



Harrogate and District
NHS Foundation Trust

Harrogate and District NHS Foundation Trust Consolidated Financial
Statements 31 March 2019.

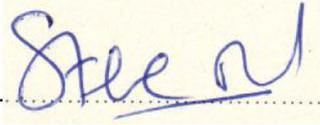
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FOREWORD TO THE ACCOUNTS

HARROGATE AND DISTRICT NHS FOUNDATION TRUST

The accounts for the year ended 31 March 2019 are set out on the following pages and comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Tax Payers' Equity, the Consolidated Statement of Cash Flows and the Notes to the Consolidated Accounts.

The accounts have been prepared by the Harrogate and District NHS Foundation Trust in accordance with paragraphs 24 and 25 of schedule 7, to the National Health Service Act 2006 in the form in which NHS Improvement, in exercise of the powers conferred on Monitor, the Independent Regulator of NHS Foundation Trusts, has, with the approval of HM Treasury, directed.

Signed:  Mr Steve Russell - Chief Executive

Date: 24 May 2019.

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTING OFFICER OF THE HARROGATE AND DISTRICT NHS FOUNDATION TRUST

The National Health Service Act 2006 (NHS Act 2006) states that the Chief Executive is the Accounting Officer of the NHS foundation trust. The relevant responsibilities of the Accounting Officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the NHS Foundation Trust Accounting Officers' Memorandum issued by NHS Improvement.

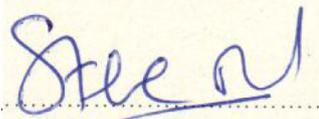
NHS Improvement, in exercise of the powers conferred on Monitor by the NHS Act 2006, has given Accounts Directions which require Harrogate and District NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis required by those Directions. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Harrogate and District NHS Foundation Trust and of its income and expenditure, items of other comprehensive income and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Department of Health Group Accounting Manual and the NHS Foundation Trust Annual Reporting Manual in particular to:

- observe the Accounts Direction issued by NHS Improvement, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the NHS Foundation Trust Annual Reporting Manual (and the Department of Health Group Accounting Manual) have been followed, and disclose and explain any material departures in the financial statements;
- confirm that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for patients, regulators and stakeholders to assess the NHS foundation trust's performance, business model and strategy;
- assess the Group and parent Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Group and parent Trust without the transfer of its services to another public sector entity.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS foundation trust and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for safeguarding the assets of the NHS foundation trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Accounting Officer is also responsible for ensuring that the use of public funds complies with the relevant legislation, delegated authorities and guidance.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in the NHS Foundation Trust Accounting Officers' Memorandum.

Signed:  Mr Steve Russell - Chief Executive

Date: 24 May 2019.



Independent auditor's report

to the Council of Governors of Harrogate and District NHS Foundation Trust

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. Our opinion is unmodified

We have audited the financial statements of Harrogate and District NHS Foundation Trust ("the Trust") for the year ended 31 March 2019 which comprise the Group and Trust Statements of Comprehensive Income, Group and Trust Statements of Financial Position, Group and Trust Statements of Changes in Equity and Group and Trust Statements of Cash Flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group and the Trust's affairs as at 31 March 2019 and of the Group and Trust's income and expenditure for the year then ended; and
- the Group and the Trust's financial statements have been properly prepared in accordance with the Accounts Direction issued under paragraphs 24 and 25 of Schedule 7 of the National Health Service Act 2006, the NHS Foundation Trust Annual Reporting Manual 2018/19 and the Department of Health and Social Care Group Accounting Manual 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group and Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview

Materiality: £4.005m (2017/18:£4.005m)
Group financial statements as a whole 1.6% (2017/18: 1.8%) of total income

Coverage 100% (2017/18:100%) of group income

Risks of material misstatement vs 2017/18

Recurring risks	
Valuation of Land and Buildings	◄►
Revenue Recognition	◄►
Fraudulent Expenditure Recognition	▲
Event driven	
New General Ledger	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In arriving at our audit opinion above, the key audit matters, in decreasing order of audit significance, were as follows.

All of these key audit matters relate to the Group and the parent Trust.

	The risk	Our response
<p>Valuation of Land and Buildings</p> <p>(£77.07 million; 2017/18: £81.61 million)</p> <p><i>Refer to note 1.9 (accounting policy) and note 9.1 (financial disclosures)</i></p>	<p>Subjective valuation</p> <p>Land and buildings are required to be maintained at up to date estimates of year-end market value in existing use (EUV) for non-specialised property assets in operational use, and, for specialised assets where no market value is readily ascertainable, the depreciated replacement cost (DRC), of a modern equivalent asset that has the same service potential as the existing property (MEA).</p> <p>The Trust's accounting policy requires an annual review for impairment, an annual desk top valuation every year and a full valuation at regular intervals with the last full valuation carried out in March 2017. The valuation is undertaken by an external expert engaged by the Trust, using construction indices and so accurate records of the current estate are required.</p> <p>When considering the cost to build a replacement asset the Trust may consider whether the asset would be built to the same specification or in the same location. Assumptions about changes to the asset must be realistic.</p> <p>Valuations are inherently judgmental. There is a risk that the methodology, assumptions and underlying data, are not appropriate or correctly applied.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of land and buildings has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.</p> <p>Accounting Treatment</p> <p>There is a risk that valuation gains and impairment losses are not accounted for in accordance with the requirements of the Department of Health and Social Care (DHSC) Group Accounting Manual 2018/19.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> — Assessing valuer's credentials: We assessed the competence, capability, objectivity and independence of the Trust's external valuer and considered the information provided to the Trust in 2018/19 for consistency with the requirements of the DHSC Group Accounting Manual; — Test of detail: We critically assessed the Trust's formal consideration of indications of impairment and surplus assets within its estate, including the process undertaken. — Test of detail: We tested the accuracy of the estate base data provided to the valuer to complete the desktop valuation to ensure it accurately reflected the Trust's estate. — Methodology choice: We critically assessed the assumptions used in preparing the desktop valuation of the Trust's land and buildings to ensure they were appropriate. — Methodology choice: We critically assessed the Trust's treatment of VAT in its valuation to ensure it accurately reflected the current Trust status and complied with the requirements of the Department of Health and Social Care Group Accounting Manual 2018/19. — Accounting analysis: We undertook work to understand the basis upon which any movements in the valuation of land and buildings had been classified and treated in the financial statements and determined whether they had complied with the requirements of the DHSC Group Accounting Manual 2018/19.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Fraudulent Expenditure Recognition</p> <p>(£66.18 million; 2017/18: £56.62 million)</p> <p>Non-pay expenditure</p> <p><i>Refer to note 1.7 (accounting policy) and note 4 (financial disclosures)</i></p>	<p>Effects of Irregularities</p> <p>As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk that the Trust may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures.</p> <p>This risk does not apply to all expenditure in the period. The incentives for fraudulent expenditure recognition relate to achieving financial targets and the key risks relate to the manipulation of creditors and accrued non-pay expenditure at year-end, as well as the completeness of the recognition of provisions or the inappropriate release of existing provisions.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Test of detail: We inspected all individually material items of expenditure in the final two weeks of March and all of April 2019 cashbooks to agree these had been accounted for correctly by evaluating when the service had been delivered; - Test of detail: We inspected all material items of expenditure in the April 2019 bank statements to identify if there were any unrecorded liabilities that should have been accounted for in the 2018/19 financial statements; - Test of detail: We performed a year-on-year comparison of accruals posted in 2018/19 to those posted in 2017/18 to evaluate the completeness of the accruals balance, as well as agreeing a sample to supporting documentation; - Test of detail: We considered the completeness of provisions based on our cumulative knowledge of the Trust, inquiries with Directors, and inspection of legal correspondence where relevant. We considered whether there were events that would require a contingent liability disclosure in the accounts; - Test of detail: We vouched a sample of creditor balances to supporting documentation to agree the correct treatment as a payable at year-end; and - Test of detail: We inspected confirmations of balances provided by the Department of Health as part of the AoB exercise and compared the relevant payables recorded in the Trust's financial statements to the receivables balances recorded within the accounts of other providers and other bodies within the AoB boundaries. Where applicable we investigated variances and reviewed relevant correspondence to assess the reasonableness of the Trust's approach to recognising expenditure to other providers and other bodies within the AoB boundaries.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
<p>Revenue Recognition</p> <p>(£249.99 million; 2017/18: £216.76 million)</p> <p>Operating Income</p> <p><i>Refer to note 1.5 (accounting policy) and note 3 (financial disclosures)</i></p>	<p>Effect of irregularities</p> <p>There is a risk that the Trust may manipulate income to meet externally set targets and we had regard to this when planning and performing our audit procedures.</p> <p>The incentives for fraudulent revenue recognition might relate to income generated from either other NHS bodies or non-NHS third parties.</p> <p>The Group participates in the national Agreement of Balances (AoB) exercise for the purpose of ensuring that intraNHS balances are eliminated on the consolidation of the Department of Health's resource accounts. The AoB exercise identifies mismatches between receivable and payable balances recognised by the Group and its commissioners, which will be resolved after the date of approval of these financial statements. For these financial statements the Group identifies the specific cause, and accounts for the expected future resolution, of each individual difference. Mis-matches can occur for a number of reasons, but the most significant arise where :</p> <ul style="list-style-type: none"> • Activity levels are higher or lower than planned and the Group is in discussion with its commissioners over contract variations; • the Group and commissioners record different accruals for completed spells of healthcare which have not yet been invoiced; • income relating to partially completed spells of healthcare is apportioned across the financial years and the commissioners and the Group make different apportionment assumptions; and • there is a lack of agreement over proposed contract penalties for sub-standard performance. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> - Test of Detail: We reviewed the information provided by the Trust as part of the Agreement of Balances (AoB) exercise to ensure it was consistent with the information in the accounts; - Test of Detail: We identified any mismatches with other NHS organisations and sought explanations for mismatches over £200,250 or significant cumulative mismatches; - Test of Detail: We agreed any disputed income or receivables over £200,250 to documentation which supported the Trust's estimates, including contract documentation and evidence of the achievement of required activity levels or performance measures; - Test of Detail: We ensured significant adjustments to balances agreed with other NHS organisations were reflected in the accounts; - Test of Detail: We agreed any significant accrued or deferred income balances to documentation to confirm they were recorded appropriately; and - Test of Detail: We assessed the appropriateness of the accounting for significant material transactions that were outside of the Trust's normal course of business or were otherwise unusual.

2. Key audit matters: our assessment of risks of material misstatement (continued)

	The risk	Our response
New General Ledger	Data capture The Trust moved to a new general ledger system in-year. This has resulted in accounting data being migrated from one ledger to another. Whilst there are a number of risks associated with data migration which include data corruption and application stability risks, the most common risk associated with data being migrated from one system to another is that of data loss. Consequently, for our audit of the financial statements this posed a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances recorded in the financial statements.	Our procedures included: <ul style="list-style-type: none"> – Process Assessment: We made enquiries of management over the processes undertaken by the Trust over data cleansing, data conversion, data mapping and data reconciliation prior to the migration of data from one ledger to another; – Process Assessment: We reviewed the processes undertaken by management to assure themselves that the migration has been successful and that the data migrated over was complete and accurate; – Process Assessment: We undertook a walkthrough of the process undertaken by management and a review of exceptions identified as part of management’s reconciliation process to determine the resolution of the exceptions; – Tests of Detail: We reviewed the final closing 2017/18 trial balance and ensured it agreed with the opening 2018/19 trial balance; and – Tests of Detail: We reviewed the new ledger balances as at point of transfer to ensure these had been transferred over correctly from the old ledger.

3. Our application of materiality and an overview of the scope of our audit

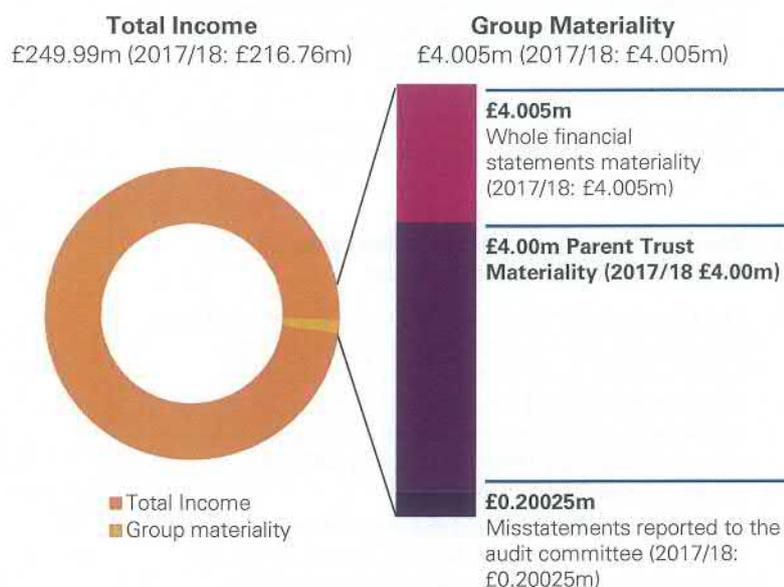
Materiality for the Group financial statements as a whole was set at £4.005 million (2017/18: £4.005 million), determined with reference to a benchmark of operating income (of which it represents approximately 1.6%). We consider operating income to be more stable than a surplus- or deficit-related benchmark.

Materiality for the parent Trust’s financial statements as a whole was set at £4 million (2017/18: £4 million), determined with reference to a benchmark of operating income (of which it represents approximately 1.6%).

We agreed to report to the Audit Committee any corrected and uncorrected identified misstatements exceeding £0.20025 million (2017/18: (£0.20025 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the group’s 3 (2017/18: 3) reporting components, we subjected 1 (2017/18: 2) to a full scope audit for group purposes and 1 to specified risk-focused audit procedures. The latter was not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed. We conducted a review of financial information (including enquiry) at the one (2017/18: 1) remaining non-significant component to confirm that there was no significant impact upon the group position.

These procedures were carried out by the Group audit team at the Trust’s headquarters in Harrogate.



4. We have nothing to report on going concern

The Accounting Officer has prepared the financial statements on the going concern basis as they have not been informed by the relevant national body of the intention to dissolve the Group or the Trust without the transfer of its services to another public sector entity. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Accounting Officer's conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Trust will continue in operation.

In our evaluation of the Accounting Officer's conclusions, we considered the inherent risks to the Group's and Trust's business model, including the impact of Brexit, and analysed how those risks might affect the Group's and Trust's financial resources or ability to continue operations over the going concern period. We evaluated those risks and concluded that they were not significant enough to require us to perform additional audit procedures.

