The Leeds Teaching Hospitals NHS
NHS Trust

Annual Accounts
2011/12

Financial Review 2011/12

Performance in the Year

The Accounts which follow report financial performance in 2011/12 which can be summarised as:

- Income & Expenditure surplus of £2.8 million adjusted to £4.2 million after technical factors – see Statement of Comprehensive Income on p1. (£5.8 million adjusted to £2.0 million in 2010/11).
- Cash balance of £24.5 million (£12.0 million in 2010/11)
- Capital investment of £36.8 million (£42.9 million in 2010/11)
- 95% of suppliers' invoices paid within 30 days (86% in 2010/11)

These results represent achievement of the financial obligations placed upon the Trust by the Department of Health. The surplus of £2.8 million is £2 million better than originally planned for the year. This success must be seen in the context of a very difficult and well publicised economic climate, with the NHS being asked to find efficiency savings of £20 billion over four years. This review offers some insight into how the results were achieved against that backdrop and makes it clear that the financial pressures will remain in place for the foreseeable future.

Income and Expenditure

Total revenue income increased by 3.8% from the previous year to £970.7 million but operating expenses went up by 4.3% to £944.4 million. This still enabled the Trust to make a surplus but it gives an indication of the cost pressures faced.

The expenditure increase is despite the fact that efficiency savings of £32 million were achieved from our Managing for Success programme which is outlined on pages 50 to 51 of the Annual Report. Managing for Success is a long term initiative which is primarily focussed on improvements in quality through better practices. Financial savings flow from procedural change, so do tend to lag behind but have the benefit of being both recurrent and embedded. 2011/12 saw the highest level of financial savings yet delivered by Managing for Success, a real and significant achievement. Our original plan was to realise £42 million of savings via this route but during the year the target was reduced following more detailed costing of the assumptions which underpinned it. Despite that, the level of saving actually delivered is a source of satisfaction.

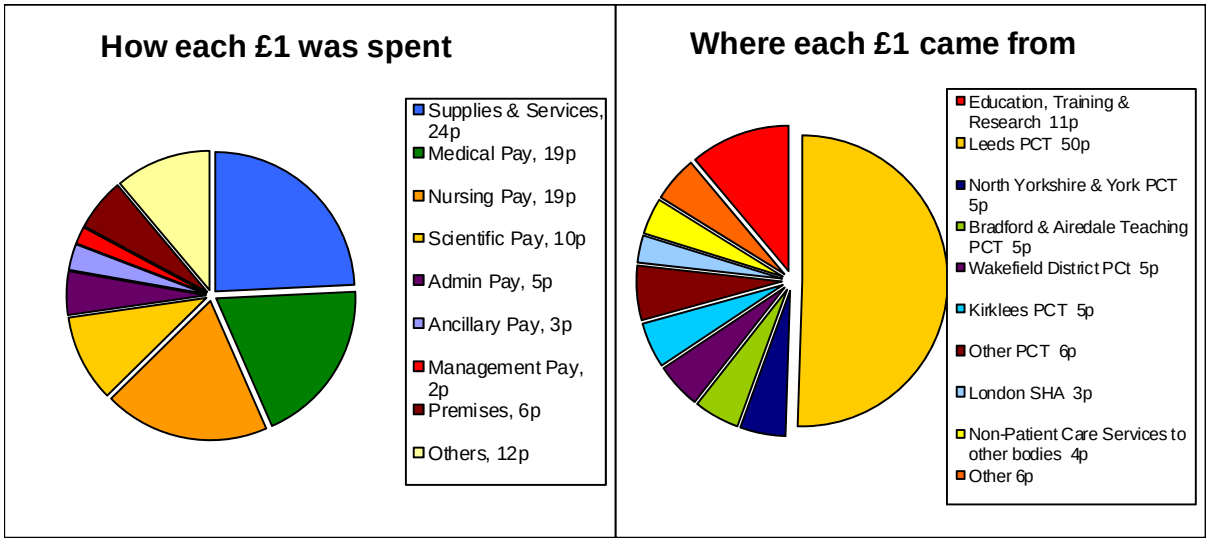
Staff costs account for 60% of total operating expenses. As part of the Government's economic policy, pay rates for staff earning more than £21,000 have not increased although a number of employees have received incremental increases to which they are contractually entitled. This helps to explain the £4.3 million increase in the cost of

permanently employed staff compared to the previous year. The cost of agency staff has increased by £2.6 million.

The pay bill for the year of £569.6 million is actually £6.3 million less than planned. This movement reflects underlying vacancies which the increased agency spend has partially offset. The Trust's efficiency programme has not involved significant redundancies, with 6 in the year compared to 1 in 2010/11. Posts have been removed from budgets but with only a very few exceptions these have all been vacant. No posts (including vacancies) have been removed from nursing budgets and in fact the Trust is actively recruiting nursing staff.

Additional income was received during the year to pay for additional activity in patient care, research and education. As a result of recently introduced changes in working practice the Trust met the additional activity requirements at a reduced pay cost; a net productivity improvement of approximately £17 million.

Non pay expenditure has seen an increase of £2.8 million against plan for the year. The largest single area of increase has been in Clinical Supplies and Services with expenditure of £2.2 million greater than our original plan, including £1.2 million more on medical and surgical consumables. Inflation is of course a factor here with individual products showing price increases ranging from 3% to 10%. In some cases the Trust has increased its usage to enhance quality. As an example, 2.5 million more pairs of examination gloves were purchased in 2011/12 than in the previous year as we continued our drive towards improved infection control.



The surplus achieved in 2011/12 equates to 0.3% of turnover and was largely delivered through successful implementation of Managing for Success schemes but, as in previous years, with a significant contribution from vacancies. Looking ahead the challenges are clear and the risks to success significant. As evidence of underlying financial resilience all trusts are required to achieve 1% of turnover as a surplus which for Leeds Teaching Hospitals means £10 million. To achieve that level of surplus the Trust will have to deal with forecast inflationary pressures of

approximately £25 million whilst reducing its operating expenditure from the 2011/12 level of £912.7 (before depreciation and financing costs) million to £895.4 million.

During 2011/12 the Trust developed and refined a detailed 5 year financial plan which incorporates the challenges identified above. For 2012/13 it requires additional savings from our Managing for Success programmes of £24 million and business growth of £10 million. These are challenging but achievable targets. Managing for Success will not compromise on quality of care and has built a track record of delivery. The financial plan has been subjected to sensitivity and risk analysis. It is built on prudent, credible assumptions. Planned income levels are based on our good, contractual relationships with commissioners. The Trust is confident that it can meet its future financial obligations.

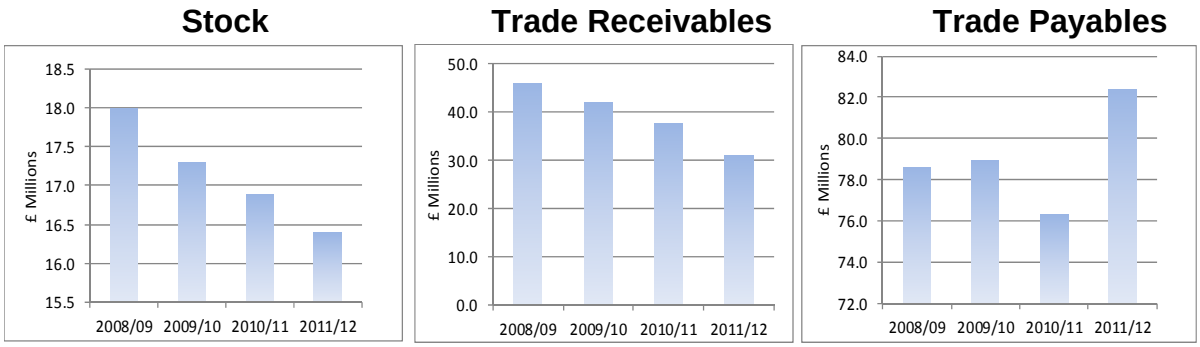
Cash and Working Capital

At 31st March 2012 the cash balance was £24.5 million compared to £12 million at the same point in 2011. This represents a better than planned performance by £3.5 million and was made possible through a combination of working capital improvements and achievement of our surplus.

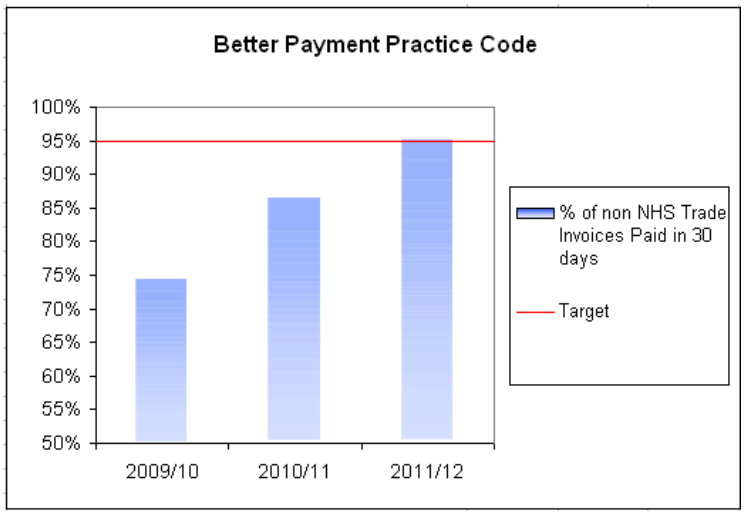
Strengthening our cash position provides resilience against future uncertainties and is a key element of our financial planning for the longer term. As we progress towards foundation trust status it is an area that will be subject to rigorous scrutiny by the regulator Monitor who will expect to see us retain a balance equivalent to 10 days of operating expenditure. At the end of 2011/12 the Trust achieved 9.8 days compared to a planned 8.4 days and 4.8 days in the previous year.

In 2012/13 we plan to exceed the 10 day benchmark and to continue improving year on year. Confidence in that plan is underpinned by our excellent working relationships with our local healthcare commissioners and the payment arrangements we have in place. As those organisations make way for the new GP led commissioning groups we will be working closely with all parties to ensure any risks to our cash position are minimised by the establishment of equally effective and mutually beneficial relationships.

Improvements in our own working capital management have helped towards our stronger cash position and given us a solid platform on which to base financial plans. The graphs below show our key working capital balances in recent years. Stock levels have reduced steadily although we have not closed any major stores. Better recording systems coupled with good materials management have delivered cash releasing benefits. In Pharmacy, the expansion of our programme to deliver drugs directly to patients at home has brought about a significant improvement in quality of service as well as releasing money tied up in stock.



