Agenda item: 14 **Paper no: 10**

Surrey Heartlands
Clinical Commissioning Group

Title of Report:	**Joint Finance Report Month 12**	
Status:	**TO NOTE**	
Committee:	**Governing Body**	**Date:** 22/04/2020
Venue:	Virtual meeting	

Presented by:	Karen McDowell, Chief Financial Officer	
Executive Lead sign off:	Karen McDowell, Chief Financial Officer	**Date:** 16/04/2020
Author(s):	Andy Law, Associate Director of Finance	

Governance

Conflict of Interest: The Author considers:	None identified	✓
Previous Reporting: (relevant committees/ forums this paper has previously been presented to)	N/A	
Freedom of Information: The Author considers:	Open – no exemption applies. Part I paper suitable for publication.	✓

Executive Summary

This report provides a summary of the joint finance position for the Surrey Heartlands CCGs for 2019/20 as at month 12 (31st March 2020) including the final year end outturn position, key final accounts deadlines and audit processes

Implications

What is the **health impact/ outcome** and is this in line with the **CCGs' strategic objectives**?	• Objective 1: Continue to work towards achieving sustainable systems.
What is the **financial/ resource** required?	As set out in this report

What **legislation, policy or other guidance** is relevant?	NHS Constitution and Standard Contract for 2019/20 CCG statutory targets for the year
Is an **Equality Analysis** required?	Not required
Any **Patient and Public Engagement/ consultation** required?	None
Potential **risk(s)**? (including reputational)	Risks identified in the report are included within the CCG risk register. Achievement of financial performance against plan/target is a statutory requirement

Recommendation(s)

(1) **The committee is asked to NOTE the report**

Next Steps

(1) None

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MONTH 12 FINANCE REPORT

1. Background

1.1. In line with the national reporting timetable the Surrey Heartlands CCGs will each submit their draft Annual Accounts and Annual Report for 2019/20 to NHS England (NHSE) and its external auditors by the deadline of 27th April 2020. These will then be subject to audit by KPMG for Guildford & Waverley, North West Surrey and Surrey Downs CCG and BDO for East Surrey CCG as the CCG's external auditors.

1.2. In producing these financial statements the CCGs have adopted the various legal and accounting requirements placed upon it by NHSE and has complied with commonly accepted accounting policies as relevant to the NHS.

2. Annual Accounts - Month 12 Position

2.1. The joint financial position across Heartlands CCGs is a deficit of £61.6m, split between a deficit of £37.9m at East Surrey CCG, £8.2m deficit at Guildford & Waverley CCG, £15.5m deficit at Surrey Downs and breakeven position for North West Surrey. This is a £37.0m adverse variance against the Surrey Heartlands plan.

	Year to Date: Month 12				
	East Surrey	Guildford & Waverley	North West Surrey	Surrey Downs	Total
	£000	£000	£000	£000	£000
Planned In Year (Surplus) / Deficit	22,108	2,790	0	(320)	**24,578**
Actual In Year (Surplus) / Deficit	37,879	8,195	0	15,500	**61,574**
Variance against Planned (Surplus) / Deficit	**15,771**	**5,405**	**0**	**15,820**	**36,996**
Planned QIPP Programme Delivery	(9,650)	(14,791)	(10,674)	(30,035)	**(65,151)**
Actual QIPP Programme Delivery	(1,780)	(7,937)	(9,566)	(10,835)	**(30,118)**
Variance against QIPP Plan	**7,870**	**6,854**	**1,108**	**19,200**	**35,033**
Planned Running Cost Budget	3,031	5,258	7,959	6,908	**23,156**
Actual Running Cost Expenditure	3,924	4,862	7,211	6,203	**22,200**
Variance against Running Cost Allocation	**893**	**(396)**	**(748)**	**(705)**	**(956)**

2.2. Net liabilities of £148.6m, an increase of £10.5m above 2018/19. This relates to:

- East Surrey: Debtors balances have reduced due to release of non-recurrent income assumptions from 2018/19 and the write back of invoices regarding the epilepsy service. Additionally creditor balances have increased for

delegated co-commissioning, Downlands patient transfer, Surrey County Council and the final agreement of acute contracts and NCA's in 2019/20.