Based on this work, we are required to report to you if we have anything material to add or draw attention to in relation to the Accounting Officers statement in Note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Trust's use of that basis for a period of at least twelve months from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

In our opinion the other information included in the Annual Report for the financial year is consistent with the financial statements.

Remuneration report

In our opinion the part of the remuneration report to be audited has been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2018/19.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Group's position and performance, business model and strategy; or
- the section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- the Annual Governance Statement does not reflect the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual 2018/19, is misleading or is not consistent with our knowledge of the Group and other information of which we are aware from our audit of the financial statements.

We have nothing to report in these respects.

6. Respective responsibilities

Accounting Officer's responsibilities

As explained more fully in the statement set out on page 2, the Accounting Officer is responsible for the preparation of financial statements that give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Group and parent Trust without the transfer of their services to another public sector entity."

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at

www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY MATTERS

We have nothing to report on the statutory reporting matters

We are required by Schedule 2 to the Code of Audit Practice issued by the Comptroller and Auditor General ('the Code of Audit Practice') to report to you if:

- any reports to the regulator have been made under Schedule 10(6) of the National Health Service Act 2006.
- any matters have been reported in the public interest under Schedule 10(3) of the National Health Service Act 2006 in the course of, or at the end of the audit.

We have nothing to report in these respects.

We have nothing to report in respect of our work on the Trust's arrangements for securing economy, efficiency and effectiveness in the use of resources

Under the Code of Audit Practice we are required to report to you if the Trust has not made proper arrangement for securing economy, efficiency and effectiveness in the use of resources..

We have nothing to report in this respect.

Respective responsibilities in respect of our review of arrangements for securing economy, efficiency and effectiveness in the use of resources

The Trust is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources..

Under Section 62(1) and Schedule 10 paragraph 1(d), of the National Health Service Act 2006 we have a duty to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in the 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 the use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We planned our work in accordance with the Code of Audit Practice and related guidance. Based on our risk assessment, we undertook such work as we considered necessary.

Report on our review of the adequacy of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required by guidance issued by the C&AG under Paragraph 9 of Schedule 6 to the Local Audit and Accountability Act 2014 to report on how our work addressed any identified significant risks to our conclusion on the adequacy of the Trust's arrangements to secure economy, efficiency and effectiveness in the use of resources. The 'risk' in this case is the risk that we could come to an incorrect conclusion in respect of the Trust's arrangements, rather than the risk of the arrangements themselves being inadequate.

We carry out a risk assessment to determine the nature and extent of further work that may be required. Our risk assessment includes consideration of the significance of business and operational risks facing the Trust, insofar as they relate to 'proper arrangements'. This includes sector and organisation level risks and draws on relevant cost and performance information as appropriate, as well as the results of reviews by inspectorates, review agencies and other relevant bodies.

The significant risk identified during our risk assessment is set out below together with the findings from the work we carried.

Significant Risk	Description	Work carried out and judgements
Medium to Long Term Sustainability	<p>At the time of our audit planning the Trust was undergoing a full CQC inspection. It was anticipated that the inspection would identify some areas for improvement, potentially impacting upon our conclusions with regards to the Trust's sustainable resource deployment.</p> <p>The Trust was behind on its plan for delivery of non-recurrent CIP savings. These were back-loaded in the financial year according to the plan so it was likely the margin of undelivered CIPs would increase. There is a risk that where the CIP delivery is not appropriately monitored and reported the Trust does not take decisions in an informed fashion.</p> <p>Both of the above elements lead to a risk that the Trust was unable to deliver the required quality and efficiency of service for value for money to be obtained moving forward.</p>	<p>Our work included:</p> <p>Consideration of the outcomes from the Trust's recent CQC inspection, whose final report was issued in March 2019. We spoke with officers to understand how the findings of the CQC inspection were being taken forward.</p> <p>We reviewed minutes from the Trust's Quality Committee to assess the adequacy of monitoring processes in place regarding any shortfalls in clinical quality.</p> <p>We assessed the findings of the CQC report for any specific indicators of a lack of monitoring arrangements in place regarding clinical quality.</p> <p>We reviewed the Trust's year-end CIP delivery position and the governance arrangements in place during the year to monitor this.</p> <p>Our findings on this risk area:</p> <p>The CQC report issued in March 2019 gave an overall rating of 'Good' for the Trust including a rating of 'Good' for the well-led criteria.</p> <p>We have noted through our limited assurance audit of the Quality Account, review of CQC outcomes and review of Quality Committee minutes that adequate monitoring and processes are in place to manage and address identified gaps or shortfalls in clinical quality.</p> <p>The Trust had adequate arrangements in place with regards the governance and monitoring of CIP delivery.</p> <p>The Trust had begun to embed new reporting structures in year to help an improved delivery and monitoring of CIP.</p> <p>The Trust delivered its full £10.7m CIP target, with £3.5m of this value being non-recurrent savings.</p> <p>The Trust met the control total agreed with NHSI.</p> <p>We concluded that the Trust had adequate arrangements in place for planning finances effectively to support the medium to long term sustainable delivery of its strategic priorities.</p>

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Council of Governors of the Trust, as a body, in accordance with Schedule 10 of the National Health Service Act 2006 and the terms of our engagement by the Trust. Our audit work has been undertaken so that we might state to the Council of Governors of the Trust, as a body, those matters we are required to state to them in an auditor's report, and the further matters we are required to state to them in accordance with the terms agreed with the Trust, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Governors of the Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

CERTIFICATE OF COMPLETION OF THE AUDIT

We certify that we have completed the audit of the accounts of Harrogate and District NHS Foundation Trust in accordance with the requirements of Schedule 10 of the National Health Service Act 2006 and the Code of Audit Practice issued by the National Audit Office.



Rashpal Khangura
for and on behalf of KPMG LLP (Statutory Auditor)

Chartered Accountants

1 Sovereign Square

Leeds

LS1 4DA

07 June 2019

Annual Governance Statement 2018/19

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of Harrogate and District NHS Foundation Trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that Harrogate and District NHS Foundation Trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of Harrogate and District NHS Foundation Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in Harrogate and District NHS Foundation Trust for the year ended 31 March 2019 and up to the date of approval of the Annual Report and Accounts.

Capacity to handle risk

As Accounting Officer, and supported by fellow members of the Board of Directors, I have responsibility for the integration of governance systems. I have delegated executive lead to the Chief Nurse and Medical Director for the implementation of integrated governance and risk management.

The Board of Directors recognises that risk management is an integral part of good management practice and to be most effective should be part of the Trust's culture. The Board is, therefore, committed to ensuring that risk management forms a central part of its philosophy, practices and business plans rather than being viewed or practised as a separate programme; responsibility for its implementation is accepted at all levels of the organisation.

The Board acknowledges that the provision of appropriate training is central to the achievement of this aim. Staff are appropriately trained and supported in incident reporting, carrying out risk assessments, mitigating risk and maintaining risk registers. Board Directors and Directorate and departmental managers ensure that all staff (including those promoted or acting up, contractors, locum, agency and bank staff) undergo corporate, and specific local, induction training appropriate to their area of work; this includes but is not confined to risk management, incident reporting and hazard recognition training. An ongoing training programme has been developed based on a training needs analysis of staff. The programme includes formal training for:

- Staff dealing with specific everyday risks, e.g. basic risk management information including an overview of patient safety, incident reporting and investigation, complaints investigation and development of measures to improve patient experience, fire safety, information governance, health and safety, moving and handling, infection control, and security; and
- Specific staff involved in the maintenance of risk registers at Directorate and department level, investigation and root cause analysis, the investigation of serious incidents (SIs) and risk assessment for health and safety.

The Trust's Workforce and Organisational Development department monitors all mandatory and essential training and reports directly to the Board of Directors. Completion of training is included in staff performance monitoring, appraisals and revalidation. This process has been strengthened for some time (in advance of new national arrangements in the 2018 Pay Award) by linking pay progression to the completion of essential and mandatory training, and completion of subordinate staff appraisals for managers. An 'appraisal on a page' has been developed and implemented during 2018-19 to increase appraisal completion.

Employees, contractors and agency staff are required to report all incidents and concerns and this is closely monitored. The Trust supports an "open" culture, meaning that we are transparent with service users, carers and staff when things go wrong. A significant emphasis is placed upon ensuring that we comply with the requirements of the statutory Duty of Candour that came into force on 27 November 2014. This follows the introduction of a number of new standards with which NHS Boards need to comply, including not only Duty of Candour, but also the Fit and Proper Person's test and improving openness and transparency throughout the Trust. The Board receives regular updates to ensure compliance in these areas.

Guidance on reporting incidents on Datix, grading of incidents, risk assessment, risk registers, undertaking root cause analysis and statement writing, is available for staff on the Trust intranet. The Datix system has been upgraded during 2018-19 to better support the incident reporting process.

The Trust also supports a "learning" culture, and we share and embed learning from incidents following an objective investigation or review. We recognise the importance of human factors in promoting safety and in the origin of incidents and there has been an increasing emphasis on this during the year. In addition, the Trust seeks to identify and share good practice within the organisation. This happens at Board and Directorate level through various mechanisms including feedback from patient safety visits, the independent Patient Voice Group, Director inspections and monthly "Making a Difference" awards for staff. National guidelines and standards that relate to good practice are shared and there are processes in place to ensure action plans to implement recommendations are developed and monitored to completion.

The Trust's Freedom to Speak Up Guardian reports to the Board on a biannual basis. This provides the Board with an opportunity to reflect on themes and learning identified by the Guardian. In addition we have appointed a number of Fairness Champions to support the Guardian and the process to appoint a second Guardian is underway.

Actions to address the shortcomings in quality impact assessments, which were identified in the audit in 2017-18, have been completed. The new process would assist the Trust in meeting obligations under the public sector equality duty introduced in April 2011 and is in accordance with the National Quality Board guidance produced in 2012 on assessing cost improvement plans.

The risk and control framework

The key objectives regarding risk and control are to achieve:

- Compliance with external regulatory and other standards for quality, governance and risk including Care Quality Commission fundamental standards and regulations;
- A culture of effective risk management at all levels of the organisation;
- Delivery of the Trust's strategic aims and objectives; and
- A robust framework to ensure all controls and mitigation of risks are in place and operating, and can provide assurance to the Board of Directors on all areas of governance, including:
 - Corporate governance
 - Quality governance
 - Clinical governance
 - Financial governance
 - Risk management
 - Information governance including data security
 - Research governance
 - Clinical effectiveness and audit
 - Performance governance

The Trust has a system of integrated governance described in the Risk Management Policy.

Risk identification and assessment is the process that enables the Trust to understand the range of existing risks, their likelihood of occurrence and their potential impact(s) and the ability of the Trust to mitigate those risks. Risk assessment is a continuous process with risks assessed at ward, team and departmental level in line with risk assessment guidance. This is carried out proactively as part of health and safety processes, as well as reactively when risks are identified from, for example, incidents, complaints, local reviews and patient feedback.

Risks are scored based on the likelihood of the risk materialising (score 1-5) multiplied by the impact or consequence of that risk (score 1-5). The risk scoring matrix evaluates the level of risk as low (1-5), medium (6-10) or high (12-25), and therefore the priority for action, and must be used for all risk scoring within the Trust in order to ensure a consistent and standardised approach. This allows the organisation to gain an appreciation of the magnitude of each risk, set targets for improvement based on its risk appetite, and track progress against an agreed, timed action plan. The Board of Directors decides what level of risk is reported to them. The threshold for 2018-19 was a risk score of 12.

Risks are recorded in the health and safety control books and in risk registers. A risk register is a specific tool for recording and managing risk in a standard format to allow comparison and aggregation. Taking each risk in turn, the risk register records the controls (the things we do to mitigate that risk) already in place, the original risk score and the current risk score based on those controls. Gaps in controls can then be identified and actions agreed to close these gaps. Targets based on an acceptable level of risk can be agreed, and progress towards achieving the target risk score can be tracked. Assurances (the evidence that controls are effective) are also recorded.

The identification and management of risk as communicated in risk registers aids decision-making and resource prioritisation. It produces proper information by which the Trust can reassure the public, patients and stakeholders that it is effective and efficient and delivering the objectives of the organisation.

Risk assessment and management is addressed using risk registers at four levels across the Trust:

a. Departmental

Risk assessments are carried out routinely as part of the health and safety process as well as from incidents, complaints, local reviews, patient feedback and information contained in relevant quality, safety, workforce and financial dashboards. The departmental risk registers will reflect these risk assessments, including all residual medium and high risks from the health and safety control books.

It is the responsibility of Directorate leads for governance to review and where appropriate, challenge scores applied to risks on departmental registers at least quarterly. All risks that are scored 9 or above on departmental risk registers are escalated to Directorate risk registers.

b. Directorate

The Directorate risk registers and corporate functions risk registers are key management tools which are scrutinised monthly within management meetings to ensure effective oversight of risk management. Clinical Directors, Operational Directors, Corporate Directors and Deputy Directors are responsible for the risk registers.

The Directorate risk register will reflect departmental risk registers where relevant by including risks that are scored 9 or above or form a trend across more than one departmental register. At this level risk assessment is performed alongside objective setting and business planning.

All risks that are scored 12 or more will be discussed at the Corporate Risk Review Group, together with any other risks that the risk register owner is concerned about.

c. Corporate

The Corporate Risk Register is a live document, reviewed and updated as circumstances change, new risks arise and established risks are mitigated or removed. Risks are escalated up to the Corporate Risk Register, or back down to clinical directorate or corporate functions risk registers, based on the agreed threshold of 12 for designating corporate risk.

The Corporate Risk Register therefore identifies key organisational risks. The Corporate Risk Register is itself reviewed at the monthly Corporate Risk Review Group meeting, with a focus on progress of actions to achieve the target risk score for existing risks. Risks from clinical Directorate and corporate functions risk registers are discussed and will be included on the Corporate Risk Register if the agreed risk score is 12 or more.

The Senior Management Team, chaired by the Chief Executive Officer, reviews the updated Corporate Risk Register and a report from the Corporate Risk Review Group every month. The Audit Committee also receives an update from the Corporate Risk Review Group at its meetings and the Board of Directors receives an update bimonthly, and a more detailed report, together with the complete Corporate Risk Register, on a quarterly basis.

d. Board Assurance Framework

The Board Assurance Framework (BAF) is an essential tool which brings together the key strategic objectives, the requirements of licensing and regulatory bodies and provides detail and assurance on the systems of control which underpin delivery of the strategic objectives. It offers visible assurance on the Board's overall governance responsibilities.