Debt levels have come down as contracting, invoicing and collection methods have improved. Performance on Trade Payables has been more erratic but shows an underlying increase. This reflects our determination to take maximum permissible credit against invoices while ensuring our suppliers receive payment within terms. The Department of Health require NHS trusts to pay at least 95% of non NHS invoices within 30 days. In 2011/12, despite the increase in our Trade Payables balance we achieved that target right through the year. The graph below shows how we have improved our performance against this important obligation.



Capital Investment

The Trust's capital plan contains three programmes which in 2011/12 spent £36.8 million, split as follows:

Programme	£m
Building & Engineering	24.6
Informatics	5.6
Medical & Surgical Equipment	6.6
	36.8

Expenditure was £1 million below plan following slight damage sustained by a Magnetic Resonance Imaging (MRI) scanner while in transit to the Trust in March. The scanner could not then be delivered in time to be included in expenditure for the year. Fortunately, the delay was relatively short and our new scanner was installed successfully in April.

The Trust has a rolling five year capital plan which facilitates decision making linked to our long term Estate Rationalisation and Clinical strategies. Investment must yield demonstrable benefits through improvement in patient services, strategic fit, reduced backlog maintenance expenditure, replacement of essential equipment and efficiency savings. In 2011/12, the three programmes identified above reflected all of these requirements. The following are a few individual examples.

Scheme	£m
Addition of surgical robot to Specialist Surgery	1.8
Completion of £1.5m Renal Dialysis Satellite Unit at Huddersfield	0.9
Relocation of Pathology from leased to Trust accommodation	2.5
Centralisation of Dermatology service at Chapel Allerton	0.9
Upgrade Ophthalmic theatres	1.5
Replace anaesthetic equipment	0.6
Install Digital Dictation/Speech Recognition	1.0
Install and extend wireless network	0.7
Upgrade electrical infrastructure across St James's	7.2

Some of these schemes including centralisation of Dermatology and upgrading the electrical infrastructure at St. James's will continue in 2012/13 with investments of £2 million and £8 million respectively. Informatics will see investment increase to £7.7

million in 2012/13 as part of the long term strategy to equip the Trust with modern, robust IT systems and communications capability.

Funding for the capital programmes in 2011/12 came from:

Source of Funds	£m
Retained Depreciation	25.1
Net Borrowing	7.6
Donations	1.1
Use of revenue surplus	2.6
Asset sales	0.2
PFI Scheme – equipment renewal	0.2
	36.8

In 2012/13 and beyond the Trust is planning further borrowing in the region of £30 million to part fund capital expenditure. This commitment to an investment level greater than internally generated funds is both affordable and within the Prudential Borrowing Limit set by the Department of Health. Total capital investment in 2012/13 will be £40 million.

Future capital investment plans are subject to certain risks. In addition to borrowing the Trust is planning to reinvest some of its future surplus income. Our ability to secure these funds is of course dependent on achievement of our long term financial plans and on the general economic climate which will remain extremely challenging. Similarly, using the cash generated by retained depreciation remains viable provided our liquidity position, as described above, remains healthy. The Trust is confident that its plans are realistic, prudent and achievable.

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

07 June 2012

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

07 June 2012

Annual Governance Statement

1. Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of Internal Control that supports the achievement of the Leeds Teaching Hospitals NHS Trust (the Trust) policies, aims and objectives. Also, in accordance with the responsibilities assigned to me, I have personal responsibility for safeguarding public funds and the assets of the Trust. I am also responsible for ensuring that the Trust is administered by the most economic and prudent means, ensuring that resources are applied efficiently and effectively.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Trust for the year ended 31 March 2012 and up to the date of approval of the annual report and accounts.

3. Capacity to Handle Risk

3.1 Leadership

I recognise that committed leadership in the area of risk management is essential to maintaining sound systems of internal control required to manage risks associated with the achievements of the corporate goals of Leeds Teaching Hospitals.

The Trust's Risk Management Policy (October 2011) details my overall accountability to the Board for Risk Management within the Trust. I am responsible for ensuring that the Trust is in a position to provide overall assurance that the organisation has in place the necessary controls to manage its risk exposure.

The Medical Director, on my behalf, is the delegated executive lead for risk management within the Trust, ensuring effective processes are in place for the management of risk with responsibility for maintaining the Board Assurance Framework.

Operational risk management sits with each of the executive team in providing leadership to each of their portfolios and associated operational roles.
The Trust's current Board Committee structure has primarily Executive Director and Senior Trust Management membership, with the exception of the Audit and Remuneration Committee where membership is drawn from the Non-Executive Directors. Board committees are chaired by Non Executive Directors. It provides

a forum for discussion and the provision of assurance on the management of risk issues and, where applicable, it enables decisions on matters pertaining to the management of the hospitals and the services provided.

3.2 Training

The Trust has undertaken a 'training needs analysis' for all its staff in relation to risk management. All new starters receive risk management training at induction. For existing staff, a risk management e-learning module has been developed. All staff are directed to the Risk Management Policy and are actively encouraged to use the Trust's incident reporting form to report incidents and near misses.

In addition to the above, the Quality Directorate has provided a significant amount of formal and informal training throughout the year, teaching staff in the use of the risk scoring matrix, incident reporting and investigation, the risk register and general risk management principles. Further work is required to embed the benefits of this training throughout the Trust.

During 2011/12 and as a result of increasing awareness of the reporting processes, the Trust has seen a rise in no or low harm incident reports as demonstrated in the most recent feedback from the National Patient Safety Agency's National Reporting and Learning System. In the same period the Trust saw a reduction in serious harm incidents. Also, improvements have been made in the quality of reports analysing themes and trends in incidents, complaints and claims. These are providing more robust assurance that where weaknesses have been identified, action is being taken locally to address these and monitored by the relevant clinical governance forum.

3.3 Learning

Sharing learning throughout the organisation from risk related issues, incidents, complaints, claims and significant events is key to maintaining the risk management culture within the Trust. All staff are encouraged to disseminate learning acquired from a variety of sources, including:

- analysis of incidents, complaints and claims and acting on root cause analysis
- external inspections
- health and safety issues
- National Patient Safety Agency data
- internal and external audit reports
- clinical audit
- Trust governance meetings at local and corporate level.

To support the dissemination of learning, a patient safety blog was established during 2011/12 and all staff are encouraged to contribute to this.

The Trust participates in national and local surveys of patients and staff and uses feedback from these to improve patient care and staff welfare.

In line with an annual timetable, executive and non-executive directors and senior management take part in weekly patient safety and experience walkabouts. These

provide the opportunity to talk to frontline staff and patients to understand their concerns. All feedback from these discussions is recorded and acted upon.

4. The Risk and Control Framework

The role of the risk and control framework is to identify, evaluate and prioritise clinical and non clinical risks and gain assurance that these are properly controlled to ensure safe and effective care. As part of this, it oversees the process of internal control which is intended to manage and minimise risks. Within this framework, the Board has overall responsibility to establish arrangements for obtaining assurance on the effectiveness and key controls across all areas of principal risks.

Within the Trust, there are systems and processes in place for identifying, managing and monitoring risks. These include a comprehensive risk management policy, a committee structure with clear reporting mechanisms to the Board, monitoring systems for incidents and complaints and use of a Board Assurance Framework and risk register.

4.1 Risk Management Policy

The Trust Risk Management policy underpins the activities of risk management, and procedures for escalation of risks through the management structure. This policy was updated and ratified in 2011 in advance of the assessments by the NHSLA in November 2011 to achieve accreditation against the risk management standards (level 1). It provides the framework for the continued development of the risk management process, building on the principles and plans linked to the Board Assurance Framework, the risk register, the Care Quality Commission's essential standards of quality and safety and the national priorities described in 'High Quality for All', published in June 2008. The overall 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.

The Risk Management policy clearly defines the risk management method which requires that all directorates and departments undertake a process to identify and control the risks to the services they provide.

4.2 Committee Structure

Over the year the Trust has made very positive steps in embedding its risk management and governance arrangements as demonstrated by the new governance committee structure at both corporate and divisional level. During 2011/12, the Trust revised its committee structures and ensured that each committee's Terms of Reference was updated to reflect the assurance and reporting arrangements required by the Board. This review recognised the importance of the quality agenda and the increased focus being placed upon it.

The committee structure clearly separates assurance and operational management structures. Assurance committees, each chaired by a Non Executive

Director, help to ensure that Trust processes are robust, and that due consideration and challenge is provided on behalf of the Trust Board. The assurance committees are:

Board Committee	Role
Audit	Review the establishment and maintenance of an effective system of governance, risk management and internal control, across the whole of the organisation's activities.
Clinical Governance	Review and monitor the risk management arrangements through regular review of the Board Assurance Framework, corporate risk register and sources of assurance relating to key risk areas. Review and monitor quality and outcomes Monitor assurance arrangements to support the Quality Account, and the mitigation of risks to meeting quality targets, where they arise. The Clinical Governance Committee has four sub-committees reporting to it: ▪ Risk and Safety ▪ Information Governance ▪ Clinical Effectiveness and Outcomes ▪ Patient Experience
Workforce	To receive assurance that workforce arrangements are effective and risks relating to this are being effectively monitored.

During the year there has been increased recognition that in moving forward as an aspirant Foundation Trust, a Finance Committee would provide added assurance to the Trust Board. The Trust already has a Finance Group task and finish group, but the Trust Board has recommended that a Finance Committee is established early in the new financial year.

Each Board committee reports directly to the Trust Board providing a mechanism for the escalation of issues, ensuring that it has an overarching role in assurance and monitoring of performance. The Audit Committee provides annual reports identifying highlights of the year to the Board and moving forward this good practice will be modelled by the other assurance committees. Each committee maintains a record of the meeting which records who was present.

Each of the sub-committees providing assurance to Board committees is chaired by an executive director and constituted by senior managers and clinicians from corporate and divisional management teams.

Committees of the Board have supported the programmes of work required as a result of the CQC visits and will develop robust mechanisms for ensuring effective learning from issues and implementation of recommendations.

4.3 Board Assurance Framework

The Trust Board Assurance Framework includes the following key elements:

- strategic objectives of the Trust
- principal risks to delivering the objectives
- 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.

The 2011/12 Board Assurance Framework was established by the Board and has been in place throughout the financial year. During the year it has been reviewed twice by the Board, in June 2011 and October 2011, and more recently by the Audit Committee in March 2012.

4.4 Risk Register

An essential element of the risk management method is the risk register which is comprised of local departmental / directorate risk registers. This informs the business planning process and is a key consideration in the general operational management at divisional, directorate and corporate level. Local risk registers are subject to regular review and monitoring as part of divisional and directorate performance management and governance arrangements.

