 March 2014	51,039	163,151	10,543	0	23,158	14	8,691	662	257,258

14.3 Donations

The following organisations donated assets to the Trust during 2014-15:

- ESHT Charitable funds - £166,000 (2013-14 £29,000)
- EDGH League of Friends - £156,000 (2013-14 £462,000)
- Bexhill League of Friends - £476,000 (2013-14 £293,000)
- Conquest League of Friends - £176,000 (2013-14 £208,000)
- Lewes Victoria Hospital League of Friends - £116,000 (2013-14 nil)
- Uckfield League of Friends - nil (2013-14 £6,000)
- Prostate Cancer Support Organisation - £14,000 (2013-14 nil)
- WRVS - £14,000 (2013-14 nil)

14.4 Depreciation, impairments and valuation assessments

Land, buildings and dwellings were valued by an independent valuer (the District Valuer, DVS Property specialists) on 1 April 2013, using a modern equivalent asset for specialist buildings. The Trust has applied the Building Costing Information Service index for land and building as at 31 March 2015.

As a result of the indexation carried out at 31 March 2015, assets previously impaired increased in value by £3,056,000 and there were no consequential additional impairments generated.

The Trust has been notified that the provision of wheelchair services will transfer to another organisation from 1 July 2015. The Trust has impaired the net book value of capitalised wheelchairs as at 31 March 2015, to the value of £2,427,000

The net impairment is shown in the table below:

	£'000
Reversal of previous impairments expenses to the SOCI	3,056
Wheelchair impairment	<u>(2,427)</u>
	<u>629</u>

Standard lives for property, plant & equipment are adopted as follows:

- buildings, as per the District Valuer
- short life plant and equipment, 5 to 7 years
- medium life plant and equipment, 10 years
- long life plant and equipment, 15 years
- motor vehicles, 4 to 7 years
- furniture, 5 to 10 years
- IT equipment, up to 15 years

The annual review of asset lives for plant and machinery, furniture and IT equipment resulted in an in year reduction in depreciation of £143,000 (2013-14 £143,000 reduction). Extending asset lives reduces in-year depreciation costs but increases the number of years depreciation is charged for individual assets.

The gross carrying amount of all fully depreciated assets still in use is:

- Purchased - £23.0m (2013-14 - £21.58m).
- Donated - £10.2m (2013-14 - £8.16m)

15.1 Intangible non-current assets

Standard lives for intangible assets are adjusted as follows:

- software, 6 years
- development expenditure, 6 years

2014-15	IT - in-house & 3rd party software £000's	Development Expenditure - Internally Generated £000's	Total £000's
At 1 April 2014	95	954	1,049
Additions Purchased	0	607	607
At 31 March 2015	<u>95</u>	<u>1,561</u>	<u>1,656</u>
Amortisation			
At 1 April 2014	95	128	223
Charged during the year	0	140	140
At 31 March 2015	<u>95</u>	<u>268</u>	<u>363</u>
Net Book Value at 31 March 2015	0	1,293	1,293
Asset Financing: Net book value at 31 March 2015 comprises:			
Purchased	0	1,293	1,293
Total at 31 March 2015	<u>0</u>	<u>1,293</u>	<u>1,293</u>

15.2 Intangible non-current assets prior year

2013-14	IT - in-house & 3rd party software £000s	Development Expenditure - Internally Generated £000s	Total £000s
Cost or valuation:			
At 1 April 2013	95	359	454
Additions - purchased	0	595	595
At 31 March 2014	<u>95</u>	<u>954</u>	<u>1,049</u>
Amortisation			
At 1 April 2013	95	74	169
Charged during the year	0	54	54
At 31 March 2014	<u>95</u>	<u>128</u>	<u>223</u>
Net book value at 31 March 2014	0	826	826
Net book value at 31 March 2014 comprises:			
Purchased	0	826	826
Total at 31 March 2014	<u>0</u>	<u>826</u>	<u>826</u>

16 Analysis of impairments and reversals recognised in 2014-15

	2014-15 Total £000s	2013-14 Total £000s
Property, Plant and Equipment impairments and reversals taken to SoCI		
Other	2,427	0
Changes in market price	(3,056)	10,018
Total charged to Annually Managed Expenditure	<u>(629)</u>	<u>10,018</u>
Total impairments of Property, Plant and Equipment changed to SoCI	<u>(629)</u>	<u>10,018</u>
Total impairments charged to SoCI - AME	<u>(629)</u>	<u>10,018</u>
Overall Total Impairments	<u>(629)</u>	<u>10,018</u>

Impairments

In 2014-15 the Trust revalued its land and buildings through applying the BCIS indices. This resulted in a 12% increase (£19,716,000) from the date of the last full valuation (1 April 2013) to 31 March 2015. This indexation allowed the reversal of prior year impaired assets to the value of £3,056,000.

The Trust also impaired the carrying value of capitalised wheelchairs to the value of £2,427,000. The impairment value shown above is the net of the two values described here.

17 Intra-Government and other balances

	Current receivables £000s	Non-current receivables £000s	Current payables £000s	Non-current payables £000s
Balances with Other Central Government Bodies	4	0	498	0
Balances with Local Authorities	0	0	0	0
Balances with NHS bodies outside the Departmental Group	0	0	4	0
Balances with NHS bodies inside the Departmental Group	14,420	0	8,630	0
Balances with Bodies External to Government	5,040	1,184	18,402	0
At 31 March 2015	19,464	1,184	27,534	0
Prior period:				
Balances with Other Central Government Bodies	16,745	0	11,176	0
Balances with Local Authorities	422	0	5	0
Balances with NHS bodies outside the Departmental Group	3	0	23	0
Balances with NHS Trusts and FTs	3,355	0	2,196	0
Balances with Bodies External to Government	4,901	708	18,662	0
At 31 March 2014	25,426	708	32,062	0

Note: The Prior Period table for 'Intra-Government and other balances' is not directly comparable to the 2014-15 position, due to changes in some line descriptors in the payables and receivables analysis.

18 Inventories

	Drugs £000s	Consumables £000s	Energy £000s	Total £000s
Balance at 1 April 2014	1,803	4,245	190	6,238
Additions	36,282	20,125	121	56,528
Inventories recognised as an expense in the period	(35,772)	(20,269)	(126)	(56,167)
Balance at 31 March 2015	2,313	4,101	185	6,599

19.1 Trade and other receivables

	Current		Non-current	
	31 March 2015 £000s	31 March 2014 £000s	31 March 2015 £000s	31 March 2014 £000s
NHS receivables - revenue	11,672	18,614	0	0
NHS prepayments and accrued income	2,752	1,510	0	0
Non-NHS receivables - revenue	2,284	3,129	0	0
Non-NHS receivables - capital	0	82	0	0
Non-NHS prepayments and accrued income	2,156	886	0	0
Provision for the impairment of receivables	(269)	(414)	(276)	(133)
VAT	430	65	0	0
Other receivables	439	1,554	1,460	841
Total	19,464	25,426	1,184	708
Total current and non-current	20,648	26,134		

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

19.2 Receivables past their due date but not impaired

	31 March 2015 £000s	31 March 2014 £000s
By up to three months	9,720	16,580
By three to six months	1,662	2,419
By more than six months	1,172	1,220
Total	12,554	20,219

19.3 Provision for impairment of receivables

	2014-15 £000s	2013-14 £000s
Balance at 1 April	(547)	(429)
Amount written off during the year	52	92
Increase in receivables impaired	(50)	(210)
Balance at 31 March	(545)	(547)

Trade receivables are shown in the balance sheet at a fair estimation of their true value. Impairments to receivables are based on the previous knowledge and experience of the payment record for similar debts. To reflect the expected rates of collection, injury cost recovery income is subject to a provision for impairment of receivables of 18.9% (2013-14, 15.8%) and overpayment of salary to leavers of 50%.

20 Cash and Cash Equivalents

	31 March 2015	31 March 2014
	£000s	£000s
Opening balance	2,257	2,250
Net change in year	(1,249)	7
Closing balance	1,008	2,257
Made up of		
Cash with Government Banking Service	946	2,151
Commercial banks	47	89
Cash in hand	15	17
Cash and cash equivalents as in statement of financial position and statement of cash flows	1,008	2,257
Patients' money held by the Trust, not included above	3	1

21 Trade and other payables

	Current	
	31 March 2015	31 March 2014
	£000s	£000s
NHS payables - revenue	1,950	2,358
NHS payables - capital	12	53
NHS accruals and deferred income	6,434	2,864
Non-NHS payables - revenue	4,760	6,162
Non-NHS payables - capital	2,936	4,467
Non-NHS accruals and deferred income	10,670	8,842
Social security costs	490	2,356
PDC Dividend payable to DH	246	0
Tax	0	2,489
Other	36	2,471
Total	27,534	32,062
Included above:		
Outstanding pension contributions at the year end	3,172	3,275

22 Borrowings

	Current		Non-current	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
	£000s	£000s	£000s	£000s
Loans from Department of Health	383	1,674	3,583	3,535
Finance lease liabilities	335	320	263	598
Total	718	1,994	3,846	4,133
Total other liabilities (current and non-current)	4,564	6,127		

Borrowings / Loans - repayment of principal falling due in:

	31 March 2015		
	DH	Finance Lease	Total
	£000s	£000s	£000s
0-1 Years	383	335	718
1 - 2 Years	383	263	646
2 - 5 Years	1,015	0	1,015
Over 5 Years	2,185	0	2,185
TOTAL	3,966	598	4,564
	31 March 2014		
	DH	Finance Lease	Total
	£000s	£000s	£000s
0-1 Years	1,674	320	1,994
1 - 2 Years	340	598	938
2 - 5 Years	1,020	0	1,020
Over 5 Years	2,175	0	2,175
TOTAL	5,209	918	6,127

23 Deferred revenue

	Current	
	2014-15 £000s	2013-14 £000s
Opening balance at 1 April	1,399	136
Deferred revenue addition	5,263	1,399
Transfer of deferred revenue	(1,399)	(136)
Current deferred income at 31 March	5,263	1,399

24 Finance lease obligations as lessee

Where substantially all the risks and rewards of ownership pass to the Trust, leases are recognised as finance leases. The outstanding lease is a 10 year lease in respect of laundry equipment for Eastbourne Hospital Services.

The lease was agreed under NHS PASA standard terms and conditions. It does not have contingent rent or escalation clauses. The principal restriction on assets held under finance leases is a restriction on the right to dispose of the asset during the period.

Amounts payable under finance leases (Other)

	Minimum lease payments		Present value of minimum lease payments	
	31 March 2015 £000s	31 March 2014 £000s	31 March 2015 £000s	31 March 2014 £000s
Within one year	335	384	335	320
Between one and five years	291	598	263	598
Less future finance charges	(28)	(64)		
Minimum Lease Payments / Present value of minimum lease payments	598	918	598	918
Included in:				
Current borrowings			335	320
Non-current borrowings			263	598
			598	918

25 Provisions

	Total £000s	Early Departure Costs £000s	Legal Claims £000s	Other £000s
Balance at 1 April 2014	3,094	2,851	131	112
Transfers under Modified Absorption Accounting - PCTs & SHAs	0	0	0	0
Arising during the year	307	0	105	202
Utilised during the year	(280)	(225)	(55)	0
Reversed unused	(171)	0	(63)	(108)
Unwinding of discount	49	49	0	0
Change in discount rate	180	180	0	0
Balance at 31 March 2015	3,179	2,855	118	206

Expected Timing of Cash Flows:

No Later than One Year	591	267	118	206
Later than One Year and not later than Five Years	1,016	1,016	0	0
Later than Five Years	1,572	1,572	0	0

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

As at 31 March 2015	61,149
As at 31 March 2014	56,661

There are two types of provision within pensions: injury benefit and pre-1995 premature retirements. Pension provisions comprise of the forecast liability for specific cases, calculated in accordance with Department of Health guidance and data provided by the NHS Pensions Agency.

Legal claims provisions are the estimated Trust liabilities arising from specific claims against the Trust. The majority of claims, if successful, will be settled within one year. Other costs arising from these are paid by the Trust's insurers.

The 'Other' provision is in respect of Energy Trading and the Carbon Reduction Commitment scheme.

26 Contingencies

	31 March 2015 £000s	31 March 2014 £000s
Contingent liabilities		
Employment Tribunal and other employee related litigation	(76)	(70)
NHSLA Staff Negligence	(35)	(35)
Net value of contingent liabilities	(111)	(105)

The contingent liabilities arise from legal claims as stated in the Provisions note, these arise due to uncertainties of estimation and timing.

