

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

ANNUAL ACCOUNTS 2008/09

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UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

STATEMENT ON INTERNAL CONTROL 2008/09

1. Scope of responsibility

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

As Accountable Officer, and Chief Executive of this Board, I, too, am subject to internal control. As Chief Executive, I am accountable to the Trust Board for ensuring that the Board's plans and objectives are implemented and that progress towards implementation is regularly reported to the Board using accurate systems of measurement and data management. The Trust's corporate governance policies and other advice on expected standards of behaviour of staff apply equally to me as Chief Executive as to any other member of staff. I subscribe to the Code of Conduct for NHS Managers.

The Trust has a range of mechanisms in place to facilitate effective working with key partners, in particular the East Midlands Strategic Health Authority, Leicester City Teaching PCT, Leicestershire County and Rutland PCT, Leicestershire Partnership NHS Trust and East Midlands Ambulance Service NHS Trust, respectively. I meet regularly with the Chief Executives of each of these organisations, individually, jointly and collectively. Within Leicester, Leicestershire and Rutland (LLR), I meet at least monthly with the Chief Executives of the two local PCTs and Leicestershire Partnership NHS Trust. The Trust's membership of the LLR Next Stage Review Project Board and LLR Health Community Steering Group provides further evidence of the Trust's commitment to partnership working.

2. The purpose of the system of internal control

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

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

The system of internal control has been in place in University Hospitals of Leicester NHS Trust for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts.

3. Capacity to handle risk

Amongst other duties, the Trust Board has collective responsibility for providing leadership to the organisation within a framework of prudent and effective controls. As outlined in the Higgs report (2003) and in 'Governing the NHS' (2003), Non-Executive Directors' specific duties include satisfying themselves that financial information is accurate and that internal systems and controls are robust and defensible.

The Trust Board itself ensures that leadership is given to the risk management process. During 2008/09, it approved an updated risk management strategy which sets out the Trust's attitude to risk and, amongst other matters, describes the way in which risks are identified, evaluated and controlled.

A series of linked, 'risk-related' policies, procedures and protocols underpin the strategy, including the:

- Health and Safety Policy;
- Safer Handling Policy;
- Risk Assessment Policy;
- Policy for the Management of Clinical and Non-Clinical Incidents;
- Policy for the Management of Complaints;
- Policy for the Management of Claims;
- Safety Alert Broadcast System Policy;
- Infection Prevention and Control Policy;
- Statutory and Mandatory Training Policy;
- A Brief Guide to Populating the UHL Datix Risk Register, and
- UHL Clinical Governance Strategy.

Working within the framework of the risk management strategy, and acting through and on behalf of the Trust Board, an appropriate infrastructure has been established to carry through the risk management agenda. In terms of individual Executive Director responsibilities for managing risks:-

- the Director of Finance and Procurement leads on financial risk management;
- the Director of Operations (now superseded by the post of Chief Operating Officer) leads on operational performance, emergency preparedness and business continuity risk management;

- the Chief Nurse leads on infection prevention and control risk management, child and adult safeguarding matters and was the Trust's Caldicott Guardian during 2008/09;
- the Medical Director co-ordinates the process for ensuring that the Trust achieves compliance with the core Standards for Better Health; and also leads on the Trust's fulfilment of its clinical governance and clinical risk management responsibilities, ensuring that the organisation has in place systems and processes to support individual, team and corporate accountability for the delivery of patient-centred, safe, high quality care, within a reporting and learning culture. The Medical Director also leads on complaints management, health and safety management, and maintenance and development of the Trust's safety alert broadcasting system and risk register, respectively.

The Executive Directors are supported in discharging their risk management responsibilities by the following Directors:-

- the Director of Communications and External Relations – leads on reputational risk management;
- the Director of Corporate and Legal Affairs – is Secretary to the Trust Board and leads on corporate governance risk management, including maintenance and development of the Trust's assurance framework;
- the Director of Facilities – leads on fire safety and estates risk management;
- the Director of Human Resources – managerially responsible for occupational health services and leads on workforce risk management;
- the Director of Information Management and Technology – is the Trust's Senior Information Risk Owner and leads on data protection and information management and technology risk management;
- the Director of Research and Development - leads on research governance and research risk management, respectively;
- the Director of Services for Older People – responsible for the co-ordination of activities across the Trust relating to services for older people and their improvement.
- the Director of Strategy leads on the process of developing and managing the delivery of the Trust's integrated business plan and consequently on business development risk management.

Clinical Directors, supported by General Managers and Heads of Nursing, are responsible for the management of risks at individual Clinical Directorate level.