The Trust's risk appetite is reflected in the risk scoring mechanism. Risks are quantified consistently using a 5 x 5 risk scoring matrix set out in the Risk Management Policy. This matrix uses the likelihood of occurrence and the severity of impact and it identifies risk categories (low, medium and high) and is key to determining the level at which a risk is tolerated.

The risk register is currently centralised on an electronic database. The Trust has invested in DATIX Risk Management Software, a web-based incident reporting system. During 2011/12, considerable progress has been made towards the migration of the existing risk register to DATIX web which will be introduced during 2012/13. It will facilitate prompt reporting of risks electronically and the timely investigation of incidents to enable learning. Alignment of the risk register with the incidents and complaints database will enable the identification of risks from recurring incidents, and also provide a mechanism of gauging the effectiveness of the mitigation plans for particular risks.

4.5 Risks to the Trust

The Board has identified the key risks which may impact upon the Trust's strategic objectives and these are recorded in the corporate risk register and the Board Assurance Framework. These risks have been drawn from the Integrated Business Plan, Board Assurance Framework and Trust Risk Register. Key risks relate to the following areas:

- quality, safety and patient experience
- tertiary service designations decisions
- changes in commissioning arrangements
- the QIPP and transformation agenda
- growth of emergency activity
- delivery of the Managing for Success programme
- growth of competition.

A Trust Board Secretary commenced work in January 2012. A new proposal was presented to the Board at the start of March 2012 defining how the Trust Board Secretary will co-ordinate the use of the Corporate Risk Register for the new financial year as this will be a standing agenda item at each Board meeting. An assurance document will be reported to the Board in March each year to support the information required in preparing the Annual Governance Statement.

4.6 Risk and Performance Management

Regular performance management meetings for divisions and directorates take place using a standard template providing wide coverage of clinical governance areas. Divisional performance management meetings are chaired by the Director of Business Development and Performance Delivery supported by other executive directors. These arrangements ensure that due consideration and challenge is provided on behalf of the Trust Board.

During the year divisions have been performance managed on a variety of risk related issues. This includes monitoring of the completion of risk scores for incident reporting and updating of local risk registers. Considerable improvements have been made throughout the year with almost 95% of incidents now being risk scored; this compares to less than 80% in 2010/11.

The performance management, progress monitoring and internal controls are well embedded within the Trust and they ensure that corrective actions required to deliver objectives are applied consistently. Within the same framework, the consequences of partial or non achievement of objectives are regularly monitored and assessed. In this way, risks associated with the business, financial and service objectives are actively minimised.

4.7 Business Planning and Risk

The Trust's risk assurance arrangements are becoming more embedded within the business planning processes. The annual planning cycle at all levels of the Trust includes the requirement for plans to identify the risks associated with each of the key objectives identified and provide assurance that these are being addressed. Risks to the achievement of the Integrated Business Plan have been identified.

4.8 Internal and External Sources of Assurance

The assurances the Board and I require to endorse and approve this Annual Governance Statement, in terms of the effectiveness of internal control, are derived from internal and external sources of evidence.

4.8.1 Internal Assurance

In the course of 2011/12, the Trust introduced CQC challenge meetings. The purpose of these is to meet with management leads to review the evidence that is held regarding each outcome described in the CQC essential standards of quality and safety to provide assurance and identify areas that require further development to ensure full compliance. Assurances, issues and action plans arising from these meetings are subject to review as part of clinical governance reporting arrangements.

The Trust has in place an annual clinical audit programme including mandated audits addressing national and local issues, targets and performance. This programme supports the provision of assurance against national standards. The overarching aim of the clinical audit programme is to provide assurance that services meet specified standards to deliver high quality care and improve patient outcomes.

The Trust has processes in place through specialty governance forums to report on and learn from audit outcomes. Assurance is provided through corporate groups reporting to relevant sub-committees and the Clinical Governance Committee. An annual report is presented to the Clinical Governance Committee.

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 risk-based Strategic and Annual Plans. During the year Internal Audit has identified and recorded in Internal Audit reports concerns about 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 Directors and Audit Committee on a regular basis. This is a well established process and continues to operate effectively. In addition the Clinical Governance Steering Group regularly receives information regarding all relevant Internal Audit reports and where appropriate monitors the implementation of recommendations.

In the 2011/12 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. However, there were two Internal Audit reports where only limited assurance could be given. These were 'Safeguarding Children (Did Not Attend Policy, Procedures and Processes)' and 'Divisional Clinical Governance Arrangements, Including Performance management Arrangements - Medicine'.

In April 2011, the new Integrated Quality and Performance report (IQPR) was introduced within the Trust. This is a standing Board agenda item providing an assessment of the quality of care provided to patients. The main features of the 2011/12 Board IQPR report include information quality amongst the eight domains structured around the explicit set of Trust strategic goals.

During 2011/12, the style of bi-monthly divisional performance reports was also changed to reflect the indicators within the IQPR.

4.8.2 Board Reviews

In preparation for the Foundation Trust (FT) application, the NHS Institute FT Board Development Tool (BDT) process was carried out during 2011. This was an external assessment of Board performance against a series of performance indicators. Results were based upon individual submissions by Board members with overall scores compared against a national average. In response to findings, where development opportunities have been identified, feedback from the Trust sets out steps being taken to address these issues.

Further to the above, the Board Governance Assurance Framework (BGAF) was issued to aspirant FTs in December 2011. Within this is the Board Governance Memorandum (BGM). This is a mandatory process where Boards self-assess their current capacity and capability, supported by appropriate evidence. The latest self-assessment of the BGAF was presented to the Trust Board in April 2012. This exercise has provided the basis for actions by the Board to achieve good practice in all areas.

In line with the increased focus from Monitor on quality governance the Trust, as part of its preparation for FT, has been self-assessing against the Monitor 10 quality questions. Additionally in August 2011 the Trust commissioned an independent review of Monitors Quality Governance Framework, which identified a number of elements of good practice and identified where improvements were required. Action was taken to address known system and process weaknesses.

The review assessed the strength of the connectivity from Board to Ward and concluded that more time was required to fully embed the quality governance improvements throughout the organisation. Whilst there is evidence that significant cultural change, a key part of this process, is being achieved it is not yet embedded across the whole organisation.

4.8.3 Data Security

The Director of Informatics is the Senior Information Risk Owner (SIRO) and she has responsibility for ensuring that information risks within the Trust are accurately identified and managed with appropriate assurance mechanisms. She is also responsible for providing an annual report to the Clinical Governance Committee.

The Trust assesses and manages its Information Governance 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 Sub-Committee as the delegated Board authority for action. In making this assessment, the SIRO has

reviewed associated evidence of compliance with the Information Governance Sub-Committee and the Information Governance Toolkit.

4.9 External Assurance

4.9.1 Register of Assurers

The requirement for NHS organisations to obtain assurance from a range of sources, including external ones, is driven by national guidelines and documented performance standards. Within the Trust, the policy on Responding to External Agency Visits, Inspections and Accreditations creates a framework for the consistent application of expected procedures, with the Register of Assurers, which has been established to document details of external inspections, playing a significant role in the recording and monitoring process.

4.9.2 Care Quality Commission

The Leeds Teaching Hospitals NHS Trust was required to register with the Care Quality Commission (CQC) under Section 11 of The Health and Social Care Act 2008 from 1 April 2010.

The Trust is required to be compliant with sixteen essential standards of quality and safety. To help Trusts monitor their performance against these standards the CQC has developed a Quality and Risk Profile scorecard (QRP) for each healthcare provider. This is updated monthly showing the results of staff and patient surveys and performance against national standards and priority measures. This helps Trusts to assess where risks lie, supporting the Trust's own internal monitoring of quality.

During the last year the Trust has been subject to six inspection visits by the CQC under the new regulatory arrangements in 2011/12. The Trust was judged to be compliant in a number of areas relating to the essential standards of quality and safety, however moderate concerns were identified for the following Outcomes:

- Outcome 1 (Involvement in Care)
- Outcome 4 (Care and Welfare)
- Outcome 8 (Cleanliness and Infection Control)
- Outcome 13 (Staffing)

Actions were agreed and implemented through the divisional management structure to achieve and maintain compliance against these Outcomes.

The CQC visited the Trust at the end of February 2012 to undertake a routine follow-up to a compliance visit in August 2011. The CQC judged that the Trust was compliant with Outcome 8, stating that they were pleased with the progress that had been made and observed a clean environment and appropriate actions by staff to deliver care to promote good infection control. However, the CQC judged that they had major concerns about staffing (Outcome 13) on two of the wards inspected and the delivery of care to patients (Outcome 4) on one of the wards visited. The Trust was subsequently issued with two Warning Notices under the

Health and Social Care Act 2008 (Regulated Activities) regarding the following Regulations at Leeds General Infirmary (LGI):

- Regulation 9 (Outcome 4 - Care and Welfare)
- Regulation 22 (Outcome 13 - Staffing).

Following this, the Trust responded proactively and swiftly to address these concerns and a series of rapid improvement actions were implemented, including bringing forward the closure of the additional orthopaedic ward that had been opened to help manage the winter demand. A programmed response was launched in specific areas and Trust wide to provide assurance to the Trust Board that the major concerns reported by the CQC were not replicated in other areas. The Trust has declared that it is now compliant with these Regulations at the LGI; this was confirmed in a follow-up visit by the CQC that took place in April 2012. The CQC reported that significant improvements had been made and this was reflected in the high standard of care provided to patients in the areas inspected.

4.9.3 NHS Litigation Authority (NHSLA)

In November 2011, the Trust was assessed against Level 1 NHSLA Standards and was found to be compliant and obtained the maximum possible score. The Trust had previously been assessed as Level 1 for its Maternity service in 2010/11.

4.9.4 External Audit

In accordance with Audit Commission's Code of Audit Practice, the Trust's External Auditor, Grant Thornton provides assurance regarding finance and governance matters.

4.9.5 Patient Environment Action Team (PEAT)

The Trust participates in the PEAT process on an annual basis. This takes the form of a self-assessment by the Trust with independent validation by external assessors. Results for 2011/12 indicate that overall standards have risen slightly in comparison to the previous year. These improvements have occurred at St. James's and the LGI. At our peripheral sites we have maintained our good to excellent ratings.

4.10 Public Stakeholder Involvement

The Trust has developed its governance arrangements in respect of Patient Involvement and feedback through the establishment of the Patient Experience Sub-Committee and supporting group structure. A number of specialty specific patient panels and user groups are established across the organisation and work with Trust representatives to inform and identify risks regarding service improvements and change programmes. The Trust works closely with four advisory groups (Blind & Partially sighted, Deaf & Hard of Hearing, Carers and Learning Disability groups).

