The Leeds Teaching Hospitals NHS

NHS Trust



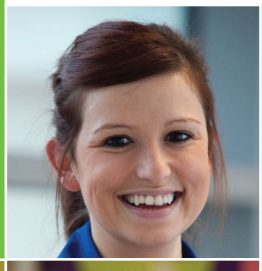





Annual Accounts

2010/2011







Financial Review of the Year Ended 31st March 2011

Introduction

This review and the Accounts which follow it report a number of significant financial achievements, i.e.

- An income and expenditure surplus of £5.8 million (adjusted to £2 million after technical factors)
- Income increased by 3% on 2009/10
- Cost savings in excess of £30 million
- Capital investment of £42.9 million
- 86.5% of suppliers' invoices paid within 30 days (compared to 73% in 2009/10)

These are real successes that were achieved in the face of tough challenges. The challenges continue and will continue for the foreseeable future. The general economic conditions following the downturn of late 2008 and the subsequent drive to improve public sector efficiency have been well publicised. Leeds Teaching Hospitals NHS Trust is not immune from their effects and is dealing with difficult financial planning issues. Resources are constrained but demand for services and costs are increasing. Quality improvements remain our highest priority. Doing "more for less" is an imperative, not a catch phrase. The essential point however, is that the Trust is facing up to our financial challenges, planning to meet them, putting in place mechanisms to deal with them and, as 2010/11 has shown, delivering success in spite of them.

Breaking Even

The surplus of £5.8 million was achieved following a number of accounting transactions which are deemed to be "technical" when determining whether or not the Trust met its statutory break even duty.

Towards the end of the year a report was received from the District Valuation Office which updated the values of our buildings. Some individual falls in value led to impairment charges being taken to the Statement of Comprehensive Income. Similarly, a separate piece of work had identified impairments in certain equipment assets. There were however, increases in the values of Bexley Wing and Wharfedale Hospital which partially reversed impairments charged to the Statement of Comprehensive Income in previous years. The effect was to put a credit through the Statement of Comprehensive Income in 2010/11. Impairments and any reversals are considered to be technical adjustments.

Similarly, an adjustment of £2 million has to be made to remove the additional costs of bringing the Wharfedale and Bexley Wing Private Finance Initiative schemes onto the balance sheet in 2009/10. This additional cost to the Statement of Comprehensive Income will arise on a tapering basis for some years to come following the transition to International Financial Reporting Standards which featured prominently in last year's Financial Review. The addition represents a re-phasing of the full lifespan cost of each scheme and not an increase in whole life cost.

The net effect of these two adjustments is to leave an underlying surplus for the year of £2 million, calculated as follows:

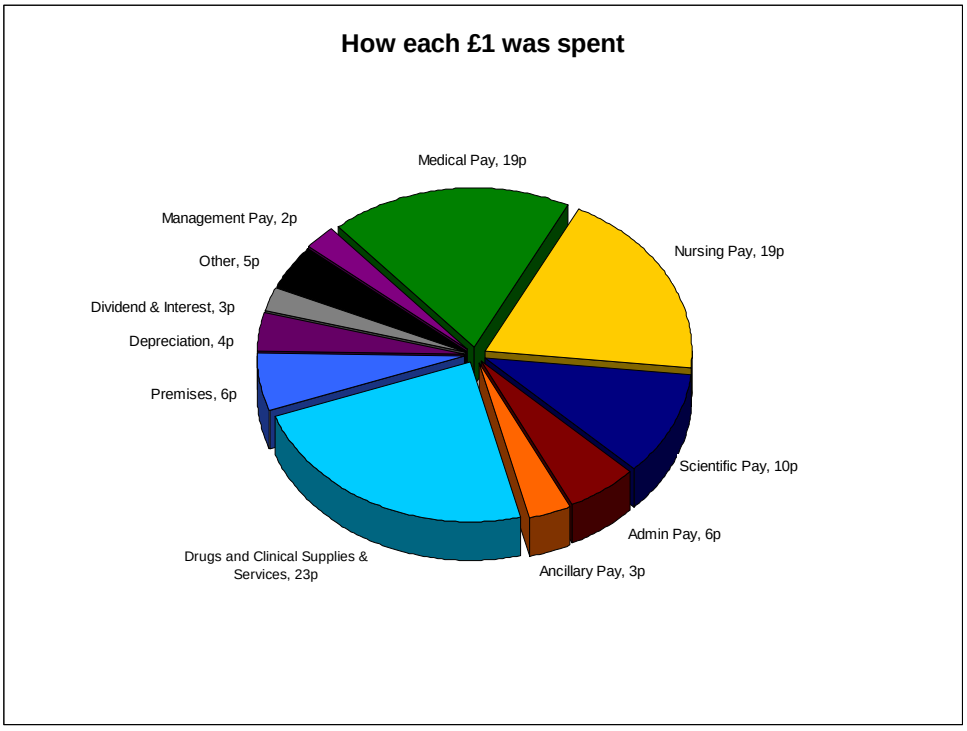
	£000
Retained Surplus	5,799
Impairments	1,182
Impairment Reversals	(6,995)
Private Finance Initiative - Additional Costs	2,065
"Underlying" Surplus	**2,051**

This result represents an improvement on our forecast at the start of 2010/11 that we would break even.

At the beginning of 2010/11 the Trust was faced with the challenge of saving £39.7 million. This was made up of general inflationary factors (£28.7 million) and income losses due to changes in national tariffs and funding mechanisms (£11.0 million). Meeting this challenge and delivering a surplus of £2 million required a mixed economy of cost reductions and increased activity related income. The major elements of this success are outlined in the following paragraphs.

Of the savings which had to be delivered during the year £8.2 million came from reduced capital charges. These flowed from the valuation of the estate in the previous year which saw a fall in total values of £160 million. Approximately £1.3 million was achieved through better purchasing of good and services. CQUIN income was increased by £7 million. This is the national programme to link income to service quality improvement and the increased income is a measure of the Trust's commitment to meet its financial targets without compromising patient care.

The major proportion of the savings however came from the decision to put stringent controls on filling vacant posts. Approximately £18 million came from reduced staffing costs. The average number of people employed fell by 207. This was in addition to a reduction of approximately 300 in the previous year. While measures were in place to ensure that essential posts were filled the decision to hold vacancies wherever possible did put additional pressures on many staff. Their continued support is greatly appreciated. The action taken to restrict recruitment in 2010/11, and similar measures in previous years, has important implications for 2011/12 and beyond.



Financial Challenge

Looking to the future it is clear that financial pressures will remain. The NHS has been set a target to make £20 billion of efficiency savings in the next 4 years and Leeds Teaching Hospitals must accept its share of that. In 2011/12 there is a requirement to save a further £55.5 million with £40 million in each of the years thereafter. The Trust is committed to meeting these targets without compromising the quality of service delivery.

The Board have approved a financial plan for 2011/12 which will deliver savings through

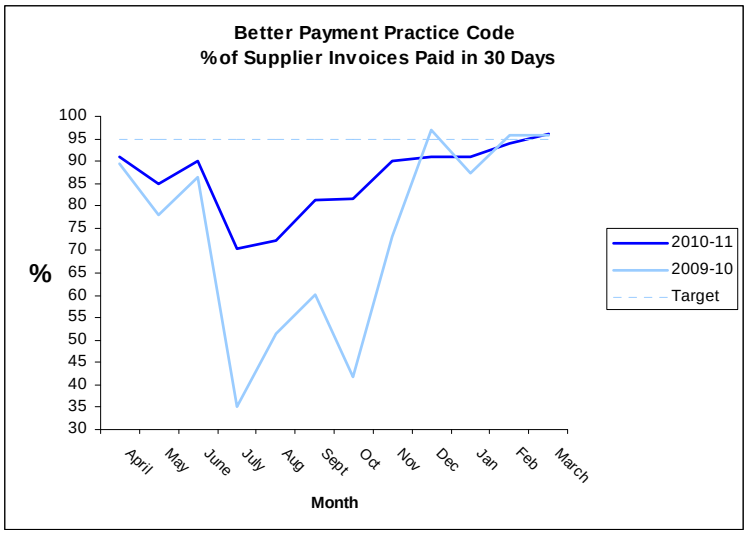
	£ million
Managing for Success	42.3
Recommissioning	7.6
Non Recurrent Income	5.6
	55.5

Managing for Success is a programme which identifies improvements in clinical and non clinical functions across the Trust. It involves Divisions and Corporate functions alike. The main thrust of the projects under the programme is to improve services for patients but, by introducing new ways of working and more streamlined, integrated services, there are significant financial savings to be realised. Managing for Success was embedded within the organisation in 2010/11. It is in 2011/12 and beyond that major cash releasing efficiencies will flow.

As stated above the Trust achieved a high proportion of its savings in 2010/11 from restrictions on filling vacancies. This has put the organisation in a very good position to reduce its overall staffing establishment without the need for a programme of redundancies. In total, 700 posts will be taken from budgets in 2011/12. Over 80% of these are currently vacant. The recruitment restrictions did not necessarily create vacancies where the posts could be cut and in other cases staff are filling posts which will no longer be required. There will be redeployment of a small number of staff to ensure essential posts are filled appropriately but because of the number of vacant posts there will be no compulsory redundancies other than in very exceptional circumstances. No provision for redundancy has been made in the 2010/11 Accounts. The Trust believes that with modest activity increases delivering additional income, it is well placed to meet the financial challenges which lie ahead.

Cash

While the Trust met its statutory duty to live within its External Financing Limit it did not meet the Department of Health's expectation that 95% of supplier invoices be paid in 30 days. Some short term cash pressure during the summer months of 2010 led to some payment restrictions. It is pleasing to note however that performance was markedly better than in the previous year as the graph below demonstrates. At 31st March the Trust had paid an average of 86% of its 190,000 invoices within terms compared to 73% in 2009/10. Improvements in billing commissioners and earlier agreement of contract values both helped as did ongoing improvements to working capital management. These will continue into 2011/12 and the Trust is confident that progress will continue to be made.



