Paper F

University Hospitals of Leicester NHS Trust

To:	**Trust Board**
From:	Andrew Seddon – Director of Finance and Procurement Frances Coles – Assistant Director of Finance (Financial Accounting)
Date:	**2 June 2011**
CQC regulation:	As applicable

Title:	Annual Accounts 2010/11

Author/Responsible Director:

Andrew Seddon – Director of Finance and Procurement
Frances Coles – Assistant Director of Finance (Financial Accounting)

Purpose of the Report:

To present the annual accounts and letter of recommendation to the Trust Board.

The Report is provided to the Board for:

Formal adoption of the accounts

Summary / Key Points:

The report provides an overview of the accounts and summarises the key issues and performance against statutory targets. The report also outlines the requirements in relation to the letter of representation.

The accounts show a deficit of £2,542k for the year but this is after an impairment charge of £3,555k – this item is excluded when assessing our control total. Pre impairments the result for the year is a surplus of £1,013k.

All statutory duties have been achieved, as have all year end deadlines, and we expect the auditors to deliver a clean opinion on the accounts.

Recommendations:

The Trust Board is asked to approve the accounts and letter of representation

Previously considered at another corporate UHL Committee ?

The Accounts have been presented to the Audit Committee 31 May 2011

Strategic Risk Register	**Performance KPIs year to date**
N/A	N/A

Resource Implications (eg Financial, HR)
N/A

Assurance Implications
Yes

Paper F

Patient and Public Involvement (PPI) Implications N/A
Equality Impact No
Information exempt from Disclosure No
Requirement for further review ?

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

REPORT TO: TRUST BOARD

FROM: ANDREW SEDDON, DIRECTOR OF FINANCE & PROCUREMENT

DATE: 2nd JUNE 2011

SUBJECT: ANNUAL ACCOUNTS 2010-11

---

1. INTRODUCTION

1.1 The Trust is required to produce annual statutory accounts for the year ending 31st March, and these are required to be approved by the Trust Board. The accounts for the year ending 31st March 2011 are attached (Appendix 1).

1.2 These accounts have been subject to external audit by KPMG, who have reported to the Audit Committee within their Audit Memorandum.

2. STATUTORY & ADMINISTRATIVE TARGETS 2009/10

TARGET	ACHIEVED	NOTES
STATUTORY TARGETS		
Break-even – to generate a surplus of income over spending comparing one year with another	√	£1,013k operational surplus and a technical deficit of £2,542k after impairment
External Financing Limit – to control cash within the financing limit	√	A permissible undershoot of £3.3m
Capital Resource Limit – to contain capital spending within an agreed limit	√	A permissible undershoot of £1,299k
ADMINISTRATIVE TARGET		
Better Payments Practice Code – to pay all valid invoices within 30 days of receipt	**X**	*Non-NHS* value 95%; volume 93% *NHS* value 94%; volume 89%

3. KEY ISSUES

3.1 The Trust delivered the planned operational surplus position.

3.2 The Trust's income reduced by £1.4m (0.2%) to £696.3m. This reflects:

- increased PCT income of £13.8m;
- reduced income of £2.0m from SHAs, mostly due to decreased ECMO activity, a direct consequence of the national Swine Flu (H1N1) outbreak in 2009/10;
- reduced education, training and research income of £1.2m due to decreased training numbers and a reduction in "Flexibility and Sustainability" funding for Research & Development;
- decreased other revenue of £13.2m primarily due to the £10.75m received from the Department of Health in 2009-10 in relation to compensation in relation to the PFI scheme; and
- other increases of £1.2m.

3.3 The Trust's total expenditure has decreased by £2.4m (0.4%) to £695.3m. Pay expenditure of £435.0m increased by £8.6m (2%). This increase is due to a number of factors including:

- national pay awards;
- incremental drift and impact of Agenda for Change;
- clinical excellence awards, both national and local;
- consultant scale progression;
- delivery of cost improvement programmes;
- costs of putting on additional capacity in order to meet activity targets; and
- increased use of agency staff to support increased patient activity particularly over the winter months.

3.4 The Trust's total non-pay expenditure for 2010-11 of £260.3m was a decrease of £11.0 million (4.1%) and is due to a number of factors including:

- a decrease of £3.1m in purchasing services from other NHS bodies, mainly ambulance spend (£4.2m in 2009-10) which is now incorporated within the Trust's main SLA;
- a decrease of £1.1m in purchasing services from non-NHS bodies due to less activity being contracted to private providers such as Spire and Nuffield;
- a significant decrease in other expenditure, mainly as a result of the £10.75m compensation payment in 2009-10 in relation to the PFI scheme; and
- increased costs of £3.9m in other areas such as depreciation, clinical negligence and clinical supplies and services.

3.5 Material changes in current assets and liabilities are shown below:

Description	Increase/Decrease	Reason
Cash	Decrease of £2.2m to £10.3m	Planned decrease.
Receivables	Decrease of £14.5m to £22.7m	Reflects the PFI debtor of £10.8m in 2009/10 and the improvement in debtor management for both NHS and non NHS.
Payables	Decrease of £14.3million to £59.5m	PFI creditor of £10.8m in 2009/10 and a reduction in capital creditors of £1.6m.

3.7 Under the Better Payments Practice Code (BPPC), the Trust is required to pay 95% (value and volume) of NHS and non-NHS invoices within 30 days of receipt. The Trust met the target for the value of non-NHS invoices paid.

4. OUTCOMES FROM THE FINAL ACCOUNTS AUDIT

4.1 KPMG, have completed the audit of the accounts and have issued their 'ISA260 Audit Highlights Memorandum', in which they conclude that there were no material adjusted or unadjusted audit differences.

4.2 We have provided management responses to all recommendations raised and KPMG are satisfied with the responses.

5. LETTER OF REPRESENTATION & STATEMENT OF INTERNAL CONTROL

5.1 Auditing standards require written representations from management in respect of the following issues:

- Related party disclosures
- Compliance with laws and regulations
- Accuracy of the financial statements
- Unadjusted audit differences
- Fraud
- Fair value measurements & disclosures
- Going concern
- Post balance sheets & contingent liabilities

5.2 The proposed letter from the Trust to the external auditors is attached (Appendix 2). There is nothing specific in terms of the Trust's performance that requires inclusion.

5.3 The Statement of Internal Control is a key element of the accounts and is presented as a separate agenda item by the Director of Corporate & Legal Affairs.

6. ACTION REQUIRED

6.1 The Trust Board is asked to:

- Approve the accounts and Letter of Representation.

- Note that the Statement of Internal Control, which is a key element of the Annual Accounts is presented separately for review by the Director of Corporate & Legal Affairs.

ANDREW SEDDON
DIRECTOR OF FINANCE & PROCUREMENT

Data entered below will be used throughout the workbook:

Trust name:	University Hospitals of Leicester NHS Trust
This year	2010-11
Last year	2009-10
This year ended	31 March 2011
Last year ended	31 March 2010
This year commencing:	1 April 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	**2010-11 £000**	2009-10 £000
Revenue			
Revenue from patient care activities	5	**606,135**	593,769
Other operating revenue	6	**90,122**	103,923
Operating expenses	8	**(685,085)**	(687,829)
Operating surplus		**11,172**	9,863
Finance costs			
Investment revenue	14	**70**	82
Other gains and losses	15	**0**	0
Finance costs	16	**(459)**	(616)
Surplus for the financial year		**10,783**	9,329
Public dividend capital dividends payable		**(13,325)**	(13,321)
Retained deficit for the year		**(2,542)**	(3,992)
Other comprehensive income			
Impairments and reversals		**(194)**	(13,886)
Gains on revaluations		**0**	12,309
Receipt of donated/government granted assets		**486**	175
Release of other reserves		**(272)**	0
Net gains/(losses) on available for sale financial assets		**0**	0
Reclassification adjustments:			
- Transfers from donated and government grant reserves		**(781)**	(816)
Total comprehensive income for the year		**(3,303)**	(6,210)

The notes on pages 31 to 59 form part of these accounts.

