East Lancashire Hospitals NHS
NHS Trust

East Lancashire Hospitals NHS Trust
Financial Statements
Year ended 31 March 2018

Safe | Personal | Effective

Version 1.3

Foreword to the accounts

These accounts for the year ended 31 March 2018 have been prepared by the East Lancashire Hospitals NHS Trust in accordance with schedule 15 of the National Health Service Act 2006

Contents

Statement of comprehensive income

	note	2017-18 £000s	Restated * 2016-17 £000s
Operating income from patient care activities	2	**449,906**	435,430
Other operating income	3	**45,565**	42,089
Operating expenses	4	**(506,234)**	(458,389)
Operating surplus / (deficit)		**(10,763)**	19,130
Finance costs			
Finance income		**129**	168
Finance expenses	9	**(9,007)**	(9,096)
Public dividend capital dividends payable		**(3,623)**	(4,433)
Net finance costs		**(12,501)**	(13,361)
Other gains / (losses)		**19**	(54)
Surplus / (deficit) for the financial year		**(23,245)**	5,715

Other comprehensive income

Amounts that will not be reclassified subsequently to income and expenditure:			
Impairments		**(25,390)**	(1,499)
Revaluations		**3,352**	4,488
Public dividend capital received		**5,676**	82
Public dividend capital repaid		**0**	(41)
Total other comprehensive income / (expense) for the year		**(16,362)**	3,030
Total comprehensive income / (expense) for the year		**(39,607)**	8,745

Adjusted financial performance for the year

Surplus / (deficit) for the year	**(23,245)**	5,715
Add back net impairments / (reversals)	**26,478**	(2,689)
Remove impact of capital donations	**169**	42
Remove impact of STF post accounts reallocation	**(419)**	0
Adjusted financial performance surplus for the year	**2,983**	3,068

* The presentation of comparatives has been restated in accordance with changes to the items of income and expense that the Department of Health and Social Care (DHSC) require to be presented on the face of the Statement of Comprehensive Income. The surplus, total comprehensive income and adjusted financial performance surplus for 2016-17 are unaffected by these presentational changes.

The presentation of comparatives in the other financial statements has also been restated as a result of changes to DHSC requirements, as well as a number of notes to the accounts, all of which have no net effect.

Unless otherwise stated, where notes are marked as restated, they have been restated for this reason.

The changes in DHSC requirements also mean that several notes to the accounts disclosed in previous years are no longer required, although several new notes have been added.

Statement of financial position

	note	31 March 2018 £000s	Restated * 31 March 2017 £000s
Non-current assets			
Intangible assets		**3,632**	4,263
Property, plant and equipment	12	**245,214**	288,841
Trade and other receivables		**1,304**	1,181
Total non-current assets		**250,150**	294,285
Current assets			
Inventories		**3,872**	2,442
Trade and other receivables	13	**33,247**	20,266
Non-current assets for sale		**240**	0
Cash and cash equivalents	15	**8,156**	23,423
Total current assets		**45,515**	46,131
Current liabilities			
Trade and other payables	16	**(40,214)**	(39,818)
Borrowings	17	**(3,585)**	(3,394)
Provisions	18	**(518)**	(1,097)
Other liabilities		**(3,055)**	(4,160)
Total current liabilities		**(47,372)**	(48,469)
Total assets less current liabilities		**248,293**	291,947
Non-current liabilities			
Borrowings	17	**(106,260)**	(109,845)
Provisions	18	**(3,726)**	(3,881)
Other liabilities		**0**	(307)
Total non-current liabilities		**(109,986)**	(114,033)
Total assets employed		**138,307**	177,914
Financed by:			
Taxpayers' equity			
Public dividend capital		**179,890**	174,214
Revaluation reserve		**20,450**	42,488
Income and expenditure reserve		**(62,033)**	(38,788)
Total taxpayers' equity		**138,307**	177,914

* The presentation of comparatives has been restated in accordance with changes to the categories of asset, liability and equity required by the Department of Health and Social Care to be presented on the face of the Statement of Financial Position. Total assets employed and total taxpayers' equity as at 31 March 2017 are unaffected by these presentational changes.

The notes on pages 5 to 26 form part of these accounts.

The financial statements on pages 1 to 4 and accompanying notes were approved by the Audit Committee on 24 May 2018 and were signed and authorised for issue on its behalf by:

Chief Executive: .... 24 May 2018

Mr Kevin McGee

Statement of changes in taxpayers' equity for the year ended 31 March 2018

	note	Public dividend capital £000s	Revaluation reserve £000s	Income and expenditure reserve £000s	Total reserves £000s
Taxpayers' equity at 1 April 2017		**174,214**	**42,488**	**(38,788)**	**177,914**
Surplus / (deficit) for the year		**0**	**0**	**(23,245)**	**(23,245)**
Revaluations		**0**	**3,352**	**0**	**3,352**
Impairments	6	**0**	**(25,390)**	**0**	**(25,390)**
Public dividend capital received		**5,676**	**0**	**0**	**5,676**
Taxpayers' equity at 31 March 2018		**179,890**	**20,450**	**(62,033)**	**138,307**

Statement of changes in taxpayers' equity for the year ended 31 March 2017

	note	Public dividend capital	Restated * Revaluation reserve	Income and expenditure reserve	Restated * Total reserves
Taxpayers' equity at 1 April 2016		174,173	39,928	(44,932)	169,169
Surplus for the year		0	0	5,715	5,715
Revaluations	6	0	4,488	0	4,488
Impairments		0	(1,499)	0	(1,499)
Transfers between reserves		0	(429)	429	0
Public dividend capital received		82	0	0	82
Public dividend capital repaid		(41)	0	0	(41)
Taxpayers' equity at 31 March 2017		174,214	42,488	(38,788)	177,914

* The presentation of comparatives has been restated to meet changes required by the Department of Health and Social Care. Total taxpayers' equity as at 31 March 2017 is unaffected by these presentational changes.