Capital Investment

Capital expenditure in 2010/11 was £42.9 million which represents a major investment in equipment and infrastructure. The money was spent on

Programme	Project	Expenditure 2010/11 £ million
Medical Equipment	Digital Breast Screening	1.0
	Post Graduate Medical Training	0.3
	Equipment re Service Reconfiguration	0.6
	Orthopaedic Power Tools	0.2
	Others	2.3
	Total	**4.4**
Information Technology	Wireless Network	0.8
	Staff Rostering System	0.5
	Patient Administration System	0.4
	Renal Clinical Information System	0.2
	Others	2.1
	Total	**4.0**
Building and Engineering	Centralisation of Services	13.9
	Electrical Infrastructure - St James's	3.7
	Clinical Skills Centre	2.2
	Aseptic Unit - LGI	1.6
	Others	13.1
	Total	**34.5**
Total		**42.9**

Funding for capital came primarily from internally generated resources in the form of depreciation (£27.9 million) charged on existing assets. Two Capital Investment Loans were taken during the year. The larger of these, at £14 million, was used to fund clinical services reconfiguration including, most notably, centralisation of Children's services at the LGI and Older People's Medicine at St. James's. A further loan of £1.5 million was taken to fund the

relocation of the satellite renal unit in Huddersfield from St Luke's Hospital to the town's Royal Infirmary.

Service reconfiguration expenditure in 2010/11, as shown in the table above, completed a three year strategic development to improve patient facilities. Other expenditure was of a renovation nature but no less vital to the Trust's ability to deliver first class patient care. In common with service reconfiguration the largest project of this type, to upgrade the electrical infrastructure at St. James's, is a multi year, multi million pound investment. Work commenced in 2010/11 and is due to complete in 2015.

Expenditure on information technology projects doubled in 2010/11 from its previous year's £2 million. The Trust has embarked on a major enhancement of its clinical information systems and communications networks including schemes to centralise its switchboards onto a single site and introduce wireless technology. There will be a further significant increase in the information technology programme during 2011/12 to £7.4 million. In that year, schemes to upgrade the clinical information systems in Maternity and Renal will commence.

Capital funding, like revenue, is a finite resource and subject to challenging constraints. In each of the five years starting from 2011/12 proposed expenditure is £35 million with £10 million of it being funded by interest bearing debt and the balance from planned depreciation. No funding is expected from the Department of Health or central government. The Trust must fund its spending from what can be generated internally or affordably borrowed. This is influencing the criteria by which investment decisions are made. Essential renovation and replacement continue to be funded but development projects are more closely scrutinised for their payback potential. A number of schemes such as the switchboard centralisation mentioned above are an integral part of the Managing for Success programme and specifically designed to yield ongoing financial savings as well as operational improvements.

NEIL CHAPMAN
Director of Finance

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

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

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;

- value for money is achieved from the resources available to the trust;

- the expenditure and income of the trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;

- effective and sound financial management systems are in place; and

- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

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

MAGGIE BOYLE
Chief Executive

09 June 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;

- make judgements and estimates which are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

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

By order of the Board

MAGGIE BOYLE
Chief Executive

NEIL CHAPMAN
Director of Finance

09 June 2011

The Leeds Teaching Hospitals NHS Trust

STATEMENT ON INTERNAL CONTROL 2010/11

1 SCOPE OF RESPONSIBILITY

1.1 The Board is accountable for the system of internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible, as set out in the Accountable Officer Memorandum.

1.2 As Accountable Officer I have in place processes in which I work with partner organisations including Primary Care Trusts (PCTs), the Strategic Health Authority (SHA), the Local Authority, Local Involvement Networks (LINks), the Department of Health and other Acute and Mental Health Trusts. Examples of these include:

- Monthly Yorkshire and the Humber SHA and Chief Executive meetings
- Trust attendance at the Leeds City Council Overview and Scrutiny Committee (Health)
- Joint working on incidents with the SHA and the National Patient Safety Authority (NPSA)
- The presence of a member elect of Local Involvement Networks at the Trust Board
- Leeds Health & Social Care Transformation Board
- University of Leeds Joint Strategy Board.

2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

2.1 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 organisation's policies, aims and objectives,

- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.2 The system of internal control has been in place in the Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2011 and up to the date of the annual report and accounts.

3 CAPACITY TO HANDLE RISK

3.1 The Trust Board has overarching responsibility for risk. As Accountable Officer I ensure that sufficient resources are invested in managing risk and I am supported in this task by the Medical Director and the Director of Quality.

3.2 The Non-Executive Committee members of the Audit Committee play a key role in the internal control assurance processes by scrutinising the effectiveness of management actions in mitigating risks through regular reviews of the Board Assurance Framework and Risk Register.

3.3 In addition, the Clinical Governance Committee, Clinical Governance Steering Group, Senior Management Team, and Risk Assessment Committee all have responsibility for elements of the risk management system.

3.4 All operational areas are responsible for the management of risks to the achievement of their objectives and those of the Trust. To this end, they are required to undertake a process to identify and control risks in their areas and the maintenance of a risk register is central to this. The Risk Register is populated at a local / operational level as well as at a corporate level for those risks which are deemed to be corporate risks.

3.5 The Risk Register informs the business planning process and is a key consideration in the general operational management at directorate, divisional and corporate level.

3.6 Risk training is delivered to managers, risk co-ordinators and to other staff across the Trust both at induction and as part of on-going development. The extent and level of training is dependent upon a member of staff's delegated authority. Areas covered include: risk management, risk assessment, root cause analysis, incident reporting, investigation training, health and safety and infection control.

3.7 Further to the above, all staff are required as part of their mandatory training to complete the Risk and Safety e-learning module. The aim of this is to develop risk management skills and help staff understand and fulfil their roles in terms of identifying and managing risk.

3.8 The following policies, of relevance to Risk Management, are in place:

- Risk Management policy (October 2009)
- Incident Reporting policy (November 2009)
- Concerns and Complaints policy (November 2009)
- Investigations policy (November 2009)
- Learning from Experience policy (November 2009)
- Being Open policy (October 2009)
- Supporting Staff policy (October 2009)

3.9 The Risk Management intranet pages provide an easily accessible guide to risk management process for staff and there is additional practical guidance included in the appendix to the policy. To support implementation of this core organisational policy individual directorates are required to have a process in place for achieving this, ensuring the policy is embedded in practice. A template is included in the policy guidance to help directorates to do this.

3.10 The Risk Management policy and the Learning from Experience policy set out a process for learning from incidents, complaints, concerns and claims. This forms part of the divisional clinical governance arrangements as well as divisional performance reviews. Learning is shared across the Trust although there are areas where such arrangements could be strengthened (for example, in the sharing of lessons arising from complaints).

3.11 There are well established processes within the Trust to ensure that national guidance on good practice is disseminated appropriately across the organisation. This is monitored regularly as part of the Trust's Clinical Governance arrangements.

3.12 During the winter of 2010/11, the Trust was presented with significant challenges that demonstrated its capacity to handle risk. These were the result of an increase in seasonal infections as well as severe weather conditions. This put additional pressure upon the organisation in terms of marked increases in activity as well as putting to the test the Trust's winter and business continuity plans.

3.13 A number of lessons arising from the 2010/11 winter pressures have been identified and will be incorporated into the 2011/12 winter plan. Notwithstanding this, the excellent work by staff to deliver care to patients in very difficult circumstances has been acknowledged by the SHA and the Trust Board.

4 THE RISK AND CONTROL FRAMEWORK

RISK MANAGEMENT POLICY

4.1 The Senior Management Team endorsed the latest version of the Risk Management Policy in October 2009. The aim of the policy is to achieve a culture where risk management is everyone's business,

embedded in the core processes, systems and business of the Trust. It provides the framework for the continued development of the risk management process, building on the principles and plans linked to the Trust's Assurance Framework, the Risk Register, the requirements of the Care Quality Commission and national priorities described in the 'High Quality for All' report.

4.2 The policy sets out the organisation's attitude to risk and defines responsibilities and roles of the Chief Executive, Directors, senior managers and all other staff in relation to the effective delivery of the risk management agenda.

4.3 To deliver the objectives of the Risk Management Policy, the Trust employs a range of mechanisms to systematically assess and manage its risks, all of which combined provide the Board with the required assurance that risks to objectives are being appropriately managed.

4.4 The risk management method, which is described in the policy, sets out the approach adopted by the Trust in terms of the identification, assessment, and management of risks. This is a systematic approach which assesses the consequences and likelihood of each risk event and allows for the identification of risks which could be considered unacceptable to the organisation.

4.5 The policy prescribes that all risks should be assessed in relation to the achievement of the Trust's strategic objectives. In general terms, 'bottom up' risks are identified through local staff incident reporting and risk assessments whilst organisational risks will be identified through business planning, serious untoward incidents and HR processes such as recruitment. 'Top down' risk assessment is through the ongoing development of the Board Assurance Framework, strategic business planning and contract management.

MAJOR RISKS TO THE TRUST

4.6 The Trust has used a number of different processes to identify its major risks.

4.7 For the 2010/11 period, the Board determined the principal risks that could fundamentally impact upon the achievement of the Trust's strategic objectives as the following:

- Patient safety and effectiveness
- Trust reputation
- Trust financial viability
- Business continuity.

4.8 Risks on the Risk Register are assessed using a risk matrix. There is one significant corporate risk and this relates to health care associated infections; this is evident also in the Board Assurance Framework.

4.9 Major risks are also identified through a review of clinical incidents at the Trust Risk Assessment Committee, including Serious Untoward Incidents reported in line with risk management procedures.

4.10 The Trust has reviewed its risk management arrangements in view of risks posed by changes proposed in the White Paper, 'Equity & Excellence: Liberating the NHS'. Financial pressures within the NHS environment place more emphasis on the achievement of savings targets and achieving financial balance.

4.11 'Managing for Success' is the Trust's long term approach to delivering cost reduction through sustainable change. The Trust has drawn up a strategy specific to the identification and management of risks relating to Managing for Success. Risk logs are available for each work stream and risks are supported by plans for actions to reduce / manage the risk.

RISK AND PERFORMANCE MANAGEMENT

4.12 The Trust has an established divisional and directorate performance review process in place. This provides a means of monitoring the management of risk at local levels across a range of areas such as finance, national access targets, workforce and healthcare acquired infections.

4.13 In addition, a monthly Integrated Performance Report is prepared and is a standing agenda item for Trust Board meetings. This report reflects progress being made (by each specialty and the Trust as a whole) towards local and national standards or targets.