The Trust continues to develop its relationship with local stakeholders and activities have included:

- involvement of stakeholders (including patients, public, local NHS organisations and Local Authority) in the development of the Trust's involvement strategy and priorities
- increased engagement with Leeds Local Involvement Network including Trust representation at the LINk Steering Group, quarterly meetings between the LINk Steering Group and lead officers of the Trust (including myself and the Chief Nurse) and LINk representatives on the Patient Experience Sub-Committee
- joint working with local stakeholders (including the voluntary sector) as part of the NHS Citywide Equality Advisory Panel. This work involves local groups and communities in the Trust's Equality Objectives and performance against the requirements of the NHS Equality Delivery System

In addition to Public and Patient involvement (PPI) work, there is a range of other mechanisms for involving public stakeholders as described below.

Although the Trust is not yet a Foundation Trust (FT) we have recruited around 11,000 applicants for FT membership. During the autumn of 2011 this cohort was consulted about aspects of our FT constitution and future governance arrangements.

Leeds City Council Overview and Scrutiny Committee (Health and Wellbeing) has been strongly engaged by the Trust in a national consultation about the future of our paediatric cardiac surgery unit in terms of the Department of Health proposals to rationalise the number of such units across the country under terms of the Safe and Sustainable review.

Throughout the past 12 months we have worked closely with support officials in Leeds and also across Yorkshire and the Humber to provide briefing for local authority Overview and Scrutiny Committees to support their role in consultation. We have also briefed them on a wide range of other aspects of our work including our FT application, designation as a regional trauma centre, our performance against national standards and specific local issues.

MPs and local councillors have also been engaged by the Trust in the areas described above.

The Trust has engaged closely with locally based hospital charities that orchestrated a massive campaign against the potential closure of our children's heart surgery unit. This resulted in more than 600,000 signatories to a petition against the proposal by the Safe and Sustainable review team.

We are working with NHS partners, Local Authority and Clinical Commissioning Groups on a wide range of projects under the umbrella of the Leeds Health and social Care Transformation Programme to develop integrated care and generate efficiency savings.

4.11 Equality, Diversity and Human Rights

Control measures are in place to ensure that the Trust is compliant with its obligations under equality, diversity and human rights legislation. In 2011, the organisation established an Equality and Diversity Group that is chaired by the Chief Nurse and the Director of Human Resources who are the Executive Director Leads for Equality and Diversity. The group has a dual reporting arrangement to both the Clinical Governance Committee (via the Patient Experience Sub-Committee) and also to the Workforce Committee. This is due to the integrated nature of the agenda and work programme in relation to equality issues across workforce, service delivery, procurement, environment and information.

Equality Analysis (EA) forms part of the documentation for policy creation and revision and is integrated into the Quality and Performance Impact Assessment framework, which is used to support service change initiatives. A sub-group of the Equality and Diversity group has been formed to review and simplify the EA process, and to provide quality assurance on completed EAs.

The organisation has complied with the general and specific public sector duties of the Equality Act 2010 by:

- publishing equalities information by 31 January 2012
- setting and publishing specific and measurable organisational equality objectives by 6 April 2012.

The Trust Board and Senior Management Team received Equality and Diversity training in respect of legislative and compliance requirements in March 2012. The organisation has been assessed by external stakeholders and local interest groups against the performance requirements of the NHS Equality Delivery System (EDS).

Findings from the Public Sector Equality duty report and the EDS assessment process provided the evidence base for the organisational equality objectives and associated work plan. Progress against the work plan will be monitored through the Equality and Diversity Group.

4.12 NHS Pension Scheme

As an employer with staff entitled to membership on the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. The 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.

4.13 Carbon Management Plan

The Trust has a Board approved carbon management plan which includes measures to reduce our carbon output over the 2007 baseline by 2015. Based against the original parameters progress is being made. However, given increase in activity and the more intensive use of clinical service, increased reliance upon technology and the growth in infrastructure and outlets, meeting the target remains a challenge.

5. Review of Economy, Efficiency and Effectiveness of the use of Resources

The Trust's financial plan for 2011/12 presented to the Board in March 2011 identified the need to achieve substantial savings. The Trust's long term approach for delivering cost reduction through sustainable change is its Managing for Success (MfS) programme.

The resources of the Trust are managed within the framework set by the Standing Financial Instructions. These include an emphasis on budgetary control and ensure that service developments are implemented with appropriate financial controls.

The Board receives a monthly finance report and this provides relevant financial information to allow the Board to discharge its duties effectively.

Resource and financial governance arrangements are subject to scrutiny by both internal and external audit to secure economic, efficient and effective use of resources at the Trust's disposal.

6. Quality

6.1Annual Quality Account

The Directors of the Trust are required under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010 (as amended) to prepare a Quality Report for each financial year.

The Trust has an established Clinical Governance Committee, chaired by a Non-Executive Director. One purpose of this committee is to provide assurance to the Board that the Quality Account presents a properly balanced picture of the Trusts performance.

The Trust's second Quality Account, relating to 2010/11 was published in June 2011 and the third for 2011/12 report is currently being drafted for discussion and approval at the Trust Board in June 2012. The Quality Account is developed by clinicians and senior managers within the Trust, in conjunction with stakeholders and partner organisations including commissioners at NHS Leeds and the Local Involvement Network. The Medical Director, supported by the Director of Quality has overall responsibility to lead and advise on all matters relating to the preparation of the Trust's annual quality account.

This annual report tracks progress for the year against selected quality improvements and described priorities for the year. For 2011/12 the priorities were:

- Patient Safety - Prevention of healthcare-associated infections
- Clinical Effectiveness - Reduction in readmissions
- Patient experience - Improvement in patient reported experience.

These priorities fall within the three domains of quality described in 'High Quality Care for All', published in June 2008:

- The safety of treatment and care provided to patients
- The experience patients have of the treatment and care they receive
- Effectiveness of the treatment and care provided to patients.

6.2 Quality Strategy

The Trust Quality Strategy was approved by the Board in December 2011 and it provides an overarching framework for quality governance. It is delivered within the wider context of strategies for clinical services, estates, patient safety, informatics, workforce, and research and innovation.

The Quality Strategy is accompanied by a Long Term Quality Plan (LTQP). This sets out the Trust's long term ambitions for quality improvement defining specific targets to be achieved. These targets go beyond national minimum requirements and reflect the Board's commitment to achieve 'best in class' performance in a number of priority areas:

Within these domains, a series of quality goals have been identified through a range of sources including:

- Trust Integrated Quality and Performance Report (IQPR)
- NHS North of England quality dashboard
- local quality improvement priorities
- local risks
- NHS Operating Framework
- CQUIN goals

The LTQP will be delivered through our divisional management structure. Each division will develop their quality plans to describe how they will deliver the Trust priorities for improvement. Divisional plans will also include local quality priorities at specialty and directorate level.

Assurance on delivery of the LTQP will be provided through the committee structure. The specific goals for quality improvement will be considered through the Risk and Safety Sub-Committee, Clinical Effectiveness and Outcomes Sub-Committee and the Patient Experience Sub-Committee. Assurance on progress against each of these will be received by the Clinical Governance Committee.

Clinicians and managers need access to accurate and comprehensive data to support the delivery of high quality care. Improving the quality and reliability of information is a key aspect of quality improvement. Within the Trust, there are systems and processes in place for the collection, recording, analysis and reporting of data which are focused on securing data which is valid, reliable, relevant and complete.

6.3 Integrated Quality Performance Report

The enhanced IQPR provides a broader assessment of the quality of care being delivered to patients. In designing this report, the principles of the following sets of guidance were taken into account:

- Intelligent Board
- National Quality Board's Review of Early Warning Systems (February 2010)
- National Quality Board's 'Quality Governance in the NHS' (March 2011)
- The four elements of Monitor's Quality Governance Framework - Strategy, Capabilities and Culture, Processes and Structure and Measurement.

6.4 Information Quality

The Trust has defined the organisational structure within which Information Quality is managed, monitored, reported and improved. The Information Quality Group provides a forum which coordinates activities related to the quality of health information. Its remit is to cover the quality and timeliness of clinical, patient access and activity information. It reports to the Clinical Governance Committee through the Information Governance Group and the Information Governance Sub-Committee.

We have continued our programme of work to improve Information Quality across the Trust in 2011/12, building on previous success and introducing new initiatives relating to, for example, improved staffing levels and skill mix, improved reporting and training. This programme of work will continue into 2012/13 with a focus on raising the profile of Information Quality through staff awareness, training and monitoring.

7. Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, clinical audit and the executive managers and clinical leads within the Trust who have responsibility for the development and maintenance of the internal control framework. I have drawn on the content of monthly and quarterly internally produced information reported to the Board, along with self assessments, peer reviews and external reviews. My review is also underpinned by the internal audit process and informed by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and Board assurance committees and a plan to address weaknesses and ensure continuous improvement of the system is in place.

8. Conclusion

As Accountable Office, I believe that the information that has been reported to me, to the Trust Board and our Board Committee structures during the year from a wide range of sources has provided a good assessment of the organisations current strengths and weaknesses. The assurances that I gain, along with the

Board and our Committees are that there are effective systems in place throughout the Trust to review, monitor and learn from the information that is presented, which enables the Trust to continue to support our vision to provide quality care to our patients and their respective carers.

As we continue with our Foundation Trust application, much work continues to build upon and strengthen our systems of performance, governance and financial management, which provides me with greater assurance that we are making progress towards one of our key goals.

During the year the Trust has been assessed by the Care Quality Commission. While the report from the visit in March at the LGI was extremely disappointing for the Trust, I believe that this process has presented a huge learning opportunity for the Trust. We need to ensure that we have systems in place that provide sound information and use this wisely throughout our governance and management structures to provide an understanding of the care we provide to our patients. Where this information is negative, we need to ensure that our internal systems escalate this information appropriately, in order to take remedial action.

We have subsequently received reports from the CQC that we are fully compliant at the LGI and SJUH location, as a result of the swift action and hard work across the Trust in response to the CQC visit.

Overall 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.

Furthermore the review demonstrates that the organisational response to issues of concern identified through internal and external review processes is robust.

As a consequence I believe that the system of internal control is sufficient to enable me to discharge my responsibility as Accountable Officer as set out in this Annual Governance Statement

Maggie Boyle
Chief Executive
7 June 2012

INDEPENDENT AUDITOR'S REPORT TO THE 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 2012 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. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

We have also audited the information in the Remuneration Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes
- the table of pension benefits of senior managers and related narrative notes
- the table of pay multiples and related narrative notes.