I meet with all the Executive and other Directors of the Trust on a regular basis to discuss and review performance. The Trust Executive, which includes all of the aforementioned Directors, assists me in my role. I chair this group, which meets monthly, and it regularly considers significant risks, issues and exceptions and the proposed corrective action.

Trust staff are equipped and trained to manage risks in a variety of ways. The Trust's Staff Handbook, made available to all new staff joining the organisation, includes information on managing risk. The Trust's induction programme, attended by all new staff, includes a risk awareness module.

The Trust has adopted a policy for statutory and mandatory training, defining mandatory training programmes including those relating to the management of identified risks.

Having reviewed the available evidence for the period 1 April 2008 - 31 March 2009, the Trust Board declared compliance with core healthcare standard C11b which requires healthcare organisations to ensure that staff concerned with all aspects of the provision of healthcare participate in mandatory training programmes.

The Trust additionally provides risk management training for staff across a wide range of subjects, the principal aim of which is to equip staff to better manage risk in a way appropriate to their authority and duties. Subjects covered include:-

- risk assessment;
- root cause analysis;
- display screen equipment;
- stress management;
- control of substances hazardous to health;
- working safely;
- the role of the departmental safety co-ordinator;
- moving and handling;
- patient safety;
- personal safety awareness;
- fire safety;
- food hygiene;
- latex allergy;
- first aid at work;
- child protection and protecting vulnerable adults;
- infection prevention and control, including effective hand hygiene;

- clinical skills and resuscitation training;
- radiation protection;
- safe use of diagnostic and therapeutic equipment;
- violence and aggression.

The Trust attaches great importance to the effective handling of risk and, during 2008/09, engaged KPMG to assist it in:

- taking stock of the Trust's current position with regard to risk management and risk reporting;
- identifying key areas to enhance the current risk management processes at the Trust;
- clearly articulating Trust management's aspirations for improvement; and
- providing some practical training in leading practice.

The findings of this review have been reported to, and accepted by, the Trust Board's Governance and Risk Management Committee and an action plan is in place to further embed risk management processes at the Trust. The action plan aims to address the following issues:

- enhance existing reporting arrangements;
- provide more clarity on practical risk management roles and responsibilities;
- provide more ongoing support and risk awareness training for all risk management stakeholders;
- enhance the quality of risk information and the focus of the risk assessment process at Directorate level;
- assign more dedicated resourcing to effectively implement the risk management improvement plan across the Trust.

On behalf of the Trust Board, the Governance and Risk Management Committee shall monitor the implementation of the action plan in 2009/10.

4. The risk and control framework

There are clear organisational structures at the Trust for managing clinical and non-clinical risk which ensure that all significant business risks are properly considered, managed and communicated to the Board.

During 2008/09, as part of its work in preparing and adopting its Annual Plan, the Trust Board reviewed and revised its corporate objectives and assessed the principal risks to their achievement.

The Trust has an assurance framework. The assurance framework has helped the Audit Committee and Trust Board to identify the principal risks to the organisation meeting its principal objectives and to map out both the key controls in place to manage them and also how it has gained sufficient assurance about their effectiveness.

In his interim Audit Opinion for 2008/09, the Head of Internal Audit has noted that the Trust's processes for in-year monitoring and scrutiny of the assurance framework and associated action plans, and subsequent reporting arrangements, are well established within the organisation.

The assurance framework 2008/09 was designed and operated to meet the Department of Health's requirements and provide reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the Trust.

During the course of 2008/09, the Audit Committee and Trust Board accepted that there were specific – though not significant – gaps in certain areas of control and assurance as identified within the assurance framework itself. These concerned, for example, the ongoing work to provide sufficient assurance of compliance with the core Standards for Better Health. The Trust Board was informed of, and endorsed, the actions that were taken to address each of these matters. Progress was, and will continue to be, measured and reported regularly to the Trust Executive, Audit Committee and Trust Board (as appropriate) through the Trust's well established performance reporting and monitoring processes. In turn, this will enable the Trust to strengthen its assurance framework, thereby helping to embed improved risk management, control and review processes appropriate to the Trust's circumstances across all of its core business activities.

At each of its monthly meetings, the Trust Board receives information about operational performance, focussed on the most important measures of performance, with exceptions highlighted. Through the use of 'traffic light' indicators, the Trust Board's attention is directed to significant risks, issues and exceptions; to the controls in place to mitigate the identified significant risks; and to the proposed corrective action. The Trust Board is assisted in this task by both the Finance and Performance Committee and Governance and Risk Management Committee, which it established in 2008/09 to improve the overall governance arrangements of the Trust.

The Trust recognises the importance of robust information governance. The Director of Information Management and Technology takes the lead at the Trust on information governance issues and is the Trust's Senior Information Risk Owner, supported by an Information Governance Manager. The Chief Nurse was the Trust's Caldicott Guardian during 2008/09.