Reported NHS financial performance position (adjusted retained surplus)

Retained surplus/(deficit) for the year	**(2,542)**
Impairments	**3,555**
Reported NHS financial performance position (Adjusted retained surplus)	**1,013**

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

a) Impairments to Fixed Assets

2009/10 was the final year for organisations to revalue their assets to a Modern Equivalent Asset (MEA) basis of valuation. An impairment charge is not considered part of the organisation's operating position.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2011

	NOTE	**31 March 2011 £000**	31 March 2010 £000
Non-current assets			
Property, plant and equipment	17	**417,069**	420,157
Intangible assets	18	**5,119**	4,481
Other financial assets	23	**0**	0
Trade and other receivables	22	**1,878**	1,774
Total non-current assets		**424,066**	426,412
Current assets			
Inventories	21	**11,923**	12,213
Trade and other receivables	22	**22,722**	37,263
Other financial assets	23	**0**	0
Other current assets	24	**0**	0
Cash and cash equivalents	25	**10,306**	12,495
		44,951	61,971
Non-current assets held for sale	26	**0**	0
Total current assets		**44,951**	61,971
Total assets		**469,017**	488,383
Current liabilities			
Trade and other payables	27	**(59,556)**	(73,851)
Other liabilities	29	**0**	0
Borrowings	28	**(3,649)**	(1,203)
Other financial liabilities	34	**0**	0
Provisions	35	**(667)**	(1,146)
Net current liabilities		**(18,921)**	(14,229)
Total assets less current liabilities		**405,145**	412,183
Non-current liabilities			
Borrowings	28	**(3,237)**	(6,442)
Trade and other payables	27	**0**	0
Other financial liabilities	34	**0**	0
Provisions	35	**(2,232)**	(2,762)
Other liabilities	29	**0**	0
Total assets employed		**399,676**	402,979
Financed by taxpayers' equity:			
Public dividend capital		**273,903**	273,903
Retained earnings		**8,204**	11,301
Revaluation reserve		**108,683**	108,128
Donated asset reserve		**7,938**	8,389
Government grant reserve		**948**	986
Other reserves		**0**	272
Total taxpayers' equity		**399,676**	402,979

The Financial Statements on pages 15 to 59 were approved by the Board on 2nd June 2011 and signed on its behalf by:

Signed: …………………………………(Chief Executive) Date: ……………………

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2010

	Public dividend capital (PDC)	Retained earnings	Revaluation reserve	Donated asset reserve	Government grant reserve	Other reserves	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009							
As previously stated	267,880	15,428	109,571	8,384	1,631	272	403,166
Prior period adjustment							0
Restated balance	267,880	15,428	109,571	8,384	1,631	272	403,166
Changes in taxpayers' equity for 2009-10							
Total comprehensive income for the year:							
Retained surplus/(deficit) for the year	0	(3,992)	0	0	0	0	(3,992)
Transfers between reserves	0	(135)	135	0	0	0	0
Impairments and reversals	0	0	(13,887)	608	(607)	0	(13,886)
Net gain on revaluation of property, plant, equipment	0	0	12,309	0	0	0	12,309
Net gain on revaluation of intangible assets	0	0	0	0	0	0	0
Net gain on revaluation of financial assets	0	0	0	0	0	0	0
Receipt of donated/government granted assets	0	0	0	175	0	0	175
Net gain/loss on other reserves (e.g. defined benefit pension scheme)	0	0	0	0	0	0	0
Movements in other reserves	0	0	0	0	0	0	0
Reclassification adjustments:	0	0	0	0	0	0	0
- transfers from donated asset/government grant reserve	0	0	0	(778)	(38)	0	(816)
- on disposal of available for sale financial assets	0	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0	0
Originating capital for trust establishment in year	0	0	0	0	0	0	0
New PDC received	6,023	0	0	0	0	0	6,023
PDC repaid in year	0	0	0	0	0	0	0
PDC written off	0	0	0	0	0	0	0
Other movements in PDC in year	0	0	0	0	0	0	0
Balance at 31 March 2010	273,903	11,301	108,128	8,389	986	272	402,979

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

	Public dividend capital (PDC)	Retained earnings	Revaluation reserve	Donated asset reserve	Government grant reserve	Other reserves	Total
	£000	£000	£000	£000	£000	£000	£000
Changes in taxpayers' equity for 2010-11							
Balance at 1 April 2010	273,903	11,301	108,128	8,389	986	272	402,979
Total comprehensive income for the year							
Retained deficit for the year	0	(2,542)	0	0	0	0	(2,542)
Transfers between reserves	0	(555)	555	0	0	0	0
Impairments and reversals	0	0	0	(194)	0	0	(194)
Net gain on revaluation of property, plant, equipment	0	0	0	0	0	0	0
Net gain on revaluation of intangible assets	0	0	0	0	0	0	0
Net gain on revaluation of financial assets	0	0	0	0	0	0	0
Receipt of donated/government granted assets	0	0	0	486	0	0	486
Release of other reserves	0	0	0	0	0	(272)	(272)
Movements in other reserves	0	0	0	0	0	0	0
Reclassification adjustments:							
- transfers from donated asset/government grant reserve	0	0	0	(743)	(38)	0	(781)
- on disposal of available for sale financial assets	0	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0	0
Originating capital for Trust establishment in year	0	0	0	0	0	0	0
New PDC received	0	0	0	0	0	0	0
PDC repaid in year	0	0	0	0	0	0	0
PDC written off	0	0	0	0	0	0	0
Other movements in PDC in year	0	0	0	0	0	0	0
Balance at 31 March 2011	273,903	8,204	108,683	7,938	948	0	399,676

The release of other reserves relates to a reserve that is no longer required by the Trust which has been released to the in year revenue position.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2011

	NOTE	**2010-11 £000**	2009-10 £000
Cash flows from operating activities			
Operating surplus		**11,172**	9,863
Depreciation and amortisation		**29,383**	27,373
Impairments and reversals		**3,555**	4,043
Net foreign exchange gains/(losses)		**0**	0
Transfer from donated asset reserve		**(743)**	(778)
Transfer from government grant reserve		**(38)**	(38)
Interest paid		**(385)**	(599)
Dividends paid		**(13,325)**	(13,321)
(Increase)/decrease in inventories		**290**	(1,699)
(Increase)/decrease in trade and other receivables		**14,369**	(13,659)
(Increase)/decrease in other current assets		**0**	0
Increase/(decrease) in trade and other payables		**(12,666)**	19,777
Increase/(decrease) in other current liabilities		**0**	0
Increase/(decrease) in provisions		**(1,080)**	(2,715)
Net cash inflow from operating activities		**30,532**	28,247
Cash flows from investing activities			
Interest received		**67**	85
(Payments) for property, plant and equipment		**(27,982)**	(33,836)
Proceeds from disposal of plant, property and equipment		**0**	0
(Payments) for intangible assets		**(1,357)**	(1,510)
Proceeds from disposal of intangible assets		**0**	0
(Payments) for investments with DH		**0**	0
(Payments) for other investments		**0**	0
Proceeds from disposal of investments with DH		**0**	0
Proceeds from disposal of other financial assets		**0**	0
Revenue rental income		**0**	0
Net cash outflow from investing activities		**(29,272)**	(35,261)
Net cash inflow/(outflow) before financing		**1,260**	(7,014)
Cash flows from financing activities			
Public dividend capital received		**0**	6,023
Public dividend capital repaid		**0**	0
Loans received from the DH		**0**	0
Other loans received		**0**	0
Loans repaid to the DH		**0**	0
Other loans repaid		**0**	0
Other capital receipts		**0**	175
Capital element of finance leases and PFI		**(3,449)**	(1,917)
Net cash inflow/(outflow) from financing		**(3,449)**	4,281
Net decrease in cash and cash equivalents		**(2,189)**	(2,733)
Cash and cash equivalents at the beginning of the financial year		**12,495**	15,228
Effect of exchange rate changes on the balance of cash held in foreign currencies		**0**	0
Cash and cash equivalents at the end of the financial year	25	**10,306**	12,495