4.14 The Trust has an established high level committee structure and work is currently ongoing to review and strengthen this. Of note is the Clinical Governance Committee which has responsibility for providing assurance to the Board on the full range of clinical governance issues.

DATA SECURITY

4.15 The Trust assesses and manages its data security on an ongoing basis. This assessment is routinely formalised by completion of the annual Information Governance Toolkit return, which is the subject of review and formal sign off by Internal Audit. The Trust also conducts reviews of information transfers at departmental level during the year in response to guidance issued by the Department of Health. Any issues causing concern are recorded in the Risk Register and escalated to the Information Governance Group as the delegated Board authority for action. In making this assessment I have taken written advice from the Senior Information Risk Owner and reviewed associated evidence of compliance. Certain matters regarding assurances about third parties are explicitly included in this statement.

EQUALITY, DIVERSITY AND HUMAN RIGHTS

4.16 Control measures are in place to ensure that the organisation is compliant with its obligations under equality, diversity and human rights legislation. This includes: provision of information to service users and staff on the Trust website that meets the statutory publication duties, undertaking Equality Impact Assessments and an audit of equality in practice in wards and departments. Significant work has been undertaken in relation to ethnic group data collection.

4.17 The organisation is putting in place plans to enhance the processes for evidencing and monitoring changes in Equality and Diversity legislation. This includes:

- Enhancing the process for evidencing and monitoring Equality Impact Assessments in relation to service changes
- Designated Equality and Diversity lead at Executive Director level
- Performance management arrangements against the Equality Delivery System
- Strengthening of assurance arrangements feeding up to Board level.

PUBLIC STAKEHOLDER INVOLVEMENT

4.18 The business planning processes that are in place include engagement with, and the direct involvement of partner organisations and public stakeholders and service users. These ensure that they are involved in the identification and management of risks in relation to those service developments which impact upon them. An example of this during 2010/11 has been Trust consultation with patient panels regarding the provision of Dermatology.

4.19 Working relations with the Leeds City Council Overview and Scrutiny Committee (Health) continue to develop and include the development of a joint programme of work whereby stakeholders are actively involved in understanding the work, achievement and challenges of the Trust. The Trust continues to work with Local Involvement Networks (LINks).

BOARD ASSURANCE FRAMEWORK

4.20 The Trust Board Assurance Framework includes the following key elements:

- strategic objectives of the Trust
- principal risks to delivering the objectives (see paragraph 4.7)
- controls in place to manage the risks

- review and assurance mechanisms which relate to the effectiveness of the system of internal control
- actions taken / to be taken to address gaps in control and assurance.

4.21 The 2010/11 Board Assurance Framework was established by the Board and endorsed by the Clinical Governance Committee in April 2010. As such, it has been in place throughout the financial year. It has been subject to periodic review in the course of the year, focussing on specific sections at each time.

4.22 The strategic objectives of the Trust are:

- achieving excellent clinical outcomes
- improving the way we manage our business
- becoming a hospital of choice.

4.23 A fourth strategic objective has recently been agreed by the Trust Board and this sets out to achieve academic excellence and expand the boundaries of healthcare. It is intended that the Assurance Framework will be updated to reflect this new objective in 2011/12.

4.24 Gaps in controls and assurance have been found in the following areas:

<u>Achieving Excellent Clinical Outcomes</u>

- Clinical data

<u>Improving the way we manage our business</u>

- IT strategy and infrastructure
- Patient Administration Infrastructure
- Strategic change
- Business Continuity
- Foundation Trust Status
- Business Opportunities

<u>Becoming the Hospital of Choice</u>

- Delivering excellent experiences for our patients
- Complaints
- Patient and public involvement
- Patient information and costing
- Environment and equipment
- Staff involvement and engagement
- Key standards.

4.25 Actions to close the gaps have been identified and detailed in the Board Assurance Framework document.

4.26 Based on my assessment of the Assurance Framework Statement and on Internal Control requirements I have identified four key priorities to be actioned in 2011/12, in order to enhance the internal control arrangements.

4.27 This assessment is informed by the changes in the NHS provider landscape and the Trust's progression to Foundation Trust's status.

4.28 The implementation of these actions will strengthen visibility of the Board's process of monitoring risk mitigation plans associated with significant risks (as highlighted on the Board Assurance Framework) through board business.

4.29 These priorities are to:

- Enhance the Board's use of the Assurance Framework as a proactive assurance document in relation to the management of strategic objectives, the principal risks to the achievement of these objectives and the link to performance through bi-monthly / quarterly discussions
- Refresh the Trust's process of identifying and evaluating the design of key controls intended to manage the principal risks
- Evaluate the assurance across all areas of principal risks
- Strengthen the process of collating potential and actual sources of assurance.

4.30 The Board will oversee the implementation of these priorities, whilst taking assurance from the Audit and Clinical Governance Committees.

THE NHS PENSION SCHEME ARRANGEMENTS

4.31 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.

CLIMATE CHANGE ADAPTATION

4.32 The Trust will undertake a climate change risk assessment and develop an Adaptation Plan to support its emergency preparedness and civil contingency requirements, as based on UK Climate

Projections (KCP09), to ensure that this organisation's obligations under the Climate Change Act are met.

4.33 The Trust has an approved carbon management plan which sets out proposals to meet the targets as outlined in the 'Saving Carbon Improving Health' document produced by the NHS Sustainable Development Unit. This document includes targets specifically for NHS organisations in accordance with the Climate Change Act 2008.

4.34 Major Incident Contingency plans are in place which describe how the Estates department will deal with a wide range of issues relating to the estate infrastructure; these are periodically reviewed and risk assessed.

4.35 The Trust has contingency plans in place to deal with current risks associated with climate changes, e.g. the Trust Heatwave plan which has been reviewed and updated during the last year. It does not currently have risk assessed adaptation plans / strategies established to deal with the future impacts of climate change. This is being developed and led by the Sustainability Steering Group.

CARE QUALITY COMMISSION STANDARDS

4.36 The Trust is fully compliant with Care Quality Commission essential standards of quality and safety.

5 REVIEW OF EFFECTIVENESS

5.1 As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways:

- The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of Internal Audit's work. In the 2010/11 Head of Audit Opinion Statement, significant assurance has been given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently.
- Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance.
- The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed.
- The Audit Committee has, as part of its duties, responsibility for reviewing the establishment and maintenance of an effective system of internal control, including oversight of the Trust' clinical

governance arrangements, and advises the Trust Board accordingly.

- The Clinical Governance Committee provides assurance about the Trust's clinical governance arrangements to the Trust Board.
- The Divisional / Directorate Performance Review process.
- Trust National Patient Safety Agency (NPSA) assessments.
- The monthly Board Integrated Performance Report.
- Royal College Visits.
- External Auditor's reports.
- Reports from external review bodies which provide assurance and may identify areas of concern to be addressed by the appropriate level of management.
- Care Quality Commission visits as part of the registration process.

5.2 I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Trust Board which is supported by:

- the Audit Committee which considers the annual plans and reports of External and Internal Audit
- the Clinical Governance Committee which ensures that comprehensive and robust systems and processes are in place for clinical governance within the Trust
- the Senior Management Team which oversees the implementation of the strategic direction of the Trust.

5.3 There are also a number of other groups which provide assurance on the system of internal control and report indirectly to the Board via the Clinical Governance Committee. Examples include the Clinical Governance Steering Group, the Risk Assessment Committee, the Infection Prevention & Control Committee and the Information Governance Committee.

5.4 In addition, the Head of Internal Audit has identified and recorded in Internal Audit reports concerns about various control weaknesses which need to be addressed. Action plans to address these internal audit concerns have been agreed with senior managers and further details are recorded in the Internal Audit progress reports presented to the Audit Committee. Internal Audit maintains a system to monitor the implementation of all agreed recommendations and report back to the Audit Committee on a regular basis. This is a well established process and continues to operate effectively.

5.5 The Trust is reliant upon information system controls operated by third parties under contracts negotiated by the Department of Health and under which the Trust has no contractual or other influence over the managed service providers. For the ESR Payroll and HR system, the Department of Health has put in place arrangements under which the Trust receives formal assurances about the effectiveness of internal controls.

5.6 My review confirms that the Leeds Teaching Hospitals NHS Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives.

On behalf of the Board

MAGGIE BOYLE
Chief Executive

9 June 2011

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF DIRECTORS OF LEEDS TEACHING HOSPITALS NHS TRUST

We have audited the financial statements of Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2011 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Directors of Leeds Teaching Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 45 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust's directors and the Trust as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of Leeds Teaching Hospitals NHS Trust's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

Opinion on other matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the Statement on Internal Control on which we report to you if, in our opinion the Statement on Internal Control does not reflect compliance with the Department of Health's requirements.

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

Trust's responsibilities

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

Auditor's responsibilities

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

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

Basis of conclusion

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Trust has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, we are satisfied that, in all significant respects, Leeds Teaching Hospitals NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

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

Sarah Howard

Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP

No 1 Whitehall Riverside
Whitehall Road
Leeds
LS1 4BN

9 June 2011

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	**2010-11 £000**	2009-10 £000
Revenue			
Revenue from patient care activities	5	**764,897**	744,696
Other operating revenue	6	**169,630**	165,860
Operating expenses	8	**(910,934)**	(886,869)
Impairments of non current assets	18	**(1,182)**	(42,075)
Reversal of impairments of non current assets	18	**6,995**	0
Operating surplus/(deficit)		**29,406**	(18,388)
Finance costs:			
Investment revenue	13	**199**	59
Other gains and losses	14	**42**	732
Finance costs	15	**(13,012)**	(12,474)
Surplus/(deficit) for the financial year		**16,635**	(30,071)
Public dividend capital dividends payable		**(10,836)**	(13,355)
Retained surplus/(deficit) for the year		**5,799**	(43,426)
Other comprehensive income			
Impairments and reversals	18	**(12,042)**	(110,873)
Gains on revaluations		**575**	12,503
Receipt of donated assets		**1,227**	1,745
Reclassification adjustments:			
- Transfers from donated asset reserve		**(1,029)**	(1,112)
Total comprehensive income for the year		**(5,470)**	(141,163)

The notes on pages 5 to 36 form part of these accounts.

