The Leeds Teaching Hospitals NHS
NHS Trust

annual accounts

2009/10

Financial Review of the Year Ended 31st March 2010

Introduction

The Accounts which follow this review portray not only a snapshot of the Trust's finances at the end of 2009/10 but also reflect the significant financial implications of two major changes i.e.

- The implementation of International Financial Reporting Standards.
- The valuation of our estate on a Modern Equivalent Asset basis.

Before dealing with the review of 2009/10 and outlook for the future it is necessary to offer some explanation of these two changes and set the Accounts in proper context.

International Financial Reporting Standards

During 2009/10 the Trust completed the mandatory transition of its Accounts to comply with International Financial Reporting Standards (IFRS). These international standards govern the way financial transactions are brought into account and how they are reported. Making the transition has affected both the appearance of our accounts and our financial position.

In making the transition to IFRS the Trust has had to revisit and restate the Annual Accounts it published for 2008/09. The Balance Sheet published at the end of 2007/08 has also been restated. This was necessary in order to present users of the Accounts with meaningful comparative information.

There are many other changes to the appearance of the Accounts including additional, or expanded, disclosure notes. Titles and descriptive terms have changed. As an example, the Balance Sheet is now known as the Statement of Financial Position (SoFP) and Fixed Assets become Property, Plant and Equipment. A glossary has been added at the end of the Accounts to assist readers with these changes and to explain some of the more technical terms used. For the purpose of this review only, the previous terms have been retained.

From a financial viewpoint the most significant change introduced by the transition to IFRS was to the accounting treatment of our Private Finance Initiative (PFI) schemes; Wharfedale Hospital and Bexley Wing. Both schemes had previously been "off balance sheet" to comply with HM Treasury regulations but IFRS required evaluation against different criteria. These placed more emphasis on the fact that it is the Trust who effectively controls the assets and their use even though they are in the legal ownership of our private sector partners. Since both schemes predated 1 April 2008 they had to be retrospectively added to our restated balance sheet as at that date, with a combined initial value of £247 million. This increase in value is offset on the

Balance Sheet by “Borrowing” in the form of a finance lease. In addition a Catering Department Receipts and Distribution Unit (RADU) at Seacroft Hospital although not strictly a PFI scheme was built by a private sector company and is leased by the Trust. It has been treated in exactly the same way with an initial value of £694k.

Fixed Assets and borrowing generate depreciation and interest charges respectively which go directly to the Income and Expenditure Account as costs. In 2009/10 these additional charges added £2.3 million of cost to our Income and Expenditure Account. Further details of the financial effects of converting to IFRS are included in note 39 of the Accounts (page 43).

Asset Valuation

The year saw a great deal of activity to determine fair values for our assets. A full estate valuation was conducted, independently, by the District Valuer’s Office. These valuations are conducted at least every five years but for the first time in 2009/10 new rules were applied. Buildings must now be valued on the basis of the cost to replace them with Modern Equivalent Assets (MEAs) rather than on a ‘like for like’ basis. In effect this means that the Trust’s older, larger buildings set in sprawling sites have been valued using the cost of replacing them with fully up to date structures built to modern standards and with today’s materials. The technique assumes that multiple buildings would be replaced by single structures requiring far less land. The buildings themselves would use space more efficiently.

The financial effect of this revised technique in 2009/10 was to reduce the value of our estate by £159 million. Most of this impairment could be charged to the Revaluation Reserve Account on the Balance Sheet but that left £38 million which had to be charged to the Income and Expenditure Account as a direct revenue cost.

The £159 million fall in value of our estate includes £51.6 million which relates to land. The Trust has not disposed of land other than through those asset sales described below and in note 24 of the accounts (page 31). The reduction in land value reflects the fact that a MEA valuation assumes replacement buildings would occupy a much smaller footprint than our existing facilities. The value of land and buildings reflected in our Accounts does not reflect its market value. In the event that any land is declared surplus in future, a full market value will be obtained and brought into account. The sale price will be measured against that market valuation with any profit or loss taken to Income and Expenditure.

A separate valuation of major equipment items was commissioned from the District Valuer. Equipment assets have traditionally been valued by applying nationally published indexation factors to their carrying value on an annual basis. These indexation factors were withdrawn recently and the Trust took the view that it would be prudent to seek an independent opinion on the value of its equipment. The valuation report resulted in an overall fall of £2.8 million of which £2.5 million was taken as an impairment to the Income and Expenditure Account with the balance charged to the Revaluation Reserve.

In January 2010 the Trust sold the former Cookridge Hospital site to a local property developer. The sale was finalised at a very challenging time in terms of the national economy. While the best possible price was achieved, it was necessary to impair the carrying amount of Cookridge in our books to reflect its true realisable value. This resulted in an impairment of £1.6 million being charged to the Income and Expenditure Account.

Together the impairments added £42 million of cost to our revenue position in the year.

Financial Performance

The Trust is reporting a deficit of £43.4 million for the year ended 31st March 2010 and a restated deficit for 2008/09 of £12.7 million which compares to a pre IFRS surplus in that year of £0.5 million. This dramatic change in financial performance is a direct result of the transition to IFRS and falls in asset values described above. The underlying position, when these factors are stripped out, is a surplus of almost £1 million as shown below.

	£000
Reported deficit for the year	(43,426)
Less:	
Impairments arising from estate valuation	38,006
Other impairments	4,069
PFI costs arising from IFRS	2,314
Underlying surplus for the year	963

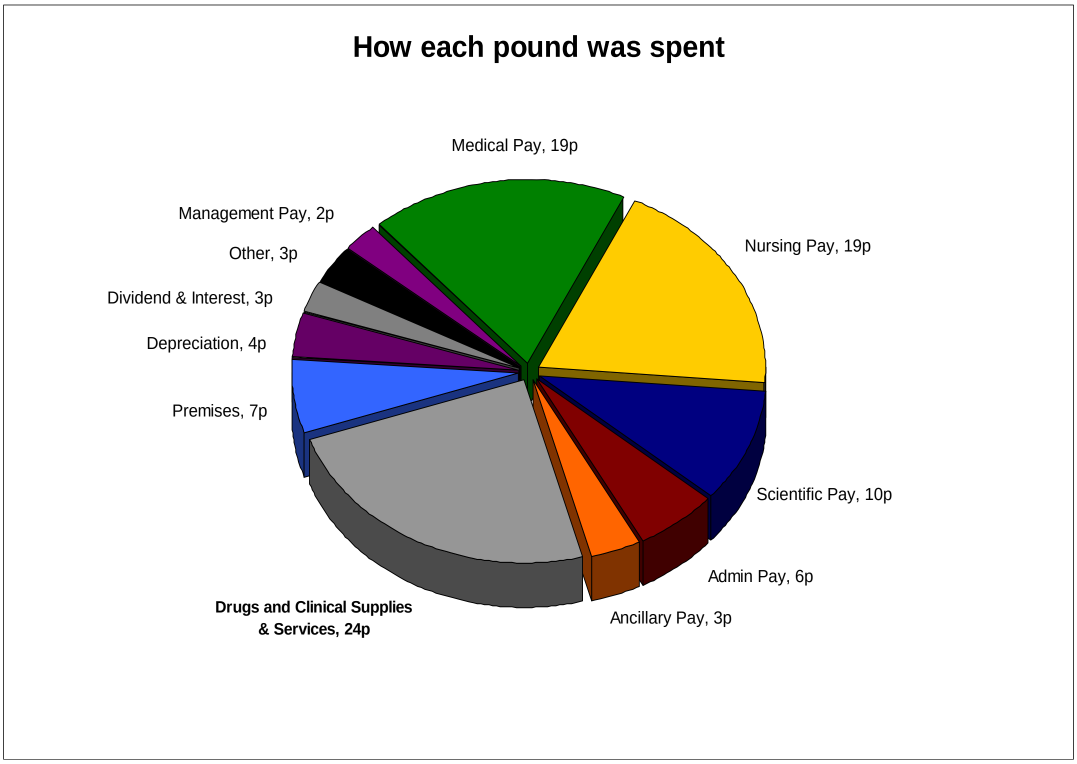
NHS trusts have a statutory duty to break even in terms of income and expenditure. Despite the deficit arising from impairments and bringing our PFI schemes into account as assets, the Trust is deemed to have achieved its break even obligation in both 2009/10 and in its restated 2008/09 accounts. The Department of Health have determined that expenditure associated with impairments and the additional costs of PFI are outside the scope of the break even duty.

The underlying position was achieved in the face of a number of financial pressures. When planning for 2009/10 the Trust identified four factors which combined to give a savings target of £37.5 million, i.e.

- A national efficiency target of £22.4 million (3% of patient care income)
- A £7.5 million reduction in income resulting from changes to the tariff structure by which trusts are paid by commissioners for treating patients
- A further £3.8 million loss of grant based payments for research and development work
- An agreed £3.8 million reduction in the transitional funding paid by commissioners to meet additional service costs in Bexley Wing.

This savings target was met by a combination of increased activity and income and by a series of measures to improve efficiency and reduce the Trust's cost base. These included reductions in the number of beds and employed staff.

The graph below gives an indication of how money was spent in the year.



Capital Investment

During 2009/10 the Trust spent just over £57.1 million on capital schemes; a record level of investment. Funding came from a variety of sources as summarised below.