Information on reserves

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 and Social Care (DHSC). A charge, reflecting the cost of capital utilised by the Trust, is payable to the DHSC, as the annual PDC dividend, in two instalments, the second of which is payable in March based on the estimate dividend payable. Any difference to the actual dividend payable is settled in the following financial year.

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 expenses. 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.

Income and expenditure reserve
The balance of this reserve represents the accumulated surpluses and deficits of the Trust.

Statement of cash flows

	Note	2017-18 £000s	Restated * 2016-17 £000s
Cash flows from operating activities			
Operating surplus / (deficit)		**(10,763)**	19,130
Depreciation and amortisation	4	**11,890**	11,892
Impairments and reversals	4	**26,478**	(2,689)
Income recognised in respect of capital donations		**(103)**	(214)
(Increase) / decrease in inventories		**(1,430)**	8
(Increase) in trade and other receivables		**(12,183)**	(2,520)
(Decrease) in trade and other payables		**(2,393)**	(8,121)
(Decrease) in other liabilities		**(1,412)**	(69)
Increase / (decrease) in provisions		**(734)**	126
Net cash generated from operations		**9,350**	17,543
Cash flow from investing activities			
Interest received		**130**	170
Purchase of intangible assets		**(2,082)**	(1,261)
Purchase of property, plant and equipment		**(11,641)**	(9,119)
Proceeds from sales of property, plant and equipment		**0**	140
Net cash generated (used in) investing activities		**(13,593)**	(10,070)
Cash flows from financing activities			
Public dividend capital received		**5,676**	82
Public dividend capital repaid		**0**	(41)
Movement in loans from the DHSC		**(200)**	(200)
Capital element of PFI payments		**(3,194)**	(3,575)
Interest paid		**(9,007)**	(9,048)
PDC dividend paid		**(4,299)**	(3,433)
Net cash generated (used in) financing activities		**(11,024)**	(16,215)
(Decrease) in cash and cash equivalents		**(15,267)**	(8,742)
Cash and cash equivalents at 1 April		**23,423**	32,165
Cash and cash equivalents at 31 March		**8,156**	23,423

* The presentation of comparatives has been restated to meet changes required by the Department of Health and Social Care. Cash and cash equivalents as at 31 March 2017 is unaffected by these presentational changes.

The Public Dividend Capital (PDC) received in 2017-18 has been used to fund specific capital projects with £2.7m received for cyber security initiatives and a further £1.9m received for the Phase 8 development on the Burnley General Teaching Hospital site.

Notes to the accounts

1. Accounting policies and other information

1.1 Basis of preparation

The Department of Health and Social Care has directed that the financial statements of the Trust shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM), which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the GAM 2017/18 issued by the Department of Health. The accounting policies contained in the GAM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the GAM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. These have been applied consistently in dealing with items considered material in relation to accounts.

1.2 Accounting convention

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

1.3 Going concern

While the Trust has met the control total set by NHS Improvement for 2017-18, an underlying financial pressure has been carried forward. In order to meet the revised financial control total set for 2018-19 of an £8.0m deficit, excluding the allocation from the Provider Sustainability Fund, a £29.1m recurrent efficiency programme would have been required. While the Trust Board has taken the view that this is unrealistic, there is a commitment to deliver an £18.0m efficiency programme, which equates to 4% of planned costs and sets the Trust a planned deficit of £19.1m. As a result, the Trust expects to receive £14.0m of revenue support loans from the Department of Health and Social Care during 2018-19, which will be requested as and when required, so it can continue to meet its financial obligations while maintaining a positive cash balance, although these loans have yet to be approved.

Despite the significant doubt that this material uncertainty may cast about the Trust's ability to continue as a going concern, the Trust is unaware of any prospect of dissolution within the next twelve months and so the Trust anticipates the continuation of the provision of services in the foreseeable future from its existing hospital sites, as evidenced by the inclusion of financial provision for those services in published documents and contracts for services with commissioners.

Based on these indications, together with the other evidence gathered by Management, which is considered to provide sufficient assurance that there will be no other material uncertainties related to the events or conditions that may cast significant doubt upon the Trust's ability to continue as a going concern, these accounts have been prepared on a going concern basis. These events and conditions include the need for significant improvements to the Trust's estate, significant concerns raised about finances or the quality of services raised by the Care Quality Commission or an inability to pay suppliers on time.

However, the Trust recognises that sustainable financial balance needs to come through engagement with the wider health economy, requiring not only the Trust to achieve service efficiencies, but also for it to maximise the use of its assets and support wider transformational change in service delivery. The Trust will work with NHS Improvement and its stakeholders to achieve this objective.