The 'employment tribunal and other employee related litigation' includes contingent liabilities relating to equal pay claims which are currently awaiting litigation nationally. The Trust cannot accurately estimate the probable timing of any potential claims or their financial impact.

27 Financial Instruments

27.1 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 NHS Trust has with NHS Healthcare Commissioners and the way the latter bodies are financed, the NHS 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 NHS 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 NHS Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

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

Credit risk

Because the majority of the Trust's revenue comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2015 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.

27.2 Financial Assets

	Loans and receivables £000s	Total £000s
Receivables - NHS	11,672	11,672
Receivables - non-NHS	2,858	2,858
Cash at bank and in hand	1,008	1,008
Total at 31 March 2015	15,538	15,538
Prior Period		
Receivables - NHS	19,914	19,914
Receivables - non-NHS	4,330	4,330
Cash at bank and in hand	2,257	2,257
Total at 31 March 2014	26,501	26,501

The fair value of receivables and cash is consistent with the carrying value included in the Statement of Financial Position. Receivables comprise amounts to be collected within 1 year and non-current receivables for Injury Cost Recovery income. Non-current receivables are not discounted as the difference to carrying values is not considered to be material. Cash is available on demand.

27.3 Financial Liabilities

	Other £000s	Total £000s
NHS payables	3,247	3,247
Non-NHS payables	15,077	15,077
Other borrowings	3,966	3,966
PFI & finance lease obligations	570	570
Total at 31 March 2015	22,860	22,860
Prior Period		
NHS payables	4,217	4,217
Non-NHS payables	21,601	21,601
Other borrowings	5,209	5,209
PFI & finance lease obligations	918	918
Total at 31 March 2014	31,945	31,945

Payables arising under statutory obligations such as payroll taxes, are not classified as financial liabilities. The fair value of payables and finance leases is consistent with the carrying value included in the Statement of Financial Position. Payables comprise amounts to be paid within 1 year and finance leases are valued using discounted cash flows in accordance with IAS17. Other borrowings comprise four fixed interest loans from the Department of Health included at amortised cost. The fair value of these loans is calculated by discounting the value of each loan by the difference of the original fixed interest rates (3.48%, 3.95%, 3.92% and 1.44%) and the current rate for equivalent loans (2.15%, 2.69%, 2.69% and 2.15%).

28 Related party transactions

Details of related party transactions with individuals are as follows:

Payments to Winchelsea and District Memorial Hospital Ltd: £295,248 (2013-14: £263,708)
 Related party: Barry Nealon, Non-executive Director

The above payments were made in respect of rent and management charge to the Winchelsea and District Memorial Hospital Ltd, of which Mr Nealon is the Chairman.

The Department of Health is regarded as a related party. During the year 2014-15 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. The bodies listed below have entered into income or expenditure transactions with the Trust of over £500,000 :

Brighton And Hove CCG
 Brighton and Sussex University Hospitals NHS Trust
 Coastal West Sussex CCG
 Eastbourne, Hailsham And Seaford CCG
 Hastings And Rother CCG
 Health Education England
 High Weald Lewes Havens CCG
 South London CSU
 NHS England
 NHS Property Services
 Queen Victoria Hospital NHS Foundation Trust
 Royal Surrey County NHS Foundation Trust
 Surrey & Sussex (Area Teams)
 Surrey & Sussex Healthcare NHS Trust
 Sussex Community NHS Trust
 Sussex Partnership NHS Foundation Trust
 The NHS Blood and Transplant Agency
 The NHS Litigation Authority
 The NHS Pensions Agency
 West Kent CCG
 Wessex (Area Team)

In addition, the Trust has had a number of material transactions (over £500,000) with other government departments and other central and local government bodies.

East Sussex County Council
 Eastbourne Borough Council
 Hastings Borough Council
 National Insurance Fund

The Trust has also received revenue and capital payments from East Sussex Healthcare NHS Trust Charitable Fund for which some of the trustees are also members of the Trust board. The amount received was £494,000, comprising of donations of assets amounting to £273,000 and cash support of £221,000 (2013-14 £503,000).

29 Losses and special payments

The total number of losses cases in 2014-15 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	170,028	62
Special payments	68,571	50
Total losses and special payments	238,599	112

The total number of losses cases in 2013-14 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	176,480	487
Special payments	110,350	68
Total losses and special payments	286,830	555

30. Financial performance targets

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

30.1 Breakeven performance

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	223,811	235,415	245,777	267,122	282,807	299,623	385,281	387,400	364,240	384,876
Retained surplus/(deficit) for the year	(4,864)	1,503	3,448	1,017	51	(4,704)	(402)	472	(33,412)	473
Adjustment for:										
Adjustments for impairments				641	299	0	(32)	0	10,018	(629)
Adjustments for impact of policy change re donated/government grants assets				0	0	0	521	50	300	244
Other agreed adjustments	4,983	0	0	0	0	0	0	0	0	0
Break-even in-year position	119	1,503	3,448	1,658	350	(4,704)	87	522	(23,094)	88
Break-even cumulative position	(4,864)	(3,361)	87	1,745	2,095	(2,609)	(2,522)	(2,000)	(25,094)	(25,006)

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

Materiality test (i.e. is it equal to or less than 0.5%):

Break-even in-year position as a percentage of Turnover

Break-even cumulative position as a percentage of Turnover

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	%	%	%	%	%	%	%	%	%	%
Break-even in-year position as a percentage of Turnover	0.05	0.64	1.40	0.62	0.12	-1.57	0.02	0.13	-6.34	0.02
Break-even cumulative position as a percentage of Turnover	-2.17	-1.43	0.04	0.65	0.74	-0.87	-0.65	-0.52	-6.89	-6.50

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

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF EAST SUSSEX HEALTHCARE NHS TRUST

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

We have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

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

Respective responsibilities of Directors, the Accountable Officer and auditor

Under the National Health Service Act 2006, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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

Scope of the audit of the financial statements

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2015, as to whether the

Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters

In our opinion:

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

Matters on which we are required to report by exception

We are required to report to you if:

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

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- 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 have nothing to report in these respects.

Exception report - conclusion on the use of resources

Auditor's responsibilities

We report to you if, in our opinion, 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 2016.

Basis for adverse conclusion

The Trust's outturn position for 2015/16, as reported in the Statement of Comprehensive Income, was a £77 million deficit, adjusted to £48 million in Note 19.1 in respect of the financial performance for the year used by the Department of Health for financial monitoring. This £48 million is a significant deterioration compared to the planned deficit of £35 million. In addition, the Trust's medium term financial plan shows a forecast deficit of £48 million for 2016/17.

The deterioration in the Trust's finances is largely due to the Trust being unable to take appropriate corrective action to mitigate cost pressures, including significant overspends on agency staff costs.

Significant cost reductions are required in 2016/17 to deliver the forecast deficit of £48 million. No recovery plan to bring spending back within the available resources has been produced and the Trust's medium term financial plan is still being developed in conjunction with partner organisations in the regional Sustainability and Transformation Plan footprint.


These issues are evidence of weaknesses in proper arrangements for the financing of sustainable delivery of services.

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are not satisfied that, in all significant respects, East Sussex Healthcare NHS Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

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


For and on behalf of BDO LLP, Appointed Auditor
London, UK
02-Jun-16

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

**Statement of Comprehensive Income for year ended
31 March 2016**

	NOTE	2015-16 £000s	2014-15 £000s
Gross employee benefits	7.1	(258,087)	(245,460)
Other operating costs	6	(138,083)	(130,698)
Revenue from patient care activities	4	323,874	354,042
Other operating revenue	5	32,278	30,834
Operating surplus/(deficit)		(40,018)	8,718
Investment revenue		29	34
Other gains		29	29
Finance costs		(859)	(235)
Deficit for the financial year		(40,819)	8,546
Public dividend capital dividends payable	1.16	(6,940)	(8,073)
Transfers by absorption (losses)	1.2	(29,260)	0
Retained surplus/(deficit) for the year		(77,019)	473
Other Comprehensive Income		2015-16 £000s	2014-15 £000s
Impairments and reversals taken to the revaluation reserve		(262)	(3,319)
Net gain/(loss) on revaluation of property, plant & equipment	9.1	(10,877)	16,660
Total Other Comprehensive Income		(11,139)	13,341
Total comprehensive income for the year		(88,158)	13,814
Financial performance for the year			
Retained surplus/(deficit) for the year		(77,019)	473
Impairments (excluding IFRIC 12 impairments)		(411)	(629)
Adjustments in respect of donated gov't grant asset reserve elimination		173	244
Adjustment re absorption accounting		29,260	0
Adjusted retained surplus/(deficit)		(47,997)	88

The notes on pages 94 to 116 form part of this account.

**Statement of Financial Position as at
31 March 2016**

	NOTE	31 March 2016 £000s	31 March 2015 £000s
Non-current assets			
Property, plant and equipment	9.1	231,172	271,373
Intangible assets		1,650	1,293
Trade and other receivables	11.1	1,193	1,184
Total non-current assets		234,015	273,850
Current assets:			
Inventories	10	6,472	6,599
Trade and other receivables	11.1	17,184	19,464
Cash and cash equivalents	12	2,100	1,008
Total current assets		25,756	27,071
Total assets		259,771	300,921
Current liabilities			
Trade and other payables	13	(39,830)	(27,534)
Provisions	15	(253)	(591)
Borrowings	14	0	(335)
DH capital loan	14	(427)	(383)
Total current liabilities		(40,510)	(28,843)
Net current liabilities		(14,754)	(1,772)
Total assets less current liabilities		219,261	272,078
Non-current liabilities			
Provisions	15	(2,709)	(2,588)
Borrowings	14	0	(263)
DH revenue support loan	14	(35,218)	0
DH capital loan	14	(3,553)	(3,583)
Total non-current liabilities		(41,480)	(6,434)
Total assets employed		177,781	265,644
FINANCED BY:			
Public Dividend Capital		153,562	153,530
Retained earnings		(74,028)	(7,597)
Revaluation reserve		98,247	119,711
Total Taxpayers' Equity		177,781	265,644

The notes on pages 94 to 116 form part of this account.

The financial statements on pages 87 to 116 were approved by the Board on 1 June 2016 and signed on its behalf by

Chief Executive:



Date:

1/06/16

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

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Total reserves £000s
Balance at 1 April 2015	153,530	(7,597)	119,711	265,644
Changes in taxpayers' equity for 2015-16				
Retained deficit for the year		(77,019)		(77,019)
Net loss on revaluation of property, plant, equipment			(10,877)	(10,877)
Impairments and reversals		0	(262)	(262)
Reclassification Adjustments				
Transfers between Reserves in respect of assets transferred under absorption	0	10,588	(10,588)	0
Permanent PDC received - cash	32			32
Other movements	0	0	263	263
Net recognised revenue/(expense) for the year	32	(66,431)	(21,464)	(87,863)
Balance at 31 March 2016	153,562	(74,028)	98,247	177,781
Balance at 1 April 2014	153,130	(8,096)	106,396	251,430
Changes in taxpayers' equity for the year ended 31 March 2015				
Retained surplus for the year		473		473
Net gain on revaluation of property, plant, equipment			16,660	16,660
Impairments and reversals			(3,319)	(3,319)
New temporary and permanent PDC received - cash	16,900			16,900
New temporary and permanent PDC repaid in year	(16,500)			(16,500)
Other movements	0	26	(26)	0
Net recognised revenue for the year	400	499	13,315	14,214
Balance at 31 March 2015	153,530	(7,597)	119,711	265,644

Statement of Cash Flows for the Year ended 31 March 2016

	NOTE	2015-16 £000s	2014-15 £000s
Cash Flows from Operating Activities			
Operating surplus/(deficit)		(40,018)	8,718
Depreciation and amortisation	6	12,665	12,266
Impairments and reversals		(411)	(629)
Donated Assets received credited to revenue but non-cash	5	(947)	(1,107)
Interest paid		(859)	(235)
PDC Dividend paid		(7,558)	(7,588)
(Increase)/Decrease in Inventories		127	(361)
Decrease in Trade and Other Receivables		2,271	5,165
Increase/(Decrease) in Trade and Other Payables		11,817	(3,202)
Provisions utilised		(467)	(280)
Increase in non cash provisions		250	365
Net Cash Inflow/(Outflow) from Operating Activities		(23,130)	13,112
Cash Flows from Investing Activities			
Interest Received		29	34
Payments for Property, Plant and Equipment		(10,159)	(12,654)
Payments for Intangible Assets		(583)	(607)
Proceeds of disposal of assets held for sale (PPE)		6	29
Net Cash Outflow from Investing Activities		(10,707)	(13,198)
Net Cash Outflow before Financing		(33,837)	(86)
Cash Flows from Financing Activities			
Gross Temporary (2014/15 only) and Permanent PDC Received		32	16,900
Gross Temporary (2014/15 only) and Permanent PDC Repaid		0	(16,500)
Loans received from DH - New Capital Investment Loans		441	428
Loans received from DH - New Revenue Support Loans		66,633	0
Loans repaid to DH - Capital Investment Loans Repayment of Principal		(427)	(340)
Loans repaid to DH - Working Capital Loans/Revenue Support Loans		(31,415)	(1,331)
Capital Element of Payments in Respect of Finance Leases		(335)	(320)
Net Cash Inflow/(Outflow) from Financing Activities		34,929	(1,163)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,092	(1,249)
Cash and Cash Equivalents at Beginning of the Period		1,008	2,257
Cash and Cash Equivalents at year end	12	2,100	1,008

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the Department of Health Group Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DH Group Manual for Accounts 2015-16 issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Movement of assets within the DH Group

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

During 2015/16 the provision of community services within High Weald, Lewes and Havens was tendered for and the Trust lost this contract. This resulted in land, buildings and equipment being transferred at current net book value to NHS Property Services and Sussex Community NHS Trust as at 1 November 2015. See note 9.5

1.3 Critical accounting judgements and key sources of estimation uncertainty

In the application of the NHS 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.