	£ Million
Retained depreciation	28.5
Proceeds from disposals	2.6
Donations	1.7
Public Dividend Capital	6.7
Capital loan	17.6
	57.1

The capital loan was drawn down by prior agreement with the Department of Health to fund ongoing work to centralise all children's services at the General Infirmary and medicine and elderly medicine services at St. James's. This major project bore fruit in April 2010 with the transfer of all Accident and Emergency facilities for children to the General Infirmary. Centralisation of services to establish the Children's Hospital will continue throughout 2010/11 with further planned borrowing of £14 million.

In very high level terms, the Trust invested £45.8 million in its estate; £9.3 million in medical equipment and £2.0 million in informatics and information technology. The table below gives an indication of some of the specific schemes and purchases on which the money was spent.

Examples of Capital Expenditure in 2009/10

Estate Schemes	**£000**	**Medical Equipment**	**£000**
Children's Services centralisation	18,098	PET scanner - Chapel Allerton	2,086
Leeds Dental Institute reconfiguration	5,376	Anaesthetic machines and monitors	617
Reproductive Medicine - Seacroft	2,253	CT scanner	592
Electrical infrastructure - St James's	2,199	**Informatics**	
Eckersley House replacement	550	Pathology system upgrade	263
Ward privacy and dignity	943	IT infrastructure upgrade	224

There is a financial duty on NHS Trusts to mange capital expenditure within their Capital Resource Limit (CRL). The CRL is set by the Department of Health and no overspend is permitted. The Trust delivered an undershoot of £9.9 million against its CRL for 2009/10 of £59.2 million. The duty has therefore been achieved, albeit with a higher than planned undershoot. In measuring expenditure against the CRL, monies received from asset sales and donations have the effect of reducing the charge. At the time the Trust's CRL was set, no donations were expected and asset sales, most notably of the former Cookridge Hospital Site, were not expected to complete as a result of the general economic climate.

Looking to 2010/11 and beyond it is unlikely that the Trust will have such a level of resource available for capital investment. There will be much less centrally funded Public Dividend Capital and greater reliance will be placed on internally generated funds, borrowing or alternatives to outright purchase such as leasing.

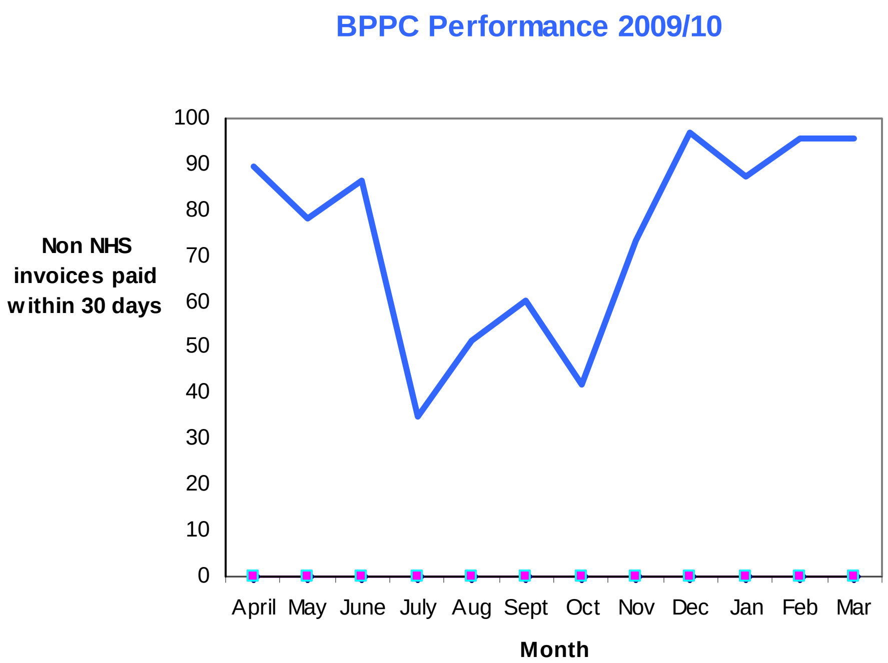
The capital programme for 2010/11 has been set at £39 million including the scheme to complete Children's Services centralisation mentioned above. None of the schemes attract Public Dividend Capital. Despite this reduction the programme still represents a significant investment. We will deliver estate related improvements of £34 million with a further £1 million and £4 million on equipment and informatics respectively.

Cash

NHS trusts have a requirement to manage cash within their notified External Financing Limit (EFL). This limit is set by the Department of Health and determines how much cash a trust may spend beyond that generated by its normal, day to day operations. It is a breach of the financial duty to overspend against the EFL. In 2009/10 the Trust delivered an undershoot of £5.6 million which means that it has met its obligation. Following the sale of Cookridge and other assets late in the year a decision was taken to retain some of the proceeds to help improve liquidity. This enabled the Trust to retain £8.8 million in cash at the year end rather than £3.3 million as planned.

During the course of the year the Trust did experience some problems with cashflow. Our contractual payment arrangements with commissioners changed and this did lead to some temporary reductions in income receipts. In turn this did have a regrettable impact on our payments to some suppliers and led to a sharp fall in reported performance against the Better payment Practice Code (note 13 page 23). The code requires organisations to pay non NHS suppliers within 30 days of receiving a valid invoice. The Trust's performance fell from 93% in 2008/09 to 74% in 2009/10. The percentage is an average for the year. This is a matter which the Trust takes extremely seriously at any time but is particularly mindful of the potential effect at a time of economic recession. Every effort was made to get payments to all of our suppliers as quickly as possible and we are grateful for their patience and understanding.

It is pleasing to note that the situation was only temporary as demonstrated by the graph below. This records our monthly performance against the Better Payment Practice Code throughout 2009/10 and shows that we had recovered to our previous 90% plus levels in the later months.



The Trust was able to finish 2009/10 in a stronger cash position than it had enjoyed at the outset. This return to stability and resolution of the payments issues with commissioners puts us in a much better position to meet our responsibilities in 2010/11. The Trust is confident that its next set of Accounts will record a marked improvement in our compliance with the Better Payments Practice Code.

Summary

From a financial perspective 2009/10 was a year of change and challenge managed with success. The transition to IFRS was completed; all financial duties were met and there was a record level of capital investment. No patient services were cut and despite restrictions on new appointments there were no redundancies. Only the Better Payment Practice Code performance casts a shadow on an otherwise positive picture.

The Trust faces clear ongoing financial pressures and the next few years will inevitably see further constraints on resources. To meet the longer term challenges the Trust has embarked on a “Managing for Success” programme which aims to identify means of improving productivity. In 2010/11, there is a savings target of £40 million. Managing for Success schemes will make a contribution during the year but due to the long term nature of the programme a short term plan to deliver the full £40 million has been presented to and approved by the Board.

Our savings target of £40 million in 2010/11 will mean difficult decisions having to be faced but delivering excellent patient care in a safe environment remains our overriding concern. There is a clear commitment to improving efficiency and doing “more for less”. With another year of financial achievement to build on and with the innovative Managing for Success programme to guide our efforts, the Trust is looking to the future with confidence.

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 Statement of Comprehensive Income 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
10th June 2010

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 Statement of Comprehensive Income 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	**NEIL CHAPMAN**
Chief Executive	**Director of Finance**
10th June 2010	**10th June 2010**

STATEMENT ON INTERNAL CONTROL 2009/10

1 SCOPE OF RESPONSIBILITY

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

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

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

2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

2.1 The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.2 The system of internal control has been in place in the Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2010 and up to the date of approval of the annual report and accounts.

3 CAPACITY TO HANDLE RISK

3.1 Whilst the Board has overarching responsibility for risk, the authority to develop and oversee the Trust's strategic risk management arrangements within the Trust has been delegated to the Medical Director. In addition, the Audit Committee, Clinical Governance Committee, Clinical Governance Steering Group, Senior Management Team, and Risk Assessment Committee all have responsibility for elements of the risk management system.

3.2 All operational areas are responsible for the management of risks to the achievement of their objectives and those of the Trust. To this end, they are required to undertake a process to identify and control the risks in their areas. This has resulted in the creation of a risk register with relevant action plans that inform the business planning process and general management of the operational area.

3.3 Performance management arrangements within the Trust at divisional and directorate level require significant risks and associated actions plans to be reported on and reviewed.

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

3.5 Furthermore, as part of their mandatory training, all staff are now required to complete the Risk and Safety e-learning module. The objective of this is to ensure that all staff have a basic awareness of risk management, risk assessment, incident reporting and investigation. The concepts of 'fair blame' and 'being open' are also explained.

3.6 The following policies, of relevance to Risk Management are available to staff, are in place:

- Risk Management Policy
- Incident Reporting Policy
- Concerns and Complaints Policy
- Investigations Policy
- Policy for Learning from Experience and Analysing Integrated Risk Management Data
- Being Open Policy
- Fair Blame Policy
- Supporting Staff Policy.

Individual divisions / directorates are required to produce their own risk management policy using a template supplied in the Trustwide policy document. The Risk Management Intranet pages also provide an easily accessible guide to risk management processes for staff.

3.7 The Risk Management Policy sets out an improved process for learning from incidents, complaints, concerns and claims. Uptake of learning is monitored through divisional clinical governance structures; it forms part of divisional performance reviews and provides assurance to the Clinical Governance Committee. Learning is shared across the Trust, and where appropriate across the health community, through the Risk Management Department. The Trust seeks to ensure that national guidance on good practice is disseminated appropriately across the organisation.