- North West Surrey: Creditor balances have increased on delegated co-commissioning by £2.6m due to a number of estates related projects agreed yet to be invoiced.

- Surrey Downs: A reduction in continuing healthcare creditors of £5.8m from the prior year has been offset by £2.5m of primary care GMS creditors (delegated commissioning is a new responsibility in 2019/20 for Surrey Downs).

	Year to Date: Month 12				
	East Surrey	Guildford & Waverley	North West Surrey	Surrey Downs	Total
	£000	£000	£000	£000	£000
2018/19 Closing Net Liabilities	(10,792)	(34,754)	(42,490)	(50,097)	**(138,133)**
2019/20 Closing Net Liabilities	(20,311)	(35,427)	(46,480)	(46,420)	**(148,638)**
Movement in Net Liabilities	**(9,519)**	**(673)**	**(3,990)**	**3,677**	**(10,505)**

2.3. Creditor balances at 31st March 2020 include the following key creditors:

	Year to Date: Month 12				
	East Surrey	Guildford & Waverley	North West Surrey	Surrey Downs	Total
	£000	£000	£000	£000	£000
Delegated Co-Commissioning	(1,697)	(2,707)	(9,052)	(2,515)	**(15,971)**
Prescribing	(4,195)	(4,890)	(8,599)	(6,138)	**(23,822)**
Partial Spells	(964)	(1,997)	(2,055)	(1,436)	**(6,452)**
Continuing Healthcare				(13,569)	**(13,569)**

3. The Remuneration Report

3.1. The remuneration report has been prepared for 2019/20, based on the guidance issued in the manual for accounts.

3.2. The report has been written on the basis that information on all attendees at the CCG's Governing Body should be disclosed. There is a presumption that information about named individuals will be given in all cases and that all

disclosures in the remuneration report will be consistent with identifiable information on those individuals in the financial statements.

3.3. As East Surrey CCG accountability transferred to Surrey Heartlands from 1st October, the remuneration report will reflect the management arrangements that were operating in Sussex for the first seven months of the year, and the revised arrangements from November 2019.

4. Accounts Submission and Timetable

4.1. The following documents in draft will be submitted to NHS England:

Document	Current status
Annual Accounts	Draft to be submitted by 27th April 2020
Annual Report, including Annual Governance Statement and Remuneration Report	Draft to be submitted by 27th April 2020

4.2. The external audit will commence following submission of the draft Accounts. KPMG and BDO will audit the Annual Accounts, the tables within the CCG's Remuneration Report, and review the CCG's Annual Report to ensure it is consistent with the Accounts, for the respective CCG's.

4.3. On Tuesday 26th May 2020 the Audit Committee will receive these documents, including the ISA 260 letter as prepared by the external auditors, and Directors Representation Letter, for review. Comments received will then be agreed with external audit and reflected in the documents, which will then be presented to Governing Bodies in Common on Wednesday 27th May 2020 for approval. Documents will then be signed by the Accountable Officer and CCG Chair and submitted to NHSE by Thursday 25th June 2020, although it is anticipated that submission will be earlier due to both external auditors and CCG undertaking the audit in line with original published timetable and the withdrawal from financial accounting services with the CSU for East Surrey and Guildford & Waverley CCG's on the 31st May 2020.

5. Accounting Policies

5.1. The financial reporting requirements for NHS bodies are determined by the Department of Health with the approval of HM Treasury. CCGs must follow the Treasury's Government Financial Reporting Manual 2019/20.

5.2. The CCGs accounting policies are written to reflect that all transactions are recognised in accordance with applicable accounting standards.

5.3. In compiling the Accounts for 2019/20, a review of accounting policies has been undertaken to ensure compliance. There have been no material changes to last year. Appendix A details these policies.