The BAF brings together all of the essential elements for achieving the Trust's goals and ambitions, and of maintaining regulatory compliance and compliance with the Foundation Trust Licence. It systematically evaluates the risks to achieving these. It asks:

- What are the things we have agreed as strategic priorities?
- What are the essential prerequisites to confidently maintaining regulatory compliance?
- What are the essential prerequisites for compliance with the terms of our Foundation Trust Licence?
- What are the risks to these prerequisites?

Taking each risk in turn, the BAF records the controls and the assurances already in place. Gaps in controls and assurances can then be identified and actions agreed to close the gaps. By focusing on gaps in controls and assurances, the Board can be confident that all necessary steps are being taken to assure delivery of the Trust's overall objectives and obligations as above, and that resources can be allocated in the right place. The BAF is a live document which is reviewed by Executive Directors on a monthly basis. The Audit Committee also receives regular updates on the BAF and the Board of Directors receives an update bimonthly and a more detailed report, together with the complete BAF, on a quarterly basis.

The risks on the Corporate Risk Register for 2018/19 and going forward relate to the:

- Risk to the quality of service delivery in Medicine due to unfilled and vacant rota gaps;
- Risk to the quality of service delivery and patient care due to failure to fill registered nurse vacancies due to the national labour market shortage;
- Risk of financial deficit and impact on the quality of service delivery due to failure to deliver the Trust annual plan by having excess expenditure or a shortfall in income;
- Risk to provision of service and not achieving national standards in cardiology;
- Risk of inadequate antenatal care and patients being lost to follow up due to inconsistent process for monitoring attendance at routine antenatal appointments in community;
- Risk to the quality of service delivery due to failure to have sufficient cash to support the capital programme;
- Financial risk associated with the failure to meet the 4 hour standard in the Emergency Department;
- Financial risk from major sporting events due to cost of contingency arrangements and loss of income;
- Risk to quality of care by not meeting NICE guidance in relation to the completion of autism assessment within 3 months of referral and
- Risk to Service Delivery as Microsoft ends support for Windows 7 in December 2020 resulting in no further patch or security updates from Microsoft.

During 2018-19 the strategic risks identified on the BAF included risk of:

- Lack of medical, nursing and clinical staff;
- High levels of frailty in local population;
- Failure to learn from feedback and incidents;
- Standards of care and the organisation's reputation for quality fall because quality does not have a sufficient priority in the Trust;
- Integrated models of care are compromised due to the complexity of the landscape;
- Misalignment of Commissioner/partner strategic plans;
- Service sustainability;
- Failure to deliver the Operational Plan;
- Breaching the terms of the Trust's Licence to operate from NHS Improvement;
- External funding constraints;
- Lack of fit for purpose critical infrastructure and
- Senior leadership capacity is insufficient to meet the needs of the complex environment.

In 2018-19 the Board of Directors ensured that detailed controls were in place to mitigate risks and support assurance and will ensure that detailed controls will continue to be in place to support assurance and mitigate risks. All risks, mitigation and progress against actions are monitored formally at Directorate, Corporate and Board level.

The quality of performance information is the responsibility of the Senior Information Risk Owner (SIRO) who chairs the Data and Information Governance Steering Group and advises the Board of Directors on the effectiveness of information risk management across the organisation. In addition, the quality of performance information is tested by both Internal and External Audit within their planned programmes of work.

The Trust has put in place due processes to ensure information governance and data security in accordance with national recommendations led by the Senior Information Risk Owner at Board level. The Information Governance Toolkit return is formally approved by the Board of Directors prior to submission. During 2018-19 the Trust implemented the new General Data Protection Regulations.

The Trust has an Integrated Board Report (IBR) which triangulates key information metrics covering quality, workforce, finance and efficiency and operational performance, presenting trends over time to enable identification of improvements and deteriorations. At the end of 2018-19 the report included 55 RAG (red, amber, green) rated indicators of which nine related to the Safe domain, three to the Effective domain, three to the Caring domain, 18 to the Responsive domain, five to Workforce, 13 to finance and efficiency and four to Activity (operational performance). In addition there is a quality dashboard which has additional quality indicators at Trust level and at ward level.

The IBR is available to each Board meeting and meetings of the Council of Governors, and this and the quality dashboard are reviewed by the Quality Committee; it is also available to each of the groups responsible for leading work to ensure compliance with CQC standards.

In addition there are regular Director inspections and patient safety visits which provide assurance on quality and compliance with CQC standards. The Audit Committee reviews the evidence for compliance with CQC registration requirements annually.

Principal risks to compliance with the NHS Provider Licence Section 6 – NHS Foundation Trust Condition 4 (FT governance) relate to:

- Effectiveness of governance structures;
- Responsibilities of directors and subcommittees;
- Reporting lines and accountabilities between the board, subcommittees and executive team;
- Submission of timely and accurate information to assess risks to compliance with Trusts licence;
- Degree and rigour of oversight the Board has over Trust performance.

There are no significant risks that have been identified to compliance with the NHS Foundation Trust Licence Condition 4 (FT governance). The Trust ensures compliance with the requirements of the Provider Licence in its entirety via annual and in-year submission as required by NHS Improvement's Single Oversight Framework. These submissions include detailed information on financial performance, plans and forecasts, and third party information, in order to assess the risk to continuity of services and governance.

This Annual Governance Statement also provides an outline of the structures and mechanisms that the Trust has in place to maintain a sound system of governance and internal control to meet the requirement of the Licence Condition 4, Section 6. It takes assurance from these structures as well as feedback from Internal and External Audit and other internal and external stakeholders regarding the robustness of these governance structures. These same mechanisms are used by the Board to ensure the validity of the annual Corporate Governance Statement.

In order to mitigate the risks to compliance with Monitor's Licence Condition 4, the Trust has in place a well-defined governance framework with clear accountability and reporting to ensure integrated governance, to deliver the Trust's objectives and to provide assurance to the Board of Directors.

In 2015 staff from across the organisation participated in a rapid process improvement review of quality governance structures and processes. The outcome was a well-defined framework of committees and groups with clear accountability and reporting to ensure integrated governance, to deliver the Trust's objectives and to provide assurance to the Board of Directors. Quality of patient care is at the heart of this framework.

Executive Directors, Non-Executive Directors, Governors and other stakeholders are key participators in many of the Trust's committees.

The Trust was inspected by the Care Quality Commission (CQC), as part of its routine programme of inspections, in November 2018. The rating of the Trust remained as 'Good'. It was rated it as good because:

- Effective, Responsive and Well-Led were rated as 'Good', Safe as 'Requires Improvement' and Caring as 'Outstanding';
- The current ratings of the six core services across one acute location and three community services not inspected at this time remained unchanged. Hence, five acute services across the Trust are rated overall as 'Good' and three are rated as 'Outstanding'; three community services are rated as 'Good' and two are rated as 'Outstanding';
- The overall rating for the Trust's acute location remained the same. Harrogate District Hospital was rated as 'Good';
- Community services improved and were rated as 'Outstanding'.
- The Use of Resources was rated as 'Good'.

During 2018-19 the Board of Directors completed a self-assessment against NHS Improvement's Well-Led framework for governance reviews. The self-assessment drew upon a previous self-assessment, undertaken in 2017-18. In addition the CQC undertook a Well-Led assessment of the Trust during its inspection in late 2018.

Neither the self-assessment nor the CQC review highlighted any material areas of concern in relation to the Board and the governance arrangements in place at the Trust. The areas identified for further progress and improvement were:

- There was a lack of diversity at senior level, specifically BME; both the Executive and Non-Executive Board members acknowledged this and had strategies in place to help address it;
- Senior leaders were aware that they needed to undertake more work in relation to the Workforce Race Equality Standard and an action plan, with appropriate monitoring at Board level, was in place and
- Although there was a comprehensive complaints policy, the average time taken to close complaints was not in line with this policy.

Work has been set in train to address these recommendations.

The Board of Directors is responsible for exercising all of the powers of the Trust; however, it has the option to delegate these powers to senior management and other Committees. The Board:

- sets the strategic direction for the Trust;
- allocates resources;
- monitors performance against organisational objectives;
- ensures that clinical services are safe, of a high quality, patient-focused and effective;
- ensures high standards of clinical and corporate governance; and
- in conjunction with the Council of Governors, engages members and stakeholders to ensure effective dialogue with the communities it serves.

The Board is also responsible for ensuring that the Trust exercises its functions effectively, efficiently and economically and that compliance with the Trust's Licence; and Constitution are maintained.

During 2018-19 there have been five formally constituted Committees of the Board; the Audit Committee, the Quality Committee, the Nomination Committee, the Remuneration Committee and the Finance Committee. The latter was reviewed, and the membership increased, in September 2018 and it as renamed the Resources Committee.

The Audit Committee

Four Non-Executive Directors comprise the Audit Committee, and one of these is the Chair. The Deputy Chief Executive/Finance Director, Deputy Director of Governance and Company Secretary have a standing invitation to meetings and the Chief Executive attends one meeting per year, when considering the Annual Report and Accounts and Annual Governance Statement. Other Executive Directors attend meetings when the Committee is discussing areas of risk or operations that are the responsibility of those individual Directors.

The key responsibilities of the Audit Committee are to review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical), that supports the achievement of the organisation's objectives. The Committee ensures that there is an effective Internal Audit function that meets mandatory NHS Internal Audit Standards. Internal Audit's primary role is to provide an opinion and assurances on the adequacy and effectiveness of the systems of internal control and provide appropriate independent assurance to the Audit Committee, Chief Executive and Board. The Committee also reviews the work and findings of the External Auditors appointed by the Council of Governors and considers the implications and management's responses to their work. The Audit Committee receives reports from Internal and External Audit, the Quality Committee and the Corporate Risk Review Group which enable it to provide independent assurance on governance and controls to the Board. This also enables triangulation of key issues to enhance the Board and Committee's oversight and assurance role. The annual audit plans for Internal Audit are approved by the Audit Committee and are prioritised to focus on areas of risk and concern. Governor representatives attend the Audit Committee as observers.

The Quality Committee

The Quality Committee is the principal mechanism by which the Board gains assurance regarding the safety and quality of services. It is chaired by a Non-Executive Director, and two other Non-Executive Directors (one of whom who is also a member of the Audit Committee) are members. There is senior representation from the clinical Directorates and corporate functions including the Chief Nurse, Director of Workforce and Organisational Development, Chief Operating Officer, Clinical Directors, Deputy Medical Director, Deputy Director of Governance and Head of Risk Management. On behalf of the Board, it seeks assurance on the systems and processes in place to deliver high quality care and provides scrutiny of the outcomes of these systems and processes in relation to quality. It also provides direction regarding the delivery of the Trust's quality improvement priorities and strategic objectives in respect of quality, and provides oversight and seeks assurance on regulatory compliance. The annual clinical audit plans are approved and monitored by the Quality Committee. Governor representatives attend the Quality Committee as observers.

The Resources Committee

During 2018-19 the key responsibilities of the Resources Committee were to ensure appropriate oversight of strategic financial planning by scrutinising the development of the Trust's financial and commercial strategy, the assumptions and methodology used in developing the strategy, recommending to the Board the five-year financial plan and annual operational financial plan, and ensuring appropriate due diligence is undertaken in relation to any significant transactions. The Committee also provides assurance to the Board on in-year financial performance, including budget-setting and progress against cost improvement plans.

The composition of the Resources Committee was reviewed during 2018-19 as part of a review of financial governance undertaken by NHS Improvement. As a result of this review, and following discussion with NHS Improvement, the Committee membership now comprises three Non-Executive Directors, one of whom is the Chair. The Chief Executive, Deputy Chief Executive/Finance Director, Chief Operating Officer, and Director of Workforce and Organisational Development attend each meeting, and other Trust representatives, such as deputy Directors also attend. Other Trust staff may be requested to attend to discuss particular items. Governor representatives attend the Resources Committee as observers. The remit of the Committee has been strengthened to incorporate workforce plan delivery as well as financial and activity plan delivery, and meets monthly.

The Remuneration Committee

The key responsibilities of the Remuneration Committee are to make recommendations to the Board of Directors on the remuneration, allowances and terms of service for the Executive Directors and to ensure that they are fairly rewarded for their individual contribution to the organisation, having proper regard to the organisation's circumstances and performance, as well as the national position of the NHS as a whole. The Committee is comprised of the Trust's Chairman and all other Non-Executive Directors. The Chief Executive and Director of Workforce and Organisational Development attend for part of the meeting, by invitation and in an advisory capacity only.

The Nomination Committee

The key responsibilities of the Nomination Committee are to review and approve Job Descriptions and Person Specifications for each Executive Director, including consideration of the knowledge, skills and experience required for each post, taking into account the needs of the Board as a whole. The Committee approves the process and arrangements for the recruitment, selection and appointment of the Executive Directors. The Committee is comprised of the Chairman and all other Non-Executive Directors for the purposes of the appointment of the Chief Executive. For the purposes of the appointment of other Executive Directors, it is comprised of the Chairman, all the Non-Executive Directors and the Chief Executive.

The Senior Management Team

The Senior Management Team meeting is the principal forum for ensuring and assuring the delivery of the Trust's business, including annual operating and financial plans. It exists to ensure that the Trust's strategic and operational objectives are met.

The group maintains oversight of operational performance and management of risk in a systematic and planned way. The group is the most senior executive decision making forum and receives reports and recommendations from sub-groups and via the Chief Executive, reports to the Board of Directors.

The Senior Management Team is supported by the Clinical Directorates and a number of subgroups, with a collective responsibility to drive and co-ordinate the Trust's objectives. The key subgroups are the Learning from Patient Experience Steering Group, Improving Patient Safety Steering Group, Improving Fundamental Care Steering Group, Supporting Vulnerable People Steering Group, Providing a Safe Environment Steering Group, Workforce and Organisational Development Steering Group, Operational Delivery Group and Corporate Risk Review Group. There is appropriate representation on these Groups from the Clinical Directorates and corporate functions, and they are chaired by Executive Directors, with the exception of the Corporate Risk Review Group which is chaired by the Deputy Director of Governance.

The Clinical Directorates and the subgroups of the Senior Management Team ensure delivery of the Trust's objectives through a broad framework of groups that manage and deliver work including, for example the Information Technology Steering Group, the End of Life Care Steering Group and the Infection Prevention and Control Committee. Information Governance is managed by the Data and Information Governance Steering Group. The Complaints and Risk Management Group (CORM), comprised of senior staff, meets weekly to monitor and ensure active risk management is in place. Concerns identified from incidents, claims, complaints and risk assessments are investigated to ensure that lessons are learnt.