3.8 During 2009-10, in response to a risk of a 'flu pandemic, the Trust prepared detailed plans to manage a potential influx of cases and to ensure that the Trust's services were maintained. This demonstrates the Trust's ability to identify risks and respond appropriately.

4 THE RISK AND CONTROL FRAMEWORK

RISK MANAGEMENT POLICY

4.1 The Senior Management Team endorsed the latest version of the Risk Management Policy in October 2009. The aim of the policy is to achieve a culture where risk management is everyone's business, embedded in the core processes, systems and business of the Trust. It provides the framework for the continued development of the risk management process, building on the principles and plans linked to the Trust's Assurance Framework, the Trust's Risk Register, requirements of the Care Quality Commission and the national priorities described in the 'High Quality For All' report.

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

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

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

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

MAJOR RISKS TO THE TRUST

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

4.7 A Trust Board Workshop has identified the major risks to the achievement of the Trust’s strategic objectives as follows:

- Prevention of avoidable infection
- Prevention of medication errors
- Safeguarding vulnerable adults and children
- Clinical performance and outcome data
- Achieving a balanced financial plan
- Sufficient staff with required skills and knowledge to provide safe and effective care
- Maintaining effective care whilst reconfiguring clinical services

4.8 Risks on the Risk Register are assessed using a risk matrix. Significant risks are reviewed by the Senior Management Team and Trust Board and monitored via the divisional management performance review meetings.

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

4.10 All of these major risks have been considered as part of the process of maintaining and updating the Board Assurance Framework.

DATA SECURITY

4.11 The Trust assesses and manages its data security on an ongoing basis. This assessment is routinely formalised by completion of the annual Information Governance Toolkit return, which is the subject of review and formal sign off by Internal Audit. The Trust also conducts reviews of information transfers at departmental level during the year in response to guidance issued by the Department of Health. Any issues causing concern are recorded in the Risk Register and escalated to the Information Governance Group as the delegated Board authority for action. Certain matters regarding assurances about third parties are explicitly included in this Statement (see paragraph 5.3).

RISK MANAGEMENT MONITORING

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

4.13 In addition, a monthly Integrated Performance Report is prepared and this is a standing agenda for Trust Board meetings. This report reflects progress being made (by each specialty and the Trust as a whole) towards local and national standards or targets. It also outlines performance indicators and is closely tied in with various elements of the Standards for Better Health Annual Health Check.

TRUST COMMITTEE STRUCTURE

4.14 The Trust has an established high level committee structure. The Clinical Governance Committee was set up in the course of 2008/09 and has responsibility for providing assurance to the Board on the full range of clinical governance issues.

STANDARDS FOR BETTER HEALTH

4.15 As a result of a full self-assessment of performance against the Care Quality Commission (CQC) Standards for Better Health, the Trust Board is fully compliant with all core standards for 2009/10. This declaration was made in December 2009 and was based upon assessments for the period ending 31 October 2009.

4.16 At the time of this declaration, there was no requirement to make a further declaration for 2009/10. However, all healthcare organisations have subsequently been asked to notify the CQC of any significant lapses in compliance against core standards after 31 October 2009.

4.17 All standard leads have indicated that there have been no significant lapses to core standards since 31 October 2009 therefore the Trust was fully compliant with all core standards for the whole of 2009/10. Where there are areas of concern, for example those identified in the independent inquiry report and the staff survey, these are included in the Trust's Quality and Risk Profile against which the Trust provided detailed responses to the CQC in early March.

4.18 Internal Audit has reviewed the Standards for Better Health assessment process and is satisfied that the process is robust, that there has been appropriate engagement of the Trust Board and that assessments are supported by relevant and up to date evidence.

4.19 Internal Audit has also reviewed responses made to the CQC in respect of the Trust's Quality and Risk Profile. These responses indicate that appropriate action is being taken to address concerns in the Quality and Risk Profile.

BOARD ASSURANCE FRAMEWORK

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

- the main activities of the Trust
- strategic objectives which the Trust is striving to achieve
- a link of objectives to the related individual Standards for Better Health
- risks to the achievement of objectives and targets
- the system of internal control in place to manage the risks
- the review and assurance mechanisms which relate to the effectiveness of the system of internal control
- actions taken / to be taken to address gaps in control and assurance.

4.21 The Board Assurance Framework document for 2009/10, which was endorsed by the Trust Board, has been in place for the full financial year.

4.22 The specific objectives of the Trust relating to the three strategic goals are:

- Achieving excellent clinical outcomes
- Improving the way we manage our business
- Becoming the hospital of choice

4.23 A discussion group was held in May 2009 to review the Trust's governance arrangements. Following this, a series of workshop discussion groups, supported by Quality and Internal Audit, were held with members of the Senior Management Team in autumn 2009. The aim of these discussion groups was to consider how the Trust can further develop and use the Board Assurance Framework in light of issues raised in the Audit Commission report, 'Taking it on Trust'. The discussion groups focussed on a series of questions included in the report relating to the organisation's governance structures and how it manages its objectives and gets assurance relating to the principal risks to achieving its strategic objectives.

4.24 The Board acknowledges the importance of having a comprehensive Assurance Framework linked to the Trust's systems of internal control and reflected in the annual SIC. Therefore it recognises that it is essential to maintain the Board Assurance Framework as a living document that is subject to regular review, including consideration of existing gaps and actions being taken to address these, and updated to reflect changing circumstances. It is anticipated that a new version will be considered and approved by the Board early in 2010-11.

4.25 The gaps in controls and/or assurance identified in the Board Assurance Framework reflect the continued work being done in the Trust to:

- Further strengthen flows of assurance, particularly relating to clinical governance and patient experience, following the establishment of directorate and divisional clinical governance forums and the Trust Clinical Governance Committee as a formal sub-committee of the Board.
- Review and strengthen the meeting structure feeding into the formal committees of the Board
- Further embed the principles of safeguarding, bringing together the adult and children's initiatives
- Develop more systematic review of clinical indicators and outcome data
- Ensure sufficient organisational capacity and capability to meet the challenge of determining and delivering major change whilst effectively sustaining service delivery, meeting key targets/ indicators and maintaining staff morale and engagement.

4.26 The gaps are consistent with the areas highlighted for improvement by the independent inquiry report and the Trust's CQC Quality and Risk profile. Action plans to close the gaps will be embedded into Executive Performance Review, and routine updates will be presented to the Clinical Governance Committee and Trust Board.

PUBLIC STAKEHOLDER INVOLVEMENT

4.27 The business planning processes that are in place include engagement with and the direct involvement of partner organisations and public stakeholders and service users, ensuring they are involved in the identification and management of risks in relation to those service developments which impact on them. Working relationships with the Leeds City Council Overview and Scrutiny Committee (Health) continue to develop and include the development of a joint programme of work whereby stakeholders are actively involved in understanding the work, achievement and challenges of the Trust. The Trust continues to work with Local Involvement Networks (LINks).

EQUALITY, DIVERSITY AND HUMAN RIGHTS

4.28 Control measures are in place to ensure that the organisation is compliant with its obligations under equality, diversity and human rights legislation. This includes: provision of information to service users and staff on the Trusts website that meets the statutory publication duties, undertaking Equality Impact Assessments and an audit of equality in practice in wards and departments. Significant work has been undertaken in relation to ethnic group data collection and the Trust is compliant with this national standard. This is monitored weekly as part of the Trust’s performance management arrangements.

CLIMATE CHANGE AND CARBON REDUCTION DELIVERY PLANS

4.29 The Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that the organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

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

4.31 Estates have Major Incident Contingency Plans which state how they will deal with a wide range of issues relating to the estate infrastructure; these are periodically reviewed and risk assessed.

4.32 The Trust Heatwave Plan is currently being reviewed by the Emergency Preparedness Team to ensure that it is consistent with national guidance. This includes extensive input including the estate and its capabilities.

4.33 Board approval of the Trust Carbon Management Plan in March 2010 facilitates the establishment of a Carbon Management/ Sustainability steering group to address a range of issues including the development and implementation of Adaptation Plans.

THE NHS PENSION SCHEME ARRANGEMENTS

4.34 As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to 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.

5 Review of effectiveness

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

- The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Board Assurance Framework and on the controls reviewed as part of the internal audit work, which covers the Trust's main financial systems and a range of clinical and operational areas.
- The Audit Committee has, as part of its duties, responsibility for reviewing the establishment and maintenance of an effective

system of internal control. As such it is able to advise the Trust Board accordingly.

- A Clinical Governance Committee has been established to provide assurance about the Trust's clinical governance arrangements.
- Executive Directors and Managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance.
- The Board Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its strategic objectives have been reviewed.
- The Divisional / Directorate Performance Review process.
- Trust National Patient Safety Agency (NPSA) assessments.
- The monthly Board Integrated Performance Report.
- Royal College visits.
- External Auditor's reports, including: 'Use of Resources - Auditors Local Evaluation and interim Accounts Audit', 'Communication of Audit Matters to those Charged with Governance Report (ISA 260) and the Annual Audit Letter.
- Receipt of reports from external review bodies which provide assurance and may identify areas of concern to be addressed by the appropriate level of management.
- Care Quality Commission visits as part of the Standards for Better Health review process.

5.2 I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Trust Board, the Audit Committee, the Clinical Governance Committee and the Senior Management Team. Where weaknesses are identified, I am advised that systems and processes are in place to address these and to ensure continuous improvement of the system is in place.