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 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices 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. In addition, we read all the financial and non-financial 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 financial position of Leeds Teaching Hospitals NHS Trust as at 31 March 2012 and of its expenditure and income for the year then ended
- have been prepared properly 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 prepared properly in accordance with the requirements directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England
- 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 report to you if:

- in our opinion the governance statement does not reflect compliance with the Department of Health's Guidance
- we refer a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 because we have a reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Trust and auditor

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.

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.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

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 2011, as to whether the Trust has proper arrangements for:

- securing financial resilience
- 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 2012.

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 2011, I am 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 2012.

Certificate

I certify that I 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.

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

No 1 Whitehall Riverside
Leeds
West Yorkshire
LS1 4BN

7 June 2012

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

	NOTE	**2011-12 £000**	2010-11 £000 (restated)
Employee benefits	10.1	**(569,506)**	(561,773)
Other costs	8	**(374,988)**	(343,348)
Revenue from patient care activities	5	**783,907**	764,897
Other Operating revenue	6	**186,802**	169,828
Operating surplus		**26,215**	29,604
Investment revenue	12	**123**	199
Other gains	13	**87**	42
Finance costs	14	**(13,100)**	(13,012)
Surplus for the financial year		**13,325**	16,833
Public dividend capital dividends payable		**(10,496)**	(10,836)
Retained surplus for the year		**2,829**	5,997
Other Comprehensive Income			
Impairments and reversals		**0**	(12,042)
Net gain on revaluation of property, plant & equipment		**0**	575
Total comprehensive income for the year		**2,829**	(5,470)

Financial performance for the year	
Retained surplus for the year	**2,829**
IFRIC 12 adjustment	**1,378**
Adjusted retained surplus	**4,207**

A trust's reported NHS financial performance position is derived from its retained surplus/(deficit), but adjusted to take account of 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 judged to have met the breakeven duty in 2011/12	**2011-12 £000**	2010-11 £000
PDC dividend: balance receivable at 31 March 2012	**472**	142

The notes on pages 5 to 33 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2012

	NOTE	**31 March 2012** **£000**	31 March 2011 (restated)* £000	31 March 2010 (restated)* £000
Non-current assets:				
Property, plant and equipment	15	**598,524**	593,623	591,794
Intangible assets	16	**61**	89	44
Trade and other receivables	22.1	**11,713**	9,320	7,923
Total non-current assets		**610,298**	603,032	599,761
Current assets:				
Inventories	21	**16,423**	16,976	17,329
Trade and other receivables	22.1	**31,151**	37,774	41,913
Cash and cash equivalents		**24,513**	12,033	8,840
Total current assets		**72,087**	66,783	68,082
Total assets		**682,385**	669,815	667,843
Current liabilities				
Trade and other payables	25	**(82,454)**	(76,361)	(78,939)
Provisions	29	**(1,274)**	(1,352)	(1,330)
Borrowings	26	**(4,012)**	(3,771)	(3,576)
Capital loan from Department		**(2,906)**	(1,906)	(906)
Total current liabilities		**(90,646)**	(83,390)	(84,751)
Net Current Assets Liabilities		**(18,559)**	(16,607)	(16,669)
Non-current assets less net current liabilities		**591,739**	586,425	583,092
Non-current liabilities				
Trade and other payables	25	**(2,318)**	(2,418)	(3,665)
Provisions	29	**(5,901)**	(5,908)	(5,342)
Borrowings	26	**(211,458)**	(215,460)	(219,220)
Capital loan from Department		**(36,579)**	(29,985)	(16,741)
Total non-current liabilities		**(256,256)**	(253,771)	(244,968)
Total Assets Employed:		**335,483**	332,654	338,124
FINANCED BY:				
TAXPAYERS' EQUITY				
Public Dividend Capital		**290,701**	290,701	290,701
Retained earnings		**(37,076)**	(39,905)	(46,154)
Revaluation reserve		**81,816**	81,816	93,535
Other reserves		**42**	42	42
Total Taxpayers' Equity:		**335,483**	332,654	338,124

During 2011/12 the Trust participated in an NHS wide allignment project to assist the Department of Health prepare its consolidated accounts to lay before Parliament. Foundation Trusts were included in this exercise and we were required to retrospectively agree the value of our financial transactions with them for the first time. All NHS organisations restated their last two years' Statements of Financial Position.

The financial statements on pages 1 to 33 were approved by the Board on 7th June 2012 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 2012

	Public Dividend capital	Retained earnings	Revaluation reserve	Other reserves	Total reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2011	**290,701**	**(39,905)**	**81,816**	**42**	**332,654**
Opening balance adjustments	**0**	**0**	**0**	**0**	**0**
Restated balance at 1 April 2011	**290,701**	**(39,905)**	**81,816**	**42**	**332,654**
Changes in taxpayers' equity for 2011-12					
Retained surplus for the year	**0**	**2,829**	**0**	**0**	**2,829**
Net recognised revenue for the year	**0**	**2,829**	**0**	**0**	**2,829**
Balance at 31 March 2012	**290,701**	**(37,076)**	**81,816**	**42**	**335,483**
Changes in taxpayers' equity for 2010-11					
Balance at 1 April 2010	290,701	(46,154)	93,535	42	338,124
Retained surplus for the year	0	5,997	0	0	5,997
Net gain on revaluation of property, plant, equipment	0	0	575	0	575
Impairments and reversals	0	0	(12,042)	0	(12,042)
Transfers between reserves	0	252	(252)	0	0
New PDC Received	10,000	0	0	0	10,000
PDC Repaid In Year	(10,000)	0	0	0	(10,000)
Net recognised revenue/(expense) for the year	0	6,249	(11,719)	0	(5,470)
Balance at 31 March 2011	290,701	(39,905)	81,816	42	332,654

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2012

	2011-12 £000	2010-11 £000
Cash Flows from Operating Activities		
Operating Surplus/Deficit	**26,215**	29,604
Depreciation and Amortisation	**31,766**	35,451
Impairments and Reversals	**0**	(5,813)
Donated Assets received credited to revenue but non-cash	**(1,056)**	(1,227)
Interest Paid	**(13,060)**	(12,971)
Dividend paid	**(10,826)**	(8,514)
Decrease in Inventories	**553**	353
Decrease in Trade and Other Receivables	**4,488**	449
Increase in Trade and Other Payables	**8,685**	679
Provisions Utilised	**(941)**	(1,096)
Increase in Provisions	**819**	1,663
Net Cash Inflow from Operating Activities	**46,643**	38,578
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	**123**	195
Payments for Property, Plant and Equipment	**(39,516)**	(47,497)
Payments for Intangible Assets	**0**	(10)
Proceeds of disposal of non current assets held for sale	**269**	46
Net Cash Outflow from Investing Activities	**(39,124)**	(47,266)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING	**7,519**	(8,688)
CASH FLOWS FROM FINANCING ACTIVITIES		
Public Dividend Capital Received	**0**	10,000
Public Dividend Capital Repaid	**0**	(10,000)
Loans received from DH - New Capital Investment Loans	**10,000**	15,500
Loans repaid to DH - Capital Investment Loans Repayment of Principal	**(2,406)**	(1,256)
Capital Element of Payments in Respect of Finance Leases and On-SoFP PFI	**(3,761)**	(3,565)
Other capital receipts	**1,128**	1,202
Net Cash Inflow from Financing Activities	**4,961**	11,881
NET INCREASE IN CASH AND CASH EQUIVALENTS	**12,480**	3,193
Cash and Cash Equivalents at 1 April 2011	**12,033**	8,840
Cash and Cash Equivalents at 31 March 2012	**24,513**	12,033

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 2011-12 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 1.14 Leases and 1.15 PFI transactions.

1.4.2 Key Sources of Estimation Uncertainty

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

Plant, Property and Equipment - Para. 1.8 and Note 15
Intangible Assets - Para 1.9 and Note 16
Provision for Impairment of Receivables - Note 22
Provisions - Para 1.18 and Note 29
Contingencies - Para 1.22 and Note 30

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

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.

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.

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

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.
In the Trust's case 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.

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

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.

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

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 £5000.

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.

1.10 Depreciation, Amortisation and Impairments

Freehold land, properties under construction, and assets held for sale 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. Intangible assets not yet available for use are tested for impairment annually.

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 should be taken 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.

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

Impairments are analysed between Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME) from 2011-12. This is necessary to comply with Treasury's budgeting guidance. DEL limits are set in the Spending Review and Departments may not exceed the limits that they have been set. AME budgets are set by the Treasury and may be reviewed with departments in the run-up to the Budget. Departments need to monitor AME closely and inform Treasury if they expect AME spending to rise above forecast. Whilst Treasury accepts that in some areas of AME inherent volatility may mean departments do not have the ability to manage the spending within budgets in that financial year, any expected increases in AME require Treasury approval.

1.11 Donated Assets

Following the accounting policy change outlined in the Treasury FREM for 2011-12, a donated asset reserve is no longer maintained. Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to Income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

This accounting policy change has been applied retrospectively and consequently the 2010-11 results have been restated.

1.12 Government Grants

Following the accounting policy change outlined in the Treasury FREM for 2011-12, the value of assets received by means of a government grant are credited directly to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.13 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.

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.

1.14 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 on 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.

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

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.

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.

1.15 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 and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The Trust therefore recognises the PFI asset as an item 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.

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 fair value of the PFI assets 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 contingent 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.

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

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.

On initial recognition of the asset, the difference between the fair value of the asset and the initial liability is recognised as deferred income, 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."

1.16 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.

1.17 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.

1.18 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 (2.8% for employee early departure obligations).

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.

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

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.

1.19 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.

1.20 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.

1.21 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as government grant funded intangible assets if they are not expected to be realised within twelve months, and otherwise as other current assets. They are valued at open market value. As the NHS body makes emissions, a provision is recognised with an offsetting transfer from deferred income. The provision is settled on surrender of the allowances. The asset, provision and deferred income amounts are valued at fair value at the end of the reporting period.

1.22 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.

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.

1.23 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.

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

Financial Assets at Fair Value through Profit and Loss
Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in calculating the Trust's surplus or deficit for the year. The net gain or loss incorporates any interest earned on the financial asset.

Held to Maturity Investments
Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Available for Sale Financial Assets
Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to surplus/deficit on de-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.

1.24 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 de-recognised 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.

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

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

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

1.25 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.

1.26 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.

1.27 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 37 to the accounts.

1.28 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 Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

1.29 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).

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

1.30 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.