Each Directorate Board oversees quality and governance within the Directorate, ensures appropriate representation on groups within the governance framework and reports to the Senior Management Team. The directorates work within an accountability framework which ensures that the systems of control are in place and adhered to. The Executive Director Team regularly review the work of the Directorates against the accountability framework.

There is a weekly meeting of the Executive Directors where operational matters are discussed in detail and actions agreed.

Quality of Care Teams exist at ward, team and department level to champion, monitor and promote quality care and report to the Directorate quality and governance groups. Public governors have been encouraged to form alliances with some of the teams.

There are regular meetings with Commissioners at the Contract Management Board and other meetings, and with NHS Improvement, NHS England and Public Health Commissioners to review performance and quality.

The Trust conducted a self-assessment against the conditions set out in the NHS Provider Licence and was deemed to be fully compliant. In addition it has also carried out self-assessments against the updated NHS Foundation Trust Code of Governance, as part of the Annual Reporting Framework. This process has ensured that there is clarity relating to robust governance structures, responsibilities, reporting lines and accountabilities and the provision of timely and accurate performance information to the Board.

The Trust engages with patients, service users and stakeholders and has an effective structure for public stakeholder involvement, predominantly through the Council of Governors and its sub-committees. Consultations with commissioners on the wider aspects of risk are undertaken through the monthly contract management meetings.

The Trust is fully compliant with the registration requirements of the Care Quality Commission.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Control measures are in place to ensure compliance with all the Trust's obligations under equality, diversity and human rights legislation, including modern slavery.

The Trust has well-developed workforce strategies which are reviewed by the Board of Directors on a regular and frequent basis. The Human Resources Strategy and the Clinical Workforce Strategy are the key ways in which the Trust reviews and plans to address short, medium and long-term workforce issues and ensure that safe staffing systems are both in place and planned. This not only provides assurance to the Board of Directors that current staffing levels are safe and effective but also that they are sustainable into the future.

The Foundation Trust publishes an up-to-date register of interests for decision-making staff on a bimonthly basis as required by the 'Managing Conflicts of Interest in the NHS' guidance.

The Foundation Trust has undertaken risk assessments and has a sustainable development management plan in place which takes account of UK Climate Projections 2018 (UKCP18). The Trust ensures that its obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

Review of economy, efficiency and effectiveness of the use of resources

The Trust produces an annual Operating Plan that is underpinned by detailed plans produced by the Directorates. The Operating Plan details how the Trust will utilise its resources throughout the year, identifies the principal risks to the delivery of the Operating Plan and the mitigation and is supported by detailed financial forecasting. Each Directorate is required to deliver Cost Improvement Plans to ensure economy, efficiency and effectiveness of the use of resources. The cost improvement plans are scrutinised and approved by the Medical Director and Chief Nurse via the process of Quality Impact Assessments to ensure the quality of services is maintained.

The capital programme and the prioritisation of revenue resources to form the annual Operating Plan are informed by the Trust Objectives, Quality Improvement priorities and identified risks.

During 2018-19 the Trust continued to implement a carbon efficiency scheme to deliver reductions in carbon emissions and to deliver significant energy efficiency. These are proving to be successful year-on-year.

The annual Operating Plan is produced in consultation with the Council of Governors and approved by the Board of Directors.

Directorates work within the terms of an accountability framework and meet regularly with Executive Directors to ensure compliance. There is a monthly report to the Board relating to performance and finance against plans and targets. The BAF serves as a monitoring document to ensure that appropriate action is being taken against the principal risks of failing to deliver the business plan.

There is monthly reporting to NHS Improvement relating to performance and finance against plans and targets, and reference costs are submitted annually. The Trust reviews information and feedback from regulators and external agencies e.g. Care Quality Commission, National Staff Survey, National Patient Surveys, to benchmark performance against other organisations and to improve economy, efficiency and effectiveness.

In 2018-19, the Trust had its first Use of Resources assessment undertaken by NHS Improvement on behalf of the CQC. The outcome was a rating of 'Good'.

During this year the Trust implemented a new Oracle ledger version (the 'Cloud'). This went live on 1 October 2018. This transfer reduced the availability of historic financial information prior to 1 October. To mitigate this risk a number of compensating controls were in place, including internal audit review of the ledger, internal audit review of the balance transfers on 1 October, and the budgetary control system whereby monthly variances were scrutinised to ensure appropriate financial management and action through the year.

Information governance

There were no serious incidents relating to information governance including data loss or confidentiality breach during 2018-19.

Annual Quality Report

The following steps have been put in place to assure the Board of Directors that the Quality Report presents a balanced view and that there are appropriate controls in place to ensure the accuracy of data. The Quality Committee (QC) has continued its work to gain assurance in relation to the CQC quality domains ensuring compliance with fundamental standards of care in acute and community services.

The work-plan focuses on the following seven key headings:

1. To identify current concerns
2. Quality improvement strategy
3. Quality reports
4. Patient safety
5. Effective care and outcomes
6. Patient experience
7. Regulatory and compliance

Identify Current Concerns – the following three measures are in place:

1. 'Hot Spots' - The QC can hear from members about current issues that are impacting upon the ability of the Trust to deliver quality care and to gain assurances that suitable actions / activity is underway to address these. Examples of this are:
 - a) Impact on quality care as a result of the financial recovery plan, added as a standing item under this section during the year;
 - b) Impact of the recruitment situation on quality of care;
 - c) Impact of equipment failure on quality of care.

This section also includes items that the Board of Directors require the QC to scrutinise on its behalf. An example of this being the decision of the Trust not to implement the ReSPECT documentation and ensure that alternative process gives the best quality of care to patients at the end of life.

2. A new section was introduced after the workshop relating to the Quality Improvement Strategy. This reviews the current progress and celebrates the success of some of the projects undertaken by the Trust Quality Champions. The Committee has received three presentations from champions. These have demonstrated real improvement in patient focused care and shown how small improvements can make a big difference to patient experience and staff satisfaction.
3. The QC reviews the Quality Dashboard and Integrated Board Reports (quality section) in depth each month and pursues areas of concern and seeks further assurance where necessary. QC initiated a review of this report, the data it contains, who uses the data and how this could be improved to add value at Ward and Directorate level. As a result of this a new Dashboard was introduced during Quarter 1 of 2018-19. The dashboard provides a good insight into quality issues and concern but there are still improvements to make to its content. Providing consistent data between reports and the dashboard has been highlighted as a concern and is being reviewed by the responsible teams. Where there are concerns individuals are requested to attend the committee to provide valuable insight and explanation.

Quality Reports – Throughout the year the QC has heard regular updates from the leads on their progress to deliver the Trusts 2018-19 quality priorities which were:

- a) Reduce morbidity and mortality related to sepsis
- b) Ensuring effective learning from incidents, complaints and good practice
- c) Improving the clinical models of care for acute services
- d) Promoting safer births, with a specific focus on reducing still births.

Directorate Quality Governance reports These are presented to the committee on a rolling monthly basis and provide assurance that the quality priorities are embedded from the Board to the front line across the Trust

Annual Quality Account Report – The QC retains oversight of this annual account.

Patient Experience Report – The Patient Experience Report is received quarterly – this comprehensive report provides details of a wide range of areas relating to patient experience. The committee has approved the Patient Experience Strategy and is awaiting the monitoring and action plan for its implementation. Dealing with complaints in a timely manner remains a focus of the committee.

Patient Safety Report - The QC receives a quarterly report on untoward events and issues of patient safety. The report looks for concerns or trends that may require further scrutiny. Serious Untoward incidents are reported directly to the Board of Directors. The review of the Datix system has been a focus of the year. The objective to improve incident reporting and make the system more user friendly and intuitive. The amendments have now been completed and the impact is still to be demonstrated.

Effective Care and Outcomes – Quarterly reports are received on the Clinical Effectiveness Audit programme and the committee receives and approves the annual audit plan for the FY.

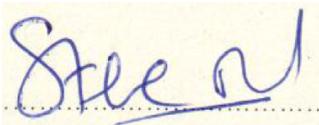
External Reports Received – The system for recording receipt of external reports and a log for the lead individual responsible to action these remains robust. Where we consider that a plan requires support or focus we invite the lead to provide an update on progress on action plans to provide the level of assurance required.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, clinical audit and the Executive Directors, Clinical Directors and Clinical Leads within Harrogate and District NHS Foundation Trust who have responsibility for the development and maintenance of the internal control framework. I have drawn on the content of the Quality Report attached to this Annual Report and other performance information available to me. My review is also informed by the Head of Internal Audit Opinion and comments made by the external auditors in their reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and the Quality Committee and a plan to address shortcomings and ensure continuous improvement of the system is in place.

Conclusion

No significant internal control issues have been identified. In summary I am assured that the NHS Foundation Trust has a robust system of internal control in place, which is designed to manage the key organisational objectives and minimise the NHS Foundation Trust's exposure to risk. The Board of Directors is committed to continuous improvement and enhancement of the system of internal control.

Signed:  Mr Steve Russell - Chief Executive

Date: 24 May 2019.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 March 2019**

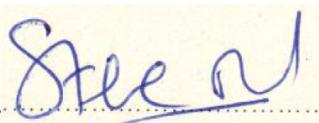
	Note	Group 2018/19 Total £000	Group 2017/18 Total £000
Operating income from continuing operations	3	249,993	216,761
Operating expenses of continuing operations	4	(239,513)	(213,093)
OPERATING SURPLUS		10,480	3,668
FINANCE COSTS			
Finance income	6.1	114	81
Finance expense - financial liabilities	7	(272)	(253)
Finance expense - unwinding of discount on provisions	16.2	(5)	(6)
Public Dividend Capital - dividends payable		(2,586)	(2,721)
NET FINANCE COSTS		(2,749)	(2,899)
Losses on disposal of assets		(5)	(7)
Movement in fair value of investments	10	63	5
Corporation tax expense		(44)	-
SURPLUS FOR THE YEAR		7,745	767
Other comprehensive income			
Revaluations	9.1 & 9.3	(9,549)	(4,701)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,804)	(3,934)

The notes on pages 30 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 March 2019

		Group	
		31 March 2019	31 March 2018
	Note	£000	£000
Non-current assets			
Intangible assets	8	280	277
Property, plant and equipment	9	93,382	101,511
Other Investments	10	1,665	1,905
Trade and other receivables	13.1	1,448	2,273
Total non-current assets		<u>96,775</u>	<u>105,966</u>
Current assets			
Inventories	12.1	2,486	2,456
Trade and other receivables	13.1	31,916	21,635
Cash and cash equivalents	14	2,912	5,441
Total current assets		<u>37,314</u>	<u>29,532</u>
Current liabilities			
Trade and other payables	15	(17,983)	(18,005)
Borrowings	18	(2,188)	(2,011)
Provisions	16.1	(113)	(118)
Other liabilities	17	(1,845)	(1,832)
Total current liabilities		<u>(22,129)</u>	<u>(21,966)</u>
Total assets less current liabilities		<u>111,960</u>	<u>113,532</u>
Non-current liabilities			
Borrowings	18	(17,226)	(18,379)
Provisions	16.1	(132)	(184)
Total non-current liabilities		<u>(17,358)</u>	<u>(18,563)</u>
Total assets employed		<u>94,602</u>	<u>94,969</u>
Financed by taxpayers' equity:			
Public Dividend Capital		81,700	80,263
Revaluation reserve		2,551	12,100
Income and expenditure reserve		8,426	697
HDFT charitable fund reserves	25	1,925	1,909
Total taxpayers' equity (see page 23)		<u>94,602</u>	<u>94,969</u>

The notes on pages 30 to 63 form part of these financial statements.

Signed:  Mr Steve Russell - Chief Executive

Date: 24 May 2019.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED
31 March 2019

	HDFT charitable fund reserve	Public Dividend Capital	Revaluation Reserve	Income and Expenditure Reserve	Group Total
	£000	£000	£000	£000	£000
Balance as at 1 April 2018	1,909	80,263	12,100	697	94,969
Surplus for the financial year (Page 22)	251	-	-	7,494	7,745
Revaluations (Note 9.1)	-	-	(9,549)	-	(9,549)
Public Dividend Capital received	-	1,437	-	-	1,437
Other reserve movements - charitable funds consolidation adjustment	(235)	-	-	235	-
Balance at 31 March 2019	<u>1,925</u>	<u>81,700</u>	<u>2,551</u>	<u>8,426</u>	<u>94,602</u>

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED
31 March 2018

	HDFT charitable fund reserve	Public Dividend Capital	Revaluation Reserve	Income and Expenditure Reserve	Group Total
	£000	£000	£000	£000	£000
Balance as at 1 April 2017	2,093	79,668	16,801	(254)	98,308
Surplus for the financial year (Page 22)	244	-	-	523	767
Revaluations (Note 9.3)	-	-	(4,701)	-	(4,701)
Public Dividend Capital received	-	595	-	-	595
Other reserve movements - charitable funds consolidation adjustment	(428)	-	-	428	-
Balance at 31 March 2018	<u>1,909</u>	<u>80,263</u>	<u>12,100</u>	<u>697</u>	<u>94,969</u>

The notes on pages 30 to 63 form part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2019**

	Note	Group	
		2018/19 £000	2017/18 £000
Cash flows from operating activities			
Operating surplus from continuing operations		<u>10,480</u>	<u>3,668</u>
		10,480	3,668
Non-cash income and expense			
Depreciation and amortisation	4.1	4,834	2,569
Impairments and reversals	9.1	285	208
Increase in trade and other receivables		(9,311)	(4,486)
Decrease in inventories	12.1	(30)	(29)
Increase/(Decrease) in trade and other payables		2,232	(106)
Increase/(Decrease) in other liabilities	17	13	(310)
Decrease in provisions		(62)	(73)
HDFT Charitable Funds - net adjustments for working capital		55	107
NET CASH GENERATED FROM OPERATIONS		<u>8,496</u>	<u>1,548</u>
Cash flows from investing activities			
Interest received		53	21
Purchase of Intangible assets	8	(105)	(7)
Purchase of Property, Plant and Equipment		(8,741)	(6,811)
HDFT Charitable funds - net cash flows from investing activities		362	65
Net cash used in investing activities		<u>(8,431)</u>	<u>(6,732)</u>
Cash flows from financing activities			
Public dividend capital received		1,437	595
Movement in loans from the DHSC	18	(1,039)	8,615
Interest paid		(276)	(250)
PDC dividend paid		(2,716)	(3,023)
Net cash generated/(used) in financing activities		<u>(2,594)</u>	<u>5,937</u>
Net increase/(decrease) in cash and cash equivalents	14	<u>(2,529)</u>	<u>753</u>
Cash and cash equivalents at 1 April 2018	14	5,441	4,688
Cash and cash equivalents at 31 March 2019	14	<u><u>2,912</u></u>	<u><u>5,441</u></u>

The notes on pages 30 to 63 form part of these financial statements.