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

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

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

On behalf of the Board

Maggie Boyle
Chief Executive
10th June 2010

Independent auditor's report to the Board of Directors of Leeds Teaching Hospitals NHS Trust

Opinion on the financial statements

We have audited the financial statements of Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2010 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared 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 set out within them.

We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Directors of Leeds Teaching Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust's directors and the Trust as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. We report whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Financial Review and summarised financial statements included in the Annual Report, is consistent with the financial statements.

We review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'Guidance on Completing the Statement on Internal Control 2009/10' issued in February 2010. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, the unaudited part of the Remuneration Report and the remaining elements of the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error; and

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2010 and of its income and expenditure for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England; and

- information which comprises the commentary on the financial performance included within the Financial Review, and the summarised financial statements included within the Annual Report, is consistent with the financial statements.

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

Directors' Responsibilities

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Trust 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 in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Trust has made such proper arrangements. 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.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, We are satisfied that, in all significant respects, Leeds Teaching Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

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

Graham Nunns

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

No 1 Whitehall Riverside
Whitehall Road
Leeds
LS1 4BN

10 June 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2010

	Note	**2009/10** £000	2008/09 £000
Revenue			
Revenue from patient care activities	5	**744,696**	702,467
Other operating revenue	6	**165,860**	169,213
Operating expenses	8	**(886,869)**	(846,174)
Impairments of non current assets	19	**(42,075)**	(8,160)
Operating (deficit)/surplus		**(18,388)**	17,346
Finance costs:			
Investment revenue	14	**59**	1,483
Other gains	15	**732**	34
Finance costs	16	**(12,474)**	(12,632)
(Deficit)/surplus for the financial year		**(30,071)**	6,231
Public dividend capital dividends payable	34.2	**(13,355)**	(18,977)
Retained (Deficit) for the year		**(43,426)**	(12,746)
Other comprehensive income			
Impairments and reversals	19	(110,873)	(83,037)
Gains on revaluations	17	12,503	0
Receipt of donated assets	17	1,745	2,016
Reclassification adjustments:			
- Transfers from donated reserves		(1,112)	(1,686)
Total comprehensive income for the year		**(141,163)**	(95,453)

The notes on pages 5 to 43 form part of these accounts.

Explanatory Note on Break Even Performance

NHS trusts have a duty to break even, taking one year with another. Measurement of performance against the duty has been realigned by the Department of Health in 2009/10 to identify and exclude expenditure arising from impairments and the additional revenue costs associated with bringing Private Finance Initiative (PFI) schemes onto the Statement of Financial Position. In the case of Leeds Teaching Hospitals these technical items adjust the retained deficit to a surplus as follows

	Note	**2009/10** **£000**
Retained (deficit) for the year		(43,426)
- Impairments	19	42,075
- Additional PFI costs		2,314
Underlying surplus for the year		**963**

The Trust is therefore judged to have met the break even duty in 2009/10 (Note 34.1).

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Note	**31 March 2010 £000**	31 March 2009 £000	1 April 2008 £000
Non-current assets				
Property, plant and equipment	17	**591,794**	710,138	802,651
Intangible assets	18	**44**	129	451
Trade and other receivables	22	**7,923**	5,924	672
Total non-current assets		**599,761**	716,191	803,774
Current assets				
Inventories	21	**17,329**	18,012	15,777
Trade and other receivables	22	**41,913**	46,001	43,333
Cash and cash equivalents	23	**8,840**	3,251	11,013
		68,082	67,264	70,123
Non-current assets held for sale	24	**0**	6,550	0
Total current assets		**68,082**	73,814	70,123
Total assets		**667,843**	790,005	873,897
Current liabilities				
Trade and other payables	25	**(78,939)**	(78,654)	(60,912)
DH Capital loan	26	**(906)**	0	0
Borrowings	26	**(3,576)**	(3,390)	(9,005)
Provisions	30	**(1,330)**	(1,540)	(2,447)
Net current (liabilities)		**(16,669)**	(9,770)	(2,241)
Total assets less current liabilities		**583,092**	706,421	801,533
Non-current liabilities				
Borrowings	26	**(219,220)**	(222,786)	(226,176)
DH Capital loan	26	**(16,741)**	0	0
Trade and other payables	25	**(3,665)**	(5,788)	(9,896)
Provisions	30	**(5,342)**	(5,341)	(5,533)
Total assets employed		**338,124**	472,506	559,928
Financed by taxpayers' equity:				
Public dividend capital		**290,701**	283,920	275,889
Retained earnings		**(55,478)**	(18,478)	(5,732)
Revaluation reserve		**86,914**	188,487	270,896
Donated asset reserve		**15,945**	18,535	18,833
Other reserves		**42**	42	42
Total Taxpayers' Equity		**338,124**	472,506	559,928

The financial statements were approved by the Board at its meeting on 10 June 2010 and signed on its behalf by:

Maggie Boyle - Chief Executive
Neil Chapman - Director of Finance

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Public dividend capital (PDC) £000	Retained earnings £000	Revaluation reserve £000	Donated asset reserve £000	Other reserves £000	Total £000
Balance at 31 March 2008	275,889	(5,732)	270,896	18,833	42	559,928
Changes in taxpayers' equity for 2008/09						
Total Comprehensive Income for the year:						
Retained (deficit) for the year	0	(12,746)	0	0	0	(12,746)
Impairments and reversals	0	0	(82,409)	(628)	0	(83,037)
Receipt of donated assets	0	0	0	2,016	0	2,016
Reclassification adjustments:						
- transfers from donated asset reserve	0	0	0	(1,686)	0	(1,686)
New PDC received	8,031	0	0	0	0	8,031
Balance at 31 March 2009	283,920	(18,478)	188,487	18,535	42	472,506
Changes in taxpayers' equity for 2009/10						
Balance at 1 April 2009	283,920	(18,478)	188,487	18,535	42	472,506
Total Comprehensive Income for the year						
Retained (deficit) for the year	0	(43,426)	0	0	0	(43,426)
Transfers between reserves	0	6,426	(6,369)	(57)	0	0
Impairments and reversals	0	0	(107,707)	(3,166)	0	(110,873)
Net gain on revaluation of property, plant, equipment	0	0	12,503	0	0	12,503
Receipt of donated assets	0	0	0	1,745	0	1,745
Reclassification adjustments:						
- transfers from donated asset reserve	0	0	0	(1,112)	0	(1,112)
New PDC received	16,831	0	0	0	0	16,831
PDC repaid in year	(10,050)	0	0	0	0	(10,050)
Balance at 31 March 2010	290,701	(55,478)	86,914	15,945	42	338,124

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2010

	Note	**2009/10 £000**	2008/09 £000
Cash flows from operating activities			
Operating (deficit)/surplus		**(18,389)**	17,346
Depreciation and amortisation		**35,639**	38,149
Impairments and reversals		**42,075**	8,160
Transfer from donated asset reserve		**(1,112)**	(1,686)
Decrease/(increase) in inventories		**683**	(2,235)
(Increase)/decrease in trade and other receivables		**4,550**	(7,939)
(Decrease)/increase in trade and other payables		**(957)**	7,980
(Decrease)/increase in provisions	30	**(232)**	(1,121)
Net cash inflow from operating activities		**62,257**	58,654
Cash flows from investing activities			
Interest received		**59**	1,483
(Payments) for property, plant and equipment	17	**(57,964)**	(37,396)
Proceeds from disposal of plant, property and equipment		**6,681**	37
Net cash (outflow) from investing activities		**(51,224)**	(35,876)
Net cash inflow before financing		**11,033**	22,778
Cash flows from financing activities			
Interest paid		**(12,421)**	(12,624)
Dividends paid		**(15,819)**	(18,977)
Public dividend capital received		**16,831**	8,031
Public dividend capital repaid		**(10,050)**	0
Loans received from the DH		**18,100**	0
Loans repaid to the DH		**(453)**	(5,802)
Other capital receipts		**1,748**	2,035
Capital element of finance leases and PFI		**(3,380)**	(3,203)
Net cash (outflow) from financing		**(5,444)**	(30,540)
Net increase/(decrease) in cash and cash equivalents		**5,589**	(7,762)
Cash (and) cash equivalents at 1 April 2009		**3,251**	11,013
Cash (and) cash equivalents at 31 March 2010	23	**8,840**	3,251

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 2009/10 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 and inventories. Where appropriate financial assets and liabilities have been impaired or discounted to bring them to fair value.

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.

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

1.4.1 Critical judgements in applying accounting policies

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

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

1.4.2 Key sources of estimation uncertainty

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

Plant, Property and Equipment - Para. 1.8 and Note 17
Intangible Assets - Para 1.9 and Note 18
Provision for Impairment of Receivables - Note 22.3
Provisions - Para 1.17 and Note 30
Contingencies - Para 1.20 and Note 31

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.

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

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.

Some employees are members of the Local Government Superannuation Scheme, which is a defined benefit pension scheme. The scheme assets and liabilities attributable to those employees can be identified and are recognised in the trust's accounts. The assets are measured at fair value and the liabilities at the present value of the future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The expected gain during the year from scheme assets is recognised within finance income. The interest cost during the year arising from the unwinding of the discount on the scheme liabilities is recognised within finance costs. Actuarial gains and losses during the year are recognised in the pensions reserve and reported as an item of other comprehensive income.