6. Financial Performance to 31st March 2020

6.1. The financial year end was on the 31st March 2020. Since that time the CCGs have been updating the financial ledger for all commitments not received at the year-end date. The total net expenditure for the year is £1,633.9m and the resource limit for the year was £1,572.3m, therefore the joint CCG reported position is a deficit of £61.6m.

6.2. The year-end outturn is summarised as at Month 12 for each CCG is shown below;

Budget Heading	East Surrey	Guildford & Waverley	North West Surrey	Surrey Downs	Total
	Over / (Underspend)	Over / (Underspend)	Over / (Underspend)	Over / (Underspend)	Over / (Underspend)
	£'000	£'000	£'000	£'000	£'000
General & Acute	11,874	8,506	4,078	19,938	44,396
Mental Health	(166)	41	(525)	(774)	(1,424)
Community	392	(235)	24	(468)	(286)
Continuing Healthcare	1,119	(178)	545	(1,941)	(455)
Primary Care (GP and Other Prescribing)	1,187	275	492	1,449	3,404
Primary Care	26	(285)	(202)	(166)	(627)
Primary Care Co-Commissioning	(4)	(15)	(27)	0	(46)
Running Costs	893	(396)	(748)	(705)	(956)
Better Care Fund	(72)	(165)	194	(12)	(55)
Other Contracting	1,860	(1,430)	(1,448)	1,215	196
New Investments & Reserves	0	802	0	(726)	76
Contingency	(1,338)	(1,517)	(2,382)	(1,990)	(7,227)
Planned (Surplus) / Deficit	22,108	2,790	0	(320)	24,578
Net Position (Surplus) / Deficit	**37,879**	**8,195**	**0**	**15,500**	**61,575**

6.3. For East Surrey the final position is a £37.9m deficit, an adverse variance to plan of £15.8m. This includes an £11.9m over spend against acute commissioning, including £5.2m against the main acute provider contract with Surrey and Sussex Healthcare (SaSH).

6.4. For Guildford & Waverley the final position is a £8.2m deficit, an adverse variance to plan of £5.4m. This is mainly due to the underachievement of the efficiency programme of £6.9m and increased activity demand on acute services, particularly against the main acute provider contract with the Royal Surrey County Hospital (RSCH) of £1.5m. This has been partially mitigated through the release of prior year accruals and release of contingency in full.

6.5. For North West Surrey the final position is breakeven as per plan. This includes an over spend of £4.0m on the ASPH contract as per the year end agreement. This over spend has been reduced through the release of contingency in full, under

spends in other budget areas and the further release of non-recurrent benefits from prior year accruals.

6.6. For Surrey Downs the final position is a £15.5m deficit, an adverse variance to plan of £15.8m. This represents slippage on unidentified QIPP and acute pressures across a number of providers. A number of mitigating items have been accounted for within the position, which includes the release of contingency and system wide agreements to mitigate the overall ICS system position including slippage from 2018/19 transformation funding.

7. Provisions

7.1. Each CCG is required to make provision for the risk of non-payment of any outstanding non-NHS debt at 31st March 2020. Each CCG has made this assessment based upon the following rationale:

Period	%
91 to 120 days	25%
121 to 180 days	50%
181 to 360 days	75%
361 days+	100%

7.2. Guildford & Waverley - at the end of the year the CCG has £0.353m (2018/19 £0.248m) of outstanding Non NHS Debt, of this £0.113m (2018/19 £0.120m) is over 90 days old. As a consequence the CCG has made a provision based on the percentages above of £113k.

7.3. North West Surrey - at the end of the year the CCG has £0.449m (2018/19 £0.727m) of outstanding Non NHS Debt, of this £0.344m (2018/19 £0.564m) is over 90 days old. As a consequence the CCG has made a provision based upon the percentages above of £0.274m (2018/19 £0.502m).