**FOUNDATION TRUST STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 March 2019**

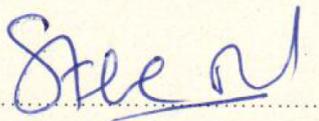
	Note	Foundation Trust 2018/19 Total £000	Foundation Trust 2017/18 Total £000
Operating income from continuing operations	3	249,794	216,595
Operating expenses of continuing operations	4	(239,386)	(212,802)
OPERATING SURPLUS		10,408	3,793
FINANCE COSTS			
Finance income	6.2	296	22
Finance expense - financial liabilities	7	(272)	(253)
Finance expense - unwinding of discount on provisions	16.2	(5)	(6)
Public Dividend Capital - dividends payable		(2,586)	(2,721)
NET FINANCE COSTS		(2,567)	(2,958)
Losses on disposal of assets		-	(7)
SURPLUS FOR THE YEAR		7,841	828
Other comprehensive income			
Revaluations	9.2 & 9.4	(9,549)	(4,701)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,708)	(3,873)

The notes on pages 30 to 63 form part of these financial statements.

FOUNDATION TRUST STATEMENT OF FINANCIAL POSITION
as at 31 March 2019

		Foundation Trust	
		31 March	31 March
		2019	2018
		£000	£000
	Note		
Non-current assets			
Intangible assets	8	280	277
Property, plant and equipment	9	91,804	100,519
Investment in Subsidiary	11	1,000	1,000
Loan to Subsidiary	11	600	800
Trade and other receivables	13.1	1,448	2,273
Total non-current assets		<u>95,132</u>	<u>104,869</u>
Current assets			
Inventories	12.1	2,361	2,353
Loan to Subsidiary	11	200	200
Trade and other receivables	13.1	32,433	21,589
Cash and cash equivalents	14	1,460	4,995
Total current assets		<u>36,454</u>	<u>29,137</u>
Current liabilities			
Trade and other payables	15	(17,416)	(18,545)
Borrowings	18	(2,188)	(2,011)
Provisions	16.1	(113)	(118)
Other liabilities	17	(1,845)	(1,832)
Total current liabilities		<u>(21,562)</u>	<u>(22,506)</u>
Total assets less current liabilities		<u>110,024</u>	<u>111,500</u>
Non-current liabilities			
Borrowings	18	(17,226)	(18,379)
Provisions	16.1	(132)	(184)
Total non-current liabilities		<u>(17,358)</u>	<u>(18,563)</u>
Total assets employed		<u>92,666</u>	<u>92,937</u>
Financed by taxpayers' equity:			
Public Dividend Capital		81,700	80,263
Revaluation reserve		2,551	12,100
Income and expenditure reserve		8,415	574
Total taxpayers' equity (see page 27)		<u>92,666</u>	<u>92,937</u>

The notes on pages 30 to 63 form part of these financial statements.

Signed:  Mr Steve Russell - Chief Executive

Date: 24 May 2019.

**FOUNDATION TRUST STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED
31 March 2019**

	Public Dividend Capital	Revaluation Reserve	Income and Expenditure Reserve	Foundation Trust Total
	£000	£000	£000	£000
Balance as at 1 April 2018	80,263	12,100	574	92,937
Surplus for the financial year (see page 26)	-	-	7,841	7,841
Revaluations (Note 9.2)	-	(9,549)	-	(9,549)
Public Dividend Capital received	1,437	-	-	1,437
Balance at 31 March 2019	<u>81,700</u>	<u>2,551</u>	<u>8,415</u>	<u>92,666</u>

**FOUNDATION TRUST STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED
31 March 2018**

	Public Dividend Capital	Revaluation Reserve	Income and Expenditure Reserve	Foundation Trust Total
	£000	£000	£000	£000
Balance as at 1 April 2017	79,668	16,801	(254)	96,215
Surplus for the financial year (see page 26)	-	-	828	828
Revaluations (Note 9.4)	-	(4,701)	-	(4,701)
Public Dividend Capital received	595	-	-	595
Balance at 31 March 2018	<u>80,263</u>	<u>12,100</u>	<u>574</u>	<u>92,937</u>

The notes on pages 30 to 63 form part of these financial statements.

**FOUNDATION TRUST STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2019**

	Note	Foundation Trust	
		2018/19 £000	2017/18 £000
Cash flows from operating activities			
Operating surplus from continuing operations		<u>10,408</u>	<u>3,793</u>
		10,408	3,793
Non-cash income and expense			
Depreciation and amortisation	4.2	4,689	2,569
Impairments and reversals	9.2	236	208
Increase in trade and other receivables		(9,683)	(4,462)
(Increase)/Decrease in inventories	12.1	(8)	74
Increase in trade and other payables		1,486	511
Increase/(Decrease) in other liabilities	17	13	(310)
Decrease in provisions		(62)	(73)
NET CASH GENERATED FROM OPERATIONS		<u>7,079</u>	<u>2,310</u>
Cash flows from investing activities			
Interest received		90	21
Purchase of Intangible assets	8	(105)	(7)
Purchase of Property, Plant and Equipment		(8,204)	(6,815)
Acquisition of subsidiary		-	(1,000)
Proceeds from asset sales to subsidiary		-	994
Net cash used in investing activities		<u>(8,219)</u>	<u>(6,807)</u>
Cash flows from financing activities			
Public dividend capital received		1,437	595
Movement in loans from the DHSC		(1,039)	8,615
Movement in loans to subsidiary		200	(1,000)
Interest paid		(277)	(250)
PDC dividend paid		(2,716)	(3,023)
Net cash generated/(used) in financing activities		<u>(2,395)</u>	<u>4,937</u>
Net increase/(decrease) in cash and cash equivalents	14	<u>(3,535)</u>	<u>440</u>
Cash and cash equivalents at 1 April 2018	14	4,995	4,555
Cash and cash equivalents at 31 March 2019	14	<u>1,460</u>	<u>4,995</u>

The notes on pages 30 to 63 form part of these financial statements.

1 GROUP ACCOUNTING POLICIES AND OTHER INFORMATION

NHS Improvement (NHSI), in exercising the statutory functions conferred on Monitor, has directed that the financial statements of NHS foundation trusts 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 DHSC GAM 2018/19, issued by the Department of Health and Social Care. The accounting policies contained in the GAM follow International Financial Reporting Standards (IFRS) 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 DHSC GAM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the NHS foundation 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 the accounts.

1.1 Going concern

The NHS foundation trust's annual report and accounts have been prepared on a going concern basis. Non-trading entities in the public sector are assumed to be going concerns where the continued provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property and investments.

1.3 Consolidation

The NHS foundation trust is the corporate trustee to the Harrogate and District NHS Foundation Trust Charitable Fund (registered charity number 1050008). The NHS foundation trust has assessed its relationship with the charitable fund and determined it to be a subsidiary because the NHS foundation trust is exposed to, or has rights to, variable returns and other benefits for itself, patients and staff from its involvement with the charitable fund and has the ability to affect those returns and other benefits through its power over the fund.

The charitable funds statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK Financial Reporting Standard (FRS) 102. On consolidation, necessary adjustments are made to the charity's assets, liabilities and transactions to:

- recognise and measure them in accordance with the NHS foundation trust's accounting policies; and
- eliminate intra-group transactions, balances, gains and losses.

The NHS foundation trust launched Harrogate Healthcare Facilities Management Ltd (HHFM) a wholly owned subsidiary with effect from the 1 March 2018 (registered company number 11048040). The income, expenses, assets, liabilities, equity and reserves of HHFM are consolidated in full into the appropriate financial statement lines. The amounts consolidated for the year ended 31 March 2018 were drawn from the management accounts of HHFM. The amounts consolidated for the year ended 31 March 2019 are drawn from the financial statements of HHFM (covering 13 months) adjusted for the previously consolidated amounts (March 2018). Future accounting year ends will be aligned to the parent organisation.

1.4 Operating segments

Income and expenditure are analysed in the Operating Segments note (2.1) and are reported in line with management information used within the NHS foundation trust.

1.5 Revenue

The transition to IFRS 15 has been completed in accordance with paragraph C3 (b) of the Standard, applying the Standard retrospectively recognising the cumulative effects at the date of initial application.

1.5 Revenue (continued)

In the adoption of IFRS 15 a number of practical expedients offered in the Standard have been employed. These are as follows;

- As per paragraph 121 of the Standard the NHS foundation trust will not disclose information regarding performance obligations part of a contract that has an original expected duration of one year or less.
- The NHS foundation trust is to similarly not disclose information where revenue is recognised in line with the practical expedient offered in paragraph B16 of the Standard where the right to consideration corresponds directly with value of the performance completed to date.
- HM Treasury's Financial Reporting Manual (FRoM) has mandated the exercise of the practical expedient offered in C7(a) of the Standard that requires the NHS foundation trust to reflect the aggregate effect of all contracts modified before the date of initial application.

The main source of revenue for the NHS foundation trust is contracts with commissioners in respect of healthcare services. Revenue in respect of services provided is recognised when (or as) performance obligations are satisfied by transferring promised services to the customer, and is measured at the amount of the transaction price allocated to that performance obligation. At the year end, the NHS foundation trust accrues income relating to performance obligations satisfied in that year. Where a patient care spell is incomplete at the year end, revenue relating to the partially complete spell is accrued in the same manner as other revenue.

Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred. The method adopted to assess progress towards the complete satisfaction of a performance obligation is determined by reviewing key milestones/deliverables determined at inception.

The NHS foundation 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, for instance by an insurer. The NHS foundation trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit, has completed the NHS2 form and confirmed there are no discrepancies with the treatment. 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 in line with IFRS 9 requirements or measuring expected credit losses over the lifetime of the asset.

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

1.6 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. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

Pension costs - NHS Pension Scheme

Past and present employees are covered by the provisions of the NHS Pension Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. It is not possible for the NHS foundation trust (consistent with all participating members of the scheme) to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme.

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 NHS foundation trust commits itself to the retirement, regardless of the method of payment.

1.6 Expenditure on employee benefits (continued)

Pension costs - National Employment Savings Trust (NEST) Pension Scheme

The Pensions Act 2008 requirements created a duty for the NHS foundation trust to provide a pension scheme for employees who are ineligible to join the NHS Pension Scheme. The NHS foundation trust selected NEST as its partner to meet this duty. The scheme operated by NEST on the NHS foundation trust's behalf is a defined contribution scheme and employers contributions are charged to operating expenses as and when they become due.

Pension costs - HHFM defined contribution scheme (The People's Pension)

A defined contribution plan is a post employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

A number of the HHFM employees remain within the NHS Pension Scheme, however HHFM also operates a defined contribution pension scheme, The assets of the scheme are held separately from those of the Group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

1.7 Expenditure on other goods and services

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

1.8 Value Added Tax

Most of the activities of the NHS foundation 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.

1.9 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 NHS foundation trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and
- individually has a cost of at least £5,000; or
- collectively has a cost of at least £5,000 and individually has 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
- form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

Capitalised set up costs and grouped assets are reviewed annually and if fully depreciated are removed from the Fixed Asset Register and the Accounts. Where a large asset, for example a building, includes a number of components with significantly different asset lives e.g. plant and equipment, then these components are treated as separate assets and depreciated over their own useful economic lives.

1.9 Property, plant and equipment (continued)

Valuation

Land and buildings used for the NHS foundation 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 subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the statement of financial position date. Fair values are determined as follows:

Land and specialised buildings – depreciated replacement cost
Non specialised buildings – existing use value

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. All valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS). The NHS foundation trust had a full valuation of its land and buildings carried out as at 31 March 2017 based on an alternative site in-line with HM Treasury's approach. The NHS foundation trust's management having taken advice from professionally qualified valuers, determined that a desktop valuation should be carried out as at 31 March 2019 ensuring that land and buildings are held at fair value. The desktop valuation was also based on an alternative site inline with HM Treasury's approach, this revised valuation has been incorporated in the financial statements.

An item of property, plant and equipment which is surplus with no plan to bring back into use is valued at fair value under IFRS 13.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Costs include professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by International Accounting Standard (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 a proxy for fair value.

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".

In accordance with the DoH GAM, impairments that arise from a clear consumption of economic benefits or 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 (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment. Other impairments are treated as revaluation losses. Reversals of other impairments are treated as revaluation gains.

An impairment that arises from a clear consumption of economic benefit or 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.

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.

Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. 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.

1.9 Property, plant and equipment (continued)**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.

Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification. Assets in the course of construction are not depreciated until the asset is brought into use.

Plant and equipment assets are depreciated on a straight line basis over the following asset life ranges:

	Years
Plant and machinery	5-15
Transport equipment	10
Information technology	5-10
Furniture and fittings	5-10
Buildings and Dwellings (Assessed by a RICS qualified valuer when a valuation takes place)	1-90

Assets intended for disposal are reclassified as 'Held for Sale' once all of the following criteria are met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;
- the sale must be highly probable i.e.
 - management is committed to a plan to sell the asset;
 - an active programme has begun to find a buyer and complete the sale;
 - the asset is being actively marketed at a reasonable price;
 - the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'; and
 - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'Held for Sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

Donated, government grant and other grant funded assets

Donated and grant funded property, plant and equipment assets are capitalised at their fair value on receipt. The donation/grant is credited to income at the same time, unless the donor has imposed a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case, the donation/grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

1.10 Intangible assets

Intangible assets are capitalised when they have a cost of at least £5,000. Intangible assets acquired separately are initially recognised at fair value. The NHS foundation trust does not recognise any internally generated assets and associated expenditure is charged to the statement of comprehensive income in the period in which it is incurred. Expenditure on research activities is recognised as an expense in the period in which it is incurred.

1.10 Intangible assets (continued)

Following initial recognition, intangible assets are carried at amortised historic cost as this is not considered to be materially different from fair value. An intangible asset which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13. The NHS foundation trust's intangible fixed assets are wholly software licences which are purchased and are deemed to have a finite life determined by the licence agreement. The NHS foundation trust does not hold a revaluation reserve for intangible assets.