NOTES TO THE ACCOUNTS

1. Accounting Policies

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

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 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.

In the preparation of these Financial Statements, judgements, estimates and assumptions have been made by the Trust’s management concerning the selection of useful lives of fixed assets, provisions necessary for certain liabilities and other similar evaluations. Actual amounts could differ from those estimates.

Provisions included in the Statement Of Financial Position are estimated using appropriate professional advice and are based on circumstances prevailing at the Statement Of Financial Position date.

There are judgements around the valuation of assets, of which more detail is provided in note 1.7.

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

1.4 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 Statement Of Financial Position date compared to expected total length of stay.

Revenue from education, training and research is recognised in the period in which services are provided.
Interest revenue is accrued on a time basis, by reference to the principal outstanding and interest rate applicable.

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.

1.5 Employee Benefits

Short-term employee benefits
Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees.

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

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

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

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

1.6 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.

1.7 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

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

Land and buildings used for the Trust's services or for administrative purposes are stated in the Statement of Financial Position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period.

Fair values are determined as follows:

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

Until 31 March 2008, the depreciated replacement cost of specialised buildings has been estimated for an exact replacement of the asset in its present location. HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site can be valued.

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

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

Until 31 March 2008, fixtures and equipment were carried at replacement cost, as assessed by indexation and depreciation of historic cost. From 1 April 2008 indexation has ceased. The carrying value of existing assets at that date will be written off over their remaining useful lives and new fixtures and equipment are carried at depreciated historic cost as this is not considered to be materially different from fair value.

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. This is a change in accounting policy from previous years where all impairments were taken to the revaluation reserve to the extent that a balance was held for that asset and thereafter to expenditure. 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.

1.8 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; and
● the intention to complete the intangible asset and use it.
● the ability to sell or use the intangible asset
● how the intangible asset will generate probable future economic benefits or service potential
● the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it
● the ability to measure reliably the expenditure attributable to the intangible asset during its development

Measurement

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

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

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

1.9 Depreciation, amortisation and impairments

Freehold land, properties under construction, and assets held for sale are not depreciated.

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

The annual rates of depreciation and amortisation vary according to the type of asset and are typically based on the following useful lives unless more specific details on asset lives are received:

Freehold land	- Not depreciated
Assets under construction	- Not depreciated
Freehold buildings	- 5 to 96 years
Leasehold property	- term of the lease
Plant and machinery	- 7 years
Furniture and fittings	- 7 years
IT equipment	- 3 to 5 years
Software licenses	- 2 to 5 years

All of the Trust's intangible assets are amortised up to a maximum of 5 years and are not subject to revaluation.

At each reporting period end, the Trust checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually.

A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. This is a change in accounting policy from previous years where all impairments were taken to the revaluation reserve to the extent that a balance was held for that asset and thereafter to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.10 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)

1.11 Government grants

Government grants are grants from government bodies other than revenue from NHS bodies for the provision of services. Revenue grants are treated as deferred income initially and credited to income to match the expenditure to which they relate. Capital grants are credited to the government grant reserve and released to operating revenue over the life of the asset in a manner consistent with the depreciation and impairment charges for that asset. Assets purchased from government grants are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations and impairments are taken to the government grant reserve and, each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the offset the expenditure.

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

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. Finance leases are capitalised as tangible fixed assets on the Statement Of Financial Performance and are depreciated over the shorter of their primary lease period and their useful lives.

All other leases are classified as operating leases and rentals payable are charged in the Statement of Comprehensive Income on a straight line basis over the lease term.

Amounts held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate on interest on the remaining balance of the liability. Finance charges are charged directly to the Statement Of Comprehensive Income.

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

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

Where a lease is for land and buildings, the land and building components are separated and individually assessed as to whether they are operating or finance leases. This is a change in accounting policy from previous years where leased land was always treated as an operating lease.

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

1.14 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.

1.15 Cash and cash equivalents

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

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

1.16 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 2.9% 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.

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

1.17 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 annual contribution is charged to the Statement Of Comprehensive Income.

1.18 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.

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

1.19 EU Emissions Trading Scheme

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

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.

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.

Trade receivables and other receivables do not carry any interest and are stated at their nominal value as reduced by the appropriate allowances for estimated irrecoverable amounts.

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, otherwise by valuation techniques.

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.

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

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 through a provision for impairment of receivables.

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

1.22 Financial Liabilities

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

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

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

- The premium received (or imputed) for entering into the guarantee less cumulative amortisation.

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

Other financial liabilities

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

1.23 Value Added Tax

As part of the NHS the Trust is not liable to pay corporation 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

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

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.

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.

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).

1.28 Subsidiaries

Material entities over which the Trust has the power to exercise control so as to obtain economic or other benefits are classified as subsidiaries and are consolidated. Their income and expenses; gains and losses; assets, liabilities and reserves; and cash flows are consolidated in full into the appropriate financial statement lines. Appropriate adjustments are made on consolidation where the subsidiary's accounting policies are not aligned with the Trust's or where the subsidiary's accounting date is before 1 January or after 30 June.

Subsidiaries that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'

For 2009-10 and 2010-11 in accordance with the directed accounting policy from the Secretary of State, the Trust does not consolidate the NHS charitable funds for which it is the corporate trustee.

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

1.29 Associates

Material entities over which the Trust has the power to exercise significant influence so as to obtain economic or other benefits are classified as associates and are recognised in the Trust's accounts using the equity method. The investment is recognised initially at cost and is adjusted subsequently to reflect the Trust's share of the entity's profit/loss and other gains/losses. It is also reduced when any distribution is received by the Trust from the entity.

Associates that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'

1.30 Joint ventures

Material entities over which the Trust has joint control with one or more other parties so as to obtain economic or other benefits are classified as joint ventures.

Joint ventures that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'.

1.31 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.

1.32 Research and development

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

1.33 Accounting Standards issued but not yet adopted.

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

IFRS 7 - Financial Instruments: Disclosures (amendment) - Transfers of financial assets (effective 2012/13)
IFRS 9 - Financial Instruments: Financial Assets: Financial Liabilities Uncertain
IAS 12 - Income Taxes amendment (effective 2012-13)
IAS 24 (Revised) Related Party Disclosures (2011-12)
IFRIC 14 amendment (2011-12)
IFRIC 19 - Extinguishing financial liabilities with Equity instruments (2011-12)

IAS 17 Leases. The Standard was amended for accounting periods beginning on or after 1 January 2010, and the amendments were adopted by the Trust for 2010-11. Leases of land are now classified according to the criteria applicable for other asset categories and thus certain long land leases may be classified as finance leases where in 2009-10 they were clssified as operating leases.