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.

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.

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

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. HM Treasury has agreed that NHS trusts must apply these new valuation requirements by 1 April 2010 at the latest.

All of the Trust's property assets have been valued by the District Valuer with a valuation date of 1st October 2009. 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 ceased. The carrying value of existing assets at that date will be written off over their remaining useful lives and new fixtures and equipment are carried at depreciated historic cost where this is not considered to be materially different from fair value. During 2009/10 the Trust commissioned an independent valuation of major equipment to assist in determining 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 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. 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.

1.9 Intangible assets

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

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

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

- 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 and properties under construction are not depreciated.

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

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

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

1.11 Donated assets

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

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

1.12 Non-current assets held for sale

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

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

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

1.13 Leases

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

The Trust as lessee

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

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

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

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are 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.

1.14 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure during the service concession period together with the residual interest in the infrastructure at the end of the period. This follows the principles of the requirements of IFRIC 12. The Trust therefore recognises 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.

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

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 construction cost of the PFI asset and is subsequently measured as a finance lease liability in accordance with IAS 17.

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

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

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

Lifecycle replacement

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

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

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

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

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

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

Other assets contributed by the Trust to the operator

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

Assets with no initial liability

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

1.15 Inventories

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

1.16 Cash and cash equivalents

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

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

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

1.17 Provisions

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

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

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

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

1.18 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 30.

1.19 Non-clinical risk pooling

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

1.20 Contingencies

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

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

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

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

1.21 Financial assets

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

Financial assets are initially recognised at fair value.

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

Loans and receivables

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

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

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

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

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

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

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

1.22 Financial liabilities

Financial liabilities are recognised on the statement of financial position when the Trust becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are 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.

1.23 Value Added Tax

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

1.24 Foreign currencies

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

1.25 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 36 to the accounts.

1.26 Public Dividend Capital (PDC) and PDC dividend

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

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

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

1.27 Losses and Special Payments

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

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, the note on losses and special payments is compiled directly from the Trust's Losses and Compensations Register. The Register is prepared on an accruals basis but does not include items where uncertainty regarding payment exists.

1.28 Joint operations

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

1.29 Accounting standards that have been issued but have not yet been adopted

The following standards and interpretations have been adopted by the European Union but are not required to be followed until 2010/11. None of them are expected to impact upon the Trust's financial statements.

IAS 27 (Revised) Consolidated and separate financial statements

Amendment to IAS 32 Financial instruments: Presentation on classification or rights issues

Amendment to IAS 39 Eligible hedged items

IFRS 3 (Revised) Business combinations

IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 18 Transfer of assets from customers

2. Pooled budget

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

	2009/10	2008/09
	£000	£000
Strategic health authorities	**26,295**	17,781
NHS trusts	**11**	0
Primary care trusts	**707,583**	639,553
Department of Health	**(32)**	34,158
NHS other	**1,700**	288
Non NHS:		
Private patients	**3,980**	4,638
Overseas patients (non-reciprocal)	**1,355**	1,328
Injury costs recovery	**2,794**	3,548
Other	**1,010**	1,173
	744,696	**702,467**

In 2008/09 the Department of Health made payments for the Market Forces Factor directly to trusts. In 2009/10, this revenue was received from primary care trusts. Similarly, in 2008/09 revenue for organ retrieval services was received from London Strategic Health Authority. In 2009/10 it was received from NHS Blood and Transplant, which is included in NHS Other above.

Injury cost recovery income is subject to a provision for impairment of receivables of 7.8% to reflect expected rates of collection

6. Other operating revenue

	2009/10 £000	2008/09 £000
Patient transport services	**8**	0
Education, training and research	**105,857**	99,773
Charitable and other contributions to expenditure	**1,877**	1,396
Transfers from Donated Asset Reserve	**1,112**	1,686
Non-patient care services to other bodies	**48,990**	44,160
Rental revenue	**695**	271
Other revenue	**7,321**	21,927
	165,860	169,213

7. Revenue

	2009/10 £000	2008/09 £000
From rendering of services	**909,382**	870,516
From sale of goods	**1,174**	1,164
	910,556	871,680

8. Operating expenses

	2009/10 £000	2008/09 £000
Purchase of healthcare from non NHS bodies	**3,625**	3,721
Directors' costs	**1,010**	935
Other Employee Benefits	**547,312**	530,077
Supplies and services - clinical	**205,223**	184,395
Supplies and services - general	**8,388**	8,557
Consultancy services	**1,306**	965
Establishment	**7,145**	7,077
Transport	**10,170**	9,843
Premises	**43,232**	45,800
Provision for impairment of receivables	**(3)**	421
Depreciation	**35,516**	37,827
Amortisation	**123**	322
Audit fees	**292**	251
Clinical negligence - NHSLA Scheme Contribution	**13,400**	7,294
Education and Training	**2,584**	2,299
Other	**7,546**	6,390
	886,869	846,174

Directors' costs include £79k non executive directors' allowances (£70k in 2008/09).
Premises costs include £8,801k for service charges associated with the Private Finance Initiative schemes (£8,704 in 2008/09).

9. Operating leases

9.1 As lessee

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

Payments recognised as an expense	2009/10	2008/09
	£000	£000
Minimum lease payments	**5,275**	5,277

Total future minimum lease payments	2009/10	2008/09
	£000	£000
Payable:		
Not later than one year	**1,976**	3,023
Between one and five years	**5,593**	6,230
After 5 years	**4,914**	5,944
Total	**12,483**	15,197

Total future sublease payments expected to be received: £0

9.2 As lessor

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

Rental revenue	2009/10	2008/09
	£000	£000
Total rental revenue	**695**	271

Total future minimum lease receipts	2009/10	2008/09
	£000	£000
Receivable:		
Not later than one year	**524**	322
Between one and five years	**1,853**	1,231
After 5 years	**2,713**	576
Total	**5,090**	2,129

10. Employee costs and numbers

10.1 Employee costs

	2009/10			2008/09		
	Total	**Permanently Employed**	**Other**	Total	Permanently Employed	Other
	£000	**£000**	**£000**	£000	£000	£000
Salaries and wages	**463,630**	**446,703**	**16,927**	449,023	428,704	20,319
Social security costs	**33,021**	**33,021**	**0**	31,858	31,858	0
Employer contributions to NHS Pension scheme	**52,182**	**52,182**	**0**	49,646	49,646	0
Other pension costs	**294**	**294**	**0**	416	416	0
Employee benefits expense	**549,127**	**532,200**	**16,927**	530,943	510,624	20,319

	2009/10	2008/09
Of the total above:		
Charged to capital	884	847
Employee benefits charged to revenue	548,243	530,096
	549,127	**530,943**

10.2 Average number of people employed

	2009/10			2008/09		
	Total	**Permanently Employed**	**Other**	Total	Permanently Employed	Other
	Number	**Number**	**Number**	Number	Number	Number
Medical and dental	**1,799**	**1,768**	**31**	1,748	1,731	17
Administration and estates	**2,623**	**2,539**	**84**	2,651	2,496	155
Healthcare assistants and other support staff	**2,613**	**2,506**	**107**	2,628	2,452	176
Nursing, midwifery and health visiting staff	**3,906**	**3,715**	**191**	3,958	3,735	223
Nursing, midwifery and health visiting learners	**12**	**12**	**0**	8	8	0
Scientific, therapeutic and technical staff	**2,575**	**2,546**	**29**	2,531	2,483	48
Social care staff	**13**	**13**	**0**	12	0	12
Other	**360**	**359**	**1**	353	352	1
Total	**13,901**	**13,458**	**443**	13,889	13,257	**632**

	2009/10	2008/09
Of the above:		
Number of staff (WTE) engaged on capital projects	**19**	**18**

10.3 Staff sickness absence

	2009/10
	Number
Total days lost	136,344
Total staff years	13,307
Average working days lost	10.25
Total staff employed in period (headcount)	17,220
Total staff employed in period with no absence (headcount)	3,534
Percentage staff with no sick leave	20.5%

The above figures for staff sickness absence are based on the 2009 calender year (January to December)

10.4 Management costs

	2009/10	**2008/09**
	£000	**£000**
Management costs	34,138	32,385
Income	906,038	868,013
Management costs as a percentage of income	3.77%	3.73%

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

11. Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.pensions.nhsbsa.nhs.uk. 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.

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

a) Full actuarial (funding) valuation

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

The conclusion from the 2004 valuation was that the scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. In order to defray the costs of benefits, employers pay contributions at 14% of pensionable pay and most employees had up to April 2008 paid 6%, with manual staff paying 5%.

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

b) Accounting valuation

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

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

The valuation of the scheme liability as at 31 March 2010, is based on detailed membership data as at 31 March 2008 (the latest midpoint) updated to 31 March 2010 with summary global member and accounting data.

forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

c) Scheme provisions

In 2009-10 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:

Annual Pensions

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".

Pensions Indexation

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.

Lump sum allowance
A lump sum is payable on retirement which is normally three times the annual pension payment (1995 Scheme).

Ill-Health retirement
Early payment of a pension, with enhancement in certain circumstances, is available to members of the Scheme who are permanently incapable of fulfilling their duties or regular employment effectively through illness or infirmity.

Death benefits
A death gratuity of twice the member's final year's pensionable pay for death in service, and five times their annual pension for death after retirement is payable.

Additional Voluntary Contributions (AVCs)
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.