During 2008/09, the Trust took actions to secure improvements in its information governance arrangements. Secure (encrypted) memory sticks have been made available to staff and an encryption programme for all Trust laptop computers has been undertaken to protect information in the event of loss or theft. The encryption programme continues and includes portable devices, higher risk desktop devices and port access. The Trust continues to strengthen secure links for the transfer of confidential information electronically with its key partners.

All NHS Trusts are required annually to undertake an information governance self-assessment using the NHS Information Governance toolkit. For 2008/09, the Trust scored itself at 76% overall, a decrease of 3% on the 2007/08 overall score. Although the Trust has retained its 'green' score (according to Department of Health criteria), the Trust is nevertheless committed to improving its score and accordingly is developing and implementing action plans to strengthen its information governance arrangements.

The arrangements in place at the Trust which provide further evidence of the organisation's commitment to robust internal control include the following:-

- the establishment and operation of an Audit Committee, Finance and Performance Committee and Governance and Risk Management Committee respectively, reporting to the Trust Board;
- documenting of key internal control policies and procedures;
- ensuring that Internal Audit services have sufficient status, independence and resources;
- publishing Standing Orders, Standing Financial Instructions, a Scheme of Delegation to Officers, a Code of Business Conduct for Trust staff and a Policy for Countering Fraud and Corruption. The Trust Board has also adopted formally the NHS Code of Conduct and Code of Accountability, respectively, together with the 'Nolan Principles' ("The Seven Principles of Public Life");
- establishing sound human resources policies;
- establishing a system of personal appraisal and development review which seeks to ensure that individual objectives flow from the organisation's objectives.

A key element of the Trust's risk management strategy is to help to create a culture which encourages staff to identify and control risks which may adversely affect the Trust's operational ability. A traditional

risk assessment matrix is used to ensure that a consistent approach is taken to assessing and responding to risks and incidents. The Trust's Risk Assessment Policy sets out details of the methodology that is used and this forms an appendix to the Trust's risk management strategy. The risk management strategy identifies options for the treatment and control of risks to the Trust. Very low and low risks to the Trust will normally be managed through action by line managers, while more serious categories of risk will fall to be addressed by a more senior manager supported, if required, by a member of the Corporate Risk Team.

The Trust Executive regularly reviews 'corporate risks' featured on the Trust's risk register; the Trust Board's Governance and Risk Management Committee does likewise at each of its meetings. The Trust Board reviews 'strategic risks' entered on the Trust's risk register at each of its monthly meetings.

During the course of 2008/09, the Trust has co-operated with other NHS bodies, local authorities and other relevant organisations with an interest in the local health economy to ensure that patients' individual needs are properly managed and met.

In particular, senior representatives of the Trust have met regularly with the Trust's Patient Advisers and the Joint Health Overview and Scrutiny Committee for Leicester, Leicestershire and Rutland, respectively, during 2008/09 and, in this way, the Trust has engaged with, and involved, public stakeholders in managing risks which impact on them.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme's rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with.

5. Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the assurance framework and on the controls reviewed as part of the internal audit work.

I have noted that, in his Audit Opinion for 2008/09, the Head of Internal Audit has stated that significant assurance can be provided that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently.

A significant majority of the assignments completed by Internal Audit during 2008/09 have provided positive assurances. Internal Audit's review of the Trust's payroll system in 2008/09 identified a number of concerns about the application of controls. The Trust is committed to improving the existing control arrangements and an action plan is being implemented under the direction of the Director of Human Resources. I do not believe the concerns identified by Internal Audit have a material impact on the Trust's financial standing.

Executive Directors, other Directors and senior managers within the organisation who have responsibility for the development and maintenance of the system of internal control also provide me with assurance. The assurance framework itself provides me with evidence that the effectiveness of controls that manage the risks to the Trust achieving its principal objectives have been reviewed. My review is also informed by the findings identified and conclusions reached by the Internal and External Auditors and other bodies in their reports in 2008/09, including Clinical Pathology Accreditation Ltd, the Environment Agency, Health and Safety Executive, Healthcare Commission, Health Overview and Scrutiny Committees of local authorities, Medicines and Healthcare Products Regulatory Agency, National Patient Safety Agency and the NHS Litigation Authority. I also note that, in 2008/09, the Trust was assessed by the NHS Litigation Authority and retained its Level 2 accreditation in relation to its general and maternity clinical risk management standards, respectively.