7.4. Surrey Downs - at the end of the year the CCG has £1.519m (2018/19 £0.151m) of outstanding Non NHS Debt, of this £0.100m (2018/19 £0.123m) is over 90 days old. As a consequence the CCG has made a provision based upon the percentages above of £0.095m (2018/19 £0.123m).

7.5. East Surrey – at the end of the year the CCG has £0.040m of outstanding Non NHS Debt, of this £0.009m is over 90 days old. However a number of invoices have been raised to Welsh and Scottish bodies, and in accordance with guidance on NCA activity is not recoverable. As a consequence the CCG has made a provision based upon those invoices and the percentages above of £0.018m.

7.6. CCGs are not able to provide for NHS debt, this has to be written back to income and expenditure, following formal agreement to write off. At 31st March 2020 for each CCG NHS debt over 91 days was Guildford & Waverley £nil (2018/19

£1.4m), North West Surrey £1.806m (2018/19 £0.502m), Surrey Downs £0.191m (2018/19 £0.544m) and East Surrey £0.808m.

8. Delegated Co-Commissioning

8.1. East Surrey (from April 2019), Guildford & Waverley (from April 2018), North West Surrey (from April 2016) and Surrey Downs (from April 2019) CCGs have been responsible for the delegated co-commissioning budgets from NHSE.

8.2. The CCGs received an additional allocation in 2019/20 of £22.604m (East Surrey), £27.821m (Guildford & Waverley), £46.436m (North West Surrey) and £37.909m (Surrey Downs) for co-commissioning and have established processes and procedures to ensure that primary care practitioners have been paid in accordance with the statement of financial entitlement that will be subject to review by our External Auditors.

8.3. In year Internal Audit undertook a review of the Delegated Co-Commissioning financial arrangements for East Surrey CCG for the period from November 2019 (when it became the responsibility of Surrey Heartlands) and issued an opinion of substantial assurance. The report concluded that the CCG has well-established structures and management controls in place for oversight of primary care commissioning. Key controls that were expected were in place and were operating as expected. TIAA also undertook a Primary Care Commissioning health check review for Surrey Downs CCG. In addition RSM undertook an audit for North West Surrey and Guildford and Waverley CCG's and issued an opinion of reasonable assurance. The report made a number of recommendations, of which the majority were low risk.

9. Running Costs

9.1. Surrey Heartlands CCGs received a combined running cost allocation of £23.2m to fund the administration cost of the CCGs. Therefore all costs associated with the running of the CCGs have been charged to this budget.

9.2. East Surrey CCG transferred into Surrey Heartlands on 1st November 2019 from the Sussex Alliance. The running cost position for East Surrey includes a charge from the Alliance for the first seven months relating to its share of management costs for that period. Running costs reported by each CCG are based on upon an apportionment of total cost across the year to each CCG, with the exception of April to October spend for East Surrey which has been attributed in full to East Surrey CCG.

10. COVID Reimbursement

10.1. On 13th April the CCGs submitted a claim to NHSE/I for the reimbursement of expenditure incurred related to COVID. At the time of writing this report

confirmation of funding had not been received, but it will not affect the bottom line numbers reported.

11. Going Concern

11.1. These accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

11.2. Where a clinical commissioning group ceases to exist, it considers whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. If services will continue to be provided the financial statements are prepared on the going concern basis.

11.3. NHS East Surrey, NHS Guildford and Waverley, NHS North West Surrey and NHS Surrey Downs Clinical Commissioning Groups were dissolved on 31 March 2020 having merged to form the new NHS Surrey Heartlands Clinical Commissioning Group with effect from 1 April 2020. This followed approval at the NHS England Assurance and Development Committee.

11.4. The Directors of the CCG are required to make an assessment of the CCG as a 'going concern' and have used the following evidence to validate this classification:

- The CCG has been operating since 1 April 2013 as a statutory body with an agreed Governance Framework and an Operational plan;
- The CCG merger has been approved and allocations notified from NHS England for the financial year 2020/21 to 2023/24;
- The CCG submitted detailed financial plans for 2020/21 to NHS England in March 2020.

