

EXECUTIVE SUMMARY

TITLE:	BOARD/GROUP/COMMITTEE:	
Annual Accounts 2008/09	Trust Board	
1. KEY ISSUES:	REVIEWED BY (BOARD/COMMITTEE) and DATE:	
<ul style="list-style-type: none"> • The Trust has received confirmation from the Audit Commission in the last week, that it is minded to issue an unqualified opinion on the 2008/09 Annual Accounts, subject to the revised agreement with Countryside Properties being signed • The Trust has agreed amendments to certain Notes within the Accounts, in relation to the Land Sale Debtors. These are attached to this report. • The Audit Commission has issued its Section 19 Report to the Secretary of State, in respect of the likelihood that the Trust will fail its five year breakeven duty at the end of 209/10. The Report is attached. 	<input type="checkbox"/> S&SIB <input type="checkbox"/> EPB <input type="checkbox"/> FINANCE <input type="checkbox"/> AUDIT <input type="checkbox"/> CLINICAL GOVERNANCE <input type="checkbox"/> CHARITABLE FUNDS <input type="checkbox"/> TRUST BOARD <input type="checkbox"/> REMUNERATION <input type="checkbox"/> OTHER(please specify)	
	CATEGORY:	
	<input type="checkbox"/> NATIONAL TARGET <input type="checkbox"/> CNST <input type="checkbox"/> STANDARDS FOR BETTER HEALTH <input type="checkbox"/> ASSURANCE FRAMEWORK <input type="checkbox"/> TARGET FROM COMMISSIONERS <input checked="" type="checkbox"/> CORPORATE OBJECTIVE To monitor the Trust's progress in achieving its financial turnaround, achieving control targets and meeting its statutory financial duties going forward. <input type="checkbox"/> OTHER (please specify)	
	AUTHOR/PRESENTER:	
	David Wragg, Director of Finance	
DATE:		
24 July 2009		
2. FINANCIAL IMPLICATIONS/IMPACT ON CURRENT FORECAST:		
N/A		

3. ALTERNATIVES CONSIDERED/REASONS FOR REJECTION:	
N/A	
4. DELIVERABLES:	
N/A	
5. EVIDENCE :	
N/A	
6. RECOMMENDATION/ACTION REQUIRED:	
The Board is asked to note this report.	
AGREED AT _____ MEETING OR REFERRED TO: _____	DATE: _____ DATE: _____
REVIEW DATE _____ (if applicable)	

Annual Accounts 2008/09

1. Introduction

This report provides an update on the Annual Accounts for 2008/09, primarily in respect of the main outstanding issue in respect of the value of land sale debtors.

2. Land sale Debtor

Further to the Extra-ordinary Board Meeting of 11 June which agreed the Annual Accounts, the Trust has been in ongoing discussions with the Audit Commission, regarding the valuation of the land sale debtor carried in the Balance Sheet as at 31 March 2009, in particular in respect of Countryside Properties. This was the only substantive issue outstanding to be resolved in order for the Auditor to issue an unqualified opinion on the Accounts.

The Audit Commission had taken the view that the Trust should impair the value of the Countryside debtor, in light of Countryside defaulting on the phased payment due at the end of March 2009. However, given progress with ongoing negotiations between the Trust and Countryside, view a view to re-scheduling the payments, alongside an additional interest charge of 4%, the Trust took the view that the debtor value should not be impaired.

The Trust received confirmation from Jon Hayes, the Audit Commission Engagement Lead, on 22 July, that he was minded to issue an unqualified opinion on the Accounts, subject to the deal with Countryside being signed (which is imminent).

The Trust has agreed with the Auditor certain amendments to the Notes within the Accounts, in relation to the Land Sale debtors. These are attached to this report, with an explanatory comment given for each change.

3. Section 19 Report

The Audit Commission has now issued its Section 19 Report (attached) to the Secretary of State, in respect of the likelihood of the Trust failing its statutory breakeven duty by the end of 2009/10. This is the context of the Trust's deficit Plan for 2009/10 and the ongoing Challenge Trust Board process, which has yet to conclude.