1.31 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 Statement of Comprehensive Income on a systematic basis over the period expected to benefit from the project and is revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

1.32 Accounting Standards that have been issued but have not yet been adopted

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2011-12. The application of the Standards as revised would not have a material impact on the accounts for 2011-12, were they applied in that year:

IAS 1 Presentation of financial statements (Other Comprehensive Income) - subject to consultation
IAS 12 - Income Taxes (amendment) - subject to consultation
IAS 19 Post-employment benefits (pensions) - subject to consultation
IAS 27 Separate Financial Statements - subject to consultation
IAS 28 Investments in Associates and Joint Ventures - subject to consultation
IFRS 7 - Financial Instruments: Disclosures (annual improvements) - effective 2012-13
IFRS 9 Financial Instruments - subject to consultation - subject to consultation
IFRS 10 Consolidated Financial Statements - subject to consultation
IFRS 11 Joint Arrangements - subject to consultation
IFRS 12 Disclosure of Interests in Other Entities - subject to consultation
IFRS 13 Fair Value Measurement - subject to consultation
IPSAS 32 - Service Concession Arrangement - subject to consultation

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

	2011-12	2010-11
	£000	£000
Strategic health authorities	**33,235**	29,354
NHS trusts	**0**	11
Primary care trusts - tariff	**422,246**	392,924
Primary care trusts - non-tariff	**296,536**	309,419
Primary care trusts - market forces factor	**20,075**	21,399
NHS other	**3,183**	2,182
Non-NHS:		
Private patients	**4,024**	4,088
Overseas patients (non-reciprocal)	**805**	1,238
Injury costs recovery	**3,247**	3,654
Other	**556**	628
	783,907	764,897

6. Other Operating Revenue

	2011-12	2010-11
	£000	£000
Recoveries in respect of employee benefits	**9,782**	10,886
Education, training and research	**111,546**	107,667
Charitable and other contributions to expenditure	**1,981**	1,830
Receipt of donations for capital acquisitions	**1,056**	1,227
Non-patient care services to other bodies	**37,369**	36,477
Rental revenue from operating leases	**686**	624
Other revenue	**24,382**	11,117
	186,802	169,828
Total operating revenue	**970,709**	934,725

7. Revenue

	2011-12	2010-11
	£000	£000
From rendering of services	**969,664**	933,905
From sale of goods	**1,045**	820

8. Operating Expenses (Excluding Employee Benefits)

	2011-12 £000	2010-11 £000
Purchase of healthcare from non NHS bodies	**7,580**	3,852
Trust chair and non executive directors	**93**	96
Supplies and services - clinical	**224,530**	208,800
Supplies and services - general	**8,620**	8,049
Consultancy services	**2,559**	1,881
Establishment	**6,768**	6,925
Transport	**2,743**	2,883
Premises	**49,522**	44,654
Impairments and reversals of receivables	**273**	(55)
Inventories write down	**0**	563
Depreciation	**31,738**	35,394
Amortisation	**28**	57
Impairments and reversals of property, plant and equipment	**0**	(5,813)
Audit fees	**248**	294
Other auditor's remuneration - non statutory	**56**	0
Clinical Negligence Scheme for Trusts - membership contribution	**16,934**	14,964
Education and training	**2,786**	3,021
Other	**20,510**	17,783
	374,988	343,348
Employee benefits		
Employee benefits excluding Board members	**568,423**	560,710
Board members	**1,084**	1,063
Total employee benefits	**569,507**	561,773
Total operating expenses	**944,495**	905,121

9. Operating Leases

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:

9.1 Trust As Lessee

	2011-12 Total £000	2010-11 Total £000
Payments recognised as an expense		
Minimum lease payments	**5,919**	5,003

	Buildings £000	Other £000		
Payable:				
No later than one year	**705**	**2,981**	**3,686**	2,322
Between one and five years	**3,170**	**4,045**	**7,215**	6,963
After five years	**3,550**	**0**	**3,550**	4,201
Total	**7,425**	**7,026**	**14,451**	13,486
Total future sublease payments expected to be received:			0	0

9.2 Trust 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.

	2011-12 £000	2010-11 £000
Rents	**686**	624
Receivable:		
No later than one year	**645**	510
Between one and five years	**1,668**	1,480
After five years	**2,590**	2,513
Total	**4,903**	4,503

10 Employee Benefits and Staff Numbers

10.1 Employee Benefits

	Total £000	Permanently employed £000	Other £000
Employee Benefits 2011-12 - gross expenditure			
Salaries and wages	**482,490**	**459,495**	**22,995**
Social security costs	**35,051**	**35,051**	**0**
Employer contributions to NHS Pensions scheme	**53,124**	**53,124**	**0**
Other pension costs	**325**	**325**	**0**
Termination benefits	**229**	**229**	**0**
Total employee benefits	**571,219**	**548,224**	**22,995**
Less recoveries in respect of employee benefits (table below)	**(9,782)**	**(9,782)**	**0**
Total - Net Employee Benefits including capitalised costs	**561,437**	**538,442**	**22,995**
Employee costs capitalised	**1,713**	**1,713**	**0**
Net Employee Benefits excluding capitalised costs	**569,506**	**546,511**	**22,995**
Employee Benefits 2011-12 - income			
Salaries and wages	**8,207**	**8,207**	**0**
Social Security costs	**626**	**626**	**0**
Employer contributions to NHS Pensions scheme	**949**	**949**	**0**
TOTAL excluding capitalised costs	**9,782**	**9,782**	**0**

	Total £000	Permanently employed £000	Other £000
Employee Benefits 2010-11 - net expenditure			
Salaries and wages	475,793	455,485	20,308
Social security costs	33,570	33,570	0
Employer contributions to NHS Pensions scheme	52,974	52,974	0
Other pension costs	69	69	0
Termination benefits	107	107	0
Total employee benefits	562,513	542,205	20,308
Employee costs capitalised	740		
Net Employee Benefits excluding capitalised costs	561,773		

10.2 Staff Numbers

	2011-12 Total Number	Permanently Number	Other Number	2010-11 Total Number
Average Staff Numbers				
Medical and dental	**1,884**	**1,813**	**71**	1,859
Administration and estates	**2,435**	**2,278**	**157**	2,463
Healthcare assistants and other support staff	**2,701**	**2,545**	**156**	2,646
Nursing, midwifery and health visiting staff	**3,693**	**3,578**	**115**	3,759
Nursing, midwifery and health visiting learners	**23**	**23**	**0**	19
Scientific, therapeutic and technical staff	**2,553**	**2,534**	**19**	2,566
Social care staff	**11**	**11**	**0**	19
Other	**385**	**383**	**2**	363
TOTAL	**13,685**	**13,165**	**520**	13,694
Of the above - staff engaged on capital projects	**44**	**44**	**0**	20

10.3 Staff Sickness Absence and Ill Health Retirements

	2011-12 Number	2010-11 Number
Total Days Lost	**125,379**	134,757
Total Staff Years	**13,325**	13,505
Average working Days Lost	**9.4**	10.0

	2011-12 Number	2010-11 Number
Number of persons retired early on ill health grounds	**23**	22
	£000s	£000s
Total additional pensions liabilities accrued in the year	**1,527**	1,265

10.4 Exit Packages Agreed In 2011-12

	2011-12			2010-11		
Exit package cost band (including any special payment element)	***Number of compulsory redundancies**	***Number of other departures agreed**	**Total number of exit packages by cost band**	*Number of compulsory redundancies	*Number of other departures agreed	Total number of exit packages by cost band
	Number	**Number**	**Number**	Number	Number	Number
Less than £10,000	**2**	0	**2**	0	0	0
£25,001-£50,000	**2**	1	**3**	0	1	1
£50,001-£100,000	**2**	0	**2**	1	0	1
£100,001 - £150,000	**0**	1	**1**	0	0	0
Total number of exit packages by type (total cost)	**6**	**2**	**8**	1	1	2
Total resource cost (£000s)	211	158	**369**	60	47	107

Redundancy and other departure costs have been paid in accordance with the provisions of national Agenda for Change Terms and Conditions and the NHS Pensions Scheme. Exit costs in this note are accounted for in full in the year of departure. Where the 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.

This disclosure reports the number and value of exit packages taken by staff leaving in the year. In all cases, expenses were recognised in 2011/12.

10.5 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.

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

a) 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. The last formal actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions, and while future scheme terms are developed as part of the reforms to public service pension provision. Employer and employee contribution rates are currently being determined under the new scheme design.

b) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. Actuarial assessments are undertaken in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal valuation now exceeds four years, the valuation of the scheme liability as at 31 March 2012, is based on detailed membership data as at 31 March 2010 updated to 31 March 2012 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts, 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 retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12 the Consumer Price Index (CPI) was used to replace the Retail Prices Index (RPI).

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 employer.

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.

11 Better Payment Practice Code

11.1 Measure of Compliance

	2011-12 Number	2011-12 £000	2010-11 Number	2010-11 £000
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	**193,034**	**368,111**	191,638	367,706
Total Non-NHS Trade Invoices Paid Within Target	**183,625**	**347,970**	165,745	322,330
Percentage of Non-NHS Trade Invoices Paid Within Target	**95.1%**	**94.5%**	86.5%	87.7%
NHS Payables				
Total NHS Trade Invoices Paid in the Year	**5,082**	**50,303**	4,792	54,667
Total NHS Trade Invoices Paid Within Target	**2,731**	**32,265**	1,878	24,070
Percentage of NHS Trade Invoices Paid Within Target	**53.7%**	**64.1%**	39.2%	44.0%

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

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

The Trust has not made any payments under the terms of this legislation in either the current or preceding financial year.