Going Concern

The Manual for Accounts sets out the interpretations of "going concern" for the public sector. An NHS body would not need to have concerns about its "going concern" status unless there is a prospect of services ceasing altogether. For the Trust there are no uncertainties in this respect as continuity of service provision in the future can be demonstrated by signed contracts and future commissioning intentions with/from commissioners. Access to sufficient cash is available through application to Department of Health via NHS Improvement.

1.3.1 Critical judgements in applying accounting policies

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

NOTES TO THE ACCOUNTS

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

Alternative Site Valuation

The Trust instructed the District Valuer to revalue the Trust's main acute hospital sites using the alternative site methodology. The key assumptions were that they remained in the general locality of the existing hospitals but moved from "residential" to "industrial" valued land. The site at Hastings was to be reduced to remove the need for the Spire Hospital and the drainage lake. See note 9.4

1.3.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have significant risk of causing material adjustment to the carrying value of assets and liabilities in the next financial year.

Property, Plant and Equipment valuations

Land has been valued using the Alternative site methodology by the District Valuer. Buildings have been revalued using the relevant indices

Asset Lives

Each year the Trust reviews all of its plant and equipment assets to ensure that the existing asset lives are accurate, this review results in both increases and decreases in lives at an asset level, and the depreciation charge of those assets.

Part Completed Spells

Partially completed spells for inpatient services are accounted for by accruing for the income due to the 31 March 2016. This is calculated by applying the reference cost per bed day to the number of bed days by inpatient at midnight on the 31 March 2016. Bed stays over 70 days are ignored and then a 72% collection rate is assumed based on previous years amounts billed under PBR tariff arrangements once patients are discharged.

1.4 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are accrued for by applying the reference cost per bed day to the number of bed days per inpatient at midnight on 31 March 2016 (see note 1.3.2).

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

1.5 Employee Benefits

Short-term employee benefits

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

Retirement benefit costs

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

NOTES TO THE ACCOUNTS

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

1.6 Other expenses

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

1.7 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential will be supplied to the Trust;

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

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

Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. All assets are measured subsequently at current value in existing use where they are held for their service potential.

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

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

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

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

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

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.

NOTES TO THE ACCOUNTS

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

1.8 Depreciation, revaluation, impairments and impairment reversals

Freehold land is not depreciated.

Otherwise, depreciation is charged to write off the costs or valuation of property, plant and equipment, less any residual value, over their estimated useful lives, in a manner that reflects the consumption of economic benefits or service potential of the assets. The estimated useful life of an asset is the period over which the NHS trust expects to obtain economic benefits or service potential from the asset. This is specific to the NHS 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.

At each reporting period end, the NHS trust checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount.

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

1.9 Donated assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.10 Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out methodology, however, the Pharmacy system uses the weighted average cost formula so drugs are valued this way. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

1.11 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 NHS trust's cash management.

NOTES TO THE ACCOUNTS

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

1.12 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the NHS trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the trust is disclosed at Note 15.

1.13 Financial assets

Financial assets are recognised when the NHS 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.

The Trust's Financial assets are classified as loans and receivables.

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.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques which include: the use of recent arm's length market transactions carried out between the Trust and knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; and discounted cash flow analysis.

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

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

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in expenditure and the carrying amount of the asset is reduced directly or through a provision for impairment of receivables.

1.14 Financial liabilities

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

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

The Trust's financial liabilities are classified as "other financial Liabilities".

NOTES TO THE ACCOUNTS

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

Other financial liabilities

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

1.15 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.

1.16 Public Dividend Capital (PDC) and PDC dividend

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

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

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

1.17 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 its own risks (with insurance premiums then being included as normal revenue expenditure).

NOTES TO THE ACCOUNTS

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

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

The HM Treasury FReM does not require the following Standards and Interpretations to be applied in 2015-16. These standards are still subject to HM Treasury FReM interpretation, with IFRS 9 and IFRS 15 being for implementation in 2018-19, and the government implementation date for IFRS 16 still subject to HM Treasury consideration.

- IFRS 9 *Financial Instruments* – Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 15 *Revenue for Contracts with Customers* - Application required for accounting periods beginning on or after 1 January 2017, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 16 *Leases* – Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted.

2. Operating segments

Since 2014/15 the Trust has had a structure of seven clinical units and two support functions. The Clinical Units are Urgent, Specialist Medicine, Surgery, Women & Children, Clinical Support, Cardiovascular, Out of Hospital with Commercial and Corporate as the support functions. This structure is used to report operational and financial performance, including performance against statutory key performance indicators, to the Trust's management. The clinical units generate the majority of the Trust's income from both local, non-local commissioners & private patients. The Commercial income is generated through the Eastbourne Hospital Services commercial wing. The latter holds contracts with NHS and non-NHS organisations across the country.

	Urgent Care		Specialist Medicine		Cardio-Vascular	
	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s
Income	45,231	43,119	30,928	31,207	17,523	19,303
Expenditure	(30,673)	(23,074)	(23,246)	(21,781)	(18,341)	(20,638)
Surplus/(deficit) before interest	<u>14,558</u>	<u>20,045</u>	<u>7,682</u>	<u>9,426</u>	<u>(818)</u>	<u>(1,335)</u>

	Surgery		Women & Children		Out of Hospital	
	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s
Income	81,872	87,231	41,884	46,558	42,756	42,430
Expenditure	(43,499)	(40,194)	(30,724)	(32,121)	(32,939)	(35,060)
Surplus before interest	<u>38,373</u>	<u>47,037</u>	<u>11,160</u>	<u>14,437</u>	<u>9,817</u>	<u>7,370</u>

	Clinical Support		Commercial		Corporate	
	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s
Income	26,900	26,504	7,939	7,119	13,803	12,936
Expenditure	(85,788)	(82,126)	(33,888)	(35,353)	(41,780)	(35,329)
Deficit before interest	<u>(58,888)</u>	<u>(55,622)</u>	<u>(25,949)</u>	<u>(28,234)</u>	<u>(27,977)</u>	<u>(22,393)</u>

	Chief Operating Officer		Total	
	2015-16 £000s	2014-15 £000s	2015-16 £000s	2014-15 £000s
Income	142	78	308,978	316,485
Expenditure	(12,765)	(12,130)	(353,643)	(337,806)
Deficit before interest	<u>(12,623)</u>	<u>(12,052)</u>	<u>(44,665)</u>	<u>(21,321)</u>

Disclosures

- All recharges between segments are at cost other than the internal transfer pricing of some Commercial Directorate Services.
- Urgent Care income: 100% (2014-15 100%) of income is from CCGs and NHS England.
- Specialist Medicine income: 93.3% (2014-15 93.2%) of income is from CCGs and NHS England.
- Cardiovascular income: 99.5% (2014-15 88.9%) of income is from CCGs and NHS England.
- Surgery income: 96.8% (2015-15 99.3%) of income is from CCGs and NHS England.
- Women & Children income: 97.7% (2014-15 98.7%) of income is from CCGs and NHS England.
- Out of Hospital income: 96.4% (2014-15 97.2%) of income is from CCGs and NHS England.
- Clinical Support income: 77.1% (2014-15 78.3%) of income is from CCGs and NHS England.

Reconciliations

- Total segment income to Trust income	2015-16 £000s	2014-15 £000s
Total segment income	308,978	316,485
Non-segmented income	47,174	68,391
Statement of Comprehensive Income	<u>356,152</u>	<u>384,876</u>

The non-segmented income relates to revenue for high cost drugs and medical devices ((£30.9m) (2014-15 £28.3m)) and other unattributed income ((£16.3m) (2014-15 £40.1m))

- Total segment deficit to Operating Surplus	2015-16 £000s	2014-15 £000s
Total segment deficit	(44,665)	(21,321)
Non-segmented costs	(79,528)	(46,597)
Non-segmented income	47,174	68,391
Retained Surplus / (Deficit) for the year	<u>(77,019)</u>	<u>473</u>

The non-segmented costs relates to capital charges, PDC dividend, interest and other unattributed costs.

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. The following provides details of income generation activities whose full cost exceeded £1m or was otherwise material.

Summary Table - aggregate of all schemes	2015-16	2014-15
	£000s	£000s
Income	1,810	2,050
Full cost	1,987	1,820
Surplus/(deficit)	(177)	230

The income and expenditure values summarised in the above table relates to the Michelham Unit, the Trust's private patient centre. In 2015-16 its financial objective was to generate a £1,025,000 operating surplus. Actual performance resulted in a £177,000 deficit. In 2014-15 the unit made a surplus of £230,000 against a target surplus of £725,000. The unit also provides care for NHS patients but that income is not recognised in the figures above.

4. Revenue from patient care activities

	2015-16	2014-15
	£000s	£000s
NHS Trusts	0	23
NHS England	44,214	46,642
Clinical Commissioning Groups	255,519	276,373
Foundation Trusts	13	0
Department of Health	0	21
NHS Other (including Public Health England and Prop Co)	9	0
Additional income for delivery of healthcare services	0	18,000
Non-NHS:		
Local Authorities	7,112	4,210
Private patients	2,359	2,564
Overseas patients (non-reciprocal)	55	54
Injury costs recovery	715	1,123
Other	13,878	5,032
Total Revenue from patient care activities	323,874	354,042

5. Other operating revenue

	2015-16	2014-15
	£000s	£000s
Recoveries in respect of employee benefits	1,075	1,826
Education, training and research	10,809	10,422
Charitable and other contributions to revenue expenditure -non- NHS	209	247
Receipt of donations for capital acquisitions - Charity	947	1,107
Non-patient care services to other bodies	12,000	10,457
Income generation (Other fees and charges)	5,765	5,504
Other revenue	1,473	1,271
Total Other Operating Revenue	32,278	30,834
Total operating revenue	356,152	384,876

6. Operating expenses

	2015-16 £000s	2014-15 £000s
Services from other NHS Trusts	2,504	2,391
Services from other NHS bodies	3,036	2,750
Services from NHS Foundation Trusts	1,058	1,351
Total Services from NHS bodies*	6,598	6,492
Purchase of healthcare from non-NHS bodies	2,844	2,165
Trust Chair and Non-executive Directors	61	59
Supplies and services - clinical	76,221	73,978
Supplies and services - general	4,801	3,697
Consultancy services	1,243	2,435
Establishment	4,858	4,996
Transport	963	975
Business rates paid to local authorities	1,888	1,903
Premises	9,963	9,797
Insurance	499	453
Legal Fees	233	159
Impairments and Reversals of Receivables	148	50
Depreciation	12,439	12,126
Amortisation	226	140
Impairments and reversals of property, plant and equipment	(411)	(629)
Internal Audit Fees	192	
Audit fees	96	124
Other auditor's remuneration - Quality Accounts	12	0
Clinical negligence	12,078	7,868
Education and Training	648	864
Change in Discount Rate	(24)	180
Other	2,507	2,866
Total Operating expenses (excluding employee benefits)	138,083	130,698
Employee Benefits		
Employee benefits excluding Board members	256,942	244,111
Board members	1,145	1,349
Total Employee Benefits	258,087	245,460
Total Operating Expenses	396,170	376,158