11.5. For East Surrey, Guildford & Waverley and Surrey Downs CCGs, whilst the CCGs reported a deficit in 2019/20 and are carrying forward a historic deficit from previous years, the deficits reported since 2013/14 (East Surrey), 2016/17 (Guildford & Waverley) and 2015/16 (Surrey Downs) have been in line with NHSE expectations. The CCGs consider the going concern criteria to be met, given it continues to operate in accordance with NHSE guidance and it anticipates continuing to fund service provision throughout 2020/21, albeit as Surrey Heartlands CCG. Detailed financial plans for the merged Surrey Heartlands CCG have been submitted to NHSE for 2020/21, and whilst these plans are pending formal approval, the CCG has been allocated cash funding from NHSE for 2020/21, and, as such, has adequate financial resource to continue operations in year.

Karen McDowell
Chief Finance Officer Surrey Heartlands CCGs

Appendix A: Accounting Policies
Notes to the financial statements

1 Accounting Policies

NHS England has directed that the financial statements of clinical commissioning groups shall meet the accounting requirements of the Group Accounting Manual issued by the Department of Health and Social Care. Consequently, the following financial statements have been prepared in accordance with the Group Accounting Manual 2019-20 issued by the Department of Health and Social Care. The accounting policies contained in the Group Accounting Manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to clinical commissioning groups, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the Group Accounting Manual permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the clinical commissioning group for the purpose of giving a true and fair view has been selected. The particular policies adopted by the clinical commissioning group are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Going Concern

These accounts have been prepared on the going concern basis.
Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.
Where a clinical commissioning group ceases to exist, it considers whether or not its services will continue to be provided (using the same assets, by another public sector entity) in determining whether to use the concept of going concern for the final set of financial statements. If services will continue to be provided the financial statements are prepared on the going concern basis.
NHS XXX Clinical Commissioning Group was dissolved on 31 March 2020 having joined with NHS XXX Clinical Commissioning Group, NHS XXX Clinical Commissioning Group and NHS XXX Clinical Commissioning Group to establish NHS XXX CCG with effect from 1 April 2020. This followed approval at the NHS England Assurance and Development Committee meeting of XXX.

1.2 Accounting Convention

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

1.3 Movement of Assets within the Department of Health and Social Care Group

As Public Sector Bodies are deemed to operate under common control, business reconfigurations within the Department of Health and Social Care Group are outside the scope of IFRS 3 Business Combinations. Where functions transfer between two public sector bodies, the Department of Health and Social Care GAM requires the application of absorption accounting. Absorption accounting requires that entities account for their transactions in the period in which they took place, with no restatement of performance required

when functions transfer within the public sector. Where assets and liabilities transfer, the gain or loss resulting is recognised in the Statement of Comprehensive Net Expenditure, and is disclosed separately from operating costs.

Other transfers of assets and liabilities within the Department of Health and Social Care Group are accounted for in line with IAS 20 and similarly give rise to income and expenditure entries.

1.4 **Pooled Budgets**

The clinical commissioning group has entered into pooled budget arrangements with Surrey County Council under section 75 of the NHS Act 2006. Under the arrangement, funds are pooled for Better Care Fund, Community Equipment Store (CES) and Child and Adolescent Mental Health Services (CAMHS). Note XX to the accounts provides details of the income and expenditure.
The Better Care Fund is hosted by Surrey County Council. The Clinical Commissioning Group accounts for its share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement.
Other section 75 arrangements (Community Equipment Store and Child and Adolescent Mental Health) are hosted by Surrey County Council and cover Surrey-wide commissioning with the other Surrey Clinical Commissioning Groups.

1.5 **Operating Segments**

Income and expenditure are analysed in the Operating Segments note and are reported in line with management information used within the clinical commissioning group.