1.4 Critical judgements in applying accounting policies

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

Segmental reporting

The Trust has one material segment, being the provision of healthcare, primarily to NHS patients. Divisions within the Trust all have similar economic characteristics with healthcare activity being undertaken via ward-based hospital care and through a range of primary care and community services. Segmental reporting is not considered necessary for private patient activity on materiality grounds.

Fair value of PFI liabilities

The PFI liability is rebased on an annual basis using the most current applicable RPI indices. On this basis, the Trust does not consider the fair value of these liabilities to differ materially from the reported carrying value.

Non-current asset valuations

For 2017/18, the Trust has chosen to adopt an alternative site valuation model, whereby the valuation of the Trust's estate is based on the value of the modern equivalent asset required to deliver the services the Trust currently provides without taking account of the Trust's existing estate and its current utilisation. Since this is considered to be a change in accounting estimate, rather than a change in accounting policy, prior period adjustments are not required.

1.5 Sources of estimation uncertainty

The following are assumptions about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Non-current asset valuations

Valuation services are provided to the Trust by Cushman & Wakefield, a property services firm whose valuers are registered with the Royal Institute of Chartered Surveyors (RICS), the regulatory body for the valuation services industry. Following a full valuation of land and buildings as at 1 April 2015, Cushman & Wakefield have provided an interim valuation of these assets as at the start and end of this financial year to ensure that the carrying amount of these assets does not differ materially from their fair value. These valuations reflect the current economic conditions and the location factor for the North West of England. The valuation for PFI buildings excludes VAT on the basis that the replacement of these assets would be carried out under a special purchase vehicle where VAT would be recoverable.

Private Finance Initiative (PFI) - unitary payment

PFI annual contract payments are split between three elements, the payment for services, payment for property (comprising repayment of the liability, finance cost and contingent rental) and lifecycle replacement. The Trust has adopted the national PFI accounting guidance to determine the split between these elements.

1.6 Income

Income in respect of services provided is recognised when, and to the extent that, performance occurs, regardless of whether payment for the service has been received, and is measured at the fair value of the consideration receivable. The main source of income for the Trust is contracts with commissioners in respect of health care services. At the year end, the Trust accrues income relating to activity delivered in that year, where a patient care spell is incomplete.

Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred.

1.7 Expenditure on 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.

Pension costs

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

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

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

1.8 Expenditure on goods and services

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

1.9 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised where:

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

Measurement

Valuation

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

All assets are measured subsequently at valuation. Assets held for their service potential that are in use are measured subsequently at their current value in existing use, which is determined as follows:

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

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.

Subsequent expenditure
Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the enterprise and the cost of the item can be determined reliably. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

Depreciation
Items of property, plant and equipment are depreciated over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

Assets in the course of construction are not depreciated until the asset is brought into use.

Revaluation gains and losses
Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation decrease that has previously been recognised in operating expenses, in which case they are recognised in operating income.

Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.

Impairments
In accordance with the GAM, impairments that arise from a clear consumption of economic benefits or of service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of the impairment charged to operating expenses and the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment that arises from a clear consumption of economic benefit or of service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating expenditure to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.

Other impairments are treated as revaluation losses. Reversals of 'other impairments' are treated as revaluation gains.

Private Finance Initiative (PFI) transactions

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM, are accounted for as 'on-Statement of Financial Position' by the Trust. In accordance with IAS 17, the underlying assets are recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment.

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Statement of Comprehensive Income.

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Trust's criteria for capital expenditure.

Useful economic lives of property, plant and equipment

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The range of useful economic lives are shown in the table below:

	Min life Years	Max life Years
Buildings	60	90
Plant & machinery	3	25
Information technology	5	7
Other property, plant and equipment	5	15

1.10 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 three 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 Trust's cash management. Cash, bank and overdraft balances are recorded at current values.

1.11 Financial instruments

Recognition

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the Trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs, ie, when receipt or delivery of the goods or services is made.

De-recognition

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

Classification and measurement

The classification of financial assets and financial liabilities is determined at the time of initial recognition. While this is dependent on their nature and purpose, all Trust financial assets are classified as loans and receivables and all Trust financial liabilities are classified as other financial liabilities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

Trust loans and receivables comprise cash and cash equivalents and accrued income, as well as trade and 'other' receivables.

Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to finance costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

Impairment of financial assets

At the Statement of Financial Position date, the Trust assesses whether any financial assets are impaired. Financial assets are impaired and impairment losses are recognised if, and only 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 the Statement of Comprehensive Income and the carrying amount of the asset is reduced directly or through the use of the provision for impaired receivables for trade receivables.

1.12 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. All Trust leases are operating leases.

The Trust as lessee

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

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

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

The Trust as lessor

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

1.13 Provisions

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

Clinical negligence costs

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

Non-clinical risk pooling

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

1.14 Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS organisation. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

At any time, the Secretary of State can issue new PDC to, and require repayments of PDC from, the Trust. PDC is recorded at the value received.

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

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

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

1.15 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 non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.16 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).

However the losses and special payments note is compiled directly from the losses and compensations register which reports on an accrual basis with the exception of provisions for future losses.

1.17 Charitable funds

Under the provisions of IAS27 'Consolidated and Separate Financial Statements', those Charitable Funds that fall under common control with NHS bodies are consolidated within the entity's financial statements. The Trust has not consolidated the accounts of the East Lancashire Hospitals NHS Charities on the basis of immateriality.