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

7. Employee benefits and staff numbers

7.1. Employee benefits

	Total £000s	2015-16 Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure			
Salaries and wages	220,413	181,938	38,475
Social security costs	14,660	13,837	823
Employer Contributions to NHS BSA - Pensions Division	23,444	22,128	1,316
Termination benefits	13	13	0
Total employee benefits	258,530	217,916	40,614
Employee costs capitalised	443	396	47
Gross Employee Benefits excluding capitalised costs	258,087	217,520	40,567

	Total £000s	Permanently employed £000s	Other £000s
Employee Benefits - Gross Expenditure 2014-15			
Salaries and wages	207,792	184,459	23,333
Social security costs	14,882	14,141	741
Employer Contributions to NHS BSA - Pensions Division	23,273	22,114	1,159
Termination benefits	356	356	0
TOTAL - including capitalised costs	246,303	221,070	25,233
Employee costs capitalised	843	843	0
Gross Employee Benefits excluding capitalised costs	245,460	220,227	25,233

7.2. Staff Numbers

	Total Number	2015-16 Permanently employed Number	Other Number	2014-15 Total Number
Average Staff Numbers				
Medical and dental	600	514	86	592
Administration and estates	1,139	1,039	100	1,113
Healthcare assistants and other support staff	1,853	1,473	380	1,733
Nursing, midwifery and health visiting staff	1,881	1,722	159	1,871
Nursing, midwifery and health visiting learners	26	26	0	60
Scientific, therapeutic and technical staff	550	495	55	554
Healthcare Science Staff	131	131	0	123
Other	88	88	0	83
TOTAL	6,268	5,488	780	6,129
Of the above - staff engaged on capital projects	15	13	2	20

7.3. Staff Sickness absence and ill health retirements

	2015-16 Number	2014-15 Number
Total Days Lost	58,162	62,138
Total Staff Years	5,614	5,819
Average working Days Lost	10.36	10.68

The information shown above was provided by the Trust Development Authority and the Department of Health and covers the period January to December.

	2015-16 Number	2014-15 Number
Number of persons retired early on ill health grounds	7	16
Total additional pensions liabilities accrued in the year	£000s 280	£000s 667

7.4. Exit Packages agreed in 2015-16

Exit package cost band (including any special payment element)	2015-16					
	Number of compulsory redundancies Number	Cost of compulsory redundancies £s	Number of other departures agreed Number	Cost of other departures agreed £s	Total number of exit packages Number	Total cost of exit packages £s
Less than £10,000	0	0	7	11,957	7	11,957
Total	0	0	7	11,957	7	11,957

Exit package cost band (including any special payment element)	2014-15					
	Number of compulsory redundancies Number	Cost of compulsory redundancies £s	Number of other departures agreed Number	Cost of other departures agreed £s	Total number of exit packages Number	Total cost of exit packages £s
Less than £10,000	0	0	6	34,446	6	34,446
£10,000-£25,000	2	30,686	0	0	2	30,686
£25,001-£50,000	0	0	2	72,659	2	72,659
£50,001-£100,000	2	150,142	1	68,242	3	218,384
Total	4	180,828	9	175,347	13	356,175

Redundancy and other departure costs have been paid in accordance with the provisions of the NHS standard terms and conditions of service or the mutually agreed resignation scheme. Exit costs in this note are accounted for in full in the year of departure. Where the Trust has agreed early retirements, the additional costs are met by the Trust and not by the NHS pensions scheme. Ill-health retirement costs are met by the NHS pensions scheme and are not included in the table.

The Mutually Agreed Resignation Scheme (MARS) is a scheme under which an individual employee, in agreement with the Trust as their employer, chooses to leave employment in return for a severance payment. The scheme is designed to support the flexibility of the Trust to address periods of rapid change and service re-design. It creates job vacancies which can be filled by redeployment of staff from other jobs or as a suitable alternative for those facing redundancy and offers a more cost effective and mutually agreeable solution to reducing workforce cost than redundancy.

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

7.5. Exit packages - Other Departures analysis

	2015-16		2014-15	
	Agreements Number	Total value of agreements £000s	Agreements Number	Total value of agreements £000s
Mutually agreed resignations (MARS) contractual costs	1	0	1	68
Contractual payments in lieu of notice	6	12	8	107
Total	7	12	9	175

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

As single exit packages can be made up of several components each of which will be counted separately in this Note, the total number above will not necessarily match the total numbers in Note 7.4 which will be the number of individuals.

The Remuneration and Staff Report includes disclosure of exit payments payable to individuals named in that Report.

7.6. 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 FRoM requires that "the period between formal valuations shall be four years, with approximate assessments in intervening years". An outline of these follows:

a) Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2016, is based on valuation data as at 31 March 2015, updated to 31 March 2016 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FRoM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts. These accounts can be viewed on the NHS Pensions website and are published annually. Copies can also be obtained from The Stationery Office.

b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

8. Better Payment Practice Code

8.1. Measure of compliance

	2015-16 Number	2015-16 £000s	Restated 2014-15 Number	Restated 2014-15 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	131,962	144,870	112,678	133,978
Total Non-NHS Trade Invoices Paid Within Target	75,556	94,383	101,816	122,561
Percentage of non-NHS Trade Invoices Paid Within Target	57.26%	65.15%	90.36%	91.48%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	2,619	22,572	3,398	22,132
Total NHS Trade Invoices Paid Within Target	1,604	18,886	2,240	15,904
Percentage of NHS Trade Invoices Paid Within Target	61.24%	83.67%	65.92%	71.86%

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

9.1. Property, plant and equipment

2015-16

	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
Cost or valuation:								
At 1 April 2015	51,039	184,743	12,086	69,098	330	22,262	3,286	342,844
Additions Purchased	0	5,674	0	3,280	0	2,085	240	11,279
Additions - Non Cash Donations (i.e. physical assets)	0	62	0	746	0	6	133	947
Disposals other than for sale	0	0	0	(1,107)	(66)	(3,145)	(71)	(4,389)
Reclassifications	0	512	(512)	0	0	0	0	0
Revaluation	(17,197)	7,295	530	0	0	0	0	(9,372)
Impairments/reversals charged to reserves	(83)	0	0	(2,834)	0	0	0	(2,834)
Impairment/reversals charged to operating expenses	(8,480)	(22,039)	0	(2,240)	0	(310)	(7)	(33,097)
Transfers to Other Public Sector Bodies under Absorption Accounting								
At 31 March 2016	25,279	176,741	12,104	66,943	264	20,898	3,581	305,789

Depreciation

At 1 April 2015	0	6,715	558	48,324	325	12,880	2,669	71,471
Disposals other than for sale	0	0	0	(1,107)	(66)	(3,145)	(71)	(4,389)
Revaluation	0	1,421	84	0	0	0	0	1,505
Impairments/reversals charged to reserves	0	0	0	(2,572)	0	0	0	(2,572)
Transfers to Other Public Sector Bodies under Absorption Accounting	0	(1,927)	0	(1,625)	0	(284)	(1)	(3,837)
Charged During the Year	0	5,406	299	4,602	3	2,002	127	12,439
At 31 March 2016	0	11,615	941	47,622	262	11,453	2,724	74,617
Net Book Value at 31 March 2016	25,279	165,126	11,163	19,321	2	9,445	857	231,172

Asset financing:

Owned - Purchased	25,279	160,579	11,163	16,549	2	9,304	609	223,485
Owned - Donated	0	4,526	0	2,772	0	141	248	7,687
Total at 31 March 2016	25,279	165,105	11,163	19,321	2	9,445	857	231,172

Revaluation Reserve Balance for Property, Plant & Equipment

	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2015	34,357	75,622	8,400	1,195	12	0	125	119,711
Alternate Site Valuation	(17,197)	0	0	0	0	0	0	(17,197)
2015/16 Indexation	0	5,875	446	0	0	0	0	6,321
HWL&H Transfer	(3,941)	(6,528)	0	(117)	(2)	0	0	(10,588)
At 31 March 2016	13,219	74,969	8,846	1,078	10	0	125	98,247

9.2. Property, plant and equipment prior-year

2014-15

Cost or valuation:

	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2014	51,039	167,908	10,822	64,943	385	19,820	3,227	318,144
Additions of Assets Under Construction	0	4,500	0	4,178	0	2,442	44	11,164
Additions Purchased	0	258	0	818	0	0	31	1,107
Additions - Non Cash Donations (i.e. Physical Assets)	0	0	0	(841)	(55)	0	(16)	(912)
Disposals other than for sale	0	15,396	1,264	0	0	0	0	16,660
Revaluation	0	(3,319)	0	0	0	0	0	(3,319)
Impairments/negative indexation charged to reserves	0	0	0	0	0	0	0	0
At 31 March 2015	51,039	184,743	12,086	69,098	330	22,262	3,286	342,844

Depreciation

At 1 April 2014	0	4,757	279	41,785	371	11,129	2,565	60,886
Disposals other than for sale	0	0	0	(841)	(55)	0	(16)	(912)
Impairments/negative indexation charged to operating expenses	0	0	0	2,427	0	0	0	2,427
Reversal of impairments charged to operating expenses	0	(3,056)	0	0	0	0	0	(3,056)
Charged During the Year	0	5,014	279	4,953	9	1,751	120	12,126
At 31 March 2015	0	6,715	558	48,324	325	12,880	2,669	71,471
Net Book Value at 31 March 2015	51,039	178,028	11,528	20,774	5	9,382	617	271,373

Asset financing:

Owned - Purchased	48,539	167,497	11,528	17,416	5	9,197	455	254,637
Owned - Donated	2,500	10,531	0	2,858	0	185	162	16,236
Held on finance lease	0	0	0	500	0	0	0	500
Total at 31 March 2015	51,039	178,028	11,528	20,774	5	9,382	617	271,373

9.3. (cont). Property, plant and equipment

9.3 Donations

The following organisations donated assets to the Trust during 2015-16:

- ESHT Charitable funds - £16,000 (2014-15 £166,000)
- EDGH League of Friends - £601,000 (2014-15 £156,000)
- Bexhill League of Friends - £53,000 (2014-15 £476,000)
- Conquest League of Friends - £179,000 (2014-15 £176,000)
- Lewes Victoria Hospital League of Friends - £7,000 (2014-15 £116,000)
- Uckfield League of Friends - £6,000 (2014-15 nil)
- Prostate Cancer Support Organisation - nil (2014-15 £14,000)
- WRVS - £85,000 (2014-15 £14,000)

9.4 Depreciation, impairments and valuation assessments

The Trust had its land valued by the District Valuer using the "alternative site" methodology. This revalued land on the assumption that the 3 main acute hospitals were located on suitable, local industrial valued land, rather than the existing residential land they occupy. The Trust applied the Building Costing Information Service index for buildings as at 31 March 2016.

As a result of the alternative site valuation, land was reduced by £17.28m, of which £83k was impairment.

As a result of the indexation carried out at 31 March 2016, assets previously impaired increased in value by £0.494m (2014-15 £3.056m).

Standard lives for property, plant & equipment are adopted as follows:

- buildings, as per the District Valuer
- short life plant and equipment, 5 to 7 years
- medium life plant and equipment, 10 years
- long life plant and equipment, 15 years
- motor vehicles, 4 to 7 years
- furniture, 5 to 10 years
- IT equipment, up to 15 years

The annual review of asset lives for plant and machinery, furniture and IT equipment resulted in an in year reduction in depreciation of £89,000 (2014-15 £143,000 reduction). Extending asset lives reduces in-year depreciation costs but increases the number of years depreciation is charged for individual assets.

The gross carrying amount of all fully depreciated assets still in use is:

Purchased - £22.6m (2014-15 - £23.0m).