Reported NHS financial performance position

Retained surplus/(deficit) for the year	**5,799**	(43,426)
Additional PFI costs	**2,065**	2,314
Impairments of non current assets	**1,182**	42,075
Reversal of impairments of non current assets	**(6,995)**	0
Reported NHS financial performance position	**2,051**	963

A trust's Reported NHS financial performance position is derived from its retained surplus/(deficit), but adjusted for the following:-

a) An impairment charge or reversal is not considered part of the organisation's financial performance

b) The revenue cost of bringing PFI assets onto the balance sheet (due to the introduction of International Financial Reporting Standards (IFRS) in 2009/10) - NHS Trusts' financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS to PFI, which has no cash impact and is not chargeable for overall budgeting purposes, should be reported as technical. This additional cost is not considered part of the organisation's financial performance.

The Trust is therefore judged to have met the breakeven duty in 2009/10 and 2010/11. See note 33

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

	NOTE	**31 March 2011 £000**	31 March 2010 £000
Non-current assets			
Property, plant and equipment	16	**593,623**	591,794
Intangible assets	17	**89**	44
Trade and other receivables	21	**9,320**	7,923
Total non-current assets		**603,032**	599,761
Current assets			
Inventories	20	**16,976**	17,329
Trade and other receivables	21	**37,774**	41,913
Cash and cash equivalents	22	**12,033**	8,840
Total current assets		**66,783**	68,082
Total assets		**669,815**	667,843
Current liabilities			
Trade and other payables	24	**(76,361)**	(78,939)
Borrowings	25	**(5,677)**	(4,482)
Provisions	29	**(1,352)**	(1,330)
Net current (liabilities)		**(16,607)**	(16,669)
Total assets less current liabilities		**586,425**	583,092
Non-current liabilities			
Borrowings	25	**(245,445)**	(235,961)
Trade and other payables	24	**(2,418)**	(3,665)
Provisions	29	**(5,908)**	(5,342)
Total assets employed		**332,654**	338,124
Financed by taxpayers' equity:			
Public dividend capital		**290,701**	290,701
Retained earnings		**(49,427)**	(55,478)
Revaluation reserve	16	**74,849**	86,914
Donated asset reserve		**16,489**	15,945
Other reserves		**42**	42
Total taxpayers' equity		**332,654**	338,124

The financial statements were approved by the Board at its meeting on 9 June 2011 and signed on its behalf by:

Maggie Boyle - Chief Executive

Neil Chapman - Director of Finance

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2011

	Public dividend capital (PDC)	Retained earnings	Revaluation reserve	Donated asset reserve	Other reserves	Total
	£000	£000	£000	£000	£000	£000
Changes in taxpayers' equity for 2010-11						
Balance at 1 April 2010	290,701	(55,478)	86,914	15,945	42	338,124
Total comprehensive income for the year						
Retained surplus for the year	0	5,799	0	0	0	5,799
Transfers between reserves	0	252	(286)	34	0	0
Impairments and reversals	0	0	(12,042)	0	0	(12,042)
Net gain on revaluation of property, plant, equipment	0	0	263	312	0	575
Receipt of donated assets	0	0	0	1,227	0	1,227
Reclassification adjustments:						
- transfers from donated asset reserve	0	0	0	(1,029)	0	(1,029)
New PDC received	10,000	0	0	0	0	10,000
PDC repaid in year	(10,000)	0	0	0	0	(10,000)
Balance at 31 March 2011	**290,701**	**(49,427)**	**74,849**	**16,489**	**42**	**332,654**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	2010-11 £000	2009-10 £000
Cash flows from operating activities			
Operating surplus/(deficit)		**29,406**	(18,389)
Depreciation and amortisation		**35,451**	35,639
Impairments and reversals		**(5,813)**	42,075
Transfer from donated asset reserve		**(1,029)**	(1,112)
Decrease in inventories		**353**	683
Decrease in trade and other receivables		**451**	4,550
Increase/(decrease) in trade and other payables		**679**	(957)
Increase/(decrease) in provisions		**567**	(232)
Net cash inflow from operating activities		**60,065**	62,257
Cash flows from investing activities			
Interest received		**195**	59
(Payments) for property, plant and equipment		**(47,497)**	(57,964)
Proceeds from disposal of plant, property and equipment		**46**	6,681
(Payments) for intangible assets		**(10)**	0
Net cash (outflow) from investing activities		**(47,266)**	(51,224)
Net cash inflow before financing		**12,799**	11,033
Cash flows from financing activities			
Interest paid		**(12,971)**	(12,421)
Dividends paid		**(8,516)**	(15,819)
Public dividend capital received		**10,000**	16,831
Public dividend capital repaid		**(10,000)**	(10,050)
Loans received from the DH		**15,500**	18,100
Loans repaid to the DH		**(1,256)**	(453)
Other capital receipts		**1,202**	1,748
Capital element of finance leases and PFI		**(3,565)**	(3,380)
Net cash (outflow) from financing		**(9,606)**	(5,444)
Net increase in cash and cash equivalents		**3,193**	5,589
Cash (and) cash equivalents at 1 April 2010		**8,840**	3,251
Cash (and) cash equivalents at 31 March 2011	22	**12,033**	8,840

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trusts' Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2010/11 NHS Trusts' Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the NHS Trusts' Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

Activities are considered to be ‘acquired’ only if they are taken on from outside the public sector. Activities are considered to be ‘discontinued’ only if they cease entirely. They are not considered to be ‘discontinued’ if they transfer from one public sector body to another.

1.3 Going Concern

After making enquiries, the directors have formed a judgement at the time of approving the financial statements that there is a reasonable expectation that the Trust has access to adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

1.4 Critical accounting judgements and key sources of estimation uncertainty

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

1.4.1 Critical judgements in applying accounting policies

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

Bexley Wing and Wharfedale Hospital, constructed under the Private Finance Initiative (PFI), meet the criteria for inclusion in the Accounts as Finance Leases as the Trust bears the risks and rewards of ownership. See paragraphs 1.13 Leases and 1.14 PFI transactions.

1.4.2 Key sources of estimation uncertainty

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

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

Plant, Property and Equipment - Para. 1.8 and Note 16
Intangible Assets - Para 1.9 and Note 17
Provision for Impairment of Receivables - Note 21
Provisions - Para 1.17 and Note 29
Contingencies - Para 1.20 and Note 30

1.5 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are apportioned across the financial years on the basis of length of stay at the end of the reporting period compared to expected total length of stay.

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

The Trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer. The Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

Goods are sold on an incidental basis. Income is recognised at the point the sale transaction occurs.

1.6 Employee Benefits

Short-term employee benefits

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

Retirement benefit costs

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

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

1.7 Other expenses

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

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

1.8 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

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

Land and buildings used for the 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 end of the reporting period. Fair values are determined as follows:

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

Until 31 March 2008, the depreciated replacement cost of specialised buildings has been estimated for an exact replacement of the asset in its present location. 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 of the Trust's property assets have been valued by the District Valuer with a valuation date of 31st March 2011. Buildings have been valued using depreciated replacement cost on a modern equivalent asset basis. No alternative site has been sought and the valuation covers all of the existing hospital sites. At each hospital site, however, the valuation assumes replacement of individual buildings to meet current service needs and building standards would involve a reduction in overall floor area. Should the Trust Board adopt an alternative Estate strategy, the valuation will be reviewed accordingly.

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

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

Until 31 March 2008, fixtures and equipment were carried at replacement cost, as assessed by indexation and depreciation of historic cost. From 1 April 2008 indexation ceased. The carrying value of existing assets at that date will be written off over their remaining useful lives and new fixtures and equipment are carried at depreciated historic cost where this is not considered to be materially different from fair value. During 2010/11 the Trust commissioned an independent valuation of major equipment to assist in determining fair value.

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. This is a change in accounting policy from previous years where all impairments were taken to the revaluation reserve to the extent that a balance was held for that asset and thereafter to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

Subsequent expenditure

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

1.9 Intangible assets

Recognition

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

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

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

Measurement

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

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

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

1.10 Depreciation, amortisation and impairments

Freehold land and properties under construction are not depreciated.

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

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

If there has been an impairment loss, the asset is written down to its recoverable amount, with the loss charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.11 Donated assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to the donated asset reserve. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations and impairments are taken to the donated asset reserve and, each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to offset the expenditure. On sale of donated assets, the net book value is transferred from the donated asset reserve to retained earnings.

1.12 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

The profit or loss arising on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the Statement of Comprehensive Income. On disposal, the balance for the asset on the revaluation reserve is transferred to retained earnings. For donated and government-granted assets, a transfer is made to or from the relevant reserve to the profit/loss on disposal account so that no profit or loss is recognised in income or expenses. The remaining surplus or deficit in the donated asset or government grant reserve is then transferred to retained earnings.

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

Property, plant and equipment that is to be scrapped or demolished does not qualify for recognition as held for sale. Instead, it is retained as an operational asset and its economic life is adjusted. The asset is de-recognised when it is scrapped or demolished.

1.13 Leases

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

The Trust as lessee

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

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

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. This is a change in accounting policy from previous years where leased land was always treated as an operating lease.

The Trust as lessor

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

1.14 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure during the service concession period together with the residual interest in the infrastructure at the end of the period. This follows the principles of the requirements of IFRIC 12. The Trust therefore recognises its PFI assets as items of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) Payment for the fair value of services received;
b) Payment for the PFI asset, including finance costs; and
c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within 'operating expenses'.

PFI Asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IAS 17. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Trust's approach for each relevant class of asset in accordance with the principles of IAS 16.

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

PFI liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the construction cost of the PFI asset and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to 'Finance Costs' within the Statement of Comprehensive Income.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IAS 17, this amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a finance cost in the Statement of Comprehensive Income.

Lifecycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the Trust's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term finance lease liability or prepayment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

Assets contributed by the Trust to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Trust's Statement of Financial Position.

Other assets contributed by the Trust to the operator

Assets contributed (e.g. cash payments, surplus property) by the Trust to the operator before the asset is brought into use, which are intended to defray the operator's capital costs, are recognised initially as prepayments during the construction phase of the contract. Subsequently, when the asset is made available to the Trust, the prepayment is treated as an initial payment towards the finance lease liability and is set against the carrying value of the liability.

Assets with no initial liability

On initial recognition of the asset, an equivalent deferred income balance is recognised, representing the future service potential to be received by the Trust through the asset being made available to third party users. The balance is subsequently released to operating income over the life of the concession on a straight-line basis.