Transfer between funds
Scheme members have the option to transfer their pension between the NHS Pension Scheme and another scheme when they move into or out of NHS employment.

Preserved benefits
Where a scheme member ceases NHS employment with more than two years service they can preserve their accrued NHS pension for payment when they reach retirement age.

Compensation for early retirement
Where a member of the Scheme is made redundant they may be entitled to early receipt of their pension plus enhancement, at the employer's cost.

12. Retirements due to ill-health

During 2009/10 there were 24 (2008/09, 22) early retirements from the NHS Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £1,910k (2008/09: £1,169k). The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.
These retirements represented 1.83 per 1,000 active members (2008/09: 1.52 per 1,000 members).

13. Better Payment Practice Code

13.1 Better Payment Practice Code - measure of compliance

	2009/10		2008/09	
	Number	**£000**	Number	£000
Total Non-NHS trade invoices paid in the year	**192,593**	**341,237**	185,712	304,619
Total Non NHS trade invoices paid within target	**143,410**	**266,240**	173,616	280,825
Percentage of Non-NHS trade invoices paid within target	**74%**	**78%**	93%	92%
Total NHS trade invoices paid in the year	**5,324**	**72,200**	5,823	66,174
Total NHS trade invoices paid within target	**2,356**	**32,285**	4,493	59,402
Percentage of NHS trade invoices paid within target	**44%**	**45%**	77%	90%

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

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

Payments made under the terms of this legislation were negligible at less than £1k

14. Investment revenue

	2009/10	2008/09
	£000	£000
Interest from bank accounts	**59**	1,483

15. Other gains

	2009/10	2008/09
	£000	£000
Gain on disposal of property, plant and equipment	**732**	34

16. Finance costs

	2009/10	2008/09
	£000	£000
Interest on loans and overdrafts	**205**	188
Interest on obligations under finance leases	**12**	12
Interest on obligations under PFI contracts:		
- finance cost	**12,234**	12,410
Total interest expense	**12,451**	12,610
Other finance costs	**23**	22
Total	**12,474**	**12,632**

17. Property, plant and equipment

2009/10:	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2009	72,597	532,241	6,225	24,314	197,349	536	38,802	9,867	881,931
Additions purchased	0	7,491	0	33,758	13,447	41	572	0	55,309
Additions donated	0	336	0	553	856	0	0	0	1,745
Reclassifications	0	22,233	(1,840)	(22,900)	1,531	713	(602)	327	(538)
Reclassified as held for sale	(435)	(83)	(445)	0	(71)	0	0	0	(1,034)
Revaluation/indexation gains	0	10,856	0	0	1,283	0	364	0	12,503
Impairments	(45,531)	(75,549)	(58)	0	(346)	0	0	0	(121,484)
Reversal of impairments	0	9,401	0	1,210	0	0	0	0	10,611
At 31 March 2010	**26,631**	**506,926**	**3,882**	**36,935**	**214,049**	**1,290**	**39,136**	**10,194**	**839,043**
Depreciation at 1 April 2009	0	0	0	0	135,289	463	26,857	9,184	171,793
Reclassifications	0	0	0	0	(1,579)	713	39	327	(500)
Reclassified as held for sale	0	0	0	0	(35)	0	0	0	(35)
Impairments	6,087	31,919	0	0	2,216	0	253	0	40,475
Charged during the year	0	17,413	152	0	13,278	20	4,525	128	35,516
Depreciation at 31 March 2010	**6,087**	**49,332**	**152**	**0**	**149,169**	**1,196**	**31,674**	**9,639**	**247,249**
Net book value									
Purchased	20,544	446,034	3,730	36,382	61,057	94	7,462	548	575,851
Donated	0	11,560	0	553	3,823	0	0	7	15,943
Total at 31 March 2010	**20,544**	**457,594**	**3,730**	**36,935**	**64,880**	**94**	**7,462**	**555**	**591,794**
Asset financing									
Owned	**20,544**	**280,318**	**3,730**	**36,935**	**49,015**	**94**	**7,462**	**555**	**398,653**
Finance Leased	**0**	**168**	**0**	**0**	**0**	**0**	**0**	**0**	**168**
Private finance initiative	**0**	**177,108**	**0**	**0**	**15,865**	**0**	**0**	**0**	**192,973**
Total 31 March 2010	**20,544**	**457,594**	**3,730**	**36,935**	**64,880**	**94**	**7,462**	**555**	**591,794**

2008/09:

	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2008	132,232	565,932	6,305	20,082	200,232	563	37,099	9,861	972,306
Additions purchased	0	2,121	0	24,760	12,416	20	1,731	0	41,048
Additions donated	0	25	0	0	1,991	0	0	0	2,016
Reclassifications	39	22,086	442	(19,318)	(3,776)	2	53	6	(466)
Reclassified as held for sale	(6,300)	(250)	0	0	0	0	0	0	(6,550)
Disposals other than by sale	0	0	0	0	(13,514)	(49)	(81)	0	(13,644)
Impairments	(53,374)	(28,189)	(264)	(1,210)	0	0	0	0	(83,037)
At 31 March 2009	**72,597**	**561,725**	**6,483**	**24,314**	**197,349**	**536**	**38,802**	**9,867**	**911,673**
Depreciation at 1 April 2008	0	0	0	0	137,619	509	22,464	9,063	169,655
Reclassifications	0	0	0	0	(240)	(30)	(189)	(7)	(466)
Disposals other than by sale	0	0	0	0	(13,511)	(49)	(81)	0	(13,641)
Impairments	0	8,160	0	0	0	0	0	0	8,160
Charged during the year	0	21,324	258	0	11,421	33	4,663	128	37,827
Depreciation at 31 March 2009	**0**	**29,484**	**258**	**0**	**135,289**	**463**	**26,857**	**9,184**	**201,535**
Net book value									
Purchased	72,597	517,430	6,225	24,314	58,406	69	11,919	652	691,612
Donated	0	14,811	0	0	3,654	4	26	31	18,526
Total at 31 March 2009	**72,597**	**532,241**	**6,225**	**24,314**	**62,060**	**73**	**11,945**	**683**	**710,138**
Asset financing									
Owned	**72,597**	**332,418**	**6,225**	**24,314**	**49,244**	**73**	**11,945**	**683**	**497,499**
Finance Leased	**0**	**657**	**0**	**0**	**0**	**0**	**0**	**0**	**657**
Private finance initiative	**0**	**199,166**	**0**	**0**	**12,816**	**0**	**0**	**0**	**211,982**
Total 31 March 2009	**72,597**	**532,241**	**6,225**	**24,314**	**62,060**	**73**	**11,945**	**683**	**710,138**

17. Property, plant and equipment (cont.)

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

Equipment assets were independently valued by the District Valuation Service 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:

	2009/10	2008/09
	£000	£000
Leeds Teaching Hospitals Charitable Foundation	653	1,908
Variety Club of Great Britain	294	0
Sick Children's Trust	550	0
Walk the Walk	159	0
Children's Heart Surgery Fund	27	0
Ferring Pharmaceutical	0	29
Take Heart	0	25
Others	62	54
Total	**1,745**	2,016

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

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

18. Intangible assets

2009/10:	**Computer software purchased**
	£000
Gross cost at 1 April 2009	2,202
Gross cost at 31 March 2010	**2,202**
Amortisation at 1 April 2009	2,073
Reclassifications	(38)
Charged during the year	123
Amortisation at 31 March 2010	**2,158**
Net book value	
Purchased	42
Donated	2
Total at 31 March 2010	**44**

2008/09:	**Computer software purchased**
	£000
Gross cost at 1 April 2008	2,202
Additions purchased	0
Gross cost at 31 March 2009	**2,202**
Amortisation at 1 April 2008	1,751
Charged during the year	322
Amortisation at 31 March 2009	**2,073**
Net book value	
Purchased	120
Donated	9
Government granted	0
Total at 31 March 2009	**129**

In 2009/10 the Trust purchased operating system licences which are included in Property, Plant and Equipment (Notes 1.9 and 17). Other software licences were purchased with equipment which is yet to be commissioned and is included in Assets under construction (Note 17).

18. Intangible assets (cont.)
Intangible assets have been measured at fair value in line with the acounting 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

19. Impairments
As described in note 17 the Trust has had its estate and equipment assets independently valued. Both valuations have resulted in overall impairments to carrying values. In summary, these are:

	Charged to SOCI	Charged to Revaluation Reserve	2009/10 Total	2008/09 Total
	£000	£000	£000	£000
Land	6,087	45,531	51,618	53,374
Buildings	14,940	75,605	90,545	15,579
Buildings - PFI	16,979	2	16,981	22,244
Equipment	2,469	346	2,815	0
Impairment - reversal	0	(10,611)	(10,611)	0
Total	**40,475**	**110,873**	**151,348**	91,197

In addition to the above the Cookridge site which had been classified as an asset held for sale had its carrying value impaired by £1.6M to reflect changes in economic conditions affecting market prices prior to its sale in January 2010. This has been charged to the Statement of Comprehensive Income.

In 2008/09 the Trust had its estate independently valued on the traditional like for like depreciated replacement cost basis.

20. Capital commitments

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

	31 March 2010 £000	31 March 2009 £000
Property, plant and equipment	**22,767**	16,617

These commitments include £14,936k in respect of clinical services reconfiguration which includes The Children's Hospital, due for completion in 2010/11.