2 Pooled budgets

The Trust does not participate in any pooled budgets.

3 Operating segments

The core principle of IFRS 8 *Operating Segments* is that information should be disclosed to enable users of an organisation's Financial Statements to evaluate the nature and financial effects of the types of business activities in which it engages and the economic environments in which it operates. IFRS 8 also requires that the amounts reported for each operating segment should be the amounts reported to the Board.

The Trust operates in one material segment, which is the provision of healthcare services and the reporting to the Board is at a total Trust level. The provision of healthcare (including medical treatment, research and education) is within one main geographical segment, the United Kingdom.

4. Income generation activities

The Trust does not undertake any income generation activities which meet the conditions set by the Department of Health for income generation. The Trust does not run any commercial schemes with a view to achieving a profit, and does not market commercial goods or services outside of the NHS.

5. Revenue from patient care activities

	2010-11	2009-10
	£000	£000
Strategic Health Authorities	**12,726**	14,854
Primary Care Trusts	**587,287**	573,566
Department of Health	**0**	241
Non-NHS:		
Private patients	**2,521**	2,840
Overseas patients (non-reciprocal)	**513**	563
Injury costs recovery	**1,982**	1,309
Other	**1,106**	396
	606,135	593,769

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

6. Other operating revenue	**2010-11**	2009-10
	£000	£000
Education, training and research	**67,686**	68,836
Transfers from donated asset reserve	**743**	778
Transfers from government grant reserve	**38**	38
Non-patient care services to other bodies	**5,785**	5,156
Other revenue	**15,870**	29,115
	90,122	103,923

Other operating revenue in 2009-10 included £10.75million relating to income from the Department of Health which was funding a payment relating to the cancellation of the Pathway PFI scheme in 2007/08. This payment is included for 2009-10 in other operating expenses in note 8.

7. Revenue

Revenue is almost totally from the supply of services. Revenue from the sale of goods is immaterial.

8. Operating expenses	**2010-11**	2009-10
	£000	£000
Services from other NHS Trusts	**2,058**	6,667
Services from PCTs	**4,085**	4,282
Services from other NHS bodies	**485**	600
Services from Foundation Trusts	**1,651**	1,480
Purchase of healthcare from non NHS bodies	**4,635**	5,747
Trust chair and non executive directors	**67**	66
Employee benefits	**434,973**	426,298
Supplies and services - clinical	**129,312**	127,142
Supplies and services - general	**22,987**	21,845
Consultancy services	**1,244**	2,460
Establishment	**5,527**	5,543
Transport	**2,252**	2,299
Premises	**21,917**	21,011
Provision for impairment of receivables	**(768)**	(1,359)
Inventories write down	**0**	78
Depreciation	**28,169**	26,474
Amortisation	**1,214**	899
Impairments and reversals of property, plant and equipment	**3,555**	4,043
Audit fees	**340**	320
Clinical negligence	**12,066**	10,121
Research and development	**4,380**	4,372
Education and training	**1,371**	1,690
Other	**3,565**	15,751
	685,085	687,829

Other operating expenses in 2009-10 included £10.75million relating to a payment following the cancellation of the Pathway PFI scheme in 2007/08. This payment was fully funded by the Department of Health as shown in note 6.

9. Operating leases

9.1 As lessee

Payments recognised as an expense	**2010-11**	2009-10
	£000	£000
Minimum lease payments	**4,899**	5,682
	4,899	5,682

	2010-11				2009-10
Total future minimum lease payments	**Buildings**	**Land**	**Other**	**Total**	Total
	£000	**£000**	**£000**	**£000**	£000
Payable:					
Not later than one year	**0**	**0**	**4,695**	**4,695**	5,191
Between one and five years	**0**	**0**	**6,892**	**6,892**	11,506
After 5 years	**0**	**0**	**1,409**	**1,409**	2,145
Total	**0**	**0**	**12,996**	**12,996**	18,842

Of the total minimum lease payments for 2010-11, £3.8m (£4.2m in 2009-10) relates to three contracts for the provision of haemodialysis services as defined under IAS 17 *Leases.* The Trust is provided with haemodialysis services from private sector suppliers from sites at Boston, Leicester and Corby.

The Trust does not receive any payments as lessor.

10. Employee costs and numbers

10.1 Employee costs

	2010-11			2009-10		
	Total £000	**Permanently employed £000**	**Other £000**	Total £000	Permanently employed £000	Other £000
Salaries and wages	**369,365**	**347,275**	**22,090**	360,992	345,376	15,616
Social security costs	**26,650**	**26,650**	**0**	26,520	26,520	0
Employer contributions to NHS Pension scheme	**39,524**	**39,524**	**0**	38,711	38,711	0
Other pension costs	**0**	**0**	**0**	102	102	0
Termination benefits	**290**	**290**	**0**	39	39	0
Employee benefits expense	**435,829**	**413,739**	**22,090**	426,364	410,748	15,616

	2010-11	2009-10
Of the total above:		
Charged to capital	**856**	1,187
Employee benefits charged to revenue	**434,973**	425,177
	435,829	426,364

10.2 Average number of people employed

	2010-11			2009-10		
	Total Number	**Permanently employed Number**	**Other Number**	Total Number	Permanently employed Number	Other Number
Medical and dental	**1,438**	**1,352**	**86**	1,493	1,464	29
Administration and estates	**1,988**	**1,929**	**59**	2,057	2,013	44
Healthcare assistants and other support staff	**852**	**838**	**14**	864	848	16
Nursing, midwifery and health visiting staff	**4,291**	**4,175**	**117**	4,523	4,419	104
Scientific, therapeutic and technical staff	**1,433**	**1,395**	**38**	1,328	1,293	35
Social care staff	**1**	**0**	**1**	1	0	1
Other	**222**	**206**	**16**	203	188	15
Total	**10,224**	**9,894**	**330**	10,468	10,225	**244**

	2010-11	2009-10
Of the above:		
Number of whole time equivalent staff engaged on capital projects	**17**	19

10.3 Staff sickness absence

	2010-11 Number	2009-10 Number
Total days lost	**82,760**	85,639
Total staff years	**10,211**	10,169
Average working days lost	**8.10**	8.42

10.4 Management Costs

	2010-11 £000	2009-10 £000
Management costs	**24,148**	23,421
Income	**696,257**	697,692

10.5 Exit Packages for staff leaving in 2010-11

	2010-11			2009-10		
	Number of compulsory redundancies	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band (total cost)**
	Number	**Number**	**Number**	**Number**	**Number**	**Number**
<£10,000	30	0	**30**	3	0	**3**
£10,000 - £25,000	10	0	**10**	2	0	**2**
£25,000 - £50,000	1	0	**1**	0	0	**0**
Total number of exit packages by type	**41**	**0**	**41**	**5**	**0**	**5**
Total resource cost (£000s)	291	0	**291**	39	0	39

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

This disclosure reports the number and value of exit packages taken by staff leaving in the year.

10.6. Retirements due to ill-health

Traditionally NHS Pensions has provided the Trust with ill health statistics and costs for inclusion in the Financial Statements. However, following agreement with the Department of Health this information is only being provided to Foundation Trusts in 2010-11. For all other NHS organisations, summary information is being submitted by NHS Pensions directly to the Department of Health, who will use it within their Departmental Resource Accounts only.