1.15 Inventories

Inventories are valued at the lower of cost and net realisable value using the weighted average cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

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

1.16 Cash and cash equivalents

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

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

1.17 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rate of 2.2% in real terms. For provisions relating to staff pensions only, HM Treasury have advised that a discount rate of 2.9% be applied.

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.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Trust has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

A restructuring provision is recognised when the Trust 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 ongoing activities of the entity.

1.18 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 29.

1.19 Non-clinical risk pooling

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

1.20 Contingencies

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

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

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

Where the time value of money is material, contingencies are disclosed at their present value.

1.21 Financial assets

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

Financial assets are initially recognised at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit and loss; held to maturity investments; available for sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, or failing that by reference to similar arms length transactions between knowledgeable and willing parties.

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

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

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

1.22 Financial liabilities

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

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

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

1.23 Value Added Tax

Most of the activities of the Trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.24 Foreign currencies

The Trust's functional currency and presentational currency is sterling. Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March. Resulting exchange gains and losses for either of these are recognised in the Trust's surplus/deficit in the period in which they arise.

1.25 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 35 to the accounts.

1.26 Public Dividend Capital (PDC) and PDC dividend

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

An annual charge, reflecting the cost of capital utilised by the Trust, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for donated assets and cash balances with the Government Banking Service. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. Prior to 2009/10 the PDC dividend was determined using forecast average relevant net assets and a note to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year. From 1 April 2009, the dividend payable is based on the actual average relevant net assets for the year instead of forecast amounts.

1.27 Losses and Special Payments

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

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS 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 Trust's Losses and Compensations Register. The Register is prepared on an accruals basis but does not include items where uncertainty regarding payment exists.

1.28 Joint operations

Joint operations are activities undertaken by the Trust in conjunction with one or more other parties but which are not performed through a separate entity. The Trust records its share of the income and expenditure; gains and losses; assets and liabilities; and cashflows.

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

1.29 Research and Development

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

1.30 Accounting Standards issued but not yet adopted

Neither the Treasury FReM nor the Department of Health's Manual for Accounts require the following Standards and Interpretations to be applied in 2010-11. The application of the Standards as revised would not have a material impact on the Leeds Teaching Hospitals NHS Trust accounts in 2010-11, had they been applied in that year:

IFRS 7 - Financial Instruments: Disclosures (amendment) - Transfers of financial assets (effective 2012/13)
IFRS 9 - Financial Instruments (effective 2012/13)
IAS 12 - Income Taxes amendment (effective 2012/13)
IAS 24 (Revised) Related Party Disclosures (2011/12)
IFRIC 14 The limit on a Defined benefit Asset, Minimum Funding Requirements and their Interaction, amendment (2011/12)
IFRIC 19 - Extinguishing financial liabilities with Equity instruments (2011/12)

2. Pooled Budgets

Leeds Teaching Hospitals NHS Trust has no pooled budget arrangements.

3. Operating Segments

The Trust engages in its activities as a single operating segment, i.e the provision of healthcare. The main source of revenue for the Trust is from commissioners for healthcare services which are principally Primary Care Trusts (PCTs). The Department of Health has deemed that as PCTs are under common control they are classed as a single customer for the purposes of segmental analysis. No other customer generates in excess of 10% of total revenue.

4. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. None of these activities exceed £1m nor are they otherwise material.

5. Revenue from patient care activities	**2010-11 £000**	2009-10 £000
Strategic health authorities	**29,354**	26,295
NHS trusts	**11**	11
Primary care trusts	**723,742**	707,583
Department of Health	**0**	(32)
NHS other	**2,182**	1,700
Non-NHS:		
Private patients	**4,088**	3,980
Overseas patients (non-reciprocal)	**1,238**	1,355
Injury costs recovery	**3,654**	2,794
Other	**628**	1,010
	764,897	744,696

Injury cost recovery income is subject to a provision for impairment of receivables of 9.6% to reflect expected rates of collection

6. Other operating revenue	**2010-11 £000**	2009-10 £000
Patient transport services	**0**	8
Education, training and research	**110,323**	105,857
Charitable and other contributions to expenditure	**1,830**	1,877
Transfers from donated asset reserve	**1,029**	1,112
Non-patient care services to other bodies	**47,363**	48,990
Rental revenue from operating leases	**624**	695
Other revenue	**8,461**	7,321
	169,630	165,860

7. Revenue	**2010-11**	2009-10
	£000	£000
From rendering of services	**933,707**	909,382
From sale of goods	**820**	1,174
	934,527	910,556

8. Operating expenses	**2010-11**	2009-10
	£000	£000
Purchase of healthcare from non NHS bodies	**3,852**	3,625
Trust chair and non executive directors	**96**	79
Employee costs	**561,773**	548,243
Supplies and services - clinical	**208,800**	197,503
Supplies and services - general	**8,049**	8,388
Consultancy services	**2,502**	1,306
Establishment	**6,925**	7,145
Transport	**2,883**	10,170
Premises	**44,654**	43,232
Provision for impairment of receivables	**(55)**	(3)
Inventories write down	**563**	0
Depreciation	**35,394**	35,516
Amortisation	**57**	123
Audit fees	**294**	292
Clinical Negligence Scheme for Trusts - membership contribution	**14,964**	13,400
Education and Training	**3,021**	2,584
Other	**17,162**	15,266
	910,934	886,869

During 2010/11, the financial responsibilty for Patient Transport Services transferred to Primary Care Trusts. The Trust received reduced income and saw a corresponding fall in Transport costs.

9. Operating leases

9.1 As lessee

The Trust has operating leases for short term property lets, vehicles and equipment, none of which are individually significant. The amounts recognised in the Accounts in respect of operating leases are:

Payments recognised as an expense	**2010-11**	2009-10
	£000	£000
Minimum lease payments	**5,003**	5,275

		2010-11		2009-10
Total future minimum lease payments	**Buildings**	**Other**	**Total**	Total
	£000	**£000**	**£000**	£000
Payable:				
Not later than one year	**943**	**1,379**	**2,322**	1,976
Between one and five years	**3,279**	**3,684**	**6,963**	5,593
After 5 years	**4,201**	**0**	**4,201**	4,914
Total	**8,423**	**5,063**	**13,486**	12,483

Total future sublease payments expected to be received: £nil

9.2 As lessor

The Trust has a power supply arrangement which includes leasing the Generating Station Complex at the General Infirmary to a third party supplier. This is a twenty year agreement with an annual income of £250k. Other leases relate to retail facilities across the Trust's sites.

Rental revenue	**2010-11**	2009-10
	£000	£000
Total rental revenue	**624**	695

Total future minimum lease payments	**2010-11**	2009-10
	£000	£000
Receivable:		
Not later than one year	**510**	524
Between one and five years	**1,480**	1,853
After 5 years	**2,513**	2,713
Total	**4,503**	5,090

10. Employee costs and numbers

10.1 Employee costs

	2010-11			2009-10		
	Total	**Permanently employed**	**Other**	Total	Permanently employed	Other
	£000	**£000**	**£000**	£000	£000	£000
Salaries and wages	**475,793**	**455,485**	**20,308**	463,630	446,703	16,927
Social security costs	**33,570**	**33,570**	**0**	33,021	33,021	0
Employer contributions to NHS Pension scheme	**52,974**	**52,974**	**0**	52,182	52,182	0
Other pension costs	**69**	**69**	**0**	294	294	0
Termination benefits	**107**	**107**	**0**	0	0	0
Employee benefits expense	**562,513**	**542,205**	**20,308**	549,127	532,200	16,927
Of the total above:						
Charged to capital	**740**			884		
Employee benefits charged to revenue	**561,773**			548,243		
	562,513			549,127		

10.2 Average number of people employed

	2010-11			2009-10		
	Total	**Permanently employed**	**Other**	Total	Permanently employed	Other
	Number	**Number**	**Number**	Number	Number	Number
Medical and dental	**1,859**	**1,782**	**77**	1,799	1,768	31
Administration and estates	**2,463**	**2,399**	**64**	2,623	2,539	84
Healthcare assistants and other support staff	**2,646**	**2,529**	**117**	2,613	2,506	107
Nursing, midwifery and health visiting staff	**3,759**	**3,618**	**141**	3,906	3,715	191
Nursing, midwifery and health visiting learners	**19**	**19**	**0**	12	12	0
Scientific, therapeutic and technical staff	**2,566**	**2,536**	**30**	2,575	2,546	29
Social care staff	**19**	**19**	**0**	13	13	0
Other	**363**	**359**	**4**	360	359	1
Total	**13,694**	**13,261**	**433**	13,901	13,458	443
Of the above:						
Number of whole time equivalent staff engaged on capital projects	**20**			19		

10.3 Staff sickness absence

	2010-11	2009-10
	Number	Number
Total days lost	**134,757**	136,344
Total staff years (see below)	**13,505**	13,307
Average working days lost	**10**	10

Figures for staff sickness absence are based on the 2010 calender year (January to December)
A full-time employee working all year, is equivalent to one staff year.

10.4 Management Costs

	2010-11	2009-10
	£000	£000
Management costs	**34,530**	34,138
Income	**931,820**	906,038
Management costs as % of income	**3.71%**	3.77%

Management costs are defined as those on the Department of Health Management Cost website at:
www.dh.gov.uk/en/Policyandguidance/Organisationpolicy/Financeandplanning/NHSmanagementcosts/index.htm

10.5 Exit Packages for staff leaving in 2010-11

	2010-11			2009-10		
	Number of compulsory redundancies	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
	Number	**Number**	**Number**	Number	Number	Number
£40,001 - £100,000	1	1	**2**	0	0	0
Total resource cost (£000s)	60	47	**107**	0	0	0

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

11. Pension costs

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

The Scheme is subject to a full actuarial valuation every four years (until 2004, every five years) and an accounting valuation every year. An outline of these follows:

a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the Scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date. The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004.

In order to defray the costs of benefits, employers pay contributions at 14% of pensionable pay and most employees had up to April 2008 paid 6%, with manual staff paying 5%.