Donated - £11.3m (2014-15 - £10.2m)

9.5 High Weald, Lewes and Havens asset transfer

On 1 November 2015 the Trust transferred assets relating to the provision of community services from the High Weald, Lewes and Havens area to Sussex Community NHS Trust and NHS Property Services. The net book value of the assets transferred to those bodies were:

	Land £'000	Buildings £'000	Plant & Machinery £'000	IT £'000	Furniture & Fittings £'000	Total £'000
NHS Property Services	8,480	20,133	19	0	0	28,632
Sussex Community NHS Trust	0	0	596	26	6	628
	8,480	20,133	615	26	6	29,260

10. Inventories

	Drugs £000s	Consumables £000s	Energy £000s	Total £000s
Balance at 1 April 2015	2,313	4,101	185	6,599
Additions	35,369	19,363	109	54,841
Inventories recognised as an expense in the period	(35,595)	(19,250)	(123)	(54,968)
Balance at 31 March 2016	2,087	4,214	171	6,472

11.1. Trade and other receivables

	Current		Non-current	
	31 March 2016 £000s	31 March 2015 £000s	31 March 2016 £000s	31 March 2015 £000s
NHS receivables - revenue	6,534	11,672	0	0
NHS prepayments and accrued income	3,852	2,752	0	0
Non-NHS receivables - revenue	2,793	2,284	0	0
Non-NHS prepayments and accrued income	3,282	2,156	0	0
PDC Dividend Prepaid to DoH	372	0	0	0
Provision for the impairment of receivables	(284)	(269)	(336)	(276)
VAT	323	430	0	0
Other receivables	312	439	1,529	1,460
Total	17,184	19,464	1,193	1,184
Total current and non current	18,377	20,648		

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

11.2. Receivables past their due date but not impaired

	31 March 2016 £000s	31 March 2015 £000s
By up to three months	7,121	9,720
By three to six months	878	1,662
By more than six months	318	1,172
Total	8,317	12,554

12. Cash and Cash Equivalents

	31 March 2016 £000s	31 March 2015 £000s
Opening balance	1,008	2,257
Net change in year	1,092	(1,249)
Closing balance	2,100	1,008
Made up of		
Cash with Government Banking Service	2,064	946
Commercial banks	22	47
Cash in hand	14	15
Cash and cash equivalents as in statement of financial position and statement of cashflows	2,100	1,008

Patients money held by the Trust, not included above	0	3
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13. Trade and other payables

	Current	
	31 March 2016 £000s	31 March 2015 £000s
	NHS payables - revenue	1,612
NHS payables - capital	7	12
NHS accruals and deferred income	6,646	6,434
Non-NHS payables - revenue	11,525	4,760
Non-NHS payables - capital	3,420	2,936
Non-NHS accruals and deferred income	11,912	10,670
Social security costs	2,258	490
PDC Dividend payable to DH	0	246
Accrued Interest on DH Loans	70	
Tax	2,230	0
Other	150	36
Total	39,830	27,534
Total payables (current and non-current)	39,830	27,534
Included above:		
outstanding Pension Contributions at the year end	6,513	3,172

14. Borrowings

	Current		Non-current	
	31 March 2016 £000s	31 March 2015 £000s	31 March 2016 £000s	31 March 2015 £000s
	Loans from Department of Health	427	383	38,771
Finance lease liabilities	0	335	0	263
Total	427	718	38,771	3,846
Total Borrowings (current and non-current)	39,198	4,564		

Borrowings / Loans - repayment of principal falling due in:

	31 March 2016	
	DH £000s	Total £000s
	0-1 Years	427
1 - 2 Years	427	427
2 - 5 Years	1,006	1,006
Over 5 Years	37,338	37,338
TOTAL	39,198	39,198

15. Provisions

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

	£'000
As at 31 March 2016	116,657
As at 31 March 2015	61,149

These values are not held on the Trust Statement of Financial Position.

16. Financial Instruments

16.1. 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 NHS Trust has with NHS Healthcare Commissioners and the way the latter bodies are financed, the NHS 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 NHS 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 NHS Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

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

Credit risk

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

Liquidity risk

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

16.2. Financial Assets

	Loans and receivables £000s
Receivables - NHS	6,201
Receivables - non-NHS	2,570
Cash at bank and in hand	<u>2,100</u>
Total at 31 March 2016	<u>10,871</u>
Receivables - NHS	11,672
Receivables - non-NHS	2,858
Cash at bank and in hand	<u>1,008</u>
Total at 31 March 2015	<u>15,538</u>

The fair value of receivables and cash is consistent with the carrying value included in the Statement of Financial Position. Receivables comprise amounts to be collected within 1 year and non-current receivables for Injury Cost Recovery income. Non-current receivables are not discounted as the difference to carrying values is not considered to be material. Cash is available on demand.

16.3. Financial Liabilities

	Other £000s
NHS payables	1,396
Non-NHS payables	29,796
Other borrowings	<u>39,198</u>
Total at 31 March 2016	<u>70,390</u>
NHS payables	3,247
Non-NHS payables	15,077
Other borrowings	3,966
PFI & finance lease obligations	<u>570</u>
Total at 31 March 2015	<u>22,860</u>

Payables arising under statutory obligations such as payroll taxes, are not classified as financial liabilities. The fair value of payables and finance leases is consistent with the carrying value included in the Statement of Financial Position. Payables comprise amounts to be paid within 1 year and finance leases are valued using discounted cash flows in accordance with IAS17. Other borrowings comprise four fixed interest loans from the Department of Health included at amortised cost. The fair value of these loans is calculated by discounting the value of each loan by the difference of the original fixed interest rates (3.48%, 3.95%, 3.92% and 1.44%) and the current rate for equivalent loans (1.89%, 2.54%, 2.54% and 1.89%).

17. Events after the end of the reporting period

Authorisation to issues accounts

The 2015-16 accounts were authorised for issue by the Board on the 1 June 2016.

18. Related party transactions

Details of related party transactions with individuals are as follows:

Payments to Winchelsea and District Memorial Hospital Ltd: £264,103 (2014-15: £295,248)

Related party: Barry Nealon, Non-executive Director who is Chairman of the above organisation.

Payments to Strasys Limited: £361,721 (2014-15: nil)

Related party: Amanda Harrison, Director of Strategy (left the Trust 30 Sept 2015) who is a Senior Advisory Board member of the above organisation.

Payments to Peckwater Consulting Services Ltd: £129,600 (2014-15: nil)

Related party: David Meikle, Interim Director of Finance who is a Director of the above organisation.

Payments to Sally Herne Consulting Ltd: £68,387 (2014-15: nil)

Related party: Sally Herne, Improvement Director who is a Director of the above organisation.

Payments to Man Films: £8,964 (2014-15: nil)

Related party: Lynette Wells, Company Secretary who is a Director of the above organisation.

Payments to Kent, Surrey and Sussex Academic Health Science Network: £36,000 (2014-15: n/a)

Income from Kent, Surrey and Sussex Academic Health Science Network: £20,943 (2014-15: n/a)

Related party: David Clayton-Smith, Chairman (started with the Trust 11 Jan 2016) who is Chairman of the above organisation.

Payments to Environment Agency: £10,176 (2014-15: n/a)

Related party: Miranda Kavanagh, Non-Executive Director (started with the Trust 9 Nov 2015) who is Executive Director of Evidence at the above organisation.

The Department of Health is regarded as a related party. During 2015-16 East Sussex Healthcare NHS 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. The bodies listed below have entered into income or expenditure transactions with the Trust of over £500,000:

Brighton And Hove CCG
Brighton and Sussex University Hospitals NHS Trust
Coastal West Sussex CCG
Eastbourne, Hailsham And Seaford CCG
Hastings And Rother CCG
Health Education England
High Weald Lewes Havens CCG
NHS England
NHS Property Services
Oxford Health NHS Foundation Trust
Queen Victoria Hospital NHS Foundation Trust
South East CSU
South East Commissioning Hub
South East Local Office
Surrey & Sussex Healthcare NHS Trust
Sussex Community NHS Trust
Sussex Partnership NHS Foundation Trust
The NHS Blood and Transplant Agency
The NHS Litigation Authority
The NHS Pensions Agency
West Kent CCG

In addition, the Trust has had a number of transactions over £500,000 with other local government bodies:

East Sussex County Council

The Trust has also received revenue and capital payments from East Sussex Healthcare NHS Trust Charitable Fund for which some of the trustees are also members of the Trust board. The amount received was £222,000 (2014-15 £494,000), comprising of donations of assets amounting to £16,000 (2014-15 £273,000) and cash support of £206,000 (2014-15 £221,000).

19. Financial performance targets

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

19.1. Breakeven performance

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	235,415	245,777	267,122	282,807	299,623	385,281	387,400	364,240	384,876	356,152
Retained surplus/(deficit) for the year	1,503	3,448	1,017	51	(4,704)	(402)	472	(33,412)	473	(77,019)
Adjustment for:										
Adjustments for impairments			641	299	0	(32)	0	10,018	(629)	(411)
Adjustments for impact of policy change re donated/government grants assets						521	50	300	244	173
Absorption accounting adjustment										
Break-even in-year position	1,503	3,448	1,658	350	(4,704)	87	522	(23,094)	88	(47,997)
Break-even cumulative position	(3,361)	87	1,745	2,095	(2,609)	(2,522)	(2,000)	(25,094)	(25,006)	(73,003)

Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, NHS Trust's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves and absorption accounting) to maintain comparability year to year.

Materiality test (i.e. is it equal to or less than 0.5%):

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
	%	%	%	%	%	%	%	%	%	%
Break-even in-year position as a percentage of turnover	0.64	1.40	0.62	0.12	-1.57	0.02	0.13	-6.34	0.02	-13.48
Break-even cumulative position as a percentage of turnover	-1.43	0.04	0.65	0.74	-0.87	-0.65	-0.52	-6.89	-6.50	-20.50

The amounts in the above tables in respect of financial years 2006/07 to 2008/09 inclusive have not been restated to IFRS and remain on a UK GAAP basis.

19.2. 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%.

19.3. External financing

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

	2015-16	2014-15
	£000s	£000s
External financing limit (EFL)	33,838	88
Cash flow financing	33,837	86
External financing requirement	33,837	86
Under spend against EFL	<u>1</u>	<u>2</u>

19.4. Capital resource limit

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

	2015-16	2014-15
	£000s	£000s
Gross capital expenditure	12,808	12,877
Less: donations towards the acquisition of non-current assets	(947)	(1,107)
Charge against the capital resource limit	<u>11,861</u>	<u>11,770</u>
Capital resource limit	11,866	11,773
Underspend against the capital resource limit	<u>5</u>	<u>3</u>

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF EAST SUSSEX HEALTHCARE NHS TRUST

We have audited the financial statements of East Sussex Healthcare NHS Trust (the Trust) for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. 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 2016-17 Government Financial Reporting Manual (the 2016-17 FReM) as contained in the Department of Health Group Accounting Manual 2016-17 (the 2016-17 GAM) and the Accounts Direction issued by the Secretary of State with the approval of HM Treasury as relevant to the National Health Service in England (the Accounts Direction).

We have also audited the information in the Remuneration and Staff Report that is described in that report as having been audited.

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

Respective responsibilities of Directors, the Accountable Officer and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

As explained in the Statement of the Chief Executive's responsibilities, as the Accountable Officer of the Trust, the Accountable Officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources. We are required under section 21(3)(c), as amended by schedule 13 paragraph 10(a), of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Section 21(5)(b) of the Local Audit and Accountability Act 2014 requires that our report must not contain our opinion if we are satisfied that proper arrangements are in place. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the audit of the financial statements

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

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2016, 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 2017.

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of East Sussex Healthcare NHS Trust as at 31 March 2017 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 Direction issued thereunder.

Emphasis of matter – going concern

We draw attention to Note 1.1 to the financial statements which sets out the basis on which the accounts have been prepared. Specifically, it sets out the Directors' assessment of the financial position of the Trust in the context of the National Health Service framework in which it operates and their conclusion that it is appropriate to prepare the accounts of the Trust on a going concern basis, although the Directors have concluded that there are material uncertainties related to the financial sustainability (profitability and liquidity) of the Trust which may cast significant doubt about the ability of the Trust to continue as a going concern. Our opinion is not qualified in respect of this matter. [Note: Accounts note 1.1 needs to be amended to refer to the significant uncertainty]

Opinion on other matters

In our opinion:

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

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the governance statement does not comply with the NHS Trust 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.

We have nothing to report in these respects.

Exception report – conclusion on the use of resources

Auditor's responsibilities

We report to you if, in our opinion, we are not satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Basis for adverse conclusion

The Trust's outturn position for 2016/17, as reported in the Statement of Comprehensive Income, was a £44.3 million deficit, adjusted to £43.9 million in Note 23.1 in respect of the financial performance for the year used by the Department of Health for financial monitoring. This £43.9 million is a significant deterioration compared to the planned deficit of £31.1 million (net of planned funding from the Sustainability and Transformation Fund of £10.4 million). In addition, the Trust's medium term financial plan shows a forecast deficit of £36.4 million for 2017/18.