David Wragg
Director of Finance
24 July 2009

12. Stocks and Work in Progress

	31 March 2009	31 March 2008
	£000	£000
Raw materials and consumables	5,608	5,584
TOTAL	<u>5,608</u>	<u>5,584</u>

13. Debtors**13.1 Debtors at the balance sheet date are made up of:**

	31 March 2009	31 March 2008
	£000	£000
Amounts falling due within one year:		
NHS debtors	10,271	3,938
Non NHS trade debtors	4,092	5,097
Provision for impairment of debtors	(1,976)	(2,683)
Other prepayments and accrued income	3,094	2,825
Current part of PFI payment	0	0
Other debtors	34,610	39,505
Sub Total: falling due within one year	50,091	48,682
Amounts falling due after more than one year:		
NHS debtors	1,658	1,689
Non NHS trade debtors	0	0
Provision for impairment of debtors	(379)	(482)
Other prepayments and accrued income	2,064	2,133
Other debtors	27,752	25,777
Sub Total: falling due after more than one year	31,095	29,117
TOTAL	<u>81,186</u>	<u>77,799</u>

Amendment to split of debtors between 'Due in 1 Year' and 'Due after 1 year' to reflect rescheduling of payment of land sale receipts due from capital debtors. £4,495k previously due in 2009/10 now due after more than a year.

There are no prepaid pension contributions at 31 March 2009 (2008: £Nil).

Included in Other Debtors 'Amounts Due after more than one year' are Capital Debtors of £25,005,644 (2008: £23,458,000) representing the tranching disposal receipts in respect of the sale of land of the previous hospital sites of Oldchurch in Romford, and Harold Wood.

The previous year's comparative figure for Non Nhs Trade debtors and Other debtors due within one year have been restated as follows:

- Non Nhs Trade Debtors restated to £5,097,000 (formerly nil).
- Other Debtors restated to £39,505,000 (formerly £44,602,000).

The Non Nhs Trade Debtors were previously included in Other Debtors.

24.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £8,059,000 bears to the average relevant net assets of £256,686,000 that is 3.1%.

24.3 External financing

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

	2008/09 £000	2007/08 £000
External financing limit	(20,388)	5,740
Cash flow financing	13,441	4,917
Finance leases taken out in the year	0	0
Other capital receipts	0	0
External financing requirement	<u>13,441</u>	<u>4,917</u>
Undershoot/(overshoot)	<u>(33,829)</u>	<u>823</u>

The Trusts 2008-09 EFL included a provision for the repayment of PDC to the Department of Health out of the receipts of land sale income due for 2008/09. When it was recognised that these instalments due were not going to be received before 31st March 2009 a request was made to the Department whereby the Trust be allowed to defer its payment. This was accepted by the Department and the Trust then made a further request to NHS London to have its EFL adjusted accordingly. However a delay in communications from NHS London to the Department resulted in the adjustment not being made. Consequently the Trust's EFL was not adjusted to reflect the fact that the PDC repayment to the Department was no longer required, thus resulting in an overshoot being recorded by the Trust.

Slight amendment in the wording, no longer refer to NHS London "failure" to notify the department.

24.4 Capital Resource Limit

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

	2008/09 £000	2007/08 £000
Gross capital expenditure	6,094	6,382
Less: book value of assets disposed of	(16,300)	(6,333)
Plus: loss on disposal of donated assets	32	83
Less: capital grants	0	0
Less: donations towards the acquisition of fixed assets	(48)	(163)
Charge against the capital resource limit	<u>(10,222)</u>	<u>(31)</u>
Capital resource limit	(6,399)	1,267
(Over)/Underspend against the capital resource limit	<u>3,823</u>	<u>1,298</u>

The Trust underspent its capital programme and this is reflected in the underspend of the capital resource limit allocated for the year.

27 Financial Instruments

Financial Reporting Standard 29 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 Primary Care Trusts and the way those Primary Care Trusts 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 these 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 Strategic Health 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.

Certain long-term receivables carry a variable rate of interest (see also note 27.1). The Trust has hedged this potential interest rate exposure by setting interest at LIBOR + 2% or 4%, whichever is the higher.

Note change to give clarification of the Trust management of interest rate risk.

Credit risk

Credit risk is the risk of suffering financial loss should any of the Trust's customers or service suppliers fail to fulfil their contractual obligations. Because the majority of the Trust's income comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposure as at 31 March 2009 are in receivables from customers, as disclosed in the debtors note.

Note expanded to give better clarification of the Trust's recognition and treatment of credit rate risk.

Whilst the Trust's maximum exposure to credit risk is the carrying value of the assets in the case of material non-public sector bodies the likely exposure is £22m less due to collateral in the form of charges over land obtained to mitigate the Trust's exposure.

As disclosed in Note 5.1 and Note 27.3 the Trust has made a debtors impairment of £2,950,000. This is respect of non-public sector debtors where renegotiations of contracts have resulted in the likely non-collection of monies originally due.

In addition material credit risk associated with non-public sector bodies is routinely reviewed by way of credit reports and other publicly available financial information.