During 2009/10 there were 16 early retirements from the NHS Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements were £676,869. The cost of these ill-health retirements is borne by the NHS Pensions.

11. Pension costs

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

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

a) Full actuarial (funding) valuation

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

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

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

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

b) Accounting valuation

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

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

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

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

c) Scheme provisions

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

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

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

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

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

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

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

12. Better Payment Practice Code - measure of compliance

	2010-11		2009-10	
	Number	**£000**	Number	£000
Total Non-NHS trade invoices paid in the year	**125,435**	**420,823**	125,321	384,596
Total Non NHS trade invoices paid within target	**117,230**	**399,899**	118,522	370,221
Percentage of Non-NHS trade invoices paid within target	**93%**	**95%**	95%	96%
Total NHS trade invoices paid in the year	**5,034**	**64,821**	4,947	53,882
Total NHS trade invoices paid within target	**4,465**	**60,684**	4,305	51,463
Percentage of NHS trade invoices paid within target	**89%**	**94%**	87%	96%

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 The Late Payment of Commercial Debts (Interest) Act 1998

	2010-11	2009-10
	£000	£000
Amounts included in finance costs from claims made under this legislation	**3**	5
Total	**3**	5

14. Investment revenue

	2010-11 £000	2009-10 £000
Interest revenue:		
Bank accounts	70	82
Total	70	82

15. Other gains and losses

The Trust had no other gains and losses.

16. Finance costs

	2010-11 £000	2009-10 £000
Interest on obligations under finance leases	**385**	548
Interest on late payment of commercial debt	**3**	5
Total interest expense	**388**	553
Other finance costs	**71**	63
Total	**459**	616

17. Property, plant and equipment

2010-11

	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 2010	65,527	270,831	17,208	8,597	120,261	548	48,262	2,329	**533,563**
Additions purchased	0	13,414	48	1,522	10,106	5	1,454	0	**26,549**
Additions donated	0	243	0	0	232	0	11	0	**486**
Reclassifications	0	7,686	0	(9,152)	454	0	322	0	**(690)**
Capitalised within finance lease	0	0	0	0	5,629	0	0	0	**5,629**
Disposals other than by sale	0	0	0	0	(4,044)	(25)	(1,424)	(27)	**(5,520)**
Impairments	0	(194)	0	0	0	0	0	0	**(194)**
At 31 March 2011	**65,527**	**291,980**	**17,256**	**967**	**132,638**	**528**	**48,625**	**2,302**	**559,823**
Depreciation at 1 April 2010	0	0	0	0	82,521	417	31,437	2,139	**116,514**
Reclassifications	0	0	0	0	(387)	0	0	0	**(387)**
Disposals other than by sale	0	0	0	0	(3,621)	(25)	(1,424)	(27)	**(5,097)**
Impairments	0	3,426	0	129	0	0	0	0	**3,555**
Charged during the year	0	13,010	513	0	9,513	25	5,066	42	**28,169**
Depreciation at 31 March 2011	**0**	**16,436**	**513**	**129**	**88,026**	**417**	**35,079**	**2,154**	**142,754**
Net book value									
Purchased	65,527	267,652	16,743	838	43,762	111	13,498	61	**408,192**
Donated	0	6,944		0	850	0	48	87	**7,929**
Government granted	0	948	0	0	0	0	0	0	**948**
Total at 31 March 2011	**65,527**	**275,544**	**16,743**	**838**	**44,612**	**111**	**13,546**	**148**	**417,069**
Asset financing									
Owned	65,527	275,544	16,743	838	30,777	111	13,546	148	**403,234**
Finance leased	0	0	0	0	13,835	0	0	0	**13,835**
Total 31 March 2011	**65,527**	**275,544**	**16,743**	**838**	**44,612**	**111**	**13,546**	**148**	**417,069**

Included within reclassifications in the Trust's Financial Monitoring and Accounts forms (FMAs) is an amount of £3,471k for plant and machinery which relates to assets capitalised within the Trust's managed equipment service finance lease. This amount has been included in a separate line above ("Capitalised within finance lease") as it is not capital expenditure which is counted against the Trust's capital resource limit (CRL). Only expenditure which is counted against the Trust's CRL is included within purchased additions. Land, buildings and dwellings are brought forward at net book value and therefore there is no opening depreciation brought forward.

17. Property, plant and equipment continued

17.1 Revaluation reserve balance for property, plant & equipment

	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
At 1 April 2010	29,686	63,952	13,907	0	575	2	2	4	**108,128**
Movements (specify)	0	819	36	0	(294)	(1)	(2)	(3)	**555**
At 31 March 2011	**29,686**	**64,771**	**13,943**	**0**	**281**	**1**	**0**	**1**	**108,683**

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	56,840	287,111	11,033	5,240	115,537	498	42,656	2,394	521,309
Additions purchased	3,177	11,218	276	7,841	5,524	89	3,495	32	31,652
Additions donated	0	64	0	0	71	0	26	0	161
Capitalised within finance lease	0	0	0	0	1,917	0	0	0	1,917
Reclassifications	37	1,672	0	(4,360)	0	0	2,353	0	(298)
Disposals other than by sale	0	0	0	0	(2,788)	(39)	(268)	(97)	(3,192)
Revaluation/indexation gains	5,509	0	6,800	0	0	0	0	0	12,309
Impairments	0	(13,762)	0	(124)	0	0	0	0	(13,886)
At 31 March 2010	65,563	286,303	18,109	8,597	120,261	548	48,262	2,329	549,972
Depreciation at 1 April 2009					76,263	440	26,628	2,194	105,525
Disposals other than by sale	0	0	0	0	(2,715)	(39)	(268)	(97)	(3,119)
Impairments	36	3,610	397	0	0	0	0	0	4,043
Charged during the year	0	11,862	504	0	8,973	16	5,077	42	26,474
Depreciation at 31 March 2010	36	15,472	901	0	82,521	417	31,437	2,139	132,923
Net book value									
Purchased	65,527	262,569	17,208	8,597	36,779	131	16,773	102	407,686
Donated	0	7,276	0	0	961	0	52	88	8,377
Government granted	0	986	0	0	0	0	0	0	986
Total at 31 March 2010	65,527	270,831	17,208	8,597	37,740	131	16,825	190	417,049
Asset financing									
Owned	65,527	270,831	17,208	8,597	27,395	131	16,825	190	406,704
Finance leased	0	0	0	0	10,345	0	0	0	10,345
Total 31 March 2010	65,527	270,831	17,208	8,597	37,740	131	16,825	190	417,049

17. Property, plant and equipment (cont.)

17.2 Donated assets

All donated assets have been purchased on behalf of the Trust by the Leicester Hospitals Charity.

The most notable donated additions have been:

- £243k in support of the refurbishment of the Neonatal Unit;
- £232k of equipment including an Ultrasound and an X-ray system; and
- £11k of other IM&T assets.

17.3 Property plant and equipment

The accounting policies in relation to depreciation, amortisation and impairments are included in accounting policies note 1.9.

17.4 Temporarily idle asset values

The Trust does not hold any temporarily idle assets.

17.5 Gross carrying value of fully depreciated assets in use at the balance sheet date

The following totals represent total gross carrying value of all assets which have been fully depreciated.