21. Inventories

21.1. Inventories	31 March 2010 £000	31 March 2009 £000
Drugs	**6,477**	**6,637**
Consumables	**10,660**	**11,212**
Energy	**192**	**163**
Total	**17,329**	18,012
Of which held at net realisable value:	0	0

21.2 Inventories recognised in expenses	31 March 2010 £000	31 March 2009 £000
Inventories recognised as an expense in the period	**168,701**	138,757

22. Trade and other receivables

22.1 Trade and other receivables	Current		Non-current	
	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000	31 March 2009 £000
NHS receivables-revenue	**24,877**	28,050	**0**	0
Non-NHS receivables-revenue	**8,474**	8,823	**0**	0
Non-NHS receivables-capital	**54**	57	**0**	0
Provision for the impairment of receivables	**(1,874)**	(1,915)	**(226)**	(249)
Prepayments and accrued income	**3,891**	4,062	**5,249**	2,974
VAT	**1,045**	1,286	**0**	0
Other receivables	**5,446**	5,638	**2,900**	3,199
Total	**41,913**	46,001	**7,923**	5,924

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 29.1) and the costs are paid to the contractor in line with the planned programme of equipment replacement. Deferred assets are established in line with the accounting policy described in note 1.14.

Other non current receivables are amounts due to the Trust under the NHS Injury Cost Recovery Scheme (see note 1.5)

22.2 Receivables past their due date but not impaired	31 March 2010 £000	31 March 2009 £000
By up to three months	**2,547**	613
By three to six months	**554**	312
By more than six months	**293**	220
Total	**3,394**	**1,145**

The Trust does not hold collateral for receivables past their due date but not impaired.

22.3 Provision for impairment of receivables	**31 March 2010**	31 March 2009
	£000	£000
Balance at 1 April	**(2,164)**	(2,665)
Amount written off during the year	**61**	922
Decrease/(Increase) in receivables impaired	**3**	(421)
Balance at 31 March	**(2,100)**	(2,164)

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 2010	31 March 2009
	£000	£000
Balance at 1 April	**3,251**	11,013
Net change in year	**5,589**	(7,762)
Balance at 31 March	**8,840**	3,251
Made up of:		
Cash with Office of HM Paymaster General	**7,815**	2,838
Commercial banks and cash in hand	**1,025**	413
Cash as in statements of financial position and cash flow	**8,840**	3,251

24. Non-current assets held for sale

	Land	**Buildings, excl dwelling**	**Dwellings**	**Other property, plant and equipment**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Balance brought forward	6,300	250	0	0	6,550
Plus assets classified as held for sale in the year	435	(250)	779	35	999
Less assets sold in the year	(5,135)	0	(779)	(35)	(5,949)
Less impairments of assets held for sale	(1,600)	0	0	0	(1,600)
Balance carried forward	**0**	**0**	**0**	**0**	**0**

During the course of the year, the Cookridge Hospital site (land and buildings) was sold to a developer and the former Leeds Chest Clinic (land and building) to a retailer. These assets had previously been declared surplus by the Board following relocation of clinical services to Bexley Wing and the Leeds General Infirmary. The carrying value of Cookridge at 31 March 2009 (£6.1m) was impaired during the year by £1.6m to reflect the prevailing economic conditions. The impairment was carried to the Statement of Comprehensive Income. Leeds Chest Clinic realised a gain against carrying value of £100k on sale.

Other properties were classified as held for sale during 2009/10 and sales completed. Six residential properties in Otley were sold with a loss against carrying value of £129k and office accomodation in Clarendon Road, adjacent to the Leeds General Infirmary sold at a gain against carrying value of £146k.

25. Trade and other payables

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Interest payable	**30**	0	**0**	0
NHS payables - revenue	**5,721**	5,750	**0**	0
Non NHS trade payables - revenue	**15,679**	16,335	**0**	0
Non NHS trade payables - capital	**9,940**	10,851	**0**	0
Accruals and deferred income	**27,360**	26,392	**2,649**	4,618
Social security costs	**5,175**	5,092	**0**	0
Tax	**6,451**	6,578	**0**	0
Other	**8,583**	7,656	**1,016**	1,170
Total	**78,939**	78,654	**3,665**	5,788

Other payables include £6,542k (2008/09 - £6,468k) outstanding pensions contributions at 31 March 2010. Payment will be made on the 19th April 2010.

26. Borrowings

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Loans from:				
Loans from the Department of Health	**906**	0	**16,741**	0
PFI liabilities	**3,576**	3,390	**218,651**	222,228
Finance lease liabilities	**0**	0	**569**	558
Total	**4,482**	3,390	**235,961**	222,786

The loan from the Department of Health is a fixed interest bearing Capital Investment Loan repayable in equal six monthly instalments, with the final instalment due in September 2029.

The PFI liabilities relate to the Wharfedale Hospital and Bexley Wing schemes described in Note 29.1

The finance lease liability relates to the Seacroft Catering Receipt and Distribution Unit described in note 27.

27. Finance lease obligations

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

Amounts payable under finance leases:	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2010 £000	31 March 2009 £000	**31 March 2010 £000**	31 March 2009 £000
Within one year	**1**	1	**0**	0
Between one and five years	**135**	92	**85**	38
After five years	**537**	581	**484**	520
Less future finance charges	**(104)**	(116)		
Present value of minimum lease payments	**569**	558	**569**	558
Included in non-current borrowings			**569**	558

28. Finance lease commitments

The Trust has not entered into any new finance lease commitments during 2009/10.

29. Private Finance Initiative contracts

29.1 PFI schemes on-Statement of Financial Position

There are two schemes which are judged to be on-Statement of Financial Position, i.e.

Institute of Oncology at St. James - Bexley Wing

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

Wharfedale Hospital

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

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

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

	31 March 2010	31 March 2009
	£000	£000
Not later than one year	**15,625**	15,625
Later than one year, not later than five years	**62,498**	62,498
Later than five years	**350,919**	366,544
Sub total	**429,042**	444,667
Less: interest element	**(206,815)**	(219,049)
Total	**222,227**	225,618
Shown as follows:		
Current Borrowings (Note 26)	**3,576**	3,390
Non current borrowings (Note 26)	**218,651**	222,228
	222,227	**225,618**

29.2 Charges to expenditure

The total charged in the year to expenditure in respect of the service element of on-statement of financial position PFI contracts was £8,801k (prior year £8,704k).

The Trust is committed to annual service charges over the lives of the schemes which amount to:

	31 March 2010	31 March 2009
	£000	£000
PFI scheme expiry date:		
Later than five years	**282,371**	291,274

30. Provisions

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Pensions relating to other staff	**300**	292	**3,662**	3,524
Legal claims	**545**	364	**1,680**	1,717
Agenda for change	**185**	584	**0**	0
Other	**300**	300	**0**	100
Total	**1,330**	1,540	**5,342**	5,341

	Pensions relating to other staff	Legal claims	Agenda for change	Other	Total
	£000	£000	£000	£000	£000
At 1 April 2008	3,799	2,023	806	1,352	**7,980**
Arising during the year	291	311	584	299	**1,485**
Used during the year	(296)	(253)	(806)	(193)	**(1,548)**
Reversed unused	0	0	0	(1,058)	**(1,058)**
Unwinding of discount	22	0	0	0	**22**
At 1 April 2009	**3,816**	**2,081**	**584**	**400**	**6,881**
Arising during the year	415	499	0	113	**1,027**
Used during the year	(292)	(355)	(299)	(113)	**(1,059)**
Reversed unused	0	0	(100)	(100)	**(200)**
Unwinding of discount	23	0	0	0	**23**
At 31 March 2010	**3,962**	**2,225**	**185**	**300**	**6,672**
Expected timing of cash flows:					
In the remainder of the spending review period to 31 March 2011	300	545	185	300	**1,330**
Between 1 April 2011 and 31 March 2016	1,500	1,680	0	0	**3,180**
Between 1 April 2016 and 31 March 2021	1,500	0	0	0	**1,500**
Thereafter	662	0	0	0	**662**

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

Legal claims relate to personal injury and other claims where the Trust has received advice that settlement is probable. The final amounts and timings of payments remain subject to negotiation or legal judgement.

Agenda for Change provisions relate to estimated pay arrears due to employees under the national Agenda for Change initiative. Until all arrears claims have been fully evaluated there is some uncertainty regarding the value of final payments.

Other claims outstanding at 31st March 2010 relate to legal cases where judgement has been made but a decision on final quantum is awaited.

£85,609k is included in the provisions of the NHS Litigation Authority at 31st March 2010 in respect of clinical negligence liabilities of the Trust (31st March 2009 £80,841k).

Contingencies

Contingent liabilities	2009/10	2008/09
	£000	£000
Other	(600)	(690)
Amounts recoverable against contingent liabilities	148	246
Total	(452)	(444)

Contingent assets

The Trust has no contingent assets.

Contingent liabilities consist of claims for personal injury of £247k (£233k in 2008/09) and property loss claims of £154k (£257k in 2008/09) where the probability of settlement is very low. All of the property related cases and personal injury cases to the value of £104k 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.

There is also a contractual claim from a supplier to the value of £200k included in Contingent Liabilities (£200k in 2008/09). It is unlikely that this claim will result in a payment.

Amounts recoverable relate to property claims managed by the NHS Litigation Authority on behalf of the Trust.