Following the full actuarial review by the Government Actuary undertaken as at 31 March 2004, and after consideration of changes to the NHS Pension Scheme taking effect from 1 April 2008, his valuation report recommended that employer contributions could continue at the existing rate of 14% of pensionable pay, from 1 April 2008, following the introduction of employee contributions on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the Scheme's liabilities.

b) Accounting valuation

A valuation of the Scheme liability is carried out annually by the Scheme's actuary as at the end of the reporting period by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the scheme actuary. At this point the assumptions regarding the composition of the scheme membership are updated to allow the scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2011, is based on detailed membership data as at 31 March 2008 (the latest midpoint) updated to 31 March 2011 with summary global member and accounting data.

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

c) Scheme provisions

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

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

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

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in consumer prices in the twelve months ending 30 September in the previous calendar year.

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

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

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

12. Better Payment Practice Code

12.1 Better Payment Practice Code - measure of compliance	2010-11 Number	2010-11 £000	2009-10 Number	2009-10 £000
Total Non-NHS trade invoices paid in the year	**191,638**	**367,706**	192,593	341,237
Total Non NHS trade invoices paid within target	**165,745**	**322,330**	143,410	266,240
Percentage of Non-NHS trade invoices paid within target	**86%**	**88%**	74%	78%
Total NHS trade invoices paid in the year	**4,792**	**54,667**	5,324	72,200
Total NHS trade invoices paid within target	**1,878**	**24,070**	2,356	32,285
Percentage of NHS trade invoices paid within target	**39%**	**44%**	44%	45%

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

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

The Trust made no payments under the terms of this legislation.

13. Investment revenue	2010-11 £000	2009-10 £000
Interest revenue:		
Bank accounts	**105**	59
Other loans and receivables	**94**	0
Total	**199**	59

The Trust has a holding in ResusPod Ltd, a company which is commercially developing intellectual property. The company commenced trading in February 2011 and no earnings have been received. The Trust's holding in ResusPod (14.6%) carries a negligible value at the balance sheet date and cost £3.

14. Other gains and losses	2010-11 £000	2009-10 £000
Gain on disposal of property, plant and equipment	**42**	732

15. Finance costs	2010-11 £000	2009-10 £000
Interest on loans and overdrafts	**929**	205
Interest on obligations under finance leases	**12**	12
Interest on obligations under PFI contracts:		
- main finance cost	**12,050**	12,234
Total interest expense	**12,991**	12,451
Other finance costs (Note 29)	**21**	23
Total	**13,012**	12,474

16. Property, plant and equipment

2010-11	Land	Buildings excluding dwellings	Dwellings	Assets under construct and poa	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2010	26,631	506,926	3,882	36,935	214,049	1,290	39,136	10,194	839,043
Additions purchased	0	23,544	0	13,289	3,702	0	1,221	0	41,756
Additions donated	0	615	0	0	573	0	29	0	1,217
Reclassifications	1	40,742	0	(35,686)	(7,205)	0	1,208	0	(940)
Reclassifications as held for sale	0	0	0	0	(7,398)	0	0	0	(7,398)
Revaluation/indexation gains	0	324	0	0	263	0	0	0	587
Impairments	0	(12,042)	0	0	0	0	0	0	(12,042)
At 31 March 2011	26,632	560,109	3,882	14,538	203,984	1,290	41,594	10,194	862,223
Depreciation at 1 April 2010	6,087	49,332	152	0	149,169	1,196	31,674	9,639	247,249
Reclassifications		0	0		(841)	0	(111)	104	(848)
Reclassifications as held for sale	0	0	0		(7,394)	0	0	0	(7,394)
Revaluation/indexation gains	0	0	0		12	0	0	0	12
Impairments	0	347	0	0	835	0	0	0	1,182
Reversal of impairments	0	(6,995)	0	0	0	0	0	0	(6,995)
Charged during the year	0	17,146	147		13,377	20	4,612	92	35,394
Depreciation at 31 March 2011	6,087	59,830	299	0	155,158	1,216	36,175	9,835	268,600
Net book value									
Purchased	20,545	487,358	3,583	14,538	45,299	74	5,391	354	577,142
Donated	0	12,921	0	0	3,527	0	28	5	16,481
Total at 31 March 2011	20,545	500,279	3,583	14,538	48,826	74	5,419	359	593,623
Asset financing									
Owned	20,545	320,884	3,583	14,538	35,683	74	5,419	359	401,085
Finance leased	0	161	0	0	0	0	0	0	161
Private finance initiative	0	179,234	0	0	13,143	0	0	0	192,377
Total 31 March 2011	20,545	500,279	3,583	14,538	48,826	74	5,419	359	593,623

16.1 Revaluation reserve balance for property, plant & equipment

	Land	Buildings excluding dwellings	Dwellings	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2010	225	80,004	0	5,353	14	364	954	86,914
Movements	85	(12,127)	0	(23)	0	0	0	(12,065)
At 31 March 2011	310	67,877	0	5,330	14	364	954	74,849

16.2 Property, plant and equipment (cont.)

All land and building assets were revalued as at 31st March 2011 by the District Valuation Service at depreciated replacement cost using the Modern Equivalent Asset approach. (See Note 1.8)

Equipment assets were independently valued by the District Valuation Service as at 31st March 2011 using a depreciated replacement cost method. This is an acceptable basis of deriving fair value when dealing with specialised assets for which there is a limited market.

During the year the Trust received donated assets from the following:

	2010-11 £000	2009-10 £000
Leeds Teaching Hospitals Charitable Foundation	394	653
Variety Club of Great Britain	0	294
Sick Children's Trust	573	550
Walk the Walk	0	159
Children's Heart Surgery Fund	187	27
Take Heart	67	0
Others	6	62
Total	**1,227**	1,745

Property, plant and equipment assets are depreciated over their useful economic lives. The Trust applies the following standard lives to these classes of assets.

	Min Life Years	**Max Life Years**
Buildings exc. dwellings	25	35
Dwellings	25	35
Plant and machinery	5	15
Transport equipment	5	10
Information technology	5	5
Furniture and fittings	5	5

17. Intangible assets

2010-11	**Computer software - purchased**
	£000
Gross cost at 1 April 2010	**2,202**
Additions donated	**10**
Reclassifications	**92**
Gross cost at 31 March 2011	**2,304**
Amortisation at 1 April 2010	**2,158**
Charged during the year	**57**
Amortisation at 31 March 2011	**2,215**
Net book value	
Purchased	**81**
Donated	**8**
Total at 31 March 2011	**89**

17. Intangible assets (cont.)

Intangible assets have been measured at fair value in line with the policy detailed in note 1.9.

Intangible assets are amortised over their useful economic lives which are all judged to be finite. The Trust applies the following standard lives to these classes of assets.

	Min Life Years	**Max Life Years**
Software Licences	1	5
Licences and Trademarks	5	5
Patents	5	5

18. Impairments

As described in note 16 the Trust has had its estate and equipment assets independently valued. Both valuations have resulted in overall impairments to carrying values. In summary, these are:

	Charged to SOCI	**Charged to Revaluation Reserve**	**2010/11 Total**	2009/10 Total
	£000	**£000**	**£000**	£000
Land	0	0	0	51,618
Buildings	347	12,042	12,389	90,545
Buildings - PFI	0	0	0	16,981
Equipment	835	0	835	2,815
Impairment - reversal	(6,995)	0	(6,995)	(10,611)
Total	**(5,813)**	**12,042**	**6,229**	151,348

19. Commitments

19.1 Capital commitments

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

	31 March 2011	31 March 2010
	£000	£000
Property, plant and equipment	**30,716**	22,767

Capital commitments include £25,804k for an electrical infrastructure upgrade at St. James's Hospital of which £6,100k will be spent in 2011/12 and the remainder in future years.

20. Inventories

20.1 Inventories	**31 March 2011**	31 March 2010
	£000	£000
Drugs	**6,445**	6,477
Consumables	**10,267**	10,660
Energy	**264**	192
Total	**16,976**	17,329
Of which held at net realisable value:	**0**	0

20.2 Inventories recognised in expenses	**31 March 2011 £000**	31 March 2010 £000
Inventories recognised as an expense in the period	**176,276**	168,701
Write-down of inventories (including losses)	**563**	0

21. Trade and other receivables

21.1 Trade and other receivables	**Current 31 March 2011 £000**	**Non-current 31 March 2011 £000**	Current 31 March 2010 £000	Non-current 31 March 2010 £000
NHS receivables-revenue	**19,706**	**0**	24,877	0
Non-NHS receivables-revenue	**6,105**	**0**	8,474	0
Non-NHS receivables-capital	**79**	**0**	54	0
Provision for the impairment of receivables	**(1,535)**	**(348)**	(1,874)	(226)
Prepayments and accrued income	**6,548**	**6,045**	3,891	5,249
VAT	**1,771**	**0**	1,045	0
Other receivables	**5,100**	**3,623**	5,446	2,900
Total	**37,774**	**9,320**	41,913	7,923

The great majority of trade is with Primary Care Trusts, as commissioners for NHS patient care services. As Primary Care Trusts are funded by Government to buy NHS patient care services, no credit scoring of them is considered necessary.

Non current prepayments and accrued income relate to deferred assets. These reflect lifecycle replacement costs on equipment assets in Bexley Wing. The assets are included as part of the PFI contract (see note 28) and the costs are paid to the contractor in line with the planned programme of equipment replacement. Deferred assets are established in line with the accounting policy described in note 1.14.

21.2 Receivables past their due date but not impaired	**31 March 2011 £000**	31 March 2010 £000
By up to three months	**1,858**	2,547
By three to six months	**763**	554
By more than six months	**236**	293
Total	**2,857**	3,394

21.3 Provision for impairment of receivables	**31 March 2011 £000**	31 March 2010 £000
Balance at 1 April	**(2,100)**	(2,164)
Amount written off during the year	**162**	61
Decrease in receivables impaired	**55**	3
Balance at 31 March	**(1,883)**	(2,100)

Receivables are impaired when there is evidence to indicate that the Trust may not recover sums due. This can be on the basis of legal advice, insolvency of debtors or other economic factors. Impaired receivables are only written off when all possible means of recovery have been attempted. The nature of the Trust's business generally means that no collateral is held against outstanding receivables.