Also of particular note is that, in January 2009, the Healthcare Commission published the results of its unannounced inspection of the Trust's hospitals against the Hygiene Code. The Commission judged the Trust as compliant with the Hygiene Code and commended the Trust's infection prevention and control arrangements. During 2008/09, the Trust strengthened its management arrangements for the appropriate decontamination of instruments and other equipment and the Commission judged the Trust compliant in meeting the Code's decontamination requirements.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by Internal Audit, External Audit, the East Midlands Strategic Health Authority, Trust Board, Trust Executive, Finance and Performance Committee, Governance and Risk Management Committee, and Audit Committee. During 2008/09, each of these bodies has been involved in a series of processes that, individually and collectively, have contributed to the review of the effectiveness of the system of internal control.

The Trust was required in 2008/09 to assess once again its compliance with the core Standards for Better Health. The Standards, published by the Department of Health in 2004, do not of themselves set out new expectations of the NHS, but are based on a number of standards and requirements that already exist. They describe a level of service which is acceptable and which must be universal. The Trust is expected to comply with the core Standards. The Trust's Healthcare Standards and Improvement Steering Group, which I chair, oversees the monitoring of the Trust's compliance with the core Standards in-year.

The core Standards include a requirement that healthcare organisations undertake systematic risk assessment and risk management. Having reviewed the available evidence, the Trust Board assessed the Trust as compliant with this requirement.

The Trust declared full compliance with all but two of the core standards for 2008/09: C8b and C20b.

The Trust Board decided it had 'not met' the requirements of standard C8b as, at year end, only just over 50% of Trust staff had had an appraisal in the preceding twelve months.

The Director of Human Resources reported to the May 2009 Trust Board meeting on actions to be taken to ensure that the Trust complies fully in future with standard C8b.

In respect of standard C20b, the Trust Board declared a 'significant lapse' for the period 1 April – 30 November 2008 due to difficulties within the Renal and Urology Directorate in achieving full compliance with the requirements of single sex accommodation. An action plan implemented in-year had overcome the difficulties relating to ward geography and layout, patient flow, bed access and patient acuity/dependency, resulting in the Trust Board declaring compliance with the standard from 1 December 2008 – 31 March 2009.

During 2008/09, the Trust experienced two serious untoward incidents involving personal data involving (1) the theft of a password protected laptop computer from a locked office and (2) misplacement of patient notes being used to conduct a clinical audit. Patients and staff affected were contacted promptly by the Trust and, in each instance, a number of actions have subsequently been taken by the Trust to seek to prevent recurrence.

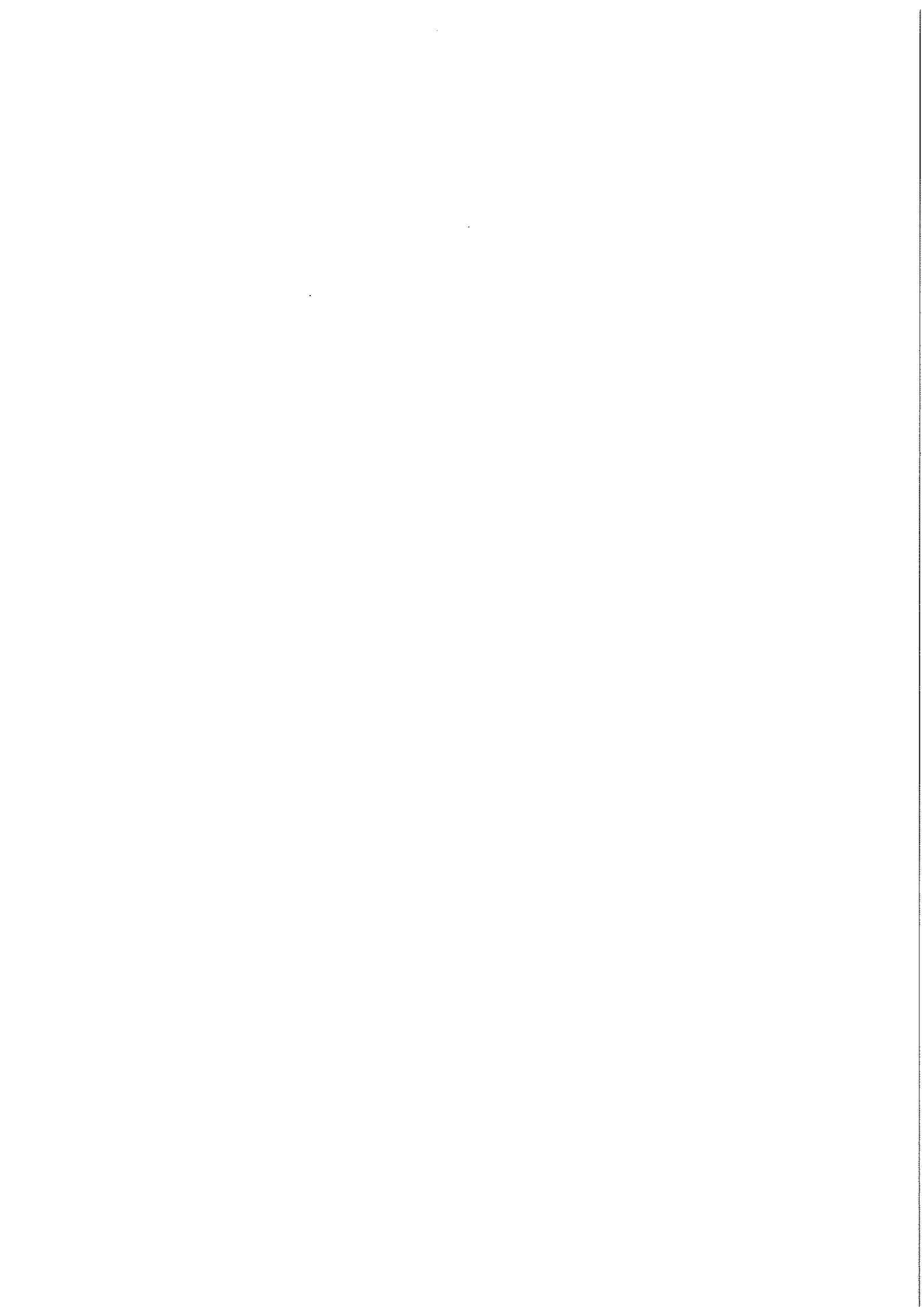
A plan to address weaknesses and ensure continuous improvement of the system of internal control is in place. In particular, further work will be undertaken in 2009/10 to review and strengthen the Trust's governance, risk management and internal control systems, policies and procedures. This work will contribute to the Trust's aim of submitting its application for authorisation as an NHS Foundation Trust in 2010/11.