Financial Instruments

Financial assets	Loans and receivables £000
Receivables	39,564
Cash at bank and in hand	3,251
Total at 31 March 2009	42,815
Receivables	35,003
Cash at bank and in hand	8,840
Total at 31 March 2010	43,843

Financial liabilities	Other £000
Payables	56,976
PFI and finance lease obligations	226,176
Total at 31 March 2009	283,152
Payables	54,123
Other borrowings	17,647
PFI and finance lease obligations	222,796
Total at 31 March 2010	294,566

Financial assets and liabilites exclude receivables and payables where no contract exists between the Trust and third parties. For example, VAT and PAYE, which are included in the Statement of Financial Position, are not classed as financial assets or liabilities because they arise from statutory rather than contractual obligations

32.3 Financial risk management

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Due to the continuing service provider relationship that the 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 Trust Board. Trust treasury activity is subject to review by the Trust's internal auditors.

Currency risk

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

Interest rate risk

The Trust borrows from government for certain capital expenditure schemes, 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 2010 are in receivables from customers, as disclosed in the trade and other receivables note. (Note 22)

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.

33. Events after the reporting period

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

34. Financial performance targets

The figures given for periods prior to 2009/10 for notes 34.1 to 34.4 below are on a UK GAAP basis as that is the basis on which the targets were set for those years.

34.1 Breakeven Performance	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
	£000	**£000**	**£000**	**£000**	**£000**
Turnover	721,415	757,446	793,445	871,680	910,556
Retained surplus/(deficit) for the year	309	355	3,093	471	(43,426)
Adjustment for:					
Timing/non-cash impacting distortions:					
2006/07 PPA (relating to 1997/98 to 2005/06)	2,051	0	0	0	0
Adjustments for Impairments	0	0	0	0	42,075
Consolidated Budgetary Guidance - incremental costs of PFI schemes	0	0	0	0	2,314
Break-even in-year position	2,360	355	3,093	471	963
Break-even cumulative position	(51)	304	3,397	3,868	4,831

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

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

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

34.2 Capital cost absorption rate

For 2008/09 the Trust was required to absorb the cost of capital at a rate of 3.5% of forecast average relevant net assets. In 2008/09 this resulted in a dividend paid of £18,977k on average relevant net assets of £501,206k giving a capital cost absorption rate of 3.8%. From 2009/10 the dividend payable on public dividend capital (£13,355k) is based on the actual (rather than forecast) average relevant net assets and therefore the actual capital cost absorption rate is automatically 3.5%.

34.3 External Financing Limit

The Trust is given an External Financing Limit which it cannot exceed but is permitted to undershoot.

	2009/10	2008/09
	£000	£000
External Financing Limit	**21,051**	10,463
Cash flow financing	**17,206**	12,026
Other capital receipts	**(1,748)**	(2,035)
External financing requirement	**15,458**	9,991
Undershoot against the External Financing Limit	**5,593**	472

The undershoot is primarily due to receipts from asset sales being retained to strengthen the Trust's liquidity position.

34.4 Capital Resource Limit

The Trust is given a Capital Resource Limit which it cannot exceed but is permitted to undershoot.

	2009/10	2008/09
	£000	£000
Capital Resource Limit	**59,217**	43,938
Gross capital expenditure	**57,054**	45,542
Less: book value of assets disposed of	**(5,949)**	(3)
Less: donations towards the acquisition of non-current assets	**(1,745)**	(2,016)
Charge against the Capital Resource Limit	**49,360**	43,523
Undershoot against the Capital Resource Limit	**9,857**	415

The undershoot is due to higher than anticipated donations and asset disposals (see notes 17 and 24). Due to the prevailing economic climate, receipts from sales had not been anticipated at the start of the year when the Capital Resource Limit was set.

35. Related party transactions

The Leeds Teaching Hospitals NHS Trust is a body corporate established by order of the Secretary of State for Health.

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
Calderdale PCT
East Riding of Yorkshire PCT
North Yorkshire and York PCT
Yorkshire and the Humber Strategic Health Authority
London Strategic Health Authority
NHS Professionals
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
Yorkshire Ambulance Service NHS 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. Dr. Valerie Kaye, a Non Executive Director of the Trust until 30th November 2009 is a Trustee of the Foundation.
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

36. Third Party Assets

The Trust held £12k of cash and cash equivalents at 31 March 2010 (£4k at 31 March 2009) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

37. Intra-Government and Other Balances	Current receivables £000	Non-current receivables £000	Current payables £000	Non-current payables £000
Balances with other Central Government Bodies	25,578	2,674	21,107	0
Balances with Local Authorities	26	0	121	0
Balances with NHS Trusts and Foundation Trusts	3,855	0	1,954	0
Balances with Public Corporations and Trading Funds	86	0	885	0
Intra Government balances	29,545	2,674	24,067	0
Balances with bodies external to Government	12,368	5,249	54,872	3,665
At 31 March 2010	**41,913**	**7,923**	**78,939**	**3,665**
Balances with other Central Government Bodies	26,499	2,950	15,516	0
Balances with Local Authorities	121	0	28	0
Balances with NHS Trusts and Foundation Trusts	4,468	0	1,240	0
Balances with Public Corporations and Trading Funds	83	0	729	0
Intra Government balances	31,171	2,950	17,513	0
Balances with bodies external to Government	14,830	2,974	61,141	5,788
At 31 March 2009	46,001	5,924	78,654	5,788

38. Losses and Special Payments

There were 784 cases of losses and special payments (2008/09: 1,169 cases) totalling £408,492 (2008/09: £695,412) during 2009/10. None of these cases exceeded £250,000 in value (2008/09: nil).

39. Transition to IFRS

The transition to IFRS has had a material effect on the Trust's reported financial position as shown in the reconciliation table below. PFI related assets, finance leases and an accrual for the cost of staff holidays not taken were brought into account in the restated Statement of Financial Position at 1st April 2008 and subsequently in fully restated Accounts for 2008/09.

	Retained earnings	Revaluation reserve	Donated asset reserve
	£000	£000	£000
Taxpayers' equity at 31 March 2009 under UK GAAP:	**5,986**	**188,172**	**18,535**
Adjustments for IFRS changes:			
Private finance initiative	(8,247)	4,866	0
Leases	(215)	315	0
Accrual for staff leave not taken	(3,297)	0	0
Impairments of PFI assets	(12,705)	(4,866)	0
Taxpayers' equity at 1 April 2009 under IFRS:	**(18,478)**	**188,487**	**18,535**

The balances in Taxpayers' equity for Retained Earnings at 1 April 2009 include the following.

	£000
Surplus for 2008/09 under UK GAAP	**471**
Adjustments for:	
Private finance initiative	(4,680)
Impairments of PFI assets	(8,160)
Leases	(48)
Accrual for staff leave not taken	(329)
(Deficit) for 2008/09 under IFRS	**(12,746)**

The restated 2008/09 results include an impairment charge of £8.2 million which relates to a fall in the value of Bexley Wing. At commencement of the PFI concession arrangement in late 2007 Bexley Wing was valued at its construction cost of £204 million plus equipment valued at £21 million. The District Valuer has subsequently issued reports as at 31 March 2008 and 31 March 2009 which show a fall in value of the building during the course of the year. The subsequent impairment has been taken directly to the Statement of Comprehensive Income as a charge. Other PFI related impairment charges relate to a fall in the value of Wharfedale Hospital of £7.8 million which occured prior to 1st April 2008. Wharfedale was initially valued at £18 million. The impairment charge has been taken through the Revaluation Reserve (£3.2 million) and Retained Earnings (£4.6 million).

The 2008/09 Statement of Comprehensive Income has been charged with £4,680k of additional PFI costs. Most of this charge relates to Bexley Wing and has arisen through the need to apply depreciation charges on PFI assets in the same way as if they were owned outright and to account for interest on the finance lease which funds their inclusion on the Statement of Financial Position. The charge is incorporated in the £8,247k adjustment to Retained Earnings in Taxpayers' equity above. The balance of PFI adjustment to Retained Earnings in Taxpayers' equity relates to similar costs but for years prior to 2008/09. The costs associated with transition to IFRS are calculated from the inception of schemes. Wharfedale Hospital opened in 2004 and Bexley Wing in 2007.

The charges which have arisen from the above and been applied to the Statement of Comprehensive Income 2008/09 have resulted in a reported deficit. This deficit however is entirely due to the transition to IFRS and as such is not judged by the Department of Health to be a breach of the Trust's statutory duty to break even.

Glossary

The NHS has adopted International Financial Reporting Standards (“IFRS”) from 1 April 2009 as its standard basis of accounting. These replace UK Generally Accepted Accounting Practices (“UK GAAP”) which have been the basis for previous sets of financial statements and bring with them some notable changes in terminology:

IFRS	UK GAAP
Statement of Comprehensive Income	Income and Expenditure Account
Statement of Financial Position	Balance Sheet
Statement of Changes in Taxpayers Equity	Statement of Recognised Gains and Losses
Statement of Cash Flows	Cash Flow Statement
Non Current Assets	Fixed Assets
Non Current Liabilities	Creditors : Amounts falling due after more than one year
Property, Plant and Equipment	Tangible Fixed Assets
Inventories	Stocks
Receivables	Debtors
Payables	Creditors
Revenue	Income
Retained Earnings	Income and Expenditure Reserve

These are explained in more detail below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment
A fall in the value of an asset.

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

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

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

Net assets
Total assets less total liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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





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