1.11 Leases

Finance Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS foundation trust, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease.

The asset and liability are recognised at the commencement of the lease. Thereafter the asset is accounted for as an item of property, plant and equipment.

The annual rental is split between the repayment of the liability and a finance cost so as to achieve a constant rate of finance over the life of the lease. The annual finance cost is charged to Finance Costs in the Statement of Comprehensive Income. The lease liability is de-recognised when the liability is discharged, cancelled or expires.

Operating Leases

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight line basis over the term of the lease.

Leases of land and buildings

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.

1.12 Inventories

Pharmacy inventories are valued at weighted average historical cost. Other inventories are valued at the lower of cost and net realisable value using the first in, first out method.

1.13 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.

1.14 Provisions

The NHS foundation trust provides for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted at a discount rate of 2.9% in real terms.

1.15 Clinical negligence costs

NHS Resolution operates a risk pooling scheme under which the NHS foundation trust pays an annual contribution to NHS Resolution which in return settles all clinical negligence claims. The contribution is charged to operating expenses. Although NHS Resolution is administratively responsible for all clinical negligence cases the legal liability remains with the NHS foundation trust. The total value of clinical negligence provisions carried by NHS Resolution on behalf of the NHS foundation trust is disclosed in note 16.

1.16 Non-clinical risk pooling

The NHS foundation trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the NHS foundation 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 as and when they become due.

1.17 Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in the financial statements, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

1.18 Foreign currencies

Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange profits and losses are taken to the Statement of Comprehensive Income. At the Statement of Financial Position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing.

1.19 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the NHS foundation trust has no beneficial interest in them. Details of third party assets are given in note 21 to the accounts.

1.20 Public Dividend Capital (PDC) and PDC dividend

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

A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as PDC dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets, cash held with the Government Banking Service (GBS), excluding cash balances held in GBS accounts that relate to a short term working capital facility and any PDC dividend balance receivable or payable. 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 net assets as set out in the "pre-audit" version of the annual accounts. The dividend so calculated is not revised should any adjustment to net assets occur as a result of the audit of the annual accounts.

1.21 Corporation Tax

The NHS foundation trust is a Health Service Body within the meaning of s519A ICTA 1988 and accordingly is exempt from taxation in respect of income and capital gains within categories covered by this but the trust is potentially within the scope of corporation tax in respect of activities where income is received from a non public sector source.

The NHS foundation trust has determined that it has no corporation tax liability, as all activities are either ancillary to healthcare or below the de minimus level of profit at which tax is payable. However Harrogate Healthcare Facilities Management Ltd is a wholly owned subsidiary of NHS foundation trust and is subject to corporation tax on its profits.

1.22 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 each individual case is handled.

Losses and special payments are charged to the relevant functional headings in the Statement of Comprehensive Income on an accruals basis, including losses which would have been made good through insurance cover had NHS foundation trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, the note on losses and special payments is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.23 Financial instruments and financial liabilities

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 NHS foundation trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made.

Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described in note 1.8 above.

Purchase or sales are recognised and derecognised, as applicable, using the trade date.

All other financial assets and financial liabilities are recognised when the NHS foundation trust becomes party to the contractual provisions of the instrument.

De-recognition

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

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

Classification and measurement

Financial assets are categorised as loans and receivables.

Financial liabilities are classified as other financial liabilities.

Loans and receivables

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

The NHS foundation trust's loans and receivables comprise: cash and cash equivalents, NHS receivables and other receivables.

Loans and receivables are recognised initially at fair value, net of transaction 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.

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income. Loans from the Department of Health are not held for trading and are measured at historic cost with any unpaid interest accrued separately.

1.23 Financial instruments and financial liabilities (continued)

Other financial liabilities

All 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.

Determination of fair value

For financial assets and financial liabilities carried at fair value, the carrying amounts are determined from discounted cash flow analysis.

Impairment of financial assets

At the Statement of Financial Position date, the NHS foundation trust assesses whether any financial assets, other than those held at 'fair value through income and expenditure' 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. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the assets 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 a bad debt provision. Bad debt provisions are used when there is some uncertainty that the debt will be paid. Bad debts are written off directly only when there is certainty that the debt will not be paid.

1.24 Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires the trust to make estimates and assumptions that affect the application of policies and reported amounts. Estimates and judgements are continually evaluated and are based on historical experience and other factors that are considered to be relevant.

Revisions to accounting estimates are recognised in the period that 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.

Although the NHS foundation trust makes estimates within these financial statements such as incomplete patient spells, accrued income, annual leave accrual and provisions e.g. early retirements, the amounts involved would not cause a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

In relation to incomplete patient spells the NHS foundation trust makes an assessment of activity for work in progress at 31 March, based on bed occupancy at midnight. The methodology used is to assess the value of income due, to be accounted for in the period between admission and month end, based on an average daily price at speciality/point of delivery, this is calculated and used as the basis of the accrual.

In relation to estimations for uncoded NHS income at the financial yearend, the NHS foundation trust runs a forecast for income relating to March based on the average income received by specialty and point of delivery, all uncoded activity is then priced using an average. This methodology is used throughout the year and has proven to be robust with only very minor variances showing once the activity is coded and then costed.

1.24 Critical accounting estimates and judgements (continued)

In addition, a revaluation of the NHS foundation trust's land and buildings was undertaken at a prospective date of 31 March 2019, the valuation excludes the cost of VAT. Since the NHS foundation trust created a subsidiary company "Harrogate Healthcare Facilities Management Ltd". The subsidiary company became responsible for the provision of a Managed Healthcare Facility to the NHS foundation trust, a consequence of this was that VAT became recoverable under an MEA alternative site valuation (see 1.9). The NHS foundation trust relies on the professional services of the Valuation Office for the accuracy of such valuations.

1.25 Non current investments

Investments are stated at market value as at the statement of financial position date. The statement of comprehensive income includes the net gains and losses arising on revaluation and disposals throughout the year.

1.26 Accounting standards and amendments that have been issued but have not yet been adopted

The DHSC GAM does not require the following IFRS Standards and Interpretations to be applied in 2018-19. These Standards are still subject to HM Treasury FReM adoption, with IFRS 16 being for implementation in 2019-20, and the government implementation date for IFRS 17 still subject to HM Treasury consideration.

Change published

IFRS 16 Leases	Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted.
IFRS 17 Insurance Contracts	Application required for accounting periods beginning on or after 1 January 2021, but not yet adopted by the FReM: early adoption is not therefore permitted.
IFRIC 23 Uncertainty over Income Tax Treatments	Application required for accounting periods beginning on or after 1 January 2019.

It is not practical to assess the impact on the NHS foundation trust of the above Accounting Standards and Amendments until HM Treasury adopts them within the FReM.

2 Operating segments**2.1 Group operating segments**

The NHS foundation trust's management has reviewed IFRS 8 (Operating Segments) and has determined that the consolidated financial statements consist of two segments "Healthcare" and "Charity".

	Group		Group	
	Healthcare 2018/19 £000	Charity 2018/19 £000	Healthcare 2017/18 £000	Charity 2017/18 £000
Operating Surplus/(Deficit)	<u>10,586</u>	<u>(106)</u>	<u>3,916</u>	<u>(248)</u>
Net Finance (Costs)/Income	<u>(2,808)</u>	<u>59</u>	<u>(2,958)</u>	<u>(59)</u>
Movement in fair value of investments/Loss on disposal of assets/Corporation tax expenses	<u>(49)</u>	<u>63</u>	<u>(7)</u>	<u>5</u>
SURPLUS/(DEFICIT) FOR THE YEAR	<u>7,729</u>	<u>16</u>	<u>951</u>	<u>(302)</u>
Non-current assets	<u>95,110</u>	<u>1,665</u>	<u>104,061</u>	<u>1,905</u>
Current assets	<u>36,986</u>	<u>328</u>	<u>29,491</u>	<u>41</u>
Current liabilities	<u>(22,061)</u>	<u>(68)</u>	<u>(21,929)</u>	<u>(37)</u>
Non-current liabilities	<u>(17,358)</u>	<u>-</u>	<u>(18,563)</u>	<u>-</u>
TOTAL ASSETS EMPLOYED	<u>92,677</u>	<u>1,925</u>	<u>93,060</u>	<u>1,909</u>
Financed by taxpayers' equity:				
Public Dividend Capital	81,700	-	80,263	-
Revaluation reserve	2,551	-	12,100	-
Income and expenditure reserve	8,426	-	697	-
HDFT Charitable fund reserves	-	1,925	-	1,909
TOTAL TAXPAYERS' EQUITY	<u>92,677</u>	<u>1,925</u>	<u>93,060</u>	<u>1,909</u>

3.1 Analysis of operating income (continued)

	Foundation Trust	
	2018/19	2017/18
	£000	£000
Total income from activities	221,906	199,637
Foundation Trust other operating income:		
Research and development	1,165	1,172
Education and training	8,120	6,026
Education and training - notional income from apprenticeship fund	147	32
Received from NHS charities: Receipt of grants/donations for capital acquisitions	100	276
Non-patient care services to other bodies	3,204	2,439
Provider sustainability fund/Sustainability and transformation fund income	7,853	3,528
Rental revenue from operating leases (see note 3.5)	1,272	261
Staff recharges (secondments)	756	501
Other	5,271	2,723
Foundation Trust total other operating income	27,888	16,958
Foundation Trust total operating income	249,794	216,595

3.2 Overseas visitors (relating to patients charged directly by the foundation trust)

Income recognised in year relating to overseas visitors was £190k (2018 £68k), payments received in year (relating to invoices raised in current and previous years) was £40k (2018 £0k) and amounts written off in year (relating to invoices raised in current and previous years) was £1k (2018 £0k).

3.3 Analysis of income from activities by Commissioner Requested Services (CRS) and Non-Commissioner Requested Services (Non-CRS).

	Foundation Trust & Group	
	2018/19	2017/18
	£000	£000
Commissioner Requested Services	136,244	112,817
Non-Commissioner Requested Services	85,662	86,820
Total	221,906	199,637

3.4 Operating lease income and future annual lease receipts

	Group	
	2018/19 £000	2017/18 £000
Operating lease income	148	168
	<u>148</u>	<u>168</u>
Future minimum lease receipts due on buildings expiring		
- not later than one year;	160	160
- later than one year and not later than five years;	487	555
- later than five years.	87	500
	<u>734</u>	<u>1,215</u>

3.5 Operating lease income and future annual lease receipts

	Foundation Trust	
	2018/19 £000	2017/18 £000
Operating lease income	1,272	261
	<u>1,272</u>	<u>261</u>
Future minimum lease receipts due on buildings expiring		
- not later than one year;	1,279	1,279
- later than one year and not later than five years;	4,962	4,476
- later than five years.	21,253	22,285
	<u>27,494</u>	<u>28,040</u>

4. Operating Expenses from continuing operations**4.1 Group operating expenses comprise:**

	Group	
	2018/19	2017/18
	£000	£000
Purchase of healthcare from NHS and DHSC bodies	2,592	1,892
Purchase of healthcare from non-NHS and non-DHSC bodies	509	61
Staff and executive directors costs	173,172	156,320
Non-executive directors	165	150
Drug costs (see note 12.2)	16,112	14,316
Supplies and services - clinical	16,544	16,174
Supplies and services - general	2,992	2,784
Establishment	1,999	1,805
Research and development	1	79
Transport (including Patients' travel)	632	825
Premises - business rates payable to local authorities	278	(921)
Premises - other	6,963	8,891
Increase in provision for irrecoverable debts	75	197
Rentals under operating leases	4,606	734
Depreciation on property, plant and equipment (see note 9.1)	4,732	2,437
Amortisation on intangible assets (see note 8)	102	132
Impairments of property, plant and equipment	285	208
Audit services- statutory audit	73	48
NHS Resolution contribution - Clinical Negligence	5,232	4,196
Legal fees	88	197
Consultancy costs	473	437
Internal audit costs	150	166
Education and training	777	735
Education and training - notional expenditure funded from apprenticeship fund	147	32
Redundancy	4	-
Early retirements	14	-
Hospitality	1	1
Insurance	380	278
Losses, ex gratia and special payments (see note 20)	31	24
Other	(18)	431
HDFT Charitable funds: Other resources expended	402	464
Group total operating expenses	<u>239,513</u>	<u>213,093</u>

4. Operating Expenses from continuing operations (Continued)**4.2 Foundation Trust operating expenses comprise:**

	Foundation Trust	
	2018/19	2017/18
	£000	£000
Purchase of healthcare from NHS and DHSC bodies	2,692	1,892
Purchase of healthcare from non-NHS and non-DHSC bodies	153	61
Staff and executive directors costs	165,267	155,726
Non-executive directors	155	150
Drug costs (see note 12.2)	16,112	14,316
Supplies and services - clinical	15,010	16,085
Supplies and services - general	16,295	3,909
Establishment	1,916	1,799
Research and development	-	22
Transport (including Patients' travel)	606	822
Premises - business rates payable to local authorities*	278	(921)
Premises - other	4,210	8,651
Increase in provision for irrecoverable debts	75	197
Rentals under operating leases	4,558	734
Depreciation on property, plant and equipment (see note 9.2)	4,587	2,437
Amortisation on intangible assets (see note 8)	102	132
Impairments of property, plant and equipment	236	208
Audit services- statutory audit	61	48
NHS Resolution contribution - Clinical Negligence	5,232	4,196
Legal fees	88	196
Consultancy costs	399	435
Internal audit costs	147	164
Education and training	735	792
Education and training - notional expenditure funded from apprenticeship fund	147	32
Redundancy	4	-
Early retirements	14	-
Hospitality	1	1
Insurance	310	271
Losses, ex gratia and special payments (see note 20)	31	24
Other	(35)	423
Foundation Trust total operating expenses	<u>239,386</u>	<u>212,802</u>

4.3 Operating lease expenditure and future annual lease payments

	Group	
	2018/19 £000	2017/18 £000
Minimum lease payments	4,606	734
	4,606	734
Future minimum lease payments due expiring;		
Within 1 year	1,429	1,817
Between 1 and 5 years	1,015	344
Later than five years	614	-
	3,058	2,161

4.4 Operating lease expenditure and future annual lease payments

	Foundation Trust	
	2018/19 £000	2017/18 £000
Minimum lease payments	4,558	734
	4,558	734
Future minimum lease payments due expiring;		
Within 1 year	1,429	1,817
Between 1 and 5 years	1,015	344
Later than five years	614	-
	3,058	2,161