Market risk

Market risk is the risk that the Trust earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates. Certain transactions with non-public sector bodies carry limited market risk. Given current volatile market conditions, the Trust routinely monitors third party supplier risks in relation to service performance, collection of receivables and collection of receivables.

New section to provide better information to the reader in regard to the Trust's recognition and management of Market risks

Liquidity risk

This is the risk that the Trust is unable to meet its obligations when they fall due. The Trust's new operating costs are incurred under contract with Primary Care Trusts, 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. The Trust would look to fund any short-term working capital requirements by temporary Public Dividend Capital loans. The Trust's liquidity management strategies include:

Note expanded to give better clarification of the Trust's recognition and treatment of liquidity risks.

- Detailed cashflow planning which includes forecasting of incoming receipts and planning and scheduling of outgoing commitments.
- Daily monitoring of actual cashflow against planned; and
- Close working with the Department of Health and NHS London to agree temporary Public Dividend Capital when liquidity issues arise.

27.1 Financial Assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	£000	%	Years	Years
At 31 March 2009							
Sterling	77,398	36,372	1,658	39,368	2.2	16	2
Other	0	0	0	0	0	0	0
Gross financial assets	77,398	36,372	1,658	39,368			
At 31 March 2008							
Sterling	74,612	1,771	1,689	71,152	2.2	17	2
Other	0	0	0	0	0	0	0
Gross financial assets	74,612	1,771	1,689	71,152			

Reclassification of Countryside capital debtor from non-interest bearing receivable to 'floating rate interest receivable' as a result of terms of renegotiated repayment schedule.

27.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	£000	%	Years	Years
At 31 March 2009							
Sterling	27,216	0	0	27,216	0	0	2
Other	0	0	0	0	0	0	2
Gross financial assets	27,216	0	0	27,216			
At 31 March 2008							
Sterling	36,415	0	0	36,415	0	0	2
Other	0	0	0	0	0	0	0
Gross financial assets	36,415	0	0	36,415			

27.3 Financial Assets

	At 'fair value through profit and loss £000	Loans and receivables £000	Total £000
NHS receivables		11,929	11,929
Cash at bank and in hand		1,370	1,370
Other financial assets		64,099	64,099
Total at 31 March 2009	0	77,398	77,398
NHS receivables		5,627	5,627
Cash at bank and in hand		1,771	1,771
Other financial assets		67,214	67,214
Total at 31 March 2008	0	74,612	74,612

Included within 'Other Financial Assets' as at 31st March 2009, are debts against which specific provisions of £2,950,000 have been made to reflect increased risks around their collectability owing to the following factors:

- a) Reductions in the economic value of assets secured against the debts.
- b) Extensions to the repayment period within which the debts were previously due to be repaid.

27.4 Financial Liabilities

	At 'fair value through profit and loss £000	Other £000	Total £000
Embedded derivatives			
Borrowings			
PFI and Finance Lease Obligations			
Other financial liabilities		27,216	27,216
Total at 31 March 2009	0	27,216	27,216
Embedded derivatives			
Borrowings			
PFI and Finance Lease Obligations			
Other financial liabilities		36,415	36,415
Total at 31 March 2008	0	36,415	36,415

Reclassification of asset and liabilities to 'Loans and Receivables' and 'Other' respectively.

28 Third Party Assets

The Trust held £1,645 cash at bank and in hand at 31 March 2009 (£1,345 - at 31 March 2008) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

29 Intra-Government and Other Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government Bodies	625	0	3,053	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	9,646	1,658	2,934	0
Balances with Public Corporations and Trading Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Intra Government balances	10,271	1,658	5,987	0
Balances with bodies external to Government	39,820	29,437	29,677	6,025
At 31 March 2009	<u>50,091</u>	<u>31,095</u>	<u>35,664</u>	<u>6,025</u>
Balances with other Central Government Bodies	1,682	1,689	7,696	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	2,234	0	764	0
Balances with Public Corporations and Trading Funds	<u>22</u>	<u>0</u>	<u>3,366</u>	<u>0</u>
Intra Government balances	3,938	1,689	11,826	0
Balances with bodies external to Government	44,744	27,428	25,370	5,768
At 31 March 2008	<u>48,682</u>	<u>29,117</u>	<u>37,196</u>	<u>5,768</u>

Amendment to split of debtors between 'Due in 1 Year and 'Due after 1 year' to reflect rescheduling of payment of land sale receipts due from capital debtors

31 Losses and Special Payments

There were 354 cases of losses and special payments (2007/08: 1,117 cases) totalling £365,360 (2007/08: £1,927,000) during 2008/09.