The deterioration in the Trust's finances is largely due to the Trust being unable to take appropriate corrective action to mitigate cost pressures arising from activity overperformance, including significant overspends on agency staff costs; deliver benefits from the Financial Improvement Plan; and secure £7.8 million of funding from the Sustainability and Transformation Fund.

Significant cost reductions are required in 2017/18 to deliver the forecast deficit of £36.4 million. No recovery plan to bring spending back within the available resources has been produced and the Trust's medium term financial plan is still being developed in conjunction with partner organisations in the regional Sustainability and Transformation Plan footprint.

These issues are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Adverse conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, we are not satisfied that, in all significant respects, East Sussex Healthcare NHS Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.


Exception report – Referral to the Secretary of State

We are required to report to you if we refer a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

On xx May 2017 we referred a matter to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014, in particular section 30(b) in respect of a breach of the breakeven duty in 2016/17 and section 30(a) in respect of a planned deficit in 2017/18.

Certificate

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


For and on behalf of BDO LLP, Appointed Auditor
London, UK
01-Jun-17

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

	NOTE	2016-17 £000s	2015-16 £000s
Gross employee benefits	8	(269,971)	(258,087)
Other operating costs	7	(146,775)	(138,083)
Revenue from patient care activities	4	339,788	323,874
Other operating revenue	5	39,519	32,278
Operating deficit		(37,439)	(40,018)
Investment revenue		17	29
Other gains		0	29
Finance costs		(1,795)	(859)
Deficit for the financial year		(39,217)	(40,819)
Public dividend capital dividends payable		(4,968)	(6,940)
Transfers by absorption - losses		0	(29,260)
Retained deficit for the year		(44,185)	(77,019)
Other Comprehensive Income		2016-17 £000s	2015-16 £000s
Impairments and reversals taken to the revaluation reserve		0	(262)
Net gain/(loss) on revaluation of property, plant & equipment		6,569	(10,877)
Total comprehensive income for the year		(37,616)	(88,158)
Will not be reclassified to income and expenditure			
Financial performance for the year			
Retained deficit for the year		(44,185)	(77,019)
Impairments (excluding IFRIC 12 impairments)		(5)	(411)
Adjustments in respect of donated gov't grant asset reserve elimination		398	173
Adjustment re absorption accounting		0	29,260
Adjusted retained deficit		(43,792)	(47,997)

The notes on pages 96 to 117 form part of this account.

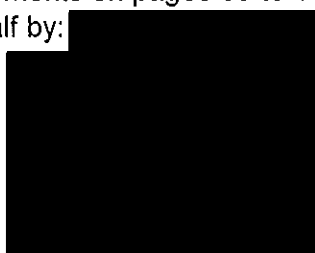
**Statement of Financial Position as at
31 March 2017**

	NOTE	31 March 2017 £000s	31 March 2016 £000s
Non-current assets:			
Property, plant and equipment	10	237,135	231,172
Intangible assets		1,860	1,650
Trade and other receivables	13.1	1,308	1,193
Total non-current assets		240,303	234,015
Current assets:			
Inventories	12	6,195	6,472
Trade and other receivables	13.1	43,684	17,184
Cash and cash equivalents	14	2,100	2,100
Total current assets		51,979	25,756
Total assets		292,282	259,771
Current liabilities			
Trade and other payables	15	(55,912)	(39,830)
Provisions		(502)	(253)
DH capital loan	16	(427)	(427)
Total current liabilities		(56,841)	(40,510)
Net current liabilities		(4,862)	(14,754)
Total assets less current liabilities		235,441	219,261
Non-current liabilities			
Provisions		(2,488)	(2,709)
DH revenue support loan	17	(89,662)	(35,218)
DH capital loan	16	(3,126)	(3,553)
Total non-current liabilities		(95,276)	(41,480)
Total assets employed:		140,165	177,781
FINANCED BY:			
Public Dividend Capital		153,562	153,562
Retained earnings		(118,105)	(74,028)
Revaluation reserve		104,708	98,247
Total Taxpayers' Equity:		140,165	177,781

The notes on pages 96 to 117 form part of this account.

The financial statements on pages 89 to 117 were approved by the Board on 31 May 2017 and signed on its behalf by:

Chief Executive:



Date:

31/05/17

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

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Total reserves £000s
Balance at 1 April 2016	153,562	(74,028)	98,247	177,781
Changes in taxpayers' equity for 2016-17				
Retained deficit for the year		(44,185)		(44,185)
Net gain on revaluation of property, plant, equipment			6,569	6,569
Transfers between reserves		108	(108)	0
Net recognised revenue/(expense) for the year	0	(44,077)	6,461	(37,616)
Balance at 31 March 2017	153,562	(118,105)	104,708	140,165
Balance at 1 April 2015	153,530	(7,597)	119,711	265,644
Changes in taxpayers' equity for the year ended 31 March 2016				
Retained deficit for the year		(77,019)		(77,019)
Net loss on revaluation of property, plant, equipment			(10,877)	(10,877)
Impairments and reversals			(262)	(262)
Reclassification Adjustments				
Transfers between revaluation reserve & retained earnings reserve in respect of assets transferred under absorption		10,588	(10,588)	0
New PDC received - cash	32			32
Other movements	0	0	263	263
Net recognised revenue/(expense) for the year	32	(66,431)	(21,464)	(87,863)
Balance at 31 March 2016	153,562	(74,028)	98,247	177,781

Information on reserves

1 Public dividend capital

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

2 Income and expenditure reserve

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

3 Revaluation Reserve

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are recognised in operating income. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

Statement of Cash Flows for the Year ended 31 March 2017

	NOTE	2016-17 £000s	2015-16 £000s
Cash Flows from Operating Activities			
Operating deficit		(37,439)	(40,018)
Depreciation and amortisation	7	12,406	12,665
Impairments and reversals	10	(5)	(411)
Donated Assets received credited to revenue but non-cash	5	(539)	(947)
Decrease in Inventories		277	127
(Increase)/Decrease in Trade and Other Receivables		(26,987)	2,271
Increase in Trade and Other Payables		17,606	11,817
Provisions utilised		(405)	(467)
Other movement in non cash provisions		400	250
Net Cash Outflow from Operating Activities		(34,686)	(14,713)
Cash Flows from Investing Activities			
Interest Received		17	29
Payments for Property, Plant and Equipment		(12,465)	(10,159)
Payments for Intangible Assets		(505)	(583)
Proceeds of disposal of assets held for sale (PPE)		0	6
Net Cash Outflow from Investing Activities		(12,953)	(10,707)
Net Cash Outflow before Financing		(47,639)	(25,420)
Cash Flows from Financing Activities			
Gross Temporary and Permanent PDC Received		0	32
Loans received from DH - New Capital Investment Loans		0	441
Loans received from DH - New Revenue Support Loans		54,444	66,633
Loans repaid to DH - Capital Investment Loans Repayment of Principal		(427)	(427)
Loans repaid to DH - Working Capital Loans/Revenue Support Loans		0	(31,415)
Capital Element of Payments in Respect of Finance Leases		0	(335)
Interest paid		(1,761)	(859)
PDC Dividend paid		(4,617)	(7,558)
Net Cash Inflow from Financing Activities		47,639	26,512
NET INCREASE IN CASH AND CASH EQUIVALENTS		0	1,092
Cash and Cash Equivalents at Beginning of the Period		2,100	1,008
Cash and Cash Equivalents at year end	14	2,100	2,100

Interest Paid and PDC Dividend Paid were shown as Operating activities in 2015-16, these are now accounted for as Financing Activities

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

1.1 Accounting convention

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

Going Concern

These accounts have been prepared on a going concern basis.

The Department of Health Group Accounting Manual sets out the interpretations of "going concern" for the public sector. An NHS body would not need to have concerns about its "going concern" status unless there is a prospect of services ceasing altogether. For the Trust there are no uncertainties in this respect as continuity of service provision in the future can be demonstrated by signed contracts and future commissioning intentions with and from Commissioners.

In accordance with IAS 1, management have made an assessment of the Trust's ability to continue as a going concern considering the significant financial challenges faced by the Trust in 2016/17. Access to cash is available through application to Department of Health via NHS Improvement, the value of the in-year deficit was drawn and additional exceptional working capital was applied for and utilised during the year. Although these challenges represent a material uncertainty that may cast doubt about the Trust's ability to continue as a going concern, the Directors, having made appropriate enquiries, still have a reasonable expectation that the Trust will have access to adequate resources to continue in operational existence for the foreseeable future.

For the reasons above, they continue to adopt the going concern basis in preparing the accounts and the financial statements do not include the adjustments that would result if the Trust were unable to continue as a going concern.

NOTES TO THE ACCOUNTS

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

1.2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the NHS 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.

1.2.1 Critical judgements in applying accounting policies

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

Alternative Site Valuation

In 2015/16 the Trust instructed the District Valuer to revalue the Trust's main acute hospital sites using the alternative site methodology. The Key assumptions were that they remained in the general locality of the existing hospitals but moved from "residential" to "industrial" valued land. The site at Hastings was reduced to remove the need for the Spire Hospital and the drainage lake. For 2016/17 these assumptions were retained and formed part of the District Valuers review of land and buildings. See note 10.

Charitable Funds

The Non-Executive Directors of the Trust act as Trustee's of the East Sussex Healthcare NHS Trust Charitable Fund, however, these are not consolidated with the Trust accounts on the grounds of materiality.

1.2.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing material adjustment to the carrying value of assets and liabilities in the next financial year.

Property, Plant and Equipment valuations

The District Valuer has valued Land using the Alternative Site Methodology and buildings using the relevant indices. See notes 1.6 and Note 10.

Asset Lives

Each year the Trust reviews all of its plant and equipment assets to ensure that the existing asset lives are accurate, this review results in both increases and decreases in lives at an asset level and the subsequent depreciation charge for those assets.

NOTES TO THE ACCOUNTS

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

Part Completed Spells

Partially completed spells for inpatient services are accounted for by accruing for the income due to the 31 March 2017. This is calculated by applying the reference cost per bed day to the number of bed days by inpatient at midnight on the 31 March 2017. Bed stays of over 70 days are ignored and then a 72% collection rate is assumed based on previous years amounts billed under PBR tariff arrangements once patients are discharged.

1.3 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the trust is from commissioners for healthcare services, including Local Authority as well as NHS organisations. Revenue relating to patient care spells that are part-completed at the year end are accrued for by applying the reference cost per bed day to the number of bed days per inpatient at midnight on 31 March 2017 (see note 1.2.2)

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

1.4 Employee Benefits

Short-term employee benefits

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

Retirement benefit costs

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the NHS 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.

NOTES TO THE ACCOUNTS

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

1.5 Other expenses

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

1.6 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

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

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

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

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

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

NOTES TO THE ACCOUNTS

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

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.

1.8 Depreciation, amortisation and impairments

Freehold land is 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 NHS trust expects to obtain economic benefits or service potential from the asset. This is specific to the NHS 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 NHS 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.

NOTES TO THE ACCOUNTS

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

1.9 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.

1.10 Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out methodology, however, the Pharmacy system uses the weighted average cost formula so drugs are valued this way. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

1.11 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 NHS trust's cash management.

1.13 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the trust pays an annual contribution to the NHSLA, which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the NHS trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the trust is disclosed at Note 19.

1.15 Financial assets

Financial assets are recognised when the NHS 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.

The Trust's financial assets are classified as loans and receivables.

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.

NOTES TO THE ACCOUNTS

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

Financial assets are initially recognised at fair value. Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques which include: the use of recent arms length market transactions carried out between the Trust and knowledgeable, willing parties; reference to the current fair value of another instrument that is substantially the same; and discounted cashflow analysis.

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

At the end of the reporting period, the NHS trust assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that have an impact on the estimated future cash flows of the asset.

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in expenditure and the carrying amount of the asset is reduced directly/through a provision for impairment of receivables.

1.16 Financial liabilities

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

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

The Trust's financial liabilities are classified as "other financial liabilities".

Other financial liabilities

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

1.17 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.

NOTES TO THE ACCOUNTS

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

1.19 Public Dividend Capital (PDC) and PDC dividend

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

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

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

1.20 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 NHS trust not been bearing its own risks (with insurance premiums then being included as normal revenue expenditure).