12. Investment Income

	2011-12 £000	2010-11 £000
Interest Income		
Bank interest	**123**	105
Other loans and receivables	**0**	94
Total investment income	**123**	199

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

13 Other Gains and Losses

	2011-12 £000	2010-11 £000
Gain on disposal of property, plant and equipment	**87**	42

14 Finance Costs

	2011-12 £000	2010-11 £000
Interest		
Interest on loans and overdrafts	**1,195**	929
Interest on obligations under finance leases	**12**	12
Provisions - unwinding of discount	**37**	21
Interest on obligations under PFI contracts - main finance costs	**11,856**	12,050
Total interest expense	**13,100**	13,012

15.1 Property, Plant and Equipment

2011-12	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Cost or valuation:									
At 31 March 2011	20,545	510,777	3,730	14,538	203,984	1,290	41,594	10,194	**806,652**
Prior period adjustments	0	(10,498)	(147)	0	0	0	0	0	**(10,645)**
At 1 April 2011 restated	20,545	500,279	3,583	14,538	203,984	1,290	41,594	10,194	**796,007**
Additions Purchased	0	12,341	0	15,347	7,115	0	962	0	**35,765**
Additions Donated	0	(2)	0	0	1,058	0	0	0	**1,056**
Reclassifications	0	6,717	0	(9,044)	0	0	2,327	0	**0**
Reclassifications as Held for Sale	(70)	(66)	0	0	(37,334)	(453)	(11,753)	(8,748)	**(58,424)**
At 31 March 2012	**20,475**	**519,269**	**3,583**	**20,841**	**174,823**	**837**	**33,130**	**1,446**	**774,404**
Depreciation									
At 31 March 2011	0	10,498	147	0	155,158	1,216	36,175	9,835	**213,029**
Prior period adjustments	0	(10,498)	(147)	0	0	0	0	0	**(10,645)**
At 1 April 2011 restated	0	0	0	0	155,158	1,216	36,175	9,835	**202,384**
Reclassifications as Held for Sale	0	0	0	0	(37,288)	(453)	(11,753)	(8,748)	**(58,242)**
Charged During the Year	0	15,914	147	0	12,355	15	3,216	91	**31,738**
At 31 March 2012	**0**	**15,914**	**147**	**0**	**130,225**	**778**	**27,638**	**1,178**	**175,880**
Net book value at 31 March 2012	**20,475**	**503,355**	**3,436**	**20,841**	**44,598**	**59**	**5,492**	**268**	**598,524**
Purchased	20,475	490,832	3,436	20,841	40,722	59	5,470	265	**582,100**
Donated	0	12,523	0	0	3,876	0	22	3	**16,424**
Total at 31 March 2012	**20,475**	**503,355**	**3,436**	**20,841**	**44,598**	**59**	**5,492**	**268**	**598,524**
Asset financing:									
Owned	20,475	328,744	3,436	20,841	33,359	59	5,492	268	**412,674**
Held on finance lease	0	156	0	0	0	0	0	0	**156**
On-SOFP PFI contracts	0	174,455	0	0	11,239	0	0	0	**185,694**
Total	**20,475**	**503,355**	**3,436**	**20,841**	**44,598**	**59**	**5,492**	**268**	**598,524**

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	Dwellings	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	**Total**
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	**£000's**
At 31 March 2011	310	74,220	0	5,953	14	364	955	**81,816**
Movements	0	0	0	0	0	0	0	**0**
At 31 March 2012	**310**	**74,220**	**0**	**5,953**	**14**	**364**	**955**	**81,816**

15.2 Property, Plant and Equipment

2010-11	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000	**£000**
Cost or valuation:									
At 1 April 2010	20,544	457,594	3,730	36,935	214,049	1,290	39,136	10,194	**783,472**
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)**
Reclassified 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	**20,545**	**510,777**	**3,730**	**14,538**	**203,984**	**1,290**	**41,594**	**10,194**	**806,652**
Depreciation									
At 1 April 2010	0	0	0		149,169	1,196	31,674	9,639	**191,678**
Reclassifications		0	0		(841)	0	(111)	104	**(848)**
Reclassifications as Held for Sale	0	0	0		(7,394)	0	0	0	**(7,394)**
Upward revaluation/positive indexation	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**
At 31 March 2011	**0**	**10,498**	**147**	**0**	**155,158**	**1,216**	**36,175**	**9,835**	**213,029**
Net book value	**20,545**	**500,279**	**3,583**	**14,538**	**48,826**	**74**	**5,419**	**359**	**593,623**
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**
Held on finance lease	0	161	0	0	0	0	0	0	**161**
On-SOFP PFI contracts	0	179,234	0	0	13,143	0	0	0	**192,377**
	20,545	**500,279**	**3,583**	**14,538**	**48,826**	**74**	**5,419**	**359**	**593,623**

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	Dwellings	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	**Total**
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	**£000's**
At 1 April 2010 restated	225	86,022	0	5,955	14	364	955	**93,535**
Movements	85	(11,802)	0	(2)	0	0	0	**(11,719)**
At 31 March 2011	**310**	**74,220**	**0**	**5,953**	**14**	**364**	**955**	**81,816**

15.3 (cont). Property, Plant and Equipment

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). In 2011/12 the Trust considered building cost information published by the Royal Chartered Institute of Surveyors. This indicated an upward trend in costs over the course of the year but the Trust did not consider these suffciently material to warrant a further independent valuation of its estate and is satisfied that carrying value represents fair value.

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:

	2011-12 £000	2010-11 £000
Leeds Teaching Hospitals Charitable Foundation	**920**	394
Sick Children's Trust	**0**	573
Children's Heart Surgery Fund	**0**	187
Take Heart	**108**	67
Others	**28**	6
Total	**1,056**	1,227

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	**23**	43
Dwellings	**23**	43
Plant and machinery	**5**	15
Transport equipment	**5**	10
Information technology	**5**	5
Furniture and fittings	**5**	5

16.1 Intangible Non-Current Assets

2011-12	**Software internally generated 2011-12 £000**	Software internally generated 2010-11 £000
Cost or valuation:		
At 31 March 2011 (2010)	**2,304**	2,202
Additions - Donated	**0**	10
Reclassifications	**0**	92
At 31 March 2012 (2011)	**2,304**	2,304
Amortisation		
At 31 March 2011 (2010)	**2,215**	2,158
Charged during the year	**28**	57
At 31 March 2012 (2011)	**2,243**	2,215
NBV at 31 March 2012 (2011)	**61**	89
Net book value at 31 March 2012 (2011) **comprises:**		
Purchased	**55**	81
Donated	**6**	8
Total at 31 March 2012 (2011)	**61**	89

Revaluation reserve balance for intangible non-current assets

There is a nil reserve for intangible non-current assets.

16.2 Intangible Non-Current Assets

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

17 Analysis of Impairments and Reversals Recognised In 2011-12

The Trust recognised no impairments or impairment reversals in 2011/12. Impairments of £12,389k on buildings, £835k on equipment and reversals of £6,995k were recognised in 2010/11.

18 Investment Property

The Trust has no investment property.

19 Commitments

19.1 Capital Commitments

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

	31 March 2012 £000	31 March 2011 £000
Property, plant and equipment	**30,576**	30,716

19.2 Other Financial Commitments

The Trust has not entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements).

20 Intra-Government and Other Balances

	Current receivables £000s	Non-current receivables £000s	Current payables £000s	Non-current payables £000s
Balances with other Central Government Bodies	**7,235**	**0**	**31,562**	**0**
Balances with Local Authorities	**25**	**0**	**69**	**0**
Balances with NHS Trusts and Foundation Trusts	**3,922**	**0**	**2,121**	**0**
Balances with Public Corporations and Trading Funds	**113**	**0**	**920**	**0**
Balances with bodies external to government	**19,856**	**11,713**	**47,782**	**2,318**
At 31 March 2012	**31,151**	**11,713**	**82,454**	**2,318**
2010/11				
Balances with other Central Government Bodies	16,905	0	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
Balances with bodies external to government	16,153	9,320	54,367	2,418
At 31 March 2011	37,774	9,320	76,361	2,418

21 Inventories

	Drugs £000	Consumables £000	Energy £000	Total £000
Balance at 1 April 2011	6,445	10,267	264	**16,976**
Additions	103,414	83,237	154	**186,805**
Inventories recognised as an expense in the period	(104,180)	(83,014)	(164)	**(187,358)**
Balance at 31 March 2012	5,679	10,490	254	16,423

22.1 Trade and Other Receivables

	Current		Non-current	
	31 March 2012 £000	31 March 2011 £000	**31 March 2012 £000**	31 March 2011 £000
NHS receivables - revenue	**9,366**	19,706	**0**	0
NHS prepayments and accrued income	**88**	71	**0**	0
Non-NHS receivables - revenue	**6,580**	6,105	**0**	0
Non-NHS receivables - capital	**7**	79	**0**	0
Non-NHS prepayments and accrued income	**8,271**	4,976	**0**	0
Provision for the impairment of receivables	**(1,737)**	(1,535)	**(382)**	(348)
VAT	**1,866**	1,771	**0**	0
Current part of PFI and other PPP arrangements prepayments and accrued income	**1,252**	1,501	**8,452**	6,045
Other receivables	**5,458**	5,100	**3,643**	3,623
Total	**31,151**	37,774	**11,713**	9,320
Total current and non current	**42,864**	47,094		
Included in NHS receivables are prepaid pension contributions:	**0**	0		

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 1.15.

22.2 Receivables Past Their Due Date But Not Impaired

	31 March 2012 £000	31 March 2011 £000
By up to three months	**1,735**	1,858
By three to six months	**404**	763
By more than six months	**479**	236
Total	**2,618**	2,857

22.3 Provision For Impairment of Receivables

	2011-12 £000	2010-11 £000
Balance at 1 April 2011	**(1,883)**	(2,100)
Amount written off during the year	**37**	162
(Increase)/decrease in receivables impaired	**(273)**	55
Balance at 31 March	**(2,119)**	(1,883)

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.

23 Cash and Cash Equivalents

	31 March 2012 £000	31 March 2011 £000
Opening balance at 1 April 2011	**12,033**	8,840
Net change in year	**12,480**	3,193
Closing balance at 31 March 2012	**24,513**	12,033
Made up of		
Cash with Government Banking Service	**24,031**	11,454
Commercial banks	**462**	402
Cash in hand	**20**	177
Cash and cash equivalents as in statement of financial position/cash flow	**24,513**	12,033
Patients' money held by the Trust, not included above	11	6

24 Non-Current Assets Held For Sale

	Land	Buildings, excl. dwellings	Plant and Machinery	Total
	£000	£000	£000	£000
Balance at 1 April 2011	**0**	**0**	**0**	**0**
Plus assets classified as held for sale in the year	**70**	**66**	**46**	**182**
Less assets sold in the year	**(70)**	**(66)**	**(46)**	**(182)**
Balance at 31 March 2012	**0**	**0**	**0**	**0**
Balance at 1 April 2010	0	0	0	**0**
Plus assets classified as held for sale in the year	0	0	4	**4**
Less assets sold in the year	0	0	(4)	**(4)**
Balance at 31 March 2011	**0**	**0**	**0**	**0**

During the year the Trust sold surplus office accomodation at a gain of £32k. Other sales relate to numerous items of surplus plant which realised a total gain of £55k

25 Trade and Other Payables

	Current		Non-current	
	31 March 2012	31 March 2011	**31 March 2012**	31 March 2011
	£000	£000	**£000**	£000
Interest payable	**53**	50	**0**	0
NHS payables - revenue	**5,799**	2,538	**0**	0
NHS payables - capital	**0**	728	**0**	0
NHS accruals and deferred income	**10,943**	22,591	**0**	1,089
Non-NHS payables - revenue	**26,676**	14,436	**0**	0
Non-NHS payables - capital	**2,721**	4,688	**0**	0
Non-NHS accruals and deferred income	**16,955**	12,136	**2,318**	1,329
Social security costs	**5,498**	5,274	**0**	0
Tax	**6,646**	6,627	**0**	0
Other	**7,163**	7,293	**0**	0
Total	**82,454**	76,361	**2,318**	2,418
Total payables (current and non-current)	**84,772**	78,779		
Included above:				
Outstanding Pension Contributions at the year end	6,603	6,690		

26 Borrowings

	Current		Non-current	
	31 March 2012	31 March 2011	**31 March 2012**	31 March 2011
	£000	£000	**£000**	£000
Loans from Department of Health	**2,906**	1,906	**36,579**	29,985
PFI liabilities:				
Main liability	**3,977**	3,771	**210,903**	214,880
Finance lease liabilities	**35**	0	**555**	580
Total	**6,918**	**5,677**	**248,037**	**245,445**
Total borrowings (current and non-current)	**254,955**	251,122		

Loans - repayment of principal falling due in:	**31 March 2012**
	£000
0-1 Years	**2,906**
1 - 2 Years	**2,906**
2 - 5 Years	**8,418**
Over 5 Years	**25,255**
TOTAL	**39,485**

All loans are Department of Health Capital Investment Loans.