22. Cash and cash equivalents	**31 March 2011**	31 March 2010
	£000	£000
Balance at 1 April	**8,840**	3,251
Net change in year	**3,193**	5,589
Balance at 31 March	**12,033**	8,840
Made up of		
Cash with Government banking services	**11,454**	7,815
Commercial banks and cash in hand	**579**	1,025
Cash and cash equivalents as in statement of financial position/cash flow	**12,033**	8,840

23. Non-current assets held for sale	**Land**	**Buildings, excl dwelling**	**Dwellings**	**Other property, plant and equipment**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2010	**0**	**0**	**0**	**0**	**0**
Plus assets classified as held for sale in the year	**0**	**0**	**0**	**4**	**4**
Less assets sold in the year	**0**	**0**	**0**	**(4)**	**(4)**
Balance at 31 March 2011	**0**	**0**	**0**	**0**	**0**
Balance at 1 April 2009	6,300	250	0	0	6,550
Plus assets classified as held for sale in the year	435	(250)	779	35	999
Less assets sold in the year	(5,135)	0	(779)	(35)	(5,949)
Less impairments of assets held for sale	(1,600)	0	0	0	(1,600)
Balance at 31 March 2010	0	0	0	0	0

24. Trade and other payables	**Current 31 March 2011 £000**	**Non-current 31 March 2011 £000**	Current 31 March 2010 £000	Non-current 31 March 2010 £000
Interest payable	**50**	**0**	30	0
NHS payables-revenue	**2,538**	**0**	5,721	0
NHS payables-capital	**728**	**0**	0	0
Non NHS trade payables - revenue	**14,436**	**0**	15,679	0
Non NHS trade payables - capital	**4,688**	**0**	9,940	0
Accruals and deferred income	**34,727**	**2,418**	27,360	3,665
Social security costs	**5,274**	**0**	5,175	0
Tax	**6,627**	**0**	6,451	0
Other	**7,293**	**0**	8,583	0
Total	**76,361**	**2,418**	78,939	3,665

Other payables include £6,690 outstanding pensions contributions at 31 March 2011 (31 March 2010 £6,542). Payment was made on the 19th of April 2011.

25. Borrowings	**Current 31 March 2011 £000**	**Non-current 31 March 2011 £000**	Current 31 March 2010 £000	Non-current 31 March 2010 £000
Loans from:				
Department of Health	**1,906**	**29,985**	906	16,741
PFI liabilities	**3,771**	**214,880**	3,576	218,651
Finance lease liabilities	**0**	**580**	0	569
Total	**5,677**	**245,445**	4,482	235,961

Loans consist of the following Capital Investment loans

	Interest Rate %	**Loan Term**	**Final Settlement Date**	**Total Outstanding 31 March 2011 £000**
Loan 1 - Drawn December 2009 - £18.1m	3.92	19yrs 9months	Sept. 2029	16,741
Loan 2 - Drawn September 2010 - £14.0m	3.25	20 years	Sept. 2030	13,650
Loan 3 - Drawn March 2011 - £1.5m	1.90	5 years	March 2016	1,500
				31,891

The PFI liabilities relate to the Wharfedale Hospital and Bexley Wing schemes described in Note 28.

The finance lease liability relates to the Seacroft Receipts and Distribution Unit described in note 26.

26. Finance lease obligations

Finance lease obligations relate to the Catering Receipt and Distribution Unit (RADU) at Seacroft Hospital. The unit was constructed in 2002 by a private partner and will revert to Trust ownership upon expiry of the lease in 2027. The arrangement was determined as a finance lease as part of the transition to International Financial Reporting Standards (IFRS) compliance. Accounting treatment is in line with the policy described in note 1.13.

Amounts payable under finance leases:

Buildings	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
	31 March 2011 £000	**31 March 2011 £000**	31 March 2010 £000	31 March 2010 £000
Within one year	**1**	**0**	1	0
Between one and five years	**169**	**85**	135	85
After five years	**503**	**495**	537	484
Less future finance charges	**(93)**	**0**	(104)	0
Present value of minimum lease payments	**580**	**580**	569	569
Included in:				
Non-current borrowings (note 25)		**580**		569

27. Finance lease commitments

The Trust has not entered into any new Finance Lease commitments during 2010/11.

28. Private Finance Initiative contracts

28.1 PFI schemes on-Statement of Financial Position

There are two schemes which are judged to be on-

Institute of Oncology at St. James - Bexley Wing

This is a 30 year contract which expires in 2037. It provides for the construction, maintenance and partial equipping of Bexley Wing by the PFI partner in return for an annual charge to the Trust. The Trust has full use of the facility to provide healthcare services and will take ownership of the building and equipment at the end of the contract period. Future charges to the Trust will be determined by reference to the Retail Price Index. In 2022, the annual charge will reduce significantly to reflect the fact that the contractual commitment to meet equipment costs will be complete although the contractor is obliged to continue to provide equipment fit for purpose.

Wharfedale Hospital

This is a 30 year contract which expires in 2034. It provides for the construction and maintenance of Wharfedale Hospital by the PFI partner in return for an annual charge to the Trust. The Trust has full use of the Wharfedale Hospital to provide healthcare services and will take ownership of the building at the end of the contract period. Future charges to the Trust will be determined by reference to the Retail Price Index.

In the cases of both buildings the Trust has considered the substance of the contracts and determined that under the terms of IFRIC 12, Service Concession Arrangements, they contain leases which meet the definition of Finance Leases. Both assets are therefore treated as assets of the Trust in line with the policy described in note 1.14. The equipment included in the arrangement for Bexley Wing has been considered with reference to IFRIC 4, Determining Whether an Arrangement Contains a Lease and again it has been judged that a Finance Lease exists. The equipment assets are also treated as assets of the Trust and the sums payable consist of the service and imputed finance lease charges together with an element to reflect lifecycle replacement costs (See note 1.14). Imputed finance lease charges are shown in the table overleaf.

Total obligations for on-statement of financial position PFI contracts due:

	31 March 2011	31 March 2010
	£000	£000
Not later than one year	**11,718**	15,625
Later than one year, not later than five years	**62,498**	62,498
Later than five years	**339,201**	350,919
Sub total	**413,417**	429,042
Less: interest element	**(194,766)**	(206,815)
Total	**218,651**	222,227

28.2 Charges to expenditure

The total charged in the year to expenditure in respect of off-statement of financial position PFI contracts and the service element of on-statement of financial position PFI contracts was £9,427k (2009/10 £8,801k).

The Trust is committed to the following charges:

	31 March 2011	31 March 2010
	£000	£000
Within one year	**9,317**	9,107
Between one and five years	**39,465**	38,574
Later than five years	**224,481**	234,690
	273,263	282,371

29. Provisions

	Current	**Non-current**	Current	Non-current
	31 March 2011	**31 March 2011**	31 March 2010	31 March 2010
	£000	**£000**	£000	£000
Pensions relating to staff	**315**	**3,688**	300	3,662
Legal claims	**575**	**2,072**	545	1,680
Other	**462**	**148**	485	0
Total	**1,352**	**5,908**	1,330	5,342

	Pensions	**Legal claims**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
At 1 April 2010	**3,962**	**2,225**	**485**	**6,672**
Arising during the year	**387**	**1,065**	**285**	**1,737**
Used during the year	**(293)**	**(643)**	**(160)**	**(1,096)**
Unwinding of discount	**21**	**0**	**0**	**21**
Change in discount rate	**(74)**	**0**	**0**	**(74)**
At 31 March 2011	**4,003**	**2,647**	**610**	**7,260**
Expected timing of cash flows:				
Within one year	**315**	**575**	**462**	**1,352**
Between one and five years	**1,260**	**2,072**	**148**	**3,480**
After five years	**2,428**	**0**	**0**	**2,428**

Pensions relating to staff represent amounts payable to the NHS Business Services Authority - Pensions Division to meet the costs of early retirements and industrial injury benefits. Amounts are determined by the NHS Business Services Authority - Pensions Division based on actuarial estimates of life expectancy and there is therefore, a degree of uncertainty regarding the value of future payments.

Legal claims relate to personal injury and other claims where the Trust has received advice that settlement is probable. The final amounts and timings of payments remain subject to negotiation or legal judgement. Included are claims with a value of £231k which are being handled on behalf of the Trust by the NHS Litigation Authority who have advised on their status.

Other claims include provisions which relate to estimated pay arrears due to employees under the national Agenda for Change initiative. Until all arrears claims have been fully evaluated there is some uncertainty regarding the value of final payments. There is also a legal claim where judgement has been made and damages paid but the quantum of costs remains subject to final evaluation.

£118,972k is included in the provisions of the NHS Litigation Authority at 31/3/2011 in respect of clinical negligence liabilities of the Trust (31/03/10 £85,609k). These liabilities, if settled, will be met by the Litigation Authority.

30. Contingencies

30.1 Contingent liabilities

	2010-11	2009-10
	£000	£000
Contingent liabilities	**(536)**	(600)
Amounts recoverable against contingent liabilities	**0**	148
Total	**(536)**	(452)

30.2 Contingent assets

The Trust has no contingent assets.

Contingent liabilities consist of claims for personal injury of £331k (£247k in 2009/10) and property loss claims of £5k (£154k in 2009/10) where the probability of settlement is very low. The property related case and personal injury cases to the value of £187k are being managed on the Trust's behalf by the NHS Litigation Authority who have advised on their status. In all cases, quantum has been assessed on a "worst case scenario" and represents the maximum of any payment which may be made. The balance of personal injury claims are being managed internally by the Trust. In all cases the potential payment values have been assessed on a "worst case scenario" basis by reference to independent advice. Settlement of these claims is considered highly improbable but the values quoted represent the Trust's maximum exposure to loss.

There is also a contractual claim from a supplier to the value of £200k included in Contingent Liabilities (£200k in 2009/10). This is a long standing claim and settlement by the Trust is considered unlikely.

31. Financial instruments

31.1 Financial assets

	Loans and receivables
	£000
Receivables	**27,722**
Cash at bank and in hand	**12,033**
Total at 31 March 2011	**39,755**
Receivables	35,003
Cash at bank and in hand	8,840
Total at 31 March 2010	43,843

31.2 Financial liabilities

	Other
	£000
Payables	**43,399**
PFI and finance lease obligations	**219,231**
Other borrowings	**31,891**
Total at 31 March 2011	**294,521**
Payables	54,123
PFI and finance lease obligations	222,796
Other borrowings	17,647
Total at 31 March 2010	294,566

31.3 Financial risk management

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Due to the continuing service provider relationship that the Trust has with primary care trusts and the way those primary care trusts are financed, the Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Trust in undertaking its activities.