I am of the opinion that the implementation of the actions described above will strengthen the Trust's system of internal control in 2009/10 and beyond.

Signed: Markus James Reid

Chief Executive
(On behalf of the Trust Board)

Date 11-10-2009



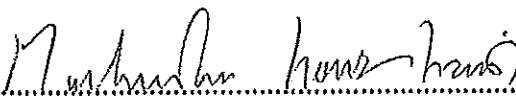
2008-09 Annual Accounts of University Hospitals of Leicester NHS Trust

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

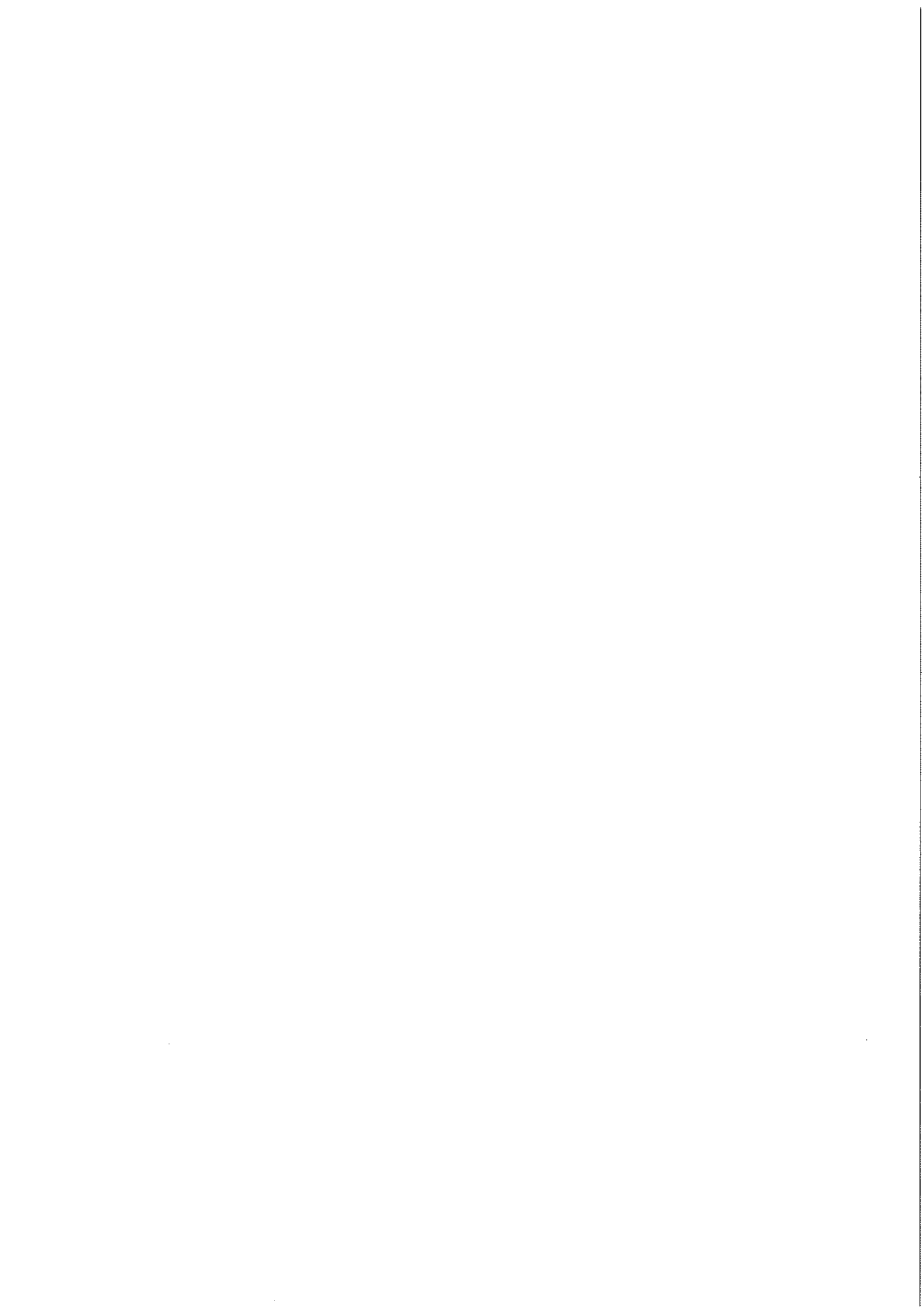
The Secretary of State has directed that the Chief Executive should be the Accountable Officer to the Trust. The relevant responsibilities of Accountable Officers are set out in the Accountable Officers Memorandum issued by the Department of Health. These include ensuring that:

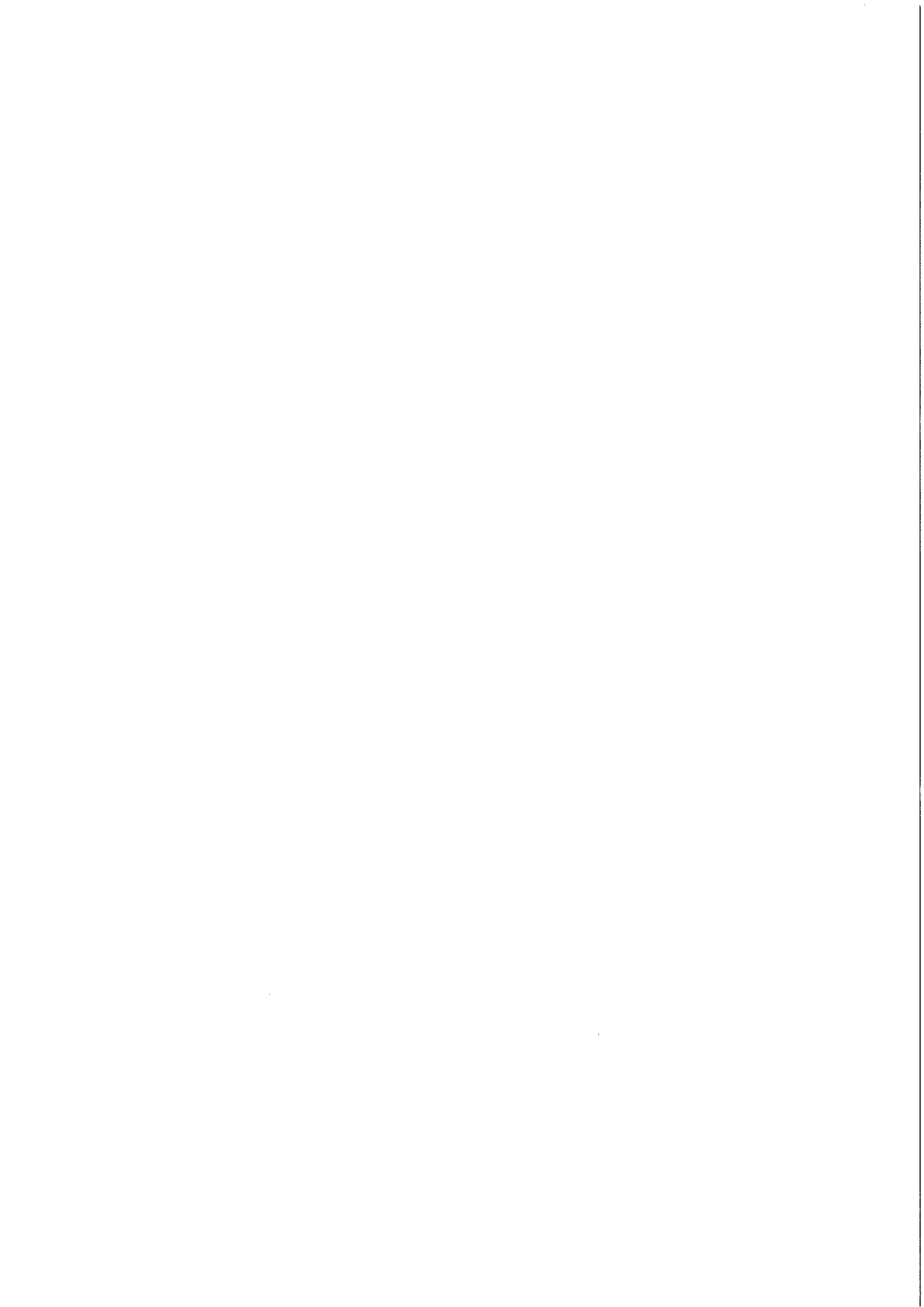
- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;
- value for money is achieved from the resources available to the trust;
- the expenditure and income of the trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;
- effective and sound financial management systems are in place; and
- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