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

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

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

2. Operating segments

During 2016/17 the Trust reorganised into five clinical units and two support functions. Values for 2015-16 have been restated to reflect the change in structure. The Clinical Units are Urgent, Medicine, Surgery Anaesthetics & Diagnostics, Women & Children and Sexual Health, Out of Hospital with Estates and Facilities and Corporate as the support functions. This structure is used to report operational and financial performance, including performance against statutory key performance indicators, to the Trust's management. The clinical units generate the majority of the Trust's income from both local, non-local commissioners & private patients. The Estates and Facilities income is predominantly generated through the Eastbourne Hospital Services commercial wing. The latter holds contracts with NHS and non-NHS organisations across the country.

	Urgent Care		Medicine		Surgery, Anaesthetics & Diagnostics	
	2016-17	2015-16 (Restated)	2016-17	2015-16 (Restated)	2016-17	2015-16 (Restated)
	£000s	£000s	£000s	£000s	£000s	£000s
Income	18,570	12,410	85,983	81,272	114,205	108,772
Expenditure	(12,037)	(15,087)	(65,622)	(57,173)	(122,914)	(129,287)
Surplus/(deficit) before interest	<u>6,533</u>	<u>(2,677)</u>	<u>20,361</u>	<u>24,099</u>	<u>(8,709)</u>	<u>(20,515)</u>

	Women & Children and Sexual Health		Out of Hospital		Estates and Facilities	
	2016-17	2015-16 (Restated)	2016-17	2015-16 (Restated)	2016-17	2015-16 (Restated)
	£000s	£000s	£000s	£000s	£000s	£000s
Income	41,865	41,884	39,445	42,756	8,404	7,939
Expenditure	(31,075)	(30,724)	(45,080)	(32,939)	(32,454)	(33,888)
Surplus/(deficit) before interest	<u>10,790</u>	<u>11,160</u>	<u>(5,635)</u>	<u>9,817</u>	<u>(24,050)</u>	<u>(25,949)</u>

	Corporate		Total	
	2016-17	2015-16 (Restated)	2016-17	2015-16 (Restated)
	£000s	£000s	£000s	£000s
Income	18,764	13,945	327,236	308,978
Expenditure	(63,065)	(54,545)	(372,247)	(353,643)
Deficit before interest	<u>(44,301)</u>	<u>(40,600)</u>	<u>(45,011)</u>	<u>(44,665)</u>

Disclosures

- All recharges between segments are at cost other than the internal transfer pricing of some Estates and Facilities services.
- Urgent Care income: 99.9% (2015-16 99.8%) of income is from CCGs and NHS England.
- Medicine income: 97.2% (2015-16 97.3%) of income is from CCGs and NHS England.
- Surgery, Anaesthetics & Diagnostics income: 95.7% (2015-16 91.9%) of income is from CCGs and NHS England.
- Women & Children and Sexual Health income: 99.0% (2015-16 97.7%) of income is from CCGs and NHS England.
- Out of Hospital income: 87.7% (2015-16 96.4%) of income is from CCGs and NHS England.

Reconciliations

	2016-17	2015-16
	£000s	£000s
Total segment income to Trust income	327,236	308,978
Total segment income	52,071	47,174
Non-segmented income	<u>379,307</u>	<u>356,152</u>

The non-segmented income relates to revenue for high cost drugs and medical devices £32.1m (2015-16 £30.9m) and other unattributed income £20.0m (2015-16 £16.3m).

	2016-17	2015-16
	£000s	£000s
Total segment deficit to Operating Surplus	(45,011)	(44,665)
Total segment deficit	(51,245)	(79,528)
Non-segmented costs	52,071	47,174
Non-segmented income	<u>(44,185)</u>	<u>(77,019)</u>

The non-segmented costs relates to capital charges, PDC dividend, interest and other unattributed costs.

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. The following provides details of the income generating activities whose full cost exceeded £1m or was otherwise material.

Summary Table - aggregate of all schemes

	2016-17 £000s	2015-16 £000s
Income	1,666	1,810
Full cost	1,951	1,987
Deficit	<u>(285)</u>	<u>(177)</u>

The income and expenditure values summarised in the table above relate to the Michelham Unit, the Trust's private patient centre. In 2016-17 its financial objective was to generate a £143,000 operating surplus. Actual performance resulted in £285,000 deficit. In 2015-16 the unit made a deficit of £177,000 against a target surplus of £1,025,000. The unit also provides care for NHS patients but that income is not recognised in the figures above.

4. Revenue from patient care activities

	2016-17 £000s	2015-16 £000s
NHS Trusts	67	0
NHS England	40,590	44,214
Clinical Commissioning Groups	269,808	255,519
Foundation Trusts	24	13
NHS Other (including Public Health England and Prop Co)	124	9
Non-NHS:		
Local Authorities	10,956	7,112
Private patients	2,232	2,359
Overseas patients (non-reciprocal)	62	55
Injury costs recovery	963	715
Other Non-NHS patient care income	14,962	13,878
Total Revenue from patient care activities	<u>339,788</u>	<u>323,874</u>

5. Other operating revenue

	2016-17 £000s	2015-16 £000s
Recoveries in respect of employee benefits	1,319	1,075
Education, training and research	9,895	10,809
Charitable and other contributions to revenue expenditure -non- NHS	272	209
Receipt of charitable donations for capital acquisitions	539	947
Non-patient care services to other bodies	13,995	12,000
Sustainability & Transformation Fund Income	2,600	
Income generation (Other fees and charges)	6,042	5,765
Other revenue	4,857	1,473
Total Other Operating Revenue	<u>39,519</u>	<u>32,278</u>
Total operating revenue	<u>379,307</u>	<u>356,152</u>

6. Overseas Visitors Disclosure

	2016-17 £000s	2015-16 £000s
Income recognised (invoiced amounts and accruals)	62	55
Cash payments received in-year	10	9
Amounts added to provision for impairment of receivables (re receivables at 31 March 2016)	44	0
Amounts written off in-year (irrespective of year of recognition)	18	11

7. Operating expenses

	2016-17 £000s	2015-16 £000s
Services from other NHS Trusts	2,215	2,504
Services from other NHS bodies	3,399	3,036
Services from NHS Foundation Trusts	1,156	1,058
Total Services from NHS bodies*	6,770	6,598
Purchase of healthcare from non-NHS bodies	6,181	2,844
Trust Chair and Non-executive Directors	75	61
Supplies and services - clinical	77,231	76,221
Supplies and services - general	3,881	4,801
Consultancy services	993	1,243
Establishment	5,298	4,858
Transport	1,572	963
Business rates paid to local authorities	1,936	1888
Premises	10,083	9,963
Insurance	425	499
Legal Fees	270	233
Impairments and Reversals of Receivables	99	148
Depreciation	12,111	12,439
Amortisation	295	226
Impairments and reversals of property, plant and equipment	(5)	(411)
Internal Audit Fees	184	192
Audit fees (inclusive of VAT)	105	96
Other auditor's remuneration - Quality Accounts	0	12
Clinical negligence	13,286	12,078
Education and Training	732	648
Change in Discount Rate	203	(24)
Other	5,050	2,507
Total Operating expenses (excluding employee benefits)	146,775	138,083
Employee Benefits		
Employee benefits excluding Board members	268,908	256,942
Board members	1,063	1,145
Total Employee Benefits	269,971	258,087
Total Operating Expenses	416,746	396,170

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

8. Employee benefits

	2016-17 Total £000s	2015-16 Total £000s
Employee Benefits - Gross Expenditure		
Salaries and wages	227,527	220,413
Social security costs	18,716	14,660
Employer Contributions to NHS BSA - Pensions Division	23,960	23,444
Termination benefits	405	13
Total employee benefits	270,608	258,530
Less employee costs capitalised	(637)	(443)
Gross Employee Benefits excluding capitalised costs	269,971	258,087

8.2 Retirements due to ill-health

	2016-17 Number	2015-16 Number
Number of persons retired early on ill health grounds	8	7
	£000s	£000s
Total additional pensions liabilities accrued in the year	695	280

9 Better Payment Practice Code

	2016-17 Number	2016-17 £000s	2015-16 Number	2015-16 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	119,039	130,851	131,962	144,870
Total Non-NHS Trade Invoices Paid Within Target	30,662	49,321	75,556	94,383
Percentage of NHS Trade Invoices Paid Within Target	25.76%	37.69%	57.26%	65.15%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	2,656	46,757	2,619	22,572
Total NHS Trade Invoices Paid Within Target	786	37,205	1,604	18,886
Percentage of NHS Trade Invoices Paid Within Target	29.59%	79.57%	61.24%	83.67%

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

10.1 Property, plant and equipment

2016-17

Cost or valuation:

	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2016	25,279	176,720	12,104	66,943	264	20,898	3,581	305,789
Additions Purchased	0	6,134	19	2,460	0	1,974	374	10,961
Additions - Non Cash Donations (i.e. physical assets)	0	14	0	511	0	14	0	539
Disposals other than for sale	0	0	0	(3,099)	(5)	(4)	0	(3,108)
Reclassifications	0	133	(133)	0	0	0	0	0
Revaluation	1,748	4,184	1,403	0	0	0	0	7,335
Impairments/reversals charged to operating expenses	0	5	0	0	0	0	0	5
At 31 March 2017	27,027	187,190	13,393	66,815	259	22,882	3,955	321,521

Depreciation

At 1 April 2016	0	11,615	941	47,622	262	11,453	2,724	74,617
Revaluation	0	611	155	0	0	0	0	766
Disposals other than for sale	0	0	0	(3,099)	(5)	(4)	0	(3,108)
Charged During the Year	0	5,513	315	4,138	1	1,972	172	12,111
At 31 March 2017	0	17,739	1,411	48,661	258	13,421	2,896	84,386
Net Book Value at 31 March 2017	27,027	169,451	11,982	18,154	1	9,461	1,059	237,135

Asset financing:

Owned - Purchased	27,027	164,312	11,982	15,581	1	9,351	859	229,113
Owned - Donated	0	5,139	0	2,573	0	110	200	8,022
Total at 31 March 2017	27,027	169,451	11,982	18,154	1	9,461	1,059	237,135

Revaluation Reserve Balance for Property, Plant & Equipment

	Land £000's	Buildings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2016	13,220	74,968	8,846	1,078	10	0	125	98,247
2016-17 Revaluation	1,748	3,573	1,248	0	0	0	0	6,569
2016-17 Realised Profits transferred to Retained Earnings Reserve	0	0	0	(108)	0	0	0	(108)
At 31 March 2017	14,968	78,541	10,094	970	10	0	125	104,708

10.2 Property, plant and equipment prior-year

2015-16

Cost or valuation:

	Land £000's	Buildings excluding dwellings £000's	Dwellings £000's	Plant & machinery £000's	Transport equipment £000's	Information technology £000's	Furniture & fittings £000's	Total £000's
At 1 April 2015	51,039	184,743	12,086	69,098	330	22,262	3,286	342,844
Additions of Assets Under Construction								0
Additions Purchased	0	5,674	0	3,280	0	2,085	240	11,279
Additions - Non Cash Donations (i.e. Physical Assets)	0	62	0	746	0	6	133	947
Reclassifications	0	512	(512)	0	0	0	0	0
Disposals other than for sale	0	0	0	(1,107)	(66)	(3,145)	(71)	(4,389)
Revaluation	(17,197)	7,295	530	0	0	0	0	(9,372)
Impairments/reversals charged to operating expenses	(83)	494	0	0	0	0	0	411
Impairments/reversals charged to reserves	0	0	0	(2,834)	0	0	0	(2,834)
Transfers to Other Public Sector Bodies under Absorption Accounting	(8,480)	(22,060)	0	(2,240)	0	(310)	(7)	(33,097)
At 31 March 2016	25,279	176,720	12,104	66,943	264	20,898	3,581	305,789

Depreciation

At 1 April 2015	0	6,715	558	48,324	325	12,880	2,669	71,471
Disposals other than for sale	0	0	0	(1,107)	(66)	(3,145)	(71)	(4,389)
Revaluation	0	1,421	84	0	0	0	0	1,505
Impairment/reversals charged to reserves	0	0	0	(2,572)	0	0	0	(2,572)
Charged During the Year	0	5,406	299	4,602	3	2,002	127	12,439
Transfers to Other Public Sector Bodies under Absorption Accounting	0	(1,927)	0	(1,625)	0	(284)	(1)	(3,837)
At 31 March 2016	0	11,615	941	47,622	262	11,453	2,724	74,617
Net Book Value at 31 March 2016	25,279	165,105	11,163	19,321	2	9,445	857	231,172

Asset financing:

Owned - Purchased	25,279	160,579	11,163	16,549	2	9,304	609	223,485
Owned - Donated	0	4,526	0	2,772	0	141	248	7,687
Total at 31 March 2016	25,279	165,105	11,163	19,321	2	9,445	857	231,172

10.3 (cont). Property, plant and equipment
Donations

The following organisations donated assets to the Trust during 2016-17:

- ESHT Charitable Funds - £39,000 (2015-16 £16,000)
- EDGH League of Friends - £188,000 (2015-16 £601,000)
- Bexhill League of Friends - £174,000 (2015-16 £53,000)
- Conquest league of Friends - £90,000 (2015-16 £179,000)
- Lewes Victoria Hospital League of Friends - £15,000 (2015-16 £7,000)
- Uckfield League of Friends - £0 (2015-16 £6,000)
- WRVS - £33,000 (2015-16 £85,000)

Depreciation, impairments and valuation assessments

In 2015-16 the Trust had its land valued by the District Valuer using the "alternative site" methodology. This revalued land on the assumption that the 3 main acute hospitals were located on suitable, local industrial land rather than the existing residential land they occupy. Two buildings were identified that would require a smaller footprint under this alternative valuation. In 2016-17 the same methodology was followed.