	31 March 2011	31 March 2010
	£000	£000
Plant & machinery (purchased)	**49,926**	45,205
Plant & machinery (donated)	**6,864**	5,832
Transport equipment (purchased)	**344**	344
Information technology (purchased)	**23,686**	21,288
Information technology (donated)	**260**	260
Furniture & fittings (purchased)	**1,911**	1,752
Furniture & fittings (donated)	**129**	129
Total	**83,120**	**74,810**

17.6 Compensation for assets impaired, lost or given up

The Trust has no compensation from third parties for assets impaired, lost or given up, which it needs to include in its surplus.

17.7 Impairments

The Trust has had three material impairments in 2010-11:

- £2.58 million for LRI Kensington building which was revalued following the neonatal development;
- £1.05 million for LGH theatres following revaluation; and
- £0.13 million for E-Prescribing following project redesign.

18. Intangible assets

2010-11	**Computer software - purchased**	**Computer software - internally generated**	**Licences and trademarks**	**Patents**	**Development expenditure (internally generated)**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Gross cost at 1 April 2010	0	6,038	0	0	0	**6,038**
Additions purchased	0	1,161	0	0	0	**1,161**
Reclassifications	0	691	0	0	0	**691**
Gross cost at 31 March 2011	**0**	**7,890**	**0**	**0**	**0**	**7,890**
Amortisation at 1 April 2010	0	1,557	0	0	0	**1,557**
Charged during the year	0	1,214	0	0	0	**1,214**
Amortisation at 31 March 2011	**0**	**2,771**	**0**	**0**	**0**	**2,771**
Net book value						
Purchased	0	5,110	0	0	0	**5,110**
Donated	0	9	0	0	0	**9**
Total at 31 March 2011	**0**	**5,119**	**0**	**0**	**0**	**5,119**

18 Intangible assets continued

18.1 Intangible assets continued

2009-10	Computer software - purchased	Computer software - internally generated	Licences and trademarks	Patents	Development expenditure (internally generated)	Total
	£000	£000	£000	£000	£000	£000
Gross cost at 1 April 2009	0	4,177	0	0	0	4,177
Additions purchased	0	1,549	0	0	0	1,549
Additions donated	0	14	0	0	0	14
Reclassifications	0	298	0	0	0	298
Gross cost at 31 March 2010	0	6,038	0	0	0	6,038
Amortisation at 1 April 2009	0	658	0	0	0	658
Charged during the year	0	899	0	0	0	899
Amortisation at 31 March 2010	0	1,557	0	0	0	1,557
Net book value						
Purchased	0	4,469	0	0	0	4,469
Donated	0	12	0	0	0	12
Total at 31 March 2010	0	4,481	0	0	0	4,481

18. Intangible assets (cont.)

The accounting policies in relation to intangible assets are included in note 1.8

18.2 Internally generated assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

All of the Trust's intangible assets are either purchased or donated, and none have been internally generated.

18.3 Amortisation

All of the Trust's intangible assets are amortised up to a maximum of 5 years and are not subject to revaluation.

18.4 Acquisition

None of the Trust's intangible assets have been acquired by government grant.

18.5 Fully amortised assets

The Trust has one fully amortised asset still in use, - £50k for a license for the Trust's intranet search engine.

18.6 Recognition

The Trust has no significant intangible assets which it does not recognise as assets under IAS 38 *Intangible Assets* .

18.7 Revaluation reserve balance for intangible assets

The Trust has no revaluation reserve balances for intangible assets.

19 Impairments

The Trust has no material impairments for any individual intangible assets.

20. Commitments

20.1 Capital commitments

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

	31 March 2011 £000	31 March 2010 £000
Property, plant and equipment	**3,622**	13,874
Total	**3,622**	13,874

Capital commitments in 2009-10 included two linear accelerators (£2.74m) and the refurbishment of the neo-natal unit (£2.49m).

20.2 Other financial commitments

The Trust has no other financial commitments such as non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements).

21. Inventories

21.1 Inventories	31 March 2011 £000	31 March 2010 £000
Drugs	**2,901**	2,929
Consumables	**8,793**	9,088
Energy	**229**	196
Total	**11,923**	12,213
Of which held at net realisable value:	**9,022**	9,284

21.2 Inventories recognised in expenses	31 March 2011 £000	31 March 2010 £000
Inventories recognised as an expense in the period	**95,727**	94,158
Write-down of inventories (including losses)	**0**	78
Total	**95,727**	**94,236**

22. Trade and other receivables

22.1 Trade and other receivables	Current 31 March 2011 £000	Non-current 31 March 2011 £000	Current 31 March 2010 £000	Non-current 31 March 2010 £000
NHS receivables-revenue	**12,568**	**0**	27,031	0
Non-NHS receivables-revenue	**6,436**	**2,078**	7,709	1,839
Provision for the impairment of receivables	**(1,628)**	**(200)**	(2,923)	(65)
Prepayments and accrued income	**4,135**	**0**	3,881	0
VAT	**1,211**	**0**	1,565	0
Total	**22,722**	**1,878**	37,263	1,774

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.

NHS receivables - revenue included at 31st March 2010, £10.75 million relating to income receivable from the Department of Health, which funded a payment relating to the cancellation of the Pathway PFI scheme.

22.2 Receivables past their due date but not impaired	**31 March 2011**	31 March 2010
	£000	£000
By up to three months	**928**	2,063
By three to six months	**195**	259
By more than six months	**397**	401
Total	**1,520**	2,723

Note 22.2 does not include Injury cost recovery debtors as these are not covered under the Trust's payment terms.

22.3 Provision for impairment of receivables	**31 March 2011**	31 March 2010
	£000	£000
Balance at 1 April	**(2,988)**	(4,666)
Amount written off during the year	**392**	319
Amount recovered during the year	**1,364**	1,745
Increase in receivables impaired	**(596)**	(386)
Balance at 31 March	**(1,828)**	(2,988)

The Trust makes a general provision on non NHS debts over 90 days old, increasing from 25% at 90 days to 100% for debts over a year old. Certain debts incur a higher or lower provision dependent on a risk assessment approved by the Trust. The Trust provides for 9.6% of injury Cost recovery debts based on Department of Health guidance. This percentage increased during 2010/11 from 7.8%. The total injury cost recovery provision is £304k (2009/10: £281k)

23. Other financial assets

The Trust has no other financial assets.

24. Other current assets

The Trust has no other current assets.

25. Cash and cash equivalents

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	**12,495**	15,228
Net change in year	**(2,189)**	(2,733)
Balance at 31 March	**10,306**	12,495
Made up of		
Cash with the Government Banking Service	**12,346**	15,674
Commercial banks and cash in hand	**(2,040)**	(3,179)
Cash and cash equivalents as in statement of financial position	**10,306**	12,495
Cash and cash equivalents as in statement of cash flows	**10,306**	12,495

26. Non-current assets held for sale

The Trust has no non-current assets held for sale.

27. Trade and other payables

	Current 31 March 2011	Non-current 31 March 2011	Current 31 March 2010	Non-current 31 March 2010
	£000	£000	£000	£000
NHS payables-revenue	5,600	0	6,146	0
NHS payables-capital	0	0	168	0
Non NHS trade payables - revenue	13,985	0	12,089	0
Non NHS trade payables - capital	2,910	0	4,371	0
Accruals and deferred income	20,014	0	32,921	0
Social security costs	4,112	0	4,249	0
Tax	5,120	0	4,815	0
Other	7,815	0	9,092	0
Total	59,556	0	73,851	0

Other payables include:

£4,998k outstanding pensions contributions at 31 March 2011 (31 March 2010 £4,838k).

Accruals and deferred income at 31 March 2010 included £10.75 million relating to the cancellation of the Pathway PFI scheme.