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

Currency risk

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

Interest rate risk

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

Credit risk

Since the majority of the Trust's income comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2011 are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk

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

32. Events after the reporting period

There are no events after the reporting period which have a material effect on the Accounts.

33. Financial performance targets

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

33.1 Breakeven performance	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Turnover	721,415	757,446	793,445	871,680	910,556	934,527
Retained surplus/(deficit) for the year	309	355	3,093	471	(43,426)	5,799
Adjustment for:						
Timing/non-cash impacting distortions:						
2006/07 PPA (relating to 1997/98 to 2005/06)	2,051	0	0	0	0	0
Adjustments for Impairments	0	0	0	0	42,075	(5,813)
Consolidated Budgetary Guidance - Adjustment for Dual Accounting under IFRIC12	0	0	0	0	2,314	2,065
Break-even in-year position	2,360	355	3,093	471	963	2,051
Break-even cumulative position	(51)	304	3,397	3,868	4,831	6,882

Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, NHS Trust's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS to IFRIC 12 schemes (which would include PFI schemes), which has no cash impact and is not chargeable for overall budgeting purposes, is excluded when measuring Breakeven performance.

Impairment charges and reversals are similarly excluded from the measurement of breakeven performance. Previously, these were centrally funded but this ceased with effect from 2008/09. The Department of Health determined however, that impairments charged to revenue expenditure should be considered outside the scope of the breakeven duty.

	2005-06 %	2006-07 %	2007-08 %	2008-09 %	2009-10 %	2010-11 %
Materiality test (I.e. is it equal to or less than 0.5%):						
Break-even in-year position as a percentage of turnover	0.3%	0.0%	0.4%	0.1%	0.1%	0.2%
Break-even cumulative position as a percentage of turnover	0.0%	0.0%	0.4%	0.4%	0.5%	0.7%

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

33.2 Capital cost absorption rate

Untill 2008/09 the Trust was required to absorb the cost of capital at a rate of 3.5% of forecast average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital bears to the actual average relevant net assets.

From 2009/10 the dividend payable on public dividend capital is based on the actual (rather than forecast) average relevant net assets and therefore the actual capital cost absorption rate is automatically 3.5%.

33.3 External financing limit

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

	2010-11	2009-10
	£000	£000
External financing limit	**10,679**	21,051
Cash flow financing	**8,688**	17,206
Other capital receipts	**(1,202)**	(1,748)
External financing requirement	**7,486**	15,458
Undershoot against the External Financing Limit	**3,193**	5,593

33.4 Capital resource limit

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

	2010-11	2009-10
	£000	£000
Capital resource limit	**41,880**	59,217
Gross capital expenditure	**42,983**	57,054
Less: book value of assets disposed of	**(4)**	(5,949)
Less: donations towards the acquisition of non-current assets	**(1,227)**	(1,745)
Charge against the capital resource limit	**41,752**	49,360
Underspend against the Capital Resource Limit	**128**	9,857

34. Related party transactions

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

The Department of Health is regarded as a related party. During the year the Leeds Teaching Hospitals NHS Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. These entities are listed below:

Leeds PCT
Wakefield PCT
Bradford and Airedale PCT
Kirklees PCT
Barnsley PCT
Calderdale PCT
East Riding of Yorkshire PCT
North Yorkshire and York PCT
Yorkshire and the Humber Strategic Health Authority
London Strategic Health Authority
NHS Blood and Transplant
NHS Business Services Authority
NHS Litigation Authority;
NHS Purchasing and Supply Agency;
Bradford Teaching Hospitals NHS Foundation Trust
Calderdale and Huddersfield NHS Foundation Trust
Harrogate and District NHS Foundation Trust
Hull and East Yorkshire Hospitals NHS Trust
Leeds Partnerships NHS Foundation Trust
Mid Yorkshire Hospitals NHS Trust
York Hospitals NHS Foundation Trust

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with the Department of Education and Skills in respect of university hospitals, Leeds City Council in respect of joint enterprises and the University of Leeds.

The Trust has also received revenue and capital payments from a number of charitable funds, including the Leeds Teaching Hospitals Charitable Foundation. No Board members, key management staff or parties related to them are Trustees of these charities.
The audited accounts of the Leeds Teaching Hospitals Charitable Foundation are published separately and may be obtained from:

The Leeds Teaching Hospitals Charitable Foundation
Trustees Office
The General Infirmary at Leeds
Great George Street
Leeds
LS1 3EX
Tel: 0113 392 3640

35. Third party assets

The Trust held £6k cash and cash equivalents at 31 March 2011 (£12k at 31 March 2010) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

36. Intra-government and other balances	**Current receivables**	**Non-current receivables**	**Current payables**	**Non-current payables**
	£000	**£000**	**£000**	**£000**
Balances with other central government bodies	**20,368**	**3,275**	**20,829**	**0**
Balances with local authorities	**58**	**0**	**136**	**0**
Balances with NHS trusts and foundation trusts	**4,526**	**0**	**1,029**	**0**
Balances with public corporations and trading funds	**132**	**0**	**0**	**0**
Intra government balances	**25,084**	**3,275**	**21,994**	**0**
Balances with bodies external to government	**12,690**	**6,045**	**54,367**	**2,418**
At 31 March 2011	**37,774**	**9,320**	**76,361**	**2,418**
Balances with other central government bodies	25,578	2,674	21,107	0
Balances with local authorities	26	0	121	0
Balances with NHS trusts and foundation trusts	3,855	0	1,954	0
Balances with public corporations and trading funds	86	0	885	0
Intra government balances	29,545	2,674	24,067	0
Balances with bodies external to government	12,368	5,249	54,872	3,665
At 31 March 2010	41,913	7,923	78,939	3,665

37. Losses and special payments

There were 370 cases of losses and special payments (2009-10: 784 cases) totalling £1,229,771 (2009-10: £408,492) accrued during 2010-11.

Included in the above is a loss of £469,440 relating to the write off of obsolescent stock in operating theatres.

Glossary

Accruals basis of accounting
Under the accruals concept, expenses are recognised when incurred, not when the cash is actually paid out, and revenue is recognised when it is earned, not when the cash is actually received.

Amortisation
The term used for depreciation of intangible assets such as the annual charge in respect of some computer licences the NHS trust has purchased.

Asset
An asset is something the NHS trust owns such as buildings, equipment, consumables, cash or monies owed to it.

Assets held for sale
Assets are held for sale if their value will be recovered through a sale transaction rather than through continuing use.

Break even
A statutory duty of NHS trusts to achieve, taking one year with the next. Break even is deemed to be achieved if revenue is greater than or equal to expenditure.

Capital resource limit
A limit on capital expenditure set for the NHS trust by the Department of Health.

Cash and cash equivalents
Cash includes cash held in bank accounts and cash in hand. Cash equivalents are assets that can be readily converted into cash such as deposits and short-term investments.

Commissioners
Organisations that contract with the NHS trust to purchase healthcare. In the main these are NHS primary care trusts.

Contingent asset or liability
An asset or liability that is not recognised in the accounts due to the level of uncertainty surrounding it but is disclosed as it is possible that it may result in a future inflow or outflow of resources.

Current asset/liability
An asset or liability that the NHS trust expects to hold or discharge for a period of less that one year from the balance sheet date.

Depreciation
The accounting charge representing the use of property, plant and equipment assets which spreads the cost or value of the asset over its useful life.

Employee benefits
All forms of consideration given to employees for services rendered. These are salaries and wages, social security costs (national insurance), superannuation contributions, paid sick leave, paid annual and long service leave and termination payments.

External financing limit
A limit on cash movements and borrowings set for the NHS trust by the Department of Health.

Going concern basis
The underlying assumption used in producing the accounts that the NHS trust will continue to operate for at least 12 months from the balance sheet date.

Impairment
A fall in the value of an asset.

Inventories
Stocks held by the NHS trust such as drugs, consumables etc.

Lease
An agreement where one party conveys the use of an asset for a specified period of time in return for a payment or series of payments.

Liability
An amount owing to a third party such as a loan or unpaid invoice from a supplier.

Net assets
Total assets less total liabilities.

NHS trusts manual for accounts
The annual Department of Health publication which sets out the detailed requirements for NHS trust accounts.

Non Current asset/liability
An asset or liability that the NHS trust expects to hold or discharge for a period of more that one year from the balance sheet date.

Payables
An amount that the NHS trust owes to another party such as suppliers (previously known as creditors under UK GAAP).

Payment by results
This refers to the flow of money in the NHS. Under payment by results the money received by the NHS trust directly relates to the number of operations and other activity undertaken by it.

Primary care trust
NHS organisations responsible for commissioning all types of healthcare services on behalf their local populations.

Private finance initiative
A partnership with private sector organisations to fund major investments without immediate recourse to public funds. Under PFI, the private sector will design, build and often manage major projects and lease them to the NHS trust over a long period, typically 30 years.

Provision
A liability which is probable but uncertain in terms of the timing and amount of its final settlement.

Public dividend capital
The taxpayers stake in the NHS trust representing the government’s initial investment in the Trust when it was established along with subsequent investments made by the Department of Health such as central funding for capital expenditure.

Receivables
An amount that is owed to the NHS trust by another party such as primary care trusts (previously known as debtors under UK GAAP)

Reserves
Reserves represent the overall increase in the value of the net assets of the NHS trust since it was established.

Statement of cash flows
A primary financial statement which shows the flows of cash in and out of the NHS trust during the financial year (previously known as Cash Flow Statement under UK GAAP).

Statement of change in taxpayers equity
A primary financial statement showing the movements in public dividend capital and reserves during the financial year.

Statement of comprehensive income
A primary financial statement showing the revenue earned and expenditure in the financial year (previously known as the income and expenditure account under UK GAAP).

Statement of financial position
A primary statement showing the assets and liabilities of the NHS trust at a particular date, along with how these have been funded (previously known as the balance sheet under UK GAAP).

Statement on internal control
A statement showing the controls that the NHS trust has put in place to manage the risks that it faces.

Tariff
The national price published annually by the Department of Health which the NHS trust receives as income from its commissioners under the Payment by Results system for healthcare provided to its patients.

Unrealised gains and losses
Unrealised gains and losses are those which have been recognised by the NHS trust in its accounts but are only potential gains as they have yet to be realised such as rises and falls in the value of land and buildings due to changes in the property market. The gain or loss only becomes realised when the property is sold.