1.18 Early adoption of standards, amendments and interpretations

No new accounting standards or revisions to existing standards have been adopted early in 2017/18.

1.19 Standards, amendments and interpretations in issue but not yet effective or adopted

Since the following accounting standards have not yet been adopted by the Treasury FReM, early adoption is not permitted:

- IFRS 9 - Financial Instruments: applicable from 2018/19
- IFRS 15 - Revenue from Contracts with Customers: applicable from 2018/19
- IFRS 16 - Leases: applicable from 2019/20.

While the application of those standards effective from 2018/19 is not expected to be material, the application of IFRS 16, which is expected to bring most leases on-balance sheet, is likely to materially increase the value of property, plant and equipment and associated borrowing.

2.1 Income from patient care activities (by nature)

	2017-18	2016-17
	£000s	£000s
Acute services		
Elective income	**60,874**	59,190
Non-elective income	**113,125**	104,796
First outpatient income	**43,126**	35,805
Follow up outpatient income	**21,495**	30,545
A&E income	**20,557**	18,987
Other NHS clinical income	**135,117**	133,740
Community services		
Income from Clinical Commissioning Groups and NHS England	**41,589**	42,065
All trusts		
Other clinical income	**14,023**	10,302
Total income from patient care activities	**449,906**	435,430

2.2 Income from patient care activities (by source)

	2017-18	2016-17
	£000s	£000s
NHS England	**52,049**	43,488
Clinical Commissioning Groups	**391,796**	387,285
Other NHS bodies	**1,217**	953
Local authorities	**668**	1,285
Injury costs recovery	**1,765**	1,984
Other	**2,411**	435
Total income from patient care activities	**449,906**	435,430

Other income from patient care activities includes £0.3m from private patients (2016-17 £0.3m) and £0.3m from overseas visitors (2016-17 £0.1m).

3. Other operating income

	2017-18	Restated 2016-17
	£000s	£000s
Research and development	**1,378**	1,489
Education and training	**12,302**	11,355
Non-patient care services to other bodies	**12,506**	8,349
Sustainability and transformation fund (STF) income	**14,870**	16,733
Other	**4,509**	4,163
Total other operating income	**45,565**	42,089
Total operating income	**495,471**	477,519

STF income includes a core allocation of £8.1m (2016-17 £12.1m) and incentive funding of £6.3m (2016-17 £4.6m) for achieving the annual financial control total set by NHS Improvement, as well as a prior year post accounts allocation of £0.4m (2016-17 nil).

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

4. Operating expenses

	2017-18	Restated 2016-17
	£000s	£000s
Staff and executive directors costs	**324,247**	310,672
Supplies and services - clinical	**33,734**	34,963
Supplies and services - general	**7,294**	6,052
Drugs costs	**39,918**	35,203
Establishment	**5,668**	5,880
Business rates paid to local authorities	**2,971**	2,543
Premises - other	**10,288**	10,420
Transport (including patient travel)	**1,703**	2,049
Depreciation	**9,604**	10,289
Amortisation	**2,286**	1,603
Impairments and reversals (net)	**26,478**	(2,689)
Clinical negligence premium	**19,938**	18,159
Rentals under operating leases	**7,718**	7,058
PFI charges to operating expenditure	**8,610**	8,184
Other operating expenses	**5,777**	8,003
Total operating expenses	**506,234**	458,389

Other operating expenses include £1.2m for outsourced financial services (2016-17 £1.1m) and £1.2m for healthcare services purchased from other bodies (2016-17 £0.9m).

5. External audit

Audit fees payable to the external auditor for the Trust's statutory audit were £69,600, inclusive of VAT (2016-17 £77,924). Other auditor remuneration in 2017-18 and 2016-17 was £7,200, inclusive of VAT, relating to the review of the Trust's annual quality account.

The limitation on the auditor's liability for external audit work is £1.0m (2016-17 nil).

6. Impairment of assets

	2017-18	2016-17
	£000s	£000s
Net impairments charged to operating surplus / deficit resulting from:		
Changes in market price	**26,041**	(2,901)
Other	**437**	212
Total net impairments charged to operating surplus / deficit	**26,478**	(2,689)
Impairments charged to the revaluation reserve	**25,390**	1,499
Total net impairments	**51,868**	(1,190)

For 2017-18, net impairment predominantly relate to the interim valuations of land and buildings provided by Cushman & Wakefield, the Trust’s external valuer. Net impairments of £19.2m were charged to the operating deficit for the valuation as at the start of the financial year, with £22.0m of impairments charged to the revaluation reserve.

To ensure the carrying amount of land and buildings does not differ materially from its fair value at 31 March 2018, a further £6.8m of net impairments was charged to the operating deficit and a further £3.4m of impairments charged to the revaluation reserve to reflect the year end valuation.

7. Operating leases

Trust as lessee	Property	Other	Total 2017-18	Restated * Total 2016-17
	£000s	£000s	£000s	£000s
Operating lease expense				
Minimum lease payments	5,141	2,577	**7,718**	7,058
Total	5,141	2,577	**7,718**	7,058
Future minimum lease payments due:				
- not later than one year	0	1,536	**1,536**	652
- later than one year and not later than five years	0	3,433	**3,433**	190
- later than five years	0	1,217	**1,217**	0
Total	0	6,186	**6,186**	842

Property related lease arrangements predominantly relate to the occupation of properties by the Trust's community based services, where there is no future commitment. Total future minimum lease payments include £4.3m relating to the seven year managed equipment contract for Pathology services which the Trust entered into in 2017-18.