28. Borrowings

	Current 31 March 2011	Non-current 31 March 2011	Current 31 March 2010	Non-current 31 March 2010
	£000	£000	£000	£000
Finance lease liabilities	3,649	3,237	1,203	6,442
Total	3,649	3,237	1,203	6,442

29. Other liabilities

The Trust has no other liabilities.

30. Finance lease obligations

Managed Equipment Service (MES) finance lease

The Trust has a finance lease in relation to its managed equipment service as defined by IAS 17 *Leases.*

There are two elements to the finance lease - MES 1 and MES 2, however we treat both elements as a single scheme.

Commencement dates: MES 1 - 2004 & MES 2 - 2007

End date: MES 1 - 2013 & MES 2 - 2026

The total payments within the MES scheme are £165 million up to 2026 (present value of £126 million).
The total payments relating to MES 1 are £2.7m and included in the £165m.

Payment for the fair value of the services received

The annual unitary payment is applied to meet the annual finance cost and to repay the lease liability over the contract term.

Interest costs charged to revenue

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.

Property plant and equipment assets recognised on the balance sheet

The finance lease assets are recognised as property, plant and equipment. The asset values, life and depreciation are all provided to the Trust by the Lessor.

Depreciation on the property, plant and equipment is charged to revenue.

Liability

A liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the assets and is subsequently measured as a finance lease liability in accordance with IAS 17 *Leases.*

Asset replacement

Components of the asset replaced by the operator during the contract 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.

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

Assets contributed for use in the scheme are recognised as items of property, plant and equipment in the Trust’s Statement of Financial Position.

Amounts payable under finance leases:

Other	**Minimum lease payments**	**Present value of minimum lease payments**	Minimum lease payments	Present value of minimum lease payments
	31 March 2011 £000	**31 March 2011 £000**	31 March 2010 £000	31 March 2010 £000
Within one year	**3,649**	**3,649**	**1,203**	1,203
Between one and five years	**3,350**	**3,237**	**6,677**	6,015
After five years	**0**	**0**	**525**	427
Less future finance charges	**(113)**		**(760)**	
Present value of minimum lease payments	**6,886**	**6,886**	**7,645**	7,645
Included in:				
current borrowings		**3,649**		1,203
non-current borrowings		**3,237**		6,442
		6,886		7,645

The Trust has no sublease arrangements for which it will receive income, and has no contingent rents recognised as an expense.

31. Finance lease receivables (i.e. as lessor)

The Trust has no finance lease receivables.

32. Finance lease commitments

The Trust has no commitments to enter into new finance lease arrangements.

The Trust has a rolling managed equipment service (MES) finance lease in place up to 2026. The total payments for the whole scheme are £165 million and the Trust has approximately £131 million payable across the remaining life of the scheme.

33. Private Finance Initiative contracts

The Trust has no private finance initiative contracts.

34. Other financial liabilities

The Trust has no other financial liabilities.

35. Provisions

	Current 31 March 2011	**Non-current 31 March 2011**	Current 31 March 2010	Non-current 31 March 2010
	£000	**£000**	£000	£000
Pensions relating to former directors	**21**	**328**	59	483
Pensions relating to other staff	**186**	**1,353**	186	1,831
Redundancy	**22**	**0**	0	0
Other	**438**	**551**	901	448
Total	**667**	**2,232**	1,146	2,762

	Pensions relating to former directors	**Pensions relating to other staff**	**Legal claims**	**Restructurings**	**Redundancy**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
At 1 April 2010	**542**	**2,017**	**0**	**0**	**0**	**1,349**	**3,908**
Arising during the year	**9**	**49**	**0**	**0**	**22**	**523**	**603**
Used during the year	**(13)**	**(181)**	**0**	**0**	**0**	**(271)**	**(465)**
Reversed unused	**(154)**	**0**	**0**	**0**	**0**	**(631)**	**(785)**
Unwinding of discount	**10**	**42**	**0**	**0**	**0**	**19**	**71**
Change in discount rate	**(45)**	**(388)**	**0**	**0**	**0**	**0**	**(433)**
At 31 March 2011	**349**	**1,539**	**0**	**0**	**22**	**989**	**2,899**

Expected timing of cash flows:

Within one year	**21**	**186**	**0**	**0**	**22**	**438**	**667**
Between one and five years	**86**	**654**	**0**	**0**	**0**	**176**	**916**
After five years	**242**	**699**	**0**	**0**	**0**	**375**	**1,316**

Pensions relating to former directors and other staff comprise early retirements commitments outstanding from previous years. Other provisions include injury benefits (£594k) and employer's and public liability cases (£315k). The provisions for outstanding property, employer's and public liability cases have related contingent liability entries included in note 36.

£95,724k is included in the provisions of the NHS Litigation Authority at 31/3/2011 in respect of clinical negligence liabilities of the Trust (31/03/2010 - £64,789k).

36. Contingencies

36.1 Contingent liabilities

	2010-11 £000	2009-10 £000
Other	**(116)**	(270)
Total	**(116)**	(270)

The Trust's contingent liabilities relate to employer and public liability cases (2009/10 -£123k). All of these are administered by the NHS Litigation Authority and are expected to be resolved in 2011/12. Provisions for these are also included at note 35.

36.2 Contingent assets

The Trust has no contingent assets (2009/10 £147k).

37. Financial instruments

37.1 Financial assets

	At fair value through profit and loss £000	Loans and receivables £000	Available for sale £000	Total £000
Cash at bank and in hand	**0**	**10,313**	**0**	**10,313**
Total at 31 March 2011	**0**	**10,313**	**0**	**10,313**
Receivables	0	596	0	596
Cash at bank and in hand	0	12,495	0	12,495
Total at 31 March 2010	0	13,091	0	13,091

37.2 Financial liabilities

	At fair value through profit and loss £000	Other £000	Total £000
Finance lease obligations	**0**	**6,885**	**6,885**
Total at 31 March 2011	**0**	**6,885**	**6,885**
Finance lease obligations	0	7,645	7,645
Total at 31 March 2010	0	7,645	7,645

The fair value of the Trust's financial assets or financial liabilities do not differ from the carrying amount.

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

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

Currency risk

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

Interest rate risk

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

Credit risk

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

Liquidity risk

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

Events aft

The Trust

39. Financial performance targets

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

39.1 Breakeven performance

	2005-06 £000	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Turnover	556,656	588,666	615,155	652,159	697,692	696,257
Retained surplus/(deficit) for the year	60	61	577	3,018	(3,992)	(2,542)
Adjustment for:						
Timing/non-cash impacting distortions:	0	0	0	0	0	0
Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	0	0	0	0	0	0
2006/07 PPA (relating to 1997/98 to 2005/06)	0	0	0	0	0	0
2007/08 PPA (relating to 1997/98 to 2006/07)	0	0	0	0	0	0
2008/09 PPA (relating to 1997/98 to 2007/08)	0	0	0	0	0	0
Adjustments for Impairments	0	0	0	0	4,043	3,555
Consolidated Budgetary Guidance - Adjustment for Dual Accounting under IFRIC12*	0	0	0	0	0	0
Other agreed adjustments	0	0	0	0	0	0
Break-even in-year position	60	61	577	3,018	51	1,013
Break-even cumulative position	254	315	892	3,910	3,961	4,974

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

	2005-06 %	2006-07 %	2007-08 %	2008-09 %	2009-10 %	2010-11 %
Materiality test (I.e. is it equal to or less than 0.5%):						
Break-even in-year position as a percentage of turnover	0.0%	0.0%	0.1%	0.5%	0.0%	0.1%
Break-even cumulative position as a percentage of turnover	0.0%	0.1%	0.1%	0.6%	0.6%	0.7%

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

39.2 Capital cost absorption rate

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

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

39.3 External financing

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

		2010-11	2009-10
	£000	**£000**	£000
External financing limit		**2,050**	8,951
Cash flow financing	**(1,260)**		7,014
Finance leases taken out in the year	**0**		0
Other capital receipts	**0**		(175)
External financing requirement		**(1,260)**	6,839
Undershoot		**3,310**	2,112

39.4 Capital resource limit

The Trust is given a capital resource limit which it is permitted to underspend.