1.6 **Revenue**

In the application 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 clinical commissioning group will not disclose information regarding performance obligations part of a contract that has an original expected duration of one year or less,
• The clinical commissioning group 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.
• The FReM has mandated the exercise of the practical expedient offered in C7(a) of the Standard that requires the clinical commissioning group to reflect the aggregate effect of all contracts modified before the date of initial application.
The main source of funding for the Clinical Commissioning Group is from NHS England. This is drawn down and credited to the general fund. Funding is recognised in the period in which it is received.
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.

Where income is received for a specific performance obligation that is to be satisfied in the following year, that income is deferred.
Payment terms are standard reflecting cross Government principles.
The value of the benefit received when the clinical commissioning group accesses funds from the Government's apprenticeship service are recognised as income in accordance with IAS 20, Accounting for Government Grants.
Where these funds are paid directly to an accredited training provider, non-cash income and a corresponding non-cash training expense are recognised, both equal to the cost of the training funded.

1.7 **Employee Benefits**

1.7.1 **Short-term Employee Benefits**
Salaries, wages and employment-related payments, including payments arising from the apprenticeship levy, are recognised in the period in which the service is received from employees, including bonuses earned but not yet taken.
The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

1.7.2 **Retirement Benefit Costs**
Past and present employees are covered by the provisions of the NHS Pensions Schemes. These schemes are unfunded, defined benefit schemes that cover NHS employers, General Practices and other bodies allowed under the direction of the Secretary of State in England and Wales. The schemes are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the schemes are accounted for as though they were defined contribution schemes: the cost to the clinical commissioning group of participating in a scheme is taken as equal to the contributions payable to the scheme for the accounting period.
For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the clinical commissioning group commits itself to the retirement, regardless of the method of payment.

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

1.9 **Grants Payable**
Where grant funding is not intended to be directly related to activity undertaken by a grant recipient in a specific period, the clinical commissioning group recognises the expenditure in the period in which the grant is paid. All other grants are accounted for on an accruals basis.

1.10 Property, Plant & Equipment

1.10.1 Recognition

Property, plant and equipment is capitalised if:

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

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

1.10.2 Measurement

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

Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date

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

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

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

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost where these assets have short useful economic lives or low values or both, as this is not considered to be materially different from current value in existing use.

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

1.10.3 **Subsequent Expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

1.11 **Government grant funded assets**

Government grant funded assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at fair value on receipt, with a matching credit to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.12 **Leases**

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

1.12.1 **The Clinical Commissioning Group as Lessee**

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate on interest on the remaining balance of the liability. Finance charges are recognised in calculating the clinical commissioning group's surplus/deficit. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

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

Where a lease is for land and buildings, the land and building components are separated and individually assessed as to whether they are operating or finance leases.

1.13 **Services Received**

The fair value of services received in the year is recorded under the relevant

expenditure headings within ‘operating expenses’.

1.14 **Cash & Cash Equivalents**

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

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

1.15 **Provisions**

Provisions are recognised when the clinical commissioning group has a present legal or constructive obligation as a result of a past event, it is probable that the clinical commissioning group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury’s discount rate as follows:

Early retirement provisions are discounted using HM Treasury’s pension discount rate of positive x.xx% (2017-18: positive 0.29%) in real terms. All general provisions are subject to four separate discount rates according to the expected timing of cashflows from the Statement of Financial Position date:

• A nominal short-term rate of 0.51% (2018-19: 0.76% in real terms) for inflation adjusted expected cash flows up to and including 5 years from Statement of Financial Position date.

• A nominal medium-term rate of 0.55% (2018-19:1.14% in real terms) for inflation adjusted expected cash flows over 5 years up to and including 10 years from the Statement of Financial Position date.

• A nominal long-term rate of 1.99% (2018-19: negative 1.99% in real terms) for inflation adjusted expected cash flows over 10 years and up to and including 40 years from the Statement of Financial Position date.

• A nominal very long-term rate of 1.99% (2018-19: negative 1.99% in real terms) for inflation adjusted expected cash flows over 40 years from the Statement of Financial Position date.

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

A restructuring provision is recognised when the clinical commissioning group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with on-going

activities of the entity.