27 Deferred Income

	Current		Non-current	
	31 March 2012 £000	31 March 2011 £000	**31 March 2012 £000**	31 March 2011 £000
Opening balance at 1 April 2011	**21,796**	15,453	**2,418**	2,411
Deferred income addition	**7,931**	17,554	**944**	945
Transfer of deferred income	**(16,947)**	(11,211)	**(1,044)**	(938)
Current deferred Income at 31 March 2012	**12,780**	21,796	**2,318**	2,418
Total other liabilities (current and non-current)	**15,098**	**24,214**		

Deferred income includes £9.3 million relating to Research and Development, £1.3 million for hosted cancer services and £1.3 million from cancer charities.

28 Finance Lease Obligations As Lessee

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 1.14.

Amounts payable under finance leases (Buildings)	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2012 £000	31 March 2011 £000	**31 March 2012 £000**	31 March 2011 £000
Within one year	**45**	1	**35**	0
	179	169	**145**	85
After five years	**448**	503	**410**	495
Less future finance charges	**(82)**	(93)		
Present value of minimum lease payments	**590**	580	**590**	580
Included in:				
Current borrowings			**35**	0
Non-current borrowings			**555**	580
			590	580

29 Provisions

	Comprising:				
	Total £000s	**Pensions £000s**	**Legal Claims £000s**	**Agenda for Change £000s**	**Other £000s**
Balance at 1 April 2011	**7,260**	**4,003**	**2,647**	**450**	**160**
Arising during the year	**1,235**	**421**	**674**	**0**	**140**
Utilised during the year	**(941)**	**(317)**	**(410)**	**(49)**	**(165)**
Reversed unused	**(430)**	**0**	**0**	**(401)**	**(29)**
Unwinding of discount	**37**	**37**	**0**	**0**	**0**
Change in discount rate	**14**	**14**	**0**	**0**	**0**
Balance as at 31 March 2012	**7,175**	**4,158**	**2,911**	**0**	**106**
Expected Timing of Cash Flows:					
No Later than One Year	**1,274**	**325**	**843**	**0**	**106**
Later than One Year and not later than Five Years	**3,368**	**1,300**	**2,068**	**0**	**0**
Later than Five Years	**2,533**	**2,533**	**0**	**0**	**0**

Amount Included in the Provisions of the NHS Litigation Authority in Respect of Clinical Negligence Liabilities:	
As at 31 March 2012	**126,314**
As at 31 March 2011	118,972

Pensions 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 £274k which are being handled on behalf of the Trust by the NHS Litigation Authority who have advised on their status.

Other provisions are for employment related claims where the Trust disputes liability but recognises some probability of payment.

30 Contingencies

	31 March 2012 £000	31 March 2011 £000
Contingent liabilities		
Other	**(348)**	(536)
Amounts Recoverable Against Contingent Liabilities	**0**	0
Net Value of Contingent Liabilities	**(348)**	(536)
Contingent Assets		
Contingent Assets	**0**	0
Net value of contingent assels/(liabilities)	**(348)**	(536)

Contingent liabilities consist of claims for personal injury of £243k (£331k in 2010/11) and property loss claims of £5k (£5k in 2010/11) where the probability of settlement is very low. The property related case and personal injury cases to the value of £135k 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 £100k (£200k in 2010/11) included in Contingent Liabilities. This is a long standing claim and settlement by the Trust is considered unlikely.

31 PFI - Additional Information

	2011-12 £000	2010-11 £000
The information below is required by the Department of Heath for inclusion in national statutory accounts		
Charges to operating expenditure and future commitments in respect of ON and OFF SOFP PFI		
Service element of on SOFP PFI charged to operating expenses in year	**11,893**	9,427
Payments committed to in respect of off SOFP PFI and the service element of on SOFP PFI		
No Later than One Year	**9,531**	9,317
Later than One Year, No Later than Five Years	**40,377**	39,465
Later than Five Years	**214,039**	224,481
Total	**263,947**	273,263
Imputed "finance lease" obligations for on SOFP PFI contracts due		
No Later than One Year	**15,625**	15,625
Later than One Year, No Later than Five Years	**62,498**	62,498
Later than Five Years	**319,667**	335,294
Subtotal	**397,790**	413,417
Less: Interest Element	**(182,910)**	(194,766)
Total	**214,880**	218,651
Value of PFI		
Value of PFI schemes pre April 2011	**240,000**	**240,000**

32 Impact of IFRS Treatment - Current Year

	Total £000
The information below is required by the Department of Heath for budget reconciliation purposes	
Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12 (e.g PFI)	
Depreciation charges	**6,920**
Interest Expense	**11,856**
Other Expenditure	**11,893**
Impact on PDC dividend payable	**(669)**
Total IFRS Expenditure (IFRIC12)	**30,000**
Revenue consequences of PFI schemes under UK GAAP / ESA95 (net of any sublease income)	**(28,622)**
Net IFRS change (IFRIC12)	**1,378**
Capital Consequences of IFRS : PFI and other items under IFRIC12	
Capital expenditure 2011-12	**238**
Average net assets relating to IFRIC12 schemes - IFRS	**(19,105)**
Average net assets relating to IFRIC12 schemes - UKGAAP	**20,169**
UK GAAP capital expenditure 2011-12 (Reversionary Interest)	**2,594**

32 Financial Instruments

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

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

Currency Risk

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

Interest Rate Risk

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

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 2012 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.

32.2 Financial Assets

	Loans and receivables £000
Receivables - NHS	**10,086**
Receivables - non-NHS	**8,454**
Cash at bank and in hand	**24,513**
Total at 31 March 2012	**43,053**
Receivables - NHS	19,768
Receivables - non-NHS	7,954
Cash at bank and in hand	12,033
Total at 31 March 2011	**39,755**

32.3 Financial Liabilities

	Other £000
NHS payables	**15,126**
Non-NHS payables	**42,657**
Other borrowings	**39,485**
PFI & finance lease obligations	**215,470**
Total at 31 March 2012	**312,738**
NHS payables	5,189
Non-NHS payables	38,210
Other borrowings	31,891
PFI & finance lease obligations	219,231
Total at 31 March 2011	**294,521**

33 Events After The End Of The Reporting Period

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

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 Losses and Special Payments

The total number of losses cases in 2011-12 and their total value was as follows:

	Total Value of Cases £s	**Total Number of Cases**
Losses	**280,349**	**461**
Special payments	**514,599**	**169**
Total losses and special payments	**794,948**	**630**

The total number of losses cases in 2010-11 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	783,420	188
Special payments	446,351	182
Total losses and special payments	1,229,771	370

36. 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.

36.1 Breakeven Performance

	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000	2011-12 £000
Turnover	721,415	757,446	793,445	871,680	910,556	934,527	970,709
Retained surplus/(deficit) for the year	309	355	3,093	471	(43,426)	5,799	2,829
Adjustment for:							
Timing/non-cash impacting distortions:							
2006/07 PPA (relating to 1997/98 to 2005/06)	2,051	0	0	0	0	0	0
Adjustments for Impairments	0	0	0	0	42,075	(5,813)	0
Consolidated Budgetary Guidance - Adjustment for Dual Accounting under IFRIC12*	0	0	0	0	2,314	2,065	1,378
Break-even in-year position	2,360	355	3,093	471	963	2,051	4,207
Break-even cumulative position	(51)	304	3,397	3,868	4,831	6,882	11,089

* Due to the introduction of International Financial Reporting Standards (IFRS) accounting 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 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. Other adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves) to maintain comparability year to year.

	2005-06 %	2006-07 %	2007-08 %	2008-09 %	2009-10 %	2010-11 %	2011-12 %
Materiality test (I.e. is it equal to or less than 0.5%):							
Break-even in-year position as a percentage of turnover	0.33	0.05	0.39	0.05	0.11	0.22	0.43
Break-even cumulative position as a percentage of turnover	(0.01)	0.04	0.43	0.44	0.53	0.74	1.14

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. The figures up to 2010/11 remain as originally reported and have **not** been restated following the change in accounting policy in respect of donated assets as detailed in note 1.11.

36.2 Capital Cost Absorption Rate

Until 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%.

36.3 External Financing Limit

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

	2011-12 £000	2010-11 £000
External financing limit	**3,833**	10,679
Cash flow financing	**(7,519)**	8,688
Finance leases taken out in the year	**0**	0
Other capital receipts	**(1,128)**	(1,202)
External financing requirement	**(8,647)**	7,486
Undershoot against the External Financing Limit	**12,480**	3,193

36.4 Capital Resource Limit

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

	2011-12 £000	2010-11 £000
Gross capital expenditure	**36,821**	42,983
Less: book value of assets disposed of	**(182)**	(4)
Less: donations towards the acquisition of non-current assets	**(1,056)**	(1,227)
Charge against the capital resource limit	**35,583**	41,752
Capital resource limit	**36,801**	41,880
Underspend against the Capital Resource Limit	**1,218**	128

37. Third Party Assets

The Trust held cash and cash equivalents which relate to monies held by the NHS Trust on behalf of patients or other parties. This has been excluded from the cash and cash equivalents figure reported in the accounts.

	31 March 2012 £000s	31 March 2011 £000s
Third party assets held by the Trust	11	6

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.

Annual governance statement
The Annual governance statement explains the stewardship of the Trust and the policies and procedures in place to enable it to carry out its functions effectively, including risk management, internal controls and corporate governance. It replaces the Statement on Internal Control previously published within the Annual Report and Accounts.

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).

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.

Published in September 2012 by:

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