* Comparatives have been restated to exclude arrangements relating to cars made available to staff through the Trust's car benefit scheme which do not meet the accounting definition of a lease.

Trust as lessor	2017-18	2016-17
	£000s	£000s
Operating lease revenue		
Minimum lease receipts	**349**	341
Total	**349**	341
Future minimum lease receipts due:		
- not later than one year;	**292**	349
- later than one year and not later than five years;	**946**	1,001
- later than five years.	**26,482**	26,719
Total	**27,720**	28,069

Operating lease revenue relates to the long term arrangement with Lancashire Care NHS Foundation Trust for their use of property on the Royal Blackburn Teaching Hospital site.

8.1 Employee benefits

	2017-18	Restated 2016-17
	£000s	£000s
Salaries and wages	**254,479**	243,451
Social security costs	**26,485**	24,541
Apprenticeship levy	**1,245**	0
Employer contributions to NHS Pensions	**30,118**	28,234
Other pension costs	**6**	3
Temporary agency staff	**12,565**	15,031
Total staff costs	**324,898**	311,260
Employee costs capitalised	**651**	588
Total staff costs excluding capitalised costs	**324,247**	310,672

8.2 Retirements due to ill-health

During 2017-18 there were 8 early retirement from the Trust agreed on the grounds of ill-health (2016-17 13 early retirements). The estimated additional pension liabilities of these ill-health retirements is £0.5m (2016-17 £0.7m).

The cost of these ill-health retirements will be borne by NHS Pensions.

8.3 Pension costs

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

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

a) Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary’s Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2018, is based on valuation data as 31 March 2017, updated to 31 March 2018 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

b) Full actuarial (funding) valuation

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

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016 and is currently being prepared. The direction assumptions are published by HM Treasury which are used to complete the valuation calculations, from which the final valuation report can be signed off by the scheme actuary. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this ‘employer cost cap’ assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

9. Finance expenses

	2017-18	Restated 2016-17
	£000s	£000s
Interest expenses		
Loans from the Department of Health and Social Care	**20**	23
Main finance costs on PFI obligations	**4,706**	4,840
Contingent finance costs on PFI obligations	**4,272**	4,185
Total interest expenses	**8,998**	9,048
Provisions - unwinding of discount	**9**	48
Total finance expenses	**9,007**	9,096

10. Better Payment Practice code

	2017-18		2016-17	
	Number	**£000s**	Number	£000s
Non-NHS payables				
Total Non-NHS trade Invoices paid in the year	**98,226**	**155,135**	101,029	160,137
Total Non-NHS trade invoices paid within target	**93,297**	**147,606**	97,722	154,909
Percentage of NHS trade invoices paid within target	**95.0%**	**95.1%**	96.7%	96.7%
NHS payables				
Total NHS trade invoices paid in the year	3,515	28,194	3,104	26,174
Total NHS trade invoices paid within target	3,359	27,686	2,974	25,805
Percentage of NHS trade invoices paid within target	**95.6%**	**98.2%**	95.8%	98.6%

The '*Better payment practice code'* requires the NHS body to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.

11. Losses and special payments

	2017-18		2016-17	
	Total value of cases	**Total number of cases**	Total value of cases	Total number of cases
	£000s		£000s	
Losses	**22**	**225**	78	237
Special payments	**120**	**78**	131	85
Total losses and special payments	**142**	**303**	209	322

12.1 Property, plant and equipment

2017-18	Land £000s	Buildings £000s	Assets under construction £000s	Plant & machinery £000s	Information technology £000s	Other property, plant and equipment £000s	Total £000s
Cost or valuation:							
At 1 April 2017	**5,831**	**257,011**	**981**	**41,303**	**24,713**	**9,270**	**339,109**
Additions	0	3,167	4,280	2,440	3,663	750	**14,300**
Reclassifications	124	0	0	(124)	0	0	**0**
Transfers (to) / from assets held for sale	(63)	(177)	0	0	0	0	**(240)**
Disposals / derecognition	0	0	0	(136)	0	0	**(136)**
Revaluation gains charged to the revaluation reserve	0	3,352	0	0	0	0	**3,352**
Revaluation losses charged to the revaluation reserve	(180)	(25,210)	0	0	0	0	**(25,390)**
Impairments charged to operating expenses	(324)	(27,167)	0	0	0	0	**(27,491)**
Reversal of impairments credited to operating expenses	860	590	0	0	0	0	**1,450**
Reversal of accumulated depreciation on revaluation	0	(3,510)	0	0	0	0	**(3,510)**
At 31 March 2018	**6,248**	**208,056**	**5,261**	**43,483**	**28,376**	**10,020**	**301,444**
Depreciation							
At 1 April 2017	**0**	**0**	**0**	**26,364**	**16,475**	**7,429**	**50,268**
Disposals / derecognition	0	0	0	(132)	0	0	**(132)**
Provided during the year	0	3,510	0	3,479	2,127	488	**9,604**
Reclassifications	0	0	0	(2)	2	0	
Reversal of accumulated depreciation on revaluation	0	(3,510)	0	0	0	0	**(3,510)**
At 31 March 2018	**0**	**0**	**0**	**29,709**	**18,604**	**7,917**	**56,230**
Net book value at 31 March 2018	**6,248**	**208,056**	**5,261**	**13,774**	**9,772**	**2,103**	**245,214**
Asset financing:							
Owned	6,248	109,075	5,261	12,038	5,260	2,101	**139,983**
Donated	0	16	0	812	5	2	**835**
On-SoFP PFI contracts	0	98,965	0	924	4,507	0	**104,396**
Total at 31 March 2018	**6,248**	**208,056**	**5,261**	**13,774**	**9,772**	**2,103**	**245,214**