1.16 **Clinical Negligence Costs**

NHS Resolution operates a risk pooling scheme under which the clinical commissioning group pays an annual contribution to NHS Resolution, which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with clinical commissioning group.

1.17 **Non-clinical Risk Pooling**

The clinical commissioning group participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the clinical commissioning group pays an annual contribution to the 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.

1.18 **Carbon Reduction Commitment Scheme**

The Carbon Reduction Commitment scheme is a mandatory cap and trade scheme for non-transport CO2 emissions. The clinical commissioning group is registered with the CRC scheme, and is therefore required to surrender to the Government an allowance for every tonne of CO2 it emits during the financial year. A liability and related expense is recognised in respect of this obligation as CO2 emissions are made.

The carrying amount of the liability at the financial year end will therefore reflect the CO2 emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances required to settle the obligation.

Allowances acquired under the scheme are recognised as intangible assets.

1.19 **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the clinical commissioning group, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably. A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the clinical commissioning group. A contingent asset is disclosed where an inflow of

economic benefits is probable.

Where the time value of money is material, contingent liabilities and contingent assets are disclosed at their present value.

1.20 **Financial Assets**

Financial assets are recognised when the clinical commissioning group becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are classified into the following categories:

· Financial assets at amortised cost;
· Financial assets at fair value through other comprehensive income and ;
· Financial assets at fair value through profit and loss.

The classification is determined by the cash flow and business model characteristics of the financial assets, as set out in IFRS 9, and is determined at the time of initial recognition.

1.20.1 **Financial Assets at Amortised cost**

Financial assets measured at amortised cost are those held within a business model whose objective is achieved by collecting contractual cash flows and where the cash flows are solely payments of principal and interest. This includes most trade receivables and other simple debt instruments. After initial recognition these financial assets are measured at amortised cost using the effective interest method less any impairment. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the life of the financial asset to the gross carrying amount of the financial asset.

1.20.2 **Financial assets at fair value through other comprehensive income**

Financial assets held at fair value through other comprehensive income are those held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest.

1.20.3 **Financial assets at fair value through profit and loss**

Financial assets measure at fair value through profit and loss are those that are not otherwise measured at amortised cost or fair value through other comprehensive income. This includes derivatives and financial assets acquired principally for the purpose of selling in the short term.

1.20.4 **Impairment**

For all financial assets measured at amortised cost or at fair value through other comprehensive income (except equity instruments designated at fair value through other comprehensive income), lease receivables and contract assets, the clinical commissioning group recognises a loss allowance representing the expected credit losses on the financial asset.

The clinical commissioning group adopts the simplified approach to impairment in accordance with IFRS 9, and measures the loss allowance for trade receivables, lease receivables and contract assets at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition (stage 2) and otherwise at an amount equal to 12 month expected credit losses (stage 1).

HM Treasury has ruled that central government bodies may not recognise stage 1 or stage 2 impairments against other government departments, their executive agencies, the Bank of England, Exchequer Funds and Exchequer Funds assets where repayment is ensured by primary legislation. The clinical commissioning group therefore does not recognise loss allowances for stage 1 or stage 2 impairments against these bodies. Additionally DHSC provides a guarantee of last resort against the debts of its arm's lengths bodies and NHS bodies and the clinical commissioning group does not recognise allowances for stage 1 or stage 2 impairments against these bodies.

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. Any adjustment is recognised in profit or loss as an impairment gain or loss.

1.21 **Financial Liabilities**

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

1.21.1 **Financial Guarantee Contract Liabilities**

Financial guarantee contract liabilities are subsequently measured at the higher of:

· The premium received (or imputed) for entering into the guarantee less cumulative amortisation; and,

· The amount of the obligation under the contract, as determined in accordance with IAS 37: Provisions, Contingent Liabilities and Contingent Assets.

1.21.2 **Financial Liabilities at Fair Value Through Profit and Loss**

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the clinical commissioning group's surplus/deficit. The net gain or loss incorporates any interest payable on the financial liability.