4.5 Limitation on external auditor's liability

	Foundation Trust & Group	
	2018/19 £000	2017/18 £000
Limitation on external auditor's liability	1,000	1,000
	1,000	1,000

5. Employee costs and numbers**5.1 Employee costs**

	Group			2017/18 £000	Group	
	2018/19 £000	Group Permanently Employed £000	Other £000		Group Permanently Employed £000	Other £000
Salaries and wages	139,294	136,656	2,638	125,446	122,936	2,510
Social Security costs	12,384	12,384	-	11,305	11,305	-
Apprenticeship levy	655	655	-	595	595	-
Employer contributions to NHS Pensions						
Agency	16,469	16,469	-	14,826	14,826	-
Pension cost - other	20	20	-	-	-	-
Termination benefits	18	18	-	-	-	-
Agency/contract staff	4,784	-	4,784	4,529	-	4,529
Total employee expenses	173,624	166,202	7,422	156,701	149,662	7,039
Less costs capitalised as part of assets	(434)	(434)	-	(381)	(381)	-
Total employee costs excluding capitalised costs	173,190	165,768	7,422	156,320	149,281	7,039

5. Employee costs and numbers (continued)**5.2 Employee costs**

	Foundation Trust			Foundation Trust		
	2018/19 £000	Permanently Employed £000	Other £000	2017/18 £000	Permanently Employed £000	Other £000
Salaries and wages	133,515	130,877	2,638	124,970	122,460	2,510
Social Security costs	11,934	11,934	-	11,270	11,270	-
Apprenticeship levy	627	627	-	592	592	-
Employer contributions to NHS Pensions Agency	15,510	15,510	-	14,774	14,774	-
Termination benefits	18	18	-	-	-	-
Agency/contract staff	4,115	-	4,115	4,501	-	4,501
Total employee expenses	165,719	158,966	6,753	156,107	149,096	7,011
Less costs capitalised as part of assets	(434)	(434)	-	(381)	(381)	-
Total employee costs excluding capitalised costs	165,285	158,532	6,753	155,726	148,715	7,011

5.3 Average number of employees (WTE basis)

	Group			Group		
	2018/19 Number	Permanently Employed Number	Other Number	2017/18 Number	Permanently Employed Number	Other Number
Medical and dental	363	333	30	331	320	11
Ambulance staff	1	1	-	2	2	-
Administration and estates	684	674	10	633	632	1
Healthcare assistants and other support staff	396	372	24	416	368	48
Nursing, midwifery and health visiting staff	1,768	1,734	34	1,532	1,517	15
Nursing, midwifery and health visiting learners	35	35	-	21	21	-
Scientific, therapeutic and technical staff	452	452	-	455	454	1
Healthcare science staff	104	97	7	94	94	-
Other	7	4	3	5	5	-
Total	3,810	3,702	108	3,489	3,413	76
Less capitalised employees	(13)	(13)	-	(11)	(11)	-
Total excluding capitalised WTE	3,797	3,689	108	3,478	3,402	76

5.4 Average number of employees (WTE basis)

	Foundation Trust			Foundation Trust		
	2018/19 Number	Permanently Employed Number	Other Number	2017/18 Number	Permanently Employed Number	Other Number
Medical and dental	363	333	30	331	320	11
Ambulance staff	1	1	-	2	2	-
Administration and estates	632	622	10	590	589	1
Healthcare assistants and other support staff	176	176	-	211	164	47
Nursing, midwifery and health visiting staff	1,767	1,733	34	1,531	1,516	15
Nursing, midwifery and health visiting learners	35	35	-	21	21	-
Scientific, therapeutic and technical staff	452	452	-	455	454	1
Healthcare science staff	104	97	7	94	94	-
Other	4	4	-	5	5	-
Total	3,534	3,453	81	3,240	3,165	75
Less capitalised employees	(13)	(13)	-	(11)	(11)	-
Total excluding capitalised WTE	3,521	3,440	81	3,229	3,154	75

WTE = Whole time equivalents

5.5 Pensions costs

Past and present employees are covered by the provisions of the two NHS Pensions 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 for Health 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 Financial Reporting Manual (FRM) 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 (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 2019, is based on valuation data as 31 March 2018, updated to 31 March 2019 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FRM 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 latest actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from April 2019. The Department of Health and Social Care have recently laid Scheme Regulations confirming that the employer contribution rate will increase to 20.6% of pensionable pay from this date.

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation. Following a judgement from the Court of Appeal in December 2018 Government announced a pause to that part of the valuation process pending conclusion of the continuing legal process.

5.6 Retirements due to ill-health

During the year ended 31 March 2019 there were 5 (2018: 2) early retirements from the NHS foundation trust agreed on the grounds of ill-health. The estimated additional pension liability of the ill-health retirement is £277,000 (2018: £137,000). The cost of ill-health retirements are borne by the NHS Business Services Authority Pensions Division.

5.7 Staff exit costs

NHS Improvement requires NHS foundation trusts to disclose summary information regarding redundancy and other departures in staff costs agreed in the financial year.

Exit cost band	Foundation Trust & Group		Foundation Trust & Group	
	2018/19 Number of compulsory redundancies	2018/19 Number of other departures agreed	2017/18 Number of compulsory redundancies	2017/18 Number of other departures agreed
<£10,000	1	-	-	-
£10,001 - £25,000	-	2	-	-
£25,001 - £50,000	-	-	-	-
£50,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
>£200,000	-	-	-	-
Total number of exits by type	-	-	-	-
Total resource cost	£4,000	£31,000	£0	£0

5.8 Analysis of termination benefits

	Foundation Trust & Group		Foundation Trust & Group	
	2018/19 Number	2018/19 £000	2017/18 Number	2017/18 £000
No of Cases	3	-	-	-
Cost of Cases	-	35	-	-
	<u>3</u>	<u>35</u>	<u>-</u>	<u>-</u>

6. Finance revenue

6.1 Group finance revenue received during the year is as follows:

Finance revenue received during the year is as follows:

	Group	
	2018/19	2017/18
	£000	£000
Interest income:		
Interest on bank accounts	55	22
HDFT Charitable funds: investment income	59	59
	<u>114</u>	<u>81</u>

6.2 Foundation Trust finance revenue received during the year is as follows:

Finance revenue received during the year is as follows:

	Foundation Trust	
	2018/19	2017/18
	£000	£000
Interest income:		
Interest on bank accounts	54	22
Interest on working capital loan to HHFM	38	-
Dividend from HHFM	204	-
	<u>296</u>	<u>22</u>

7. Finance expenses

Finance expenses incurred during the year are as follows:

	Foundation Trust & Group	
	2018/19	2017/18
	£000	£000
Interest expense:		
Capital Loans from the Department of Health (formerly ITFF see note 18)	272	253
	<u>272</u>	<u>253</u>

8. Current year intangible fixed assets

	Foundation Trust & Group	
	Software Licences £000	Total £000
Gross cost at 1 April 2018	767	767
Additions - purchased	105	105
Disposals	(19)	(19)
Gross cost at 31 March 2019	853	853
Amortisation at 1 April 2018	490	490
Provided during the year	102	102
Disposals	(19)	(19)
Amortisation at 31 March 2019	573	573
Net book value		
- Purchased at 31 March 2019	280	280
- Total at 31 March 2019	280	280

8.1 Prior year intangible fixed assets

	Foundation Trust & Group	
	Software Licences £000	Total £000
Gross cost at 1 April 2017	760	760
Additions - purchased	7	7
Disposals	-	-
Gross cost at 31 March 2018	767	767
Amortisation at 1 April 2017	358	358
Provided during the year	132	132
Disposals	-	-
Amortisation at 31 March 2018	490	490
Net book value		
- Purchased at 31 March 2018	277	277
- Total at 31 March 2018	277	277

9. Property, plant and equipment**9.1 Current year property, plant and equipment comprises of the following elements:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings	Group Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2018	3,200	78,406	1,670	5,981	19,908	141	9,085	798	119,189
Additions - purchased	-	2,720	-	671	1,530	24	1,377	120	6,442
Impairments charged to operating expenses	-	(290)	-	-	-	-	-	-	(290)
Reclassifications	-	4,197	-	(5,898)	210	-	1,471	20	-
Transfer to revaluation reserve	-	(11,168)	(195)	-	-	-	-	-	(11,363)
Disposals	-	-	-	-	(702)	(6)	(711)	(249)	(1,663)
Cost or valuation At 31 March 2019	3,200	73,865	1,475	754	20,946	159	11,222	689	112,310
Depreciation at 1 April 2018	-	-	-	-	11,223	82	5,866	507	17,678
Provided during the year (see note 4.1)	-	1,734	85	-	1,734	10	1,102	67	4,732
Impairments charged to operating expenses	-	(5)	-	-	-	-	-	-	(5)
Transfer to revaluation reserve	-	(1,729)	(85)	-	-	-	-	-	(1,814)
Disposals	-	-	-	-	(702)	(1)	(711)	(249)	(1,663)
Depreciation at 31 March 2019	-	-	-	-	12,255	91	6,257	325	18,928
Net book value									
- Purchased at 31 March 2019	3,200	69,327	1,475	754	7,850	68	4,932	342	87,948
- Donated at 31 March 2019	-	4,538	-	-	841	-	33	22	5,434
Net book value at 31 March 2019	3,200	73,865	1,475	754	8,691	68	4,965	364	93,382

At 31 March 2018, of the Net Book Value £3,200,000 related to land valued at open market value and £78,406,000 related to buildings valued at open market value and £1,670,000 related to dwellings valued at open market value. The land and buildings (including dwellings) of the trust were revalued by the Valuation Office Agency which is a government agency of Her Majesty's Revenue and Customs (RICS qualified) as at 31 March 2019. This desktop valuation, in line with the NHS foundation trust's accounting policies and using the best practice Modern Equivalent Asset valuation methodology, resulted in a decrease in value of £9,834,000.00.

9. Property, plant and equipment**9.2 Current year property, plant and equipment comprises of the following elements:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings	Foundation Trust Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2018	3,200	78,406	1,670	5,982	18,270	-	9,084	797	117,409
Additions - purchased	-	2,257	-	472	1,433	-	1,377	118	5,657
Impairments charged to operating expenses	-	(236)	-	-	-	-	-	-	(236)
Reclassifications	-	4,197	-	(5,898)	210	-	1,471	20	-
Transfer to revaluation reserve	-	(11,168)	(195)	-	-	-	-	-	(11,363)
Disposals	-	-	-	-	(702)	-	(711)	(249)	(1,662)
Cost or valuation At 31 March 2019	3,200	73,456	1,475	556	19,211	-	11,221	686	109,805
Depreciation at 1 April 2018	-	-	-	-	10,518	-	5,865	507	16,890
Provided during the year (see note 4.2)	-	1,729	85	-	1,604	-	1,102	67	4,587
Transfer to revaluation reserve	-	(1,729)	(85)	-	-	-	-	-	(1,814)
Disposals	-	-	-	-	(702)	-	(711)	(249)	(1,662)
Depreciation at 31 March 2019	-	-	-	-	11,420	-	6,256	325	18,001
Net book value									
- Purchased at 31 March 2019	3,200	68,918	1,475	556	6,950	-	4,932	339	86,370
- Donated at 31 March 2019	-	4,538	-	-	841	-	33	22	5,434
Net book value at 31 March 2019	3,200	73,456	1,475	556	7,791	-	4,965	361	91,804

At 31 March 2018, of the Net Book Value £3,200,000 related to land valued at open market value and £78,406,000 related to buildings valued at open market value and £1,670,000 related to dwellings valued at open market value. The land and buildings (including dwellings) of the trust were revalued by the Valuation Office Agency which is a government agency of Her Majesty's Revenue and Customs (RICS qualified) as at 31 March 2019. This desktop valuation, in line with the NHS foundation trust's accounting policies and using the best practice Modern Equivalent Asset valuation methodology, resulted in a decrease in value of £9,785,000.00.

9. Property, plant and equipment (continued)**9.3 Prior year property, plant and equipment comprises of the following elements:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings	Group Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2017	3,200	82,674	1,783	813	18,043	135	8,613	806	116,067
Additions - purchased	-	61	-	5,430	2,276	6	632	19	8,424
Impairments charged to operating expenses	-	(208)	-	-	-	-	-	-	(208)
Reclassifications	-	251	-	(262)	-	-	11	-	-
Transfer to revaluation reserve	-	(4,372)	(113)	-	-	-	-	-	(4,485)
Disposals	-	-	-	-	(411)	-	(171)	(27)	(609)
Cost or valuation At 31 March 2018	3,200	78,406	1,670	5,981	19,908	141	9,085	798	119,189
Depreciation at 1 April 2017	-	-	-	-	10,111	69	4,992	455	15,627
Provided during the year (see note 4.1)	-	(292)	76	-	1,517	13	1,044	79	2,437
Transfer to revaluation reserve	-	292	(76)	-	-	-	-	-	216
Disposals	-	-	-	-	(405)	-	(170)	(27)	(602)
Depreciation at 31 March 2018	-	-	-	-	11,223	82	5,866	507	17,678
Net book value									
- Purchased at 31 March 2018	3,200	74,135	1,670	5,981	7,670	59	3,191	279	96,185
- Donated at 31 March 2018	-	4,271	-	-	1,015	-	28	12	5,326
Net book value at 31 March 2018	3,200	78,406	1,670	5,981	8,685	59	3,219	291	101,511

At 31 March 2017, of the Net Book Value £3,200,000 related to land valued at open market value and £82,674,000 related to buildings valued at open market value and £1,783,000 related to dwellings valued at open market value. The land and buildings (including dwellings) of the trust were revalued by the Valuation Office Agency which is a government agency of Her Majesty's Revenue and Customs (RICS qualified) as at 31 March 2018. This desktop valuation, in line with the NHS foundation trust's accounting policies and using the best practice Modern Equivalent Asset valuation methodology, resulted in a decrease in value of £4,909,000.