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

Signed..........Chief Executive

Date.....11-6-2009.....







Independent auditor's statement to the Board of Directors of University Hospitals of Leicester NHS Trust

We have examined the summary financial statement which comprises Income and Expenditure, Balance Sheet, Cash Flow Statement and Statement of Total Recognised Gains and Losses for the Year Ending 31 March 2009 and the related notes.

This report is made solely to the Board of University Hospitals of Leicester NHS Trust, as a body, in accordance with Section 2 of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Board of University Hospitals of Leicester NHS Trust, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than University Hospitals of Leicester NHS Trust and the Board of University Hospitals of Leicester NHS Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The Directors are responsible for preparing the Annual Report.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Annual Report with the statutory financial statements.

We also read the other information contained in the Annual Report and consider the implications for my report if we become aware of any misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted my work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the statutory financial statements describes the basis of our audit opinion on those financial statements.

Opinion

In our opinion the summary financial statement is consistent with the statutory financial statements of the Trust for the year ended 31 March 2009. We have not considered the effects of any events between the date on which we signed our report on the statutory financial statements 12 June 2009 and the date of this statement.

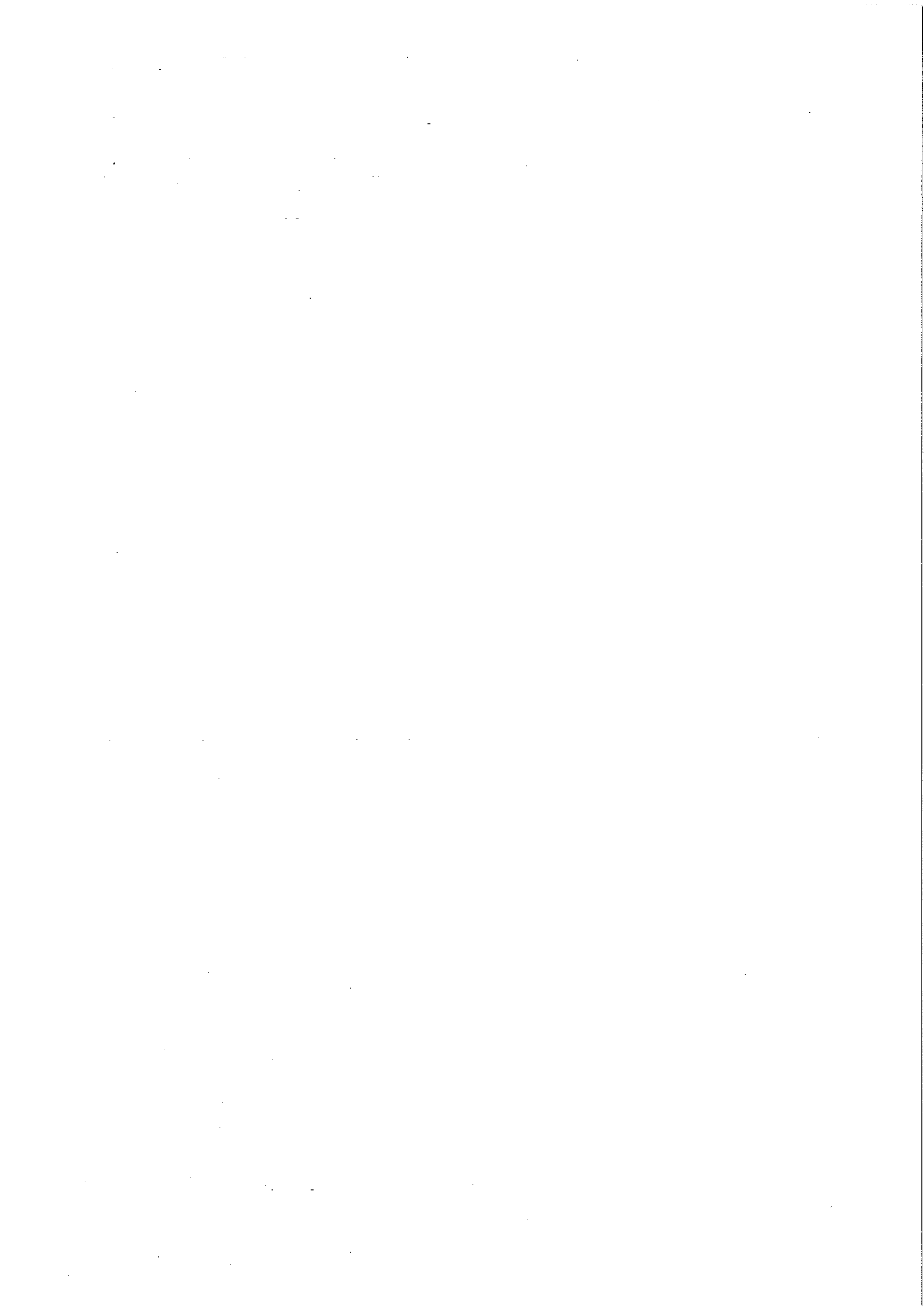
Andrew Bostock (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Birmingham