	2010-11	2009-10
	£000	£000
Gross capital expenditure	**28,196**	33,376
Less: book value of assets disposed of	**(1)**	(73)
Plus: loss on disposal of donated assets	**0**	0
Less: capital grants	**0**	0
Less: donations towards the acquisition of non-current assets	**(486)**	(173)
Charge against the capital resource limit	**27,709**	33,130
Capital resource limit	**29,008**	35,123
Underspend against the capital resource limit	**1,299**	1,993

40. Related party transactions

University Hospitals of Leicester 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 University Hospitals of Leicester NHS Trust.

The Department of Health is regarded as a related party. During the year the University Hospitals of Leicester 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:

Leicestershire County & Rutland PCT
Leicester City PCT
Leicestershire Partnership NHS Trust
Lincolnshire PCT
Northamptonshire PCT
East Midlands Strategic Health Authority
NHS Business Services Authority
Other NHS Trusts, Foundation Trusts and PCTs
NHS Blood and Transplant
NHS Litigation Authority
NHS Supply Chain
NHS Pensions Agency
London Strategic Health Authority
Birmingham East and North PCT
Peterborough PCT
South East Essex PCT
South Staffs PCT
Warwickshire PCT

The East Midlands Specialised Commissioning Group, who commission specialised patient care on behalf of PCTs within the East Midlands Strategic Health Authority, are hosted by Leicestershire County and Rutland PCT.

One of the Trust's Non-Executive Directors is Dean of the University of Leicester's Medical School an organisation with which the Trust has had a number of material transactions during the year. The Director has been excluded from any discussions or negotiations relating to the transactions which have all been conducted at arms length on normal commercial terms. During the reporting year, the Trust made payments to the University of Leicester amounting to £18,269k (2009-10, £12,802k). The majority of these payments relate to the provision of services to the Trust by medical staff employed by the University of Leicester and research payments. As at 31st March 2011, a sum of £400k (2009-10, £3,118k) is included in creditors in respect of the University of Leicester.

£1,467k (2009/10, £2,469k) is included in debtors in respect of the University of Leicester. This relates primarily to research work.

Kiran Jenkins, one of the Trust's Non-Executive Directors, is employed by Egg PLC which is in the same banking group as the Trust's NHS bankers. There is no pecuniary interest.

The Trust is the Corporate Trustee for Leicester Hospitals Charity which is an independent charity registered with the Charity Commission. In 2010-11 the Trust received total asset donations of £486k (£161k in 2009/10).

Full details will be included in the Charity's accounts as submitted to the Charity Commission.

41. Third party assets

The Trust held £6k cash and cash equivalents at 31 March 2011 (£8k at 31 March 2010) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

42. Intra-Government and other balances

	Current receivables	Non-current receivables	Current payables	Non-current payables
	£000	£000	£000	£000
Balances with other central government bodies	**13,194**	**0**	**17,880**	**0**
Balances with local authorities	**191**	**0**	**0**	**0**
Balances with NHS Trusts and Foundation Trusts	**599**	**0**	**1,950**	**0**
Balances with public corporations and trading funds	**0**	**0**	**0**	**0**
Intra government balances	**13,984**	**0**	**19,830**	**0**
Balances with bodies external to government	**8,738**	**1,878**	**39,726**	**0**
At 31 March 2011	**22,722**	**1,878**	**59,556**	**0**
Balances with other central government bodies	26,442	0	31,984	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	589	0	619	0
Balances with public corporations and trading funds	0	0	0	0
Intra government balances	27,031	0	32,603	0
Balances with bodies external to government	10,232	1,774	41,248	0
At 31 March 2010	37,263	1,774	73,851	0

43. Losses and special payments

There were 1,188 cases of losses and special payments (1,091 cases in 2009-10) totalling £652,523 (£11,485,360 in 2009-10) accrued during 2010-11.

There were no cases exceeding £250,000 in 2010/11. The total for 2009-10 includes an ex-gratia payment of £10.75 million relating to the cancellation of the Pathway PFI scheme in 2007-08. This payment was fully funded by the Department of Health.

University Hospitals of Leicester NHS
NHS Trust

KPMG LLP
One Snowhill
Snowhill Queensway
Birmingham
B4 6GH

Trust Headquarters
Level 3 Balmoral Building
Leicester Royal Infirmary
Leicester
LE1 5WW

Tel: 0300 303 1573
Switchboard Fax: 0116 258 7565
Minicom: 0116 287 9852

2 June 2011

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of University Hospitals of Leicester NHS Trust ("the Trust"), for the year ended 31 March 2011, for the purpose of expressing an opinion:

i. as to whether these financial statements give a true and fair view of the state of the Trust's affairs as at 31 March 2011 and of its income and expenditure for the financial year then ended; and
ii. whether the financial statements have been properly prepared in accordance with the Manual for Accounts 2010/11 and accounting policies as directed by the Secretary of State.

These financial statements comprise the statement of financial position as at 31 March 2011, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the Secretary of State's directions, for the preparation of financial statements that:

   - give a true and fair view of the state of the Trust's affairs as at 31 March 2011 and of its income and expenditure for the financial year then ended; and
   - have been properly prepared in accordance with the Manual for Accounts 2010/11 and accounting policies as directed by the Secretary of State.

   The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.

University Hospitals of Leicester NHS Trust includes
Glenfield Hospital, Leicester General Hospital and Leicester Royal Infirmary Website: www.uhl-tr.nhs.uk
Chairman Mr Martin Hindle **Chief Executive** Mr Malcolm Lowe-Lauri

3. All events subsequent to the date of the financial statements and for which IFRSs require adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole.

Information provided

5. The Board has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
   - additional information that you have requested from the Board for the purpose of the audit; and
   - unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

   Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. The Board has disclosed to you all information in relation to:

   (a) Fraud or suspected fraud that it is aware of and that affects the Trust and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

   (b) allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, the Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with IFRSs all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. The Board has disclosed to you the identity of the Trust's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IFRSs.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Board understands them and as defined in IAS 24.

This letter was tabled and agreed at the meeting of the Board of Directors on 2June 2011.

Yours faithfully,

Chief Executive

Appendix A to the Board Representation Letter of University Hospitals of Leicester NHS Trust: Definitions

Financial Statements

IAS 1.10 states that a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

A party is related to an entity if:

(a) directly, or indirectly through one or more intermediaries, the party:
  (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
  (ii) has an interest in the entity that gives it significant influence over the entity; or
  (iii) has joint control over the entity;
(b) the party is an associate (as defined in IAS 28 *Investments in Associates*) of the entity;
(c) the party is a joint venture in which the entity is a venturer (see IAS 31 *Interests in Joint Ventures*);
(d) the party is a member of the key management personnel of the entity or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Related party transaction

A transfer of resources, services or obligations between related parties, regardless of whether a price is charged.