The Trust instructed the District Valuer to conduct a desktop revaluation of the Trust's land and buildings as at 31 March 2017.

As a result of the Revaluation carried out at 31 March 2017, assets previously impaired increased in value by £0.308m (2015-16 £0.494m).

Standard lives for property, plant and equipment are adopted as follows:

- buildings, as per the District Valuer between 3 and 55 years
- short life plant and equipment, 5 to 7 years
- medium life plant and equipment, 10 years
- long life plant and equipment, 15 years
- motor vehicles, 4 to 7 years
- furniture, 5 to 10 years
- IT equipment, up to 15 years

The annual review of asset lives for plant and machinery, furniture and IT equipment resulted in an in year reduction in depreciation of £220,086 (2015-16 £89,000 reduction). Extending asset lives reduces in-year depreciation costs but increases the years depreciation is charged for individual assets.

The gross carrying amount of all fully depreciated assets still in use is:
 Purchased - £24.4m (2015-16 £22.6m)
 Donated - £12.4m (2015-16 £11.3m)

11 Analysis of impairments and reversals recognised in 2016-17

	2016-17 Total £000s	2015-16 Total £000s
Other	(308)	(494)
Changes in market price	303	83
Total charged to Annually Managed Expenditure	(5)	(411)
Total Impairments of Property, Plant and Equipment changed to SoCI	(5)	(411)
Overall Total Impairments	(5)	(411)

Impairments

In 2016-17 the Trust revalued its land and buildings via a review by the District Valuer. The revaluation allowed the reversal of prior year impaired assets to the value of £308,000.

12. Inventories

	Drugs £000s	Consumables £000s	Energy £000s	Total £000s
Balance at 1 April 2016	2,087	4,214	171	6,472
Additions	38,360	19,556	103	58,019
Inventories recognised as an expense in the period	(38,325)	(19,870)	(101)	(58,296)
Balance at 31 March 2017	2,122	3,900	173	6,195

13.1 Trade and other receivables

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
NHS receivables - revenue	25,669	6,534	0	0
NHS prepayments and accrued income	7,040	3,852	0	0
Non-NHS receivables - revenue	6,312	2,793	0	0
Non-NHS prepayments and accrued income	4,032	3,282	0	0
PDC Dividend prepaid to DH	21	372	0	0
Provision for the impairment of receivables	(232)	(284)	(389)	(336)
VAT	375	323	0	0
Other receivables	467	312	1,697	1,529
Total	43,684	17,184	1,308	1,193
Total current and non-current	44,992	18,377		

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

13.2 Receivables past their due date but not impaired

	31 March 2017 £000s	31 March 2016 £000s
By up to three months	4,262	7,121
By three to six months	55	878
By more than six months	1,364	318
Total	5,681	8,317

14. Cash and Cash Equivalents

	31 March 2017 £000s	31 March 2016 £000s
Opening balance	2,100	1,008
Net change in year	0	1,092
Closing balance	2,100	2,100
Made up of		
Cash with Government Banking Service	2,058	2,064
Commercial banks	29	22
Cash in hand	13	14
Cash and cash equivalents as in statement of cash flows	2,100	2,100

Third Party Assets - Monies on deposit	3	0
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15. Trade and other payables

	Current	
	31 March 2017 £000s	31 March 2016 £000s
NHS payables - revenue	1,044	1,612
NHS payables - capital	0	7
NHS accruals and deferred income	9,734	6,646
Non-NHS payables - revenue	26,969	11,525
Non-NHS payables - capital	1,924	3,420
Non-NHS accruals and deferred income	10,999	11,912
Social security costs	2,744	2,258
PDC Dividend payable to DH	0	0
Accrued Interest on DH Loans	273	70
Tax	2,225	2,230
Other	0	150
Total	55,912	39,830
Included above:		
outstanding Pension Contributions at the year end	6,624	6,513

16. Borrowings

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Capital Investment Loans from Department of Health	427	427	3,126	3,553
Working Capital Loans from Department of Health	0	0	89,662	35,218
Total	427	427	92,788	38,771
Total other liabilities (current and non-current)	93,215	39,198		

Borrowings / Loans - repayment of principal falling due in:

	31 March	
	2017 £000s	31 March 2016 £000s
0-1 Years	427	427
1 - 2 Years	59,368	427
2 - 5 Years	32,155	1,006
Over 5 Years	1,265	37,338
TOTAL	93,215	39,198

17. Deferred income

	Current	
	2016/17 £000s	2015/16 £000s
Opening balance	3,442	5,263
Deferred revenue addition	2,878	3,442
Utilisation of deferred revenue	(3,442)	(5,263)
Current deferred income	2,878	3,442

18. Provisions

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

As at 31 March 2017 81,346

As at 31 March 2016 116,657

These values are not held on the Trust Statement of Financial Position.

19. Financial Instruments

19.1 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 NHS Trust has with NHS Healthcare Commissioners and the way the latter bodies are financed, the NHS 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 NHS 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 NHS Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

The Trust borrows from government for capital expenditure, subject to affordability as confirmed by 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 2017 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.

19.2 Financial Assets

	Loans and receivables £000s
Receivables - NHS	32,624
Receivables - non-NHS	8,519
Cash at bank and in hand	<u>2,100</u>
Total at 31 March 2017	<u>43,243</u>
Receivables - NHS	10,381
Receivables - non-NHS	4,404
Cash at bank and in hand	<u>2,100</u>
Total at 31 March 2016	<u>16,885</u>

The fair value of receivables and cash is consistent with the carrying value in the Statement of Financial Position. Receivables comprise amounts to be collected within 1 year and the non-current receivables for Injury Cost Recovery Income. Non-current receivables are not discounted as the difference to carrying values is not considered material. Cash is available on demand.

19.3 Financial Liabilities

	Other £000s
NHS payables	7,138
Non-NHS payables	39,395
Other borrowings	<u>93,215</u>
Total at 31 March 2017	<u>139,748</u>
NHS payables	5,371
Non-NHS payables	26,379
Other borrowings	<u>39,198</u>
Total at 31 March 2016	<u>70,948</u>

Payables arising under statutory obligations such as payroll taxes are not classified as financial liabilities. The fair value of payables is consistent with the carrying value included in the Statement of Financial Position. Payables comprise amounts to be paid within 1 year and are valued using discounted cash flows.

20. Events after the end of the reporting period

Authorisation to issue accounts

The 2016-17 accounts were authorised for issue by the Board on 31 May 2017.

21. Related party transactions

Details of related party transactions with individuals are as follows:

Payments to Winchelsea and District Memorial Hospital Ltd: £294,227 (2015-16: £264,103)
Related party: Barry Nealon, Non-executive Director who is Chairman of the above organisation.

Payments to Sussex Down College: £7,722 (2015-16 : Nil)
Income from Sussex Down College: £28,760 (2015-16: Nil)

Related Party: Jonathan Reid, Director of Finance (started with the Trust 13 June 2016) who is a Governor of the above organisation.

Payments to Sally Herne Consulting Ltd: £170,119 (2015-16: £68,387)
Related Party: Dr Sally Herne, Improvement Director who is a Director of the above organisation.

Payments to Chalkman Films: £972 (2015-16: £8,964)
Related party: Lynette Wells, Company Secretary who is a Director of the above organisation.

Payments to Kent, Surrey and Sussex Academic Health Science Network: £32,700 (2015-16: £36,000)
Income from Kent, Surrey and Sussex Academic Health Science Network: £20,771 (2015-16: £20,943)
Related party: David Clayton-Smith, Chairman who is Chairman of the above organisation.

The Department of Health is regarded as a related party. During 2016-17 East Sussex Healthcare NHS 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. The bodies listed below have entered into income or expenditure transactions with the Trust of over £500,000:

Brighton And Hove CCG
Brighton and Sussex University Hospitals NHS Trust
Coastal West Sussex CCG
Eastbourne, Hailsham and Seaford CCG
Hastings And Rother CCG
Health Education England
High Weald Lewes Havens CCG
NHS England
NHS Property Services
Oxford Health NHS Foundation Trust
Queen Victoria Hospital NHS Foundation Trust
South East CSU
South East Commissioning Hub
South East Local Office
Surrey & Sussex Healthcare NHS Trust
Sussex Community NHS Trust
Sussex Partnership NHS Foundation Trust
The NHS Blood and Transplant Agency
The NHS Litigation Authority
The NHS Pensions Agency
West Kent CCG

In addition, the Trust has had a number of transactions over £500,000 with other local government bodies:

East Sussex County Council

The Trust has also received revenue and capital payments from East Sussex Healthcare NHS Trust Charitable Fund for which some of the trustees are also members of the Trust board. The amount received was £392,000 (2015-16 £222,000), comprising of donations of assets amounting to £39,000 (2015-16 £16,000) and cash support of £353,000 (2015-16 £206,000).

The Trust has had a number of transactions over £500,000 with central government bodies:

HM Revenue and Customs
National Health Service Pension Scheme

22. Losses and special payments

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

	Total Value of Cases £s	Total Number of Cases
Losses	183,183	121
Special payments	85,581	50
Total losses and special payments	268,764	171

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

	Total Value of Cases £s	Total Number of Cases
Losses	144,779	110
Special payments	143,828	198
Total losses and special payments	288,607	308

23. Financial performance targets

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

23.1 Breakeven performance

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	235,415	245,777	267,122	282,807	299,623	385,281	387,400	364,240	384,876	356,152	379,307
Retained surplus/(deficit) for the year	1,503	3,448	1,017	51	(4,704)	(402)	472	(33,412)	473	(77,019)	(44,185)
Adjustment for:											
Adjustments for impairments	0	0	641	299	0	(32)	0	10,018	(629)	(411)	(5)
Adjustments for impact of policy change re donated/government grants assets						521	50	300	244	173	398
Absorption accounting adjustment							0	0	0	29,260	0
Break-even in-year position	1,503	3,448	1,658	350	(4,704)	87	522	(23,094)	88	(47,997)	(43,792)
Break-even cumulative position	(3,361)	87	1,745	2,095	(2,609)	(2,522)	(2,000)	(25,094)	(25,006)	(73,003)	(116,795)

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

Materiality test (i.e. is it equal to or less than 0.5%):

Break-even in-year position as a percentage of turnover

Break-even cumulative position as a percentage of turnover

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
%	%	%	%	%	%	%	%	%	%	%	%
	0.64	1.40	0.62	0.12	-1.57	0.02	0.13	-6.34	0.02	-13.48	-11.55
	-1.43	0.04	0.65	0.74	-0.87	-0.65	-0.52	-6.89	-6.50	-20.50	-30.79

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

23.2 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%.

23.3 External financing

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

	2016-17 £000s	2015-16 £000s
External financing limit (EFL)	54,017	33,838
Cash flow financing	54,017	33,837
External financing requirement	<u>54,017</u>	<u>33,837</u>
Underspend against EFL	0	1

23.4 Capital resource limit

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

	2016-17 £000s	2015-16 £000s
Gross capital expenditure	12,005	12,808
Less: donations towards the acquisition of non-current assets	<u>(539)</u>	<u>(947)</u>
Charge against the capital resource limit	11,466	11,861
Capital resource limit	<u>11,467</u>	<u>11,866</u>
Underspend against the capital resource limit	1	5

24. Third party assets

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

	31 March 2017 £000s	31 March 2016 £000s
Third party assets held by the Trust.	<u>3</u>	<u>0</u>