12.2 Property, plant and equipment (restated)

	Land	Buildings	Assets under construction	Plant & machinery	Information technology	Other property, plant and equipment	Total
2016-17	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Cost or valuation:							
At 1 April 2016	**5,624**	**251,994**	**0**	**40,496**	**23,613**	**8,613**	**330,340**
Additions	**0**	**3,915**	**981**	**2,147**	**3,236**	**717**	**10,996**
Reclassifications	0	(230)	0	0	230	0	**0**
Disposals / derecognition	(45)	(145)	0	(1,110)	(50)	(30)	**(1,380)**
Net revaluation gains charged to the revaluation reserve	76	2,913	0	0	0	0	**2,989**
Net impairment reversals charged to operating expenses	176	2,513	0	0	0	0	**2,689**
Gross book value adjustment	0	0	0	(230)	(2,316)	(30)	**(2,576)**
Reversal of accumulated depreciation on revaluation	0	(3,949)	0	0	0	0	**(3,949)**
At 31 March 2017	**5,831**	**257,011**	**981**	**41,303**	**24,713**	**9,270**	**339,109**
Depreciation							
At 1 April 2016	**0**	**27**	**0**	**24,238**	**16,656**	**6,769**	**47,690**
Disposals / derecognition	0	(2)	0	(1,104)	(50)	(30)	**(1,186)**
Provided during the year	0	3,942	0	3,460	2,167	720	**10,289**
Accumulated depreciation adjustment	0	(18)	0	(230)	(2,298)	(30)	**(2,576)**
Reversal of accumulated depreciation on revaluation	0	(3,949)	0	0	0	0	**(3,949)**
At 31 March 2017	**0**	**0**	**0**	**26,364**	**16,475**	**7,429**	**50,268**
Net book value at 31 March 2017	**5,831**	**257,011**	**981**	**14,939**	**8,238**	**1,841**	**288,841**
Asset financing:							
Owned	5,831	147,313	981	13,921	2,503	1,833	**172,382**
Donated	0	366	0	989	0	8	**1,363**
On-SoFP PFI contracts	0	109,332	0	29	5,735	0	**115,096**
Total at 31 March 2017	**5,831**	**257,011**	**981**	**14,939**	**8,238**	**1,841**	**288,841**

12.3 Property, plant and equipment valuation information

For 2017-18, Cushman & Wakefield, the Trust's external valuer, have provided interim valuations of land and buildings as at the start and end of the financial year on an alternative site valuation basis. The value of these assets as at the start of the year, which has been used as the basis for calculating their depreciation charge, fell by 14.4% with net impairments of £19.2m charged to the operating deficit and £18.6m of net revaluation losses charged to the revaluation reserve.

To ensure the carrying amount of land and buildings does not differ materially from its fair value at 31 March 2018, a further £6.8m of net impairments was charged to the operating deficit and a further £3.4m of net revaluations losses charged to the revaluation reserve to reflect the year end valuation. These revaluations further reduced the value of these assets by 4.5%.

13. Trade and other receivables

	Current	
		Restated
	31 March 2018	31 March 2017
	£000s	£000s
Trade receivables	**14,429**	8,269
Accrued income	**13,029**	8,979
Provision for impaired receivables	**(1,642)**	(3,639)
Prepayments	**3,987**	3,286
VAT receivable	**817**	1,167
Other receivables	**2,627**	2,204
Total	**33,247**	20,266

In total, £23.0m of current trade and other receivables are receivable from NHS and DHSC group bodies (31 March 2017 £15.4m).

14. Analysis of financial assets

	31 March 2018	31 March 2017
	£000s	£000s
Ageing of non-impaired financial assets past their due date		
0 - 30 days	**5,870**	2,231
30-60 Days	**3,181**	657
60-90 days	**585**	1,062
90- 180 days	**1,717**	254
Over 180 days	**1,487**	98
Total	**12,840**	4,302

Other than trade and other receivables, no other financial assets are past their due date or impaired.

15. Cash and cash equivalents

As at 31 March 2018, cash and cash equivalents of £8.2m (31 March 2017 £23.4m) were almost entirely represented by cash deposited with the Governing Banking Service with the balance of less than £0.1m represented by cash in hand (31 March 2017 less than £0.1m).

16. Trade and other payables

	Current	
	31 March 2018	Restated 31 March 2017
	£000s	£000s
Trade payables	**2,625**	7,732
Capital payables	**6,364**	3,362
Accruals	**15,709**	13,970
Social security costs	**3,526**	3,318
Other taxes payable	**2,685**	2,606
NHS Pension contributions payable	**4,032**	3,910
Other payables	**5,273**	4,920
Total	**40,214**	**39,818**

In total, £4.4m of current trade and other payables are payable to NHS and DHSC group bodies (31 March 2017 £4.3m).

Other payables include £2.8m of research and development funds (2016-17 £2.8m).