9. Property, plant and equipment**9.4 Prior year property, plant and equipment comprises of the following elements:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings	Foundation Trust Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2017	3,200	82,674	1,783	813	18,043	135	8,613	806	116,067
Additions - purchased	-	61	-	5,430	2,276	-	633	25	8,425
Impairments charged to operating expenses	-	(208)	-	-	-	-	-	-	(208)
Reclassifications	-	251	-	(261)	-	-	10	-	-
Transfer to revaluation reserve	-	(4,372)	(113)	-	-	-	-	-	(4,485)
Disposals	-	-	-	-	(2,049)	(135)	(172)	(34)	(2,390)
Cost or valuation At 31 March 2018	3,200	78,406	1,670	5,982	18,270	-	9,084	797	117,409
Depreciation at 1 April 2017	-	-	-	-	10,111	69	4,992	455	15,627
Provided during the year (see note 4.2)	-	(292)	76	-	1,517	13	1,044	79	2,437
Transfer to revaluation reserve	-	292	(76)	-	-	-	-	-	216
Disposals	-	-	-	-	(1,110)	(82)	(171)	(27)	(1,390)
Depreciation at 31 March 2018	-	-	-	-	10,518	-	5,865	507	16,890
Net book value									
- Purchased at 31 March 2018	3,200	74,135	1,670	5,982	6,737	-	3,191	278	95,193
- Donated at 31 March 2018	-	4,271	-	-	1,015	-	28	12	5,326
Net book value at 31 March 2018	3,200	78,406	1,670	5,982	7,752	-	3,219	290	100,519

At 31 March 2017, of the Net Book Value £3,200,000 related to land valued at open market value and £82,674,000 related to buildings valued at open market value and £1,783,000 related to dwellings valued at open market value. The land and buildings (including dwellings) of the trust were revalued by the Valuation Office Agency which is a government agency of Her Majesty's Revenue and Customs (RICS qualified) as at 31 March 2018. This desktop valuation, in line with the NHS foundation trust's accounting policies and using the best practice Modern Equivalent Asset valuation methodology, resulted in a decrease in value of £4,909,000.

10. Investments

	Group	
	2018/19	2017/18
	£000	£000
Carrying value at 1 April 2018	1,905	1,906
Acquisitions in year - other	84	308
Movement in fair value of investments	63	5
Disposals	(387)	(314)
Carrying value at 31 March 2019	<u>1,665</u>	<u>1,905</u>

Investments held are wholly attributable to the Harrogate and District NHS Foundation Trust Charitable Fund (registered charity number 1050008), for further information please see the charity's Annual Report and Accounts.

11. Subsidiary Undertaking - Harrogate Healthcare Facilities Management Ltd.

	Foundation Trust	
	2018/19	2017/18
	£000	£000
Non-current assets		
Shares in Subsidiary	1,000	1,000
Loan to Subsidiary	600	800
	<u>1,600</u>	<u>1,800</u>
Current assets		
Loan to Subsidiary	200	200
	<u>1,800</u>	<u>2,000</u>

The shares in the subsidiary company Harrogate Healthcare Facilities Management Ltd comprises a 100% holding of the share capital.

The principal activity of Harrogate Healthcare Facilities Management Ltd is to provide estate management and facilities services.

12. Inventories**12.1 Analysis of inventories**

	Group		Foundation Trust	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
Drugs	660	950	660	950
Consumables	1,826	1,506	1,701	1,403
Total	<u>2,486</u>	<u>2,456</u>	<u>2,361</u>	<u>2,353</u>

12.2 Inventories recognised in expenses

	Foundation Trust & Group	
	2018/19	2017/18
	£000	£000
Drug Inventories recognised as an expense in the year	16,112	14,316
Total	<u>16,112</u>	<u>14,316</u>

13. Trade and other receivables**13.1 Trade and other receivables are made up of:**

	Group	
	2018/19	2017/18
Current	£000	£000
NHS Trade receivables	-	14,707
Contract receivables (IFRS 15): invoiced	13,617	-
Contract receivables (IFRS 15): not yet invoiced / non-invoiced	15,243	-
PDC Dividend receivable (Department of Health)	485	355
Provision for the impairment of contract receivables (see note 13.2)	(474)	(487)
Interest receivable	4	2
Prepayments	1,093	1,773
VAT receivables	1,334	491
Other receivables	614	4,794
Total	<u>31,916</u>	<u>21,635</u>
	Foundation Trust	
	2018/19	2017/18
	£000	£000
Current		
NHS Trade receivables	-	14,847
Contract receivables (IFRS 15): invoiced	13,564	-
Contract receivables (IFRS 15): not yet invoiced / non-invoiced	15,665	-
PDC Dividend receivable (Department of Health)	485	355
Provision for the impairment of contract receivables (see note 13.2)	(474)	(487)
Interest receivable	4	2
Prepayments	1,033	1,653
VAT receivables	1,585	695
Other receivables	571	4,524
Total	<u>32,433</u>	<u>21,589</u>
	Foundation Trust & Group	
	2018/19	2017/18
	£000	£000
Non-Current		
Other receivables	358	395
VAT receivables	1,168	1,968
Provision for the impairment of receivables (see note 13.2)	(78)	(90)
Total	<u>1,448</u>	<u>2,273</u>

The majority of the NHS foundation trust's trade is with Commissioners for NHS patient care services which are funded by the Government to buy NHS patient care services therefore no credit scoring for them is considered necessary.

13. Trade and other receivables (continued)

13.2 Allowances for credit losses (doubtful debts)	Foundation Trust & Group	
	2018/19	2017/18
	£000	£000
Allowance for credit losses at 1 April 2018 - brought forward (before IFRS 9 and IFRS 15 implementation)	577	619
New allowances arising	75	197
Utilisation of allowances (where receivable is written off)	(100)	(239)
Balance at 31 March 2019	552	577

NHS Injury Benefit Scheme income is subject to a provision for impairment of 21.89% (2018: 22.84%) to reflect expected rates

14. Cash and cash equivalents

	Group		Foundation Trust	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
Balance at 1 April 2018	5,441	4,688	4,995	4,555
Net change in year	(2,529)	753	(3,535)	440
Balance at 31 March 2019	2,912	5,441	1,460	4,995
Made up of:				
Cash with Government Banking Service	1,725	4,993	1,438	4,978
Cash at commercial banks and in hand	1,169	433	22	17
Other current investments	18	15	-	-
Cash and cash equivalents	2,912	5,441	1,460	4,995

15. Trade and other payables

	Group		Foundation Trust	
	2018/19	2017/18	2018/19	2017/18
Current	£000	£000	£000	£000
Receipts in advance	38	15	38	15
Trade payables	9,805	4,742	10,987	4,666
Other trade payables - capital	851	3,150	603	3,150
Social Security costs	1,872	1,668	1,801	1,603
Other tax payable	1,634	1,468	1,583	1,425
Other payables	2,112	5,413	1,931	6,296
Accrued interest on loans	-	68	-	68
Accruals	1,671	1,481	473	1,322
Total	17,983	18,005	17,416	18,545

16. Provisions**16.1 Provisions current and non current**

	Foundation Trust & Group Current		Foundation Trust & Group Non current	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
Pensions relating to the early retirement of staff pre 1995	40	38	70	105
Legal claims	53	60	-	-
Pensions - Injury benefits	20	20	62	79
	<u>113</u>	<u>118</u>	<u>132</u>	<u>184</u>

16.2 Provisions by category

	Pensions relating to the early retirement of staff pre 1995	Legal claims	Pensions - Injury benefits	Foundation Trust & Group Total
	£000	£000	£000	£000
At 1 April 2018	143	60	99	302
Arising during the year	12	63	1	76
Utilised during the year	(43)	(12)	(20)	(75)
No longer required	(5)	(58)	-	(63)
Unwinding of discount	3	-	2	5
At 31 March 2019	<u>110</u>	<u>53</u>	<u>82</u>	<u>245</u>

16.3 Expected timing of cashflows by category:

	Pensions relating to the early retirement of staff pre 1995	Legal claims	Pensions - Injury benefits	Foundation Trust & Group Total
	£000	£000	£000	£000
Within one year	40	53	20	113
Between one and five years	50	-	54	104
After five years	20	-	8	28
	<u>110</u>	<u>53</u>	<u>82</u>	<u>245</u>

£93,816,000 is included in the provisions of NHS Resolution (formerly the NHS Litigation Authority) at 31 March 2019 in respect of clinical negligence liabilities of the NHS foundation trust (31 March 2018 - £93,369,000). Please see note 1.15.

17. Other liabilities

	Foundation Trust & Group	
	2018/19 £000	2017/18 £000
Current		
Deferred income	1,845	1,832
Total	<u>1,845</u>	<u>1,832</u>

18. Borrowings

	Foundation Trust & Group	
	2018/19 £000	2017/18 £000
Current		
Capital loans from Department of Health (formerly ITFF)*	2,188	2,011
Total	<u>2,188</u>	<u>2,011</u>
Non-Current		
Capital loans from Department of Health (formerly ITFF)*	17,226	18,379
Total	<u>17,226</u>	<u>18,379</u>

*During 2012/13, the Trust signed a 10 year loan agreement for £3.4m from the Independent Trust Financing Facility (ITFF) to fund the provision of additional theatre capacity, the loan was drawn down in full during the financial year. During 2013/14, the Trust signed an additional 10 year loan for £1.5m from the ITFF to fund the replacement of an MRI Scanner. The loan was drawn down in full during the financial year. During 2014/15 the NHS foundation trust did not undertake any additional borrowing. During 2015/16 the Trust signed a 25 year loan agreement from the Department of Health for £7.5m to fund a Carbon Efficiency capital scheme and a 10 year loan agreement from the Department of Health for £1.5m to fund the purchase of a Mobile MRI Scanner, both of these loans were drawn down in full during the financial year. The NHS foundation trust did not undertake any additional borrowing during 2016/17. During 2017/18, the Trust signed two loan agreements (both with 10 year terms). Replacement of automatic endoscope reprocessors for £3.8m and a modular build endoscopy suite for £6.9m.

The interest rates on the NHS foundation trust's loans are:-

Additional theatre capacity loan £3.4m is fixed at 0.93% per annum (10 year term).

Replacement MRI loan £1.5m is fixed at 1.75% per annum (10 year term).

Carbon efficiency capital scheme loan £7.5m is fixed at 2.5% per annum (25 year term).

Mobile MRI Scanner loan £1.5m is fixed at 0.90% per annum (10 year term).

Replacement of Automated Endoscope Reprocessors scheme loan £3.8m is fixed at 0.76% per annum (10 year term).

Modular Build Endoscopy Suite loan £6.9m is fixed at 0.56% per annum (10 year term).

Interest accrued is paid every six months see finance expense note 7.

There have been no defaults or breaches in relation to the Department of Health (formerly ITFF) loans.

19. Finance lease obligations

The NHS foundation trust does not have any finance leases obligations either as a lessee or lessor.

20. Losses and special payments

	2018/19 Total number of cases	Foundation Trust & Group		2017/18 Total value of cases £000
		2018/19 Total value of cases £000	2017/18 Total number of cases	
Losses:				
Other loss of cash	-	-	3	3
Bad debts private patients	19	3	17	8
Bad debts overseas visitors	3	1	2	-
Bad debts other	354	8	196	8
Total losses	<u>376</u>	<u>12</u>	<u>218</u>	<u>19</u>
Special payments:				
Ex gratia payment loss of personal effects	17	5	6	1
Ex gratia payment other	4	14	5	4
Total special payments	<u>21</u>	<u>19</u>	<u>11</u>	<u>5</u>
Total losses and special payments	<u><u>397</u></u>	<u><u>31</u></u>	<u><u>229</u></u>	<u><u>24</u></u>

21. Third Party Assets

The NHS foundation trust held £95 cash at bank and in hand at 31 March 2019 which related to monies held by the NHS foundation trust on behalf of patients (31 March 2018: £1,483).

22. Contractual Capital Commitments

Commitments under capital expenditure contracts at 31 March 2019 were £1,079,000 (31 March 2018: £2,955,000).

23. Related Party Transactions

23.1 Transactions with key management personnel

IAS 24 requires disclosure of transactions with key management personnel during the year. Key management personnel is defined in IAS 24 as "those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity". The Trust has deemed that its key management personnel are the board members (voting and non-voting directors and non-executive directors) of the NHS foundation trust.

However the DH GAM states the requirement in IAS 24 to disclose the compensation paid to management, expenses allowances and similar items paid in the ordinary course of an entity's operations will be satisfied with the disclosures in the Remuneration Report. There were no transactions with board members or parties related to them other than those from the ordinary course the NHS foundation trust's operations.

23.2 Transactions with other related parties

The Department of Health and Social Care is the parent department of Harrogate and District NHS Foundation Trust, paragraph 25 of IAS 24 allows entities which are related parties because they are under the same government control to reduce the volume of detailed disclosures.

The DH GAM interprets this as requiring the disclosure of the main entities within the public sector with which the NHS foundation trust has had dealings, but no information needs to be given about these transactions. These entities are listed below:-

County Durham Unitary Authority
Darlington Borough Council
Middlesbrough Council
Sunderland City Metropolitan Borough Council
County Durham Unitary Authority
Gateshead Council
North Yorkshire County Council
Stockton-on-Tees Borough Council
HMRC
Leeds Teaching Hospitals NHS Trust
NHS Airedale, Wharfedale And Craven CCG
NHS England
NHS Hambleton, Richmondshire And Whitby CCG
NHS Harrogate And Rural District CCG
NHS Leeds CCG
Department of Health (PDC dividend only)
Health Education England
NHS Resolution
NHS Pension Scheme
NHS Property Services
NHS Scarborough And Ryedale CCG
NHS Vale Of York CCG
Tees, Esk And Wear Valleys NHS Foundation Trust
York Hospitals NHS Foundation Trust

24. Financial instruments.

	Group		Foundation Trust	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
Financial assets				
Loans and receivables (including cash and cash equivalents)	31,277	24,752	30,499	23,406
Investments	-	-	1,000	1,000
Consolidated NHS Charitable fund financial assets	1,993	1,915	-	-
	33,270	26,667	31,499	24,406
Financial liabilities				
Loans and payables	31,865	33,209	33,408	33,862

Management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair value.

The majority of the NHS foundation trust's income is from NHS Commissioners of patient care services which are funded by the Government to purchase NHS patient care therefore NHS foundation trusts are 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. The NHS foundation 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 foundation trust in undertaking its activities.

25. Charitable funds reserve.

Unrestricted income funds comprise those funds which the Trustee is free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include designated funds, where the donor has made known their non binding wishes or where the Corporate Trustee, at its discretion, has created a fund for a specific purpose.

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by the donor.

The charity has one permanent endowment fund. The income of the Elsie Sykes Endowment Fund can be used for medical equipment or medical research (excluding transplant or vivisection work).

	Group	
	2018/19	2017/18
	£000	£000
Unrestricted income funds	262	292
Restricted funds	51	57
Endowment fund	1,612	1,560
	1,925	1,909

26. Ultimate parent.

As an entity operating in the National Health Service in England, the ultimate parent holding is considered as the Department of Health and Social Care.