The total costs included in this note are on a cash basis and will not reconcile to the amounts in the notes to the accounts which are prepared on an accruals basis

19 June 2009

Secretary of State for Health
Department of Health
Richmond House
79 Whitehall
London SW1A 2NL

Dear Secretary of State

— **Barking, Havering and Redbridge University Hospitals NHS Trust - Report to the Secretary of State for Health under s19 Audit Commission Act 1988**

I am writing in my capacity as appointed auditor to Barking, Havering and Redbridge University Hospitals NHS Trust (the Trust).

Section 19 of the Audit Commission Act 1998 (the 1998 Act) states that *“if the auditor for the time being of the accounts of a health service body has reason to believe that the body or an officer of the body:*

(a) is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful, or

(b) is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency, he shall refer the matter forthwith to the Secretary of State”.

The statutory break-even duty of NHS trusts

An NHS trust’s Board is accountable for financial control and for ensuring that the NHS trust meets its statutory duty to break-even. Paragraph 2(1) of Schedule 5 to the National Health Service Act 2006 states that:

“Each NHS trust must ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account.”

This is known as the “break-even duty”. NHS trusts normally plan to meet this duty by achieving a balanced position on their Income and Expenditure account each year. The phrase “taking one financial year with another” provides some flexibility. Following discussions between the Department of Health (DH) and HM Treasury, agreement has been reached that the duty has been met if expenditure is covered by income over a rolling three year period, which may, in exceptional circumstances and with the agreement of the local Strategic Health Authority, be extended to five years.

Financial history of the Trust

The Trust first incurred a material deficit in 2005/06 which marked the start of the statutory break even period. Since that date, it has incurred further deficits as shown in the table below.

Financial year	Deficit / (Surplus) £'000	Cumulative deficit carried forward £'000	Years in cumulative deficit
2005/06	16,009	15,989	1
2006/07	16,844	32,833	2
2007/08	35,621	68,454	3
2008/09	26,214*	94,668	4
2009/10	10,810**	105,478	5

*un-audited figure

**current forecast outturn.

Performance against the break-even duty

The period over which the Trust's performance was to be measured was extended to 5 years in 2007/08, following agreement with NHS London as part of a Financial Turnaround program. In order to meet its break-even duty, the Trust would need to achieve cumulative breakeven by 31 March 2010. However, as the table shows, the current forecast cumulative deficit at that date, following the establishment of the budget for 2009/10, amounts to £105.5m, which is over 25% of the annual turnover.

Prospects for financial recovery

Since 2007/08, the Trust has made positive efforts to address its financial difficulties. Measures have been taken to strengthen management and financial capacity in the Trust and efficiencies have been made. Nevertheless, given the current financial plan and the size of the cumulative deficit, I have reason to believe that the Trust will fail to meet its breakeven duty by the end of the financial year 2009/10.

Referral to the Secretary of State

This letter constitutes my referral to the Secretary of State under section 19 of the 1998 Act because of the Trust's proposal to breach its statutory breakeven duty in 2009/10 under its current financial plan.

Report under section 8 of the 1998 Act

I am also required under section 8 of the 1998 Act to consider whether to issue a report in the public interest on any significant matter coming to my notice in the course of an audit and to bring the matter to the attention of the audited body and the public. I have considered whether I should issue such a report and in doing so I have had regard to guidance prepared by the Audit Commission for its auditors.

The Trust's financial position remains extremely challenging. However, the Trust Board established a formal financial recovery program that has delivered £28.2m million in recurrent cost savings in 2008/09. I am also mindful that management and financial capacity have been strengthened since 2007/08. My audit work has shown that financial management has improved in the last year.

Furthermore, the Trust continues to work with NHS London to establish a sustainable position. NHS London approved a medium term financial strategy in December 2008 under which it established a Challenged Trust Board to provide financial support to challenged trusts. The Trust has requested a significant contribution to its cumulative deficit from the Board. Other more radical solutions are also being considered by NHS London as part of the wider review of services in North East London.

Given the actions of the Trust and NHS London I do not believe it would be appropriate to issue a public interest report at this time, although I will keep the position under review. My audit work will continue to reflect the Trust's risk profile and will be targeted at areas that might assist in securing improvements.

Should you have any queries or wish to discuss the content of this letter further, please do not hesitate to contact me.

Yours sincerely

Jon Hayes
Engagement Lead

Cc Paul Bauman, NHS London
John Goulston, Chief Executive, BHRT
David Wragg, Director of Finance, BHRT
Stuart Cruickshank, Chair of the Audit Committee, BHRT