17. Borrowings

	Current		Non-current	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000s	£000s	£000s	£000s
Loans from the DHSC	**200**	200	**1,200**	1,400
Obligations under PFI contracts	**3,385**	3,194	**105,060**	108,445
Total	**3,585**	3,394	**106,260**	109,845

18.1 Provisions

	Pensions	Other	Total
	£000s	£000s	£000s
Balance at 1 April 2017 (restated *)	**3,963**	**1,015**	**4,978**
Change in the discount rate	**61**	**0**	**61**
Arising during the year	**89**	**311**	**400**
Utilised during the year	**(199)**	**(194)**	**(393)**
Reversed unused	**0**	**(811)**	**(811)**
Unwinding of discount	**9**	**0**	**9**
Balance at 31 March 2018	**3,923**	**321**	**4,244**
Expected timing of cash flows:	**£000s**	**£000s**	**£000s**
Not later than one year	**197**	**321**	**518**
Later than one year but not later than five years	**787**	**0**	**787**
Later than five years	**2,939**	**0**	**2,939**
Balance at 31 March 2018	**3,923**	**321**	**4,244**

* The opening balance has been restated to allow provisions relating to pensions for early employee departures to be separately disclosed.

18.2 Clinical negligence liabilities

At 31 March 2018, £289.4m was included in provisions of the NHS Resolution in respect of clinical negligence liabilities relating to the Trust (31 March 2017 £247.1m).

19. Private Finance Initiative (PFI) schemes

The Trust has two separate PFI schemes in operation on each of its main sites as detailed below:

Royal Blackburn Hospital - Single Site
This scheme has provided a single hospital site within the Blackburn locality and has been operational since July 2006. The contract term is 35 years.

Burnley General Hospital - Phase 5
The phase 5 unit on the Burnley General site has been in operation since May 2006 and accommodates hospital facilities including elective care, radiology, outpatients and renal services. The contract term is 30 years.

The contracts in place for these schemes are for the construction and provision of healthcare facilities. At the end of the agreement term the sites will revert back to the ownership of the Trust without the need for further payments. Both contracts include options for early termination where there has been a event of default by the Project Company. During the term of the contracts there is provision for planned replacement at regular intervals of components included in these facilities. This ensures that the assets are maintained in the required condition throughout the life of the contract. The Trust is charged for these lifecycle costs through the unitary payments although the charges remain fixed irrespective of the actual pattern of lifecycle costs incurred by the operators. Both contracts include provision for performance and availability deductions against the unitary charge. Unitary charges are subject to an annual inflation uplift which is linked to the published retail price index.

Under IFRIC 12, the assets are treated as assets of the Trust; the substance of the contracts is that the Trust has a finance lease and the payments made comprise two elements – imputed finance lease charges and service charges. As well as provision of the infrastructure assets, the contract for the Blackburn PFI also includes facilities management provision both for the PFI asset and parts of the wider estate, and managed equipment services. The contract for the Burnley PFI scheme also includes facilities management but just for the PFI asset.

19.1 Imputed "finance lease" obligations

The Trust has the following obligations in respect of the finance lease element of on-Statement of Financial Position (SOFP) PFI schemes:

	31 March 2018	Restated 31 March 2017
	£000s	£000s
Gross PFI obligations of which are due	**172,531**	179,553
- not later than one year	**8,019**	7,900
- later than one year and not later than five years	**29,894**	29,680
- later than five years	**134,618**	141,973
Finance charges allocated to future periods	**(64,086)**	(67,914)
Net PFI obligations of which are due	**108,445**	111,639
- not later than one year	**3,385**	3,194
- later than one year and not later than five years	**12,667**	12,213
- later than five years	**92,393**	96,232

19.2 Total on-SoFP PFI arrangement commitments

The Trust's total future obligations under these on-SoFP schemes are as follows:

	31 March 2018	31 March 2017
	£000s	£000s
Total future payments committed in respect of PFI arrangements	**709,485**	728,051
- not later than one year	**23,594**	22,771
- later than one year and not later than five years	**101,668**	98,122
- later than five years	**584,223**	607,158

19.3 Analysis of amounts payable to PFI operator

	2017-18	2016-17
	£000s	£000s
Unitary payment payable to PFI operator	**22,770**	22,056
Consisting of:		
- Interest charge	**4,706**	4,840
- Repayment of finance lease liability	**3,194**	3,575
- Service element and other charges to operating expenditure	**6,565**	6,396
- Lifecycle costs	**4,033**	3,060
- Contingent rent	**4,272**	4,185
Other amounts paid to operator due to a commitment under the service concession contract but not part of the unitary payment	**947**	504
Total amount paid to service concession operator	**23,717**	22,560

20. External financing

	2017-18	2016-17
	£000s	£000s
External Financing Limit	**17,550**	5,162
Cash flow financing (from SOCF)	**17,549**	5,008
External financing requirement	**17,549**	5,008
Underspend against the External Financing Limit	**1**	154

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

21. Capital Resource Limit

	2017-18	Restated 2016-17
	£000s	£000s
Gross capital expenditure		
Property, plant and equipment	**14,300**	10,996
Intangible assets	**2,092**	1,261
Total gross capital expenditure	**16,392**	12,257
Less: disposals of property, plant and equipment	**(4)**	(194)
Less: donated capital additions	**(103)**	(214)
Charge against the Capital Resource Limit	**16,285**	11,849
Capital Resource Limit	**16,386**	13,441
Underspend against the Capital Resource Limit	**101**	1,592

The Trust is given a Capital Resource Limit which it is not permitted to exceed. The Trust has underspent against this limit as a result of slippage in a number of schemes which will be expended in 2018-19.