1.21.3 **Other Financial Liabilities**

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

1.22 **Value Added Tax**

Most of the activities of the clinical commissioning group 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.

1.23 **Third Party Assets**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the clinical commissioning group has no beneficial interest in them.

1.24 **Losses & Special Payments**

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled.

1.25 **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Clinical Commissioning Group's accounting policies management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates and the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.25.1 **Critical accounting judgements in applying accounting policies**

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

Provisions - The Clinical Commissioning Group has no provisions at the balance sheet date for the costs of its population's retrospective continuing health care claims at 31 March 2013. Some of these claims were known about by our legacy Primary Care Trust and provided for; some were known but not provided for; some were unknown. The formal transfer order of the Primary Care Trust's assets liabilities and transactions (including contingencies) has transferred these liabilities to the Clinical Commissioning Group. However the legally binding Accounts Direction – under which these financial statements are prepared – state that retrospective continuing health care claims are to be accounted for by NHS England and that the Clinical Commissioning Group should account for all claims that were incurred from 1 April 2013. This conclusion was challenged by the accounting guidance (which has no statutory basis) issued by NHS England which states that they will solely account for those 31 March 2013 cases known about and provided for at that date. This does not include those known about but not provided for. The Governing Body has concluded that the Accounting Direction takes precedence over the guidance issued by NHS England and will therefore recognise in these financial statements only those cases for which the required social and healthcare package started after 1 April 2013. Continuing Healthcare claims continue to be an area of on-going financial risk and uncertainty for the Clinical Commissioning Group.

1.25.2 **Sources of estimation uncertainty**

The following are the key estimations that management has made in the process of applying the Clinical Commissioning Group's accounting policies that have the most significant effect on the amounts recognised in the financial statements:

a) Partially Completed Spells. The Clinical Commissioning Group recognises expenditure relating to spells of care started by our providers at the balance sheet date but not yet completed. This recognition is limited to cost and volume contracts where the activity will incur extra costs for the Clinical Commissioning Group. The Clinical Commissioning Group works with its providers to ensure that the Partially Completed Spells accrual is accurate at the balance sheet date but it relies on the estimates of management concerning the eventual cost of the treatment. At the balance sheet date the Clinical Commissioning Group was recognising a Partially Completed Spells liability of £xxx

b) Prescribing accrual. There is a time lag between when the Clinical Commissioning Group's patients receive drugs and certain other medical consumables prescribed by our GPs and when the Group pays the NHS Prescription Services for their issue. At the balance sheet date the Clinical Commissioning Group has estimated the value of this lag in relation to drugs and goods issued but not paid for to be £xxx

1.26 **Gifts**

Gifts are items that are voluntarily donated, with no preconditions and without the expectation of any return. Gifts include all transactions economically equivalent to free and unremunerated transfers, such as the loan of an asset for its expected useful life, and the sale or lease of assets at below market value.

Accounting Standards That Have Been Issued But Have Not Yet Been Adopted

1.27 The DHSC GAM does not require the following IFRS Standards and Interpretations to be applied in 2019-20. These Standards are still subject to HM Treasury FReM adoption, with IFRS 16 being for implementation in 2020-21, and the government implementation date for IFRS 17 still subject to HM Treasury consideration.

● IFRS 16 Leases – The standard is effective 1 April 2020 as adapted and interpreted by the FReM. The CCG has commenced the assessment of the application of IFRS 16 to its financial statements. This commenced with work to identify leases which are currently operating leases and should be reclassified as finance leases as well as a broader review of recurring expenditure streams where right to use assets may be embedded in contracting arrangements. The work has progressed to March 2020, when the CCG revised it operational priorities and working patterns to deal with the COVID19 pandemic and combined with the decision to defer the implementation of IFRS16 in the NHS to 1 April 2021 means that it has not been practical to complete this work or present it for audit. The work to identify the impact of this standard is expected to recommence in Autumn 2020.

● 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.