22.1 Breakeven duty - financial performance

	2017-18	2016-17
	£000s	£000s
Adjusted financial performance surplus / (deficit) (control total basis)	**2,983**	3,068
Remove impairments scoring to Departmental Expenditure Limit	**0**	0
Add back income for impact of 2016/17 post-accounts STF reallocation	**419**	0
IFRIC 12 breakeven adjustment	**0**	0
Breakeven duty financial performance surplus / (deficit)	**3,402**	3,068

22.2 Breakeven duty - rolling assessment

	Total (2003-04 - 2008-09)	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Breakeven duty in-year financial performance	380	287	723	3,025	8,011	6,600	1,342	7,887	3,068	3,402
Breakeven duty cumulative position	380	667	1,390	4,415	12,426	19,026	20,368	28,255	31,323	34,725
Operating income	1,677,587	336,952	342,027	389,797	404,986	420,579	435,107	466,767	477,519	495,471
Cumulative breakeven position as a percentage of operating income		0.20%	0.41%	1.13%	3.07%	4.52%	4.68%	6.05%	6.56%	7.01%

The application of breakeven duty means that if a cumulative surplus or deficit is reported (greater than a materiality threshold of 0.5% of operating income), it should be recovered within the subsequent two financial years.

NHS Improvement has provided guidance that the first year for consideration for the breakeven duty should be 2009/10.

While the cumulative breakeven position of 7.0% is above the 0.5% threshold, NHS Improvement uses annual financial control totals for NHS trusts as the primary mechanism for financial control. For 2017/18, the Trust was set a control total of a £12.1m deficit, excluding its Sustainability and Transformation Fund allocation, which the Trust has exceeded by £0.7m.

23.1 Financial instruments - financial risk management

Financial reporting standard IFRS7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the Trust has with Clinical Commissioning Groups (CCGs) and the way those CCGs are financed, the Trust is not exposed to the degree of financial risk faced by business entities. Financial instruments also play a much more limited role in creating or changing risk than would be typical of listed companies. As an NHS Trust, 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.

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 Trust Board. Treasury activity is subject to review by the Trust's internal auditors.

23.1 Financial instruments - financial risk management (continued)

Currency risk
The Trust is principally a domestic organisation with no overseas operations. As a consequence, the great majority of transactions, assets and liabilities are UK and sterling based meaning the Trust 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. Borrowings are typically made for up to 25 years, in line with the life of the associated assets, with interest fixed for the life of the loan at the National Loans Fund rate. The Trust therefore has low exposure to interest rate fluctuations.

Credit risk
Since the majority of income comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk
Operating costs are incurred under contracts with CCGs financed from resources voted annually by Parliament. The Trust also finances its capital expenditure from funds obtained within its capital resource limit. As a result, the Trust is not exposed to significant liquidity risks.

23.2 Financial instruments - carrying value

	31 March 2018	Restated 31 March 2017
	£000s	£000s
Financial assets - loans and receivables		
Trade and other receivables excluding non financial assets	**26,688**	14,168
Cash and cash equivalents	**8,156**	23,423
Total	**34,844**	37,591
Financial liabilities - other		
Trade and other payables excluding non financial liabilities	**31,182**	26,667
Obligations under PFI contracts	**108,445**	111,639
Other borrowings	**1,400**	1,600
Total	**141,027**	139,906

The fair value of financial instruments is not considered to differ from their carrying values.

23.3 Maturity of financial liabilities

	31 March 2018	31 March 2017
	£000s	£000s
In one year or less	**34,767**	30,061
In more than one year but not more than two years	**3,051**	3,603
In more than two years but not more than five years	**10,416**	9,410
In more than five years	**92,793**	96,832
Total	**141,027**	139,906

24. Related party transactions

During the year none of the Trust Board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with East Lancashire Hospitals NHS Trust.

The Department of Health and Social Care is regarded as a related party. During the year East Lancashire Hospitals 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. Those entities where the value of transactions exceeds £2.5m, ordered alphabetically, are:

Blackburn With Darwen Clinical Commissioning Group
Community Health Partnerships
East Lancashire Clinical Commissioning Group
Health Education England
Lancashire Care NHS Foundation Trust
Lancashire Teaching Hospitals NHS Foundation Trust
NHS England
NHS Resolution
NHS Property Services
Pennine Acute Hospitals NHS Trust

In addition, the Trust has had a number of notable transactions with other government departments and other central government bodies. Most of these transactions have been with Her Majesty's Revenue & Customs (HMRC), the National Health Service Pension Scheme and the National Loans Fund.

The Trust has also received revenue and capital payments from ELHT&ME, the charity for which the Trust is the corporate trustee. The latest set of audited accounts of the Funds Held on Trust relate to the year ended 31 March 2017 and are available on request from Trust Headquarters.

The Trust provides financial and administrative support to the Charity for which it is reimbursed. In 2017-18 this reimbursement amounted to £80,405 (2016-17 £65,227).

25. Events after the end of the reporting period

There are no material events after the end of the reporting period to disclose.