21 July 2009



Data entered below will be used throughout the workbook:

Trust name:	University Hospitals of Leicester NHS Trust
This year	2008/09
Last year	2007/08
This year ended	31 March 2009
Last year ended	31 March 2008
This year beginning	1 April 2008

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 March 2009**

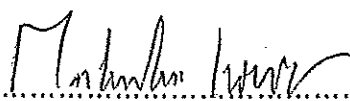
	NOTE	2008/09 £000	2007/08 £000
Income from activities	3	564,796	529,966
Other operating income	4	87,363	85,189
Operating expenses	5-7	<u>(635,202)</u>	<u>(603,364)</u>
OPERATING SURPLUS		16,957	11,791
Cost of fundamental reorganisation/reconstruction		0	0
Profit/(loss) on disposal of fixed assets	8	<u>(8)</u>	<u>0</u>
SURPLUS BEFORE INTEREST		16,949	11,791
Interest receivable		1,655	1,977
Interest payable	9	(4)	(2)
Other finance costs - unwinding of discount	17	<u>(59)</u>	<u>(67)</u>
SURPLUS FOR THE FINANCIAL YEAR		18,541	13,699
Public dividend capital dividends payable		<u>(15,523)</u>	<u>(13,122)</u>
RETAINED SURPLUS FOR THE YEAR		<u>3,018</u>	<u>577</u>

The notes on pages 27 to 52 form part of these accounts.
All income and expenditure is derived from continuing operations.

**BALANCE SHEET AS AT
31 March 2009**

	NOTE	31 March 2009 £000	31 March 2008 £000
FIXED ASSETS			
Intangible assets	10	3,519	3,272
Tangible assets	11	405,232	427,080
Financial assets	14	0	0
TOTAL FIXED ASSETS		408,751	430,352
CURRENT ASSETS			
Stocks and work in progress	12	10,514	9,454
Debtors	13	28,548	26,306
Investments		0	0
Other financial assets	14	0	0
Cash at bank and in hand	19.3	15,228	27,326
TOTAL CURRENT ASSETS		54,290	63,086
CREDITORS: Amounts falling due within one year	15.1	(53,105)	(63,158)
Financial liabilities	16	0	0
NET CURRENT ASSETS/(LIABILITIES)		1,185	(72)
TOTAL ASSETS LESS CURRENT LIABILITIES		409,936	430,280
CREDITORS: Amounts falling due after more than one year	15.2	(959)	0
Financial liabilities	16	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	17	(6,560)	(7,738)
TOTAL ASSETS EMPLOYED		402,417	422,542
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	23	267,880	267,519
Revaluation reserve	18	106,673	132,636
Donated asset reserve	18	8,384	8,923
Government grant reserve	18	1,631	1,687
Other reserves	18	272	272
Income and expenditure reserve	18	17,577	11,505
TOTAL TAXPAYERS' EQUITY		402,417	422,542

The financial statements on pages 15 to 52 were approved by the Board on 11th June 2009 and signed on its behalf by:

Signed:  (Chief Executive)

Date: 11-6-2009



**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 March 2009**

	2008/09 £000	2007/08 £000
Surplus for the financial year before dividend payments	18,541	13,699
Fixed asset impairment losses	0	0
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	(23,146)	28,679
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	492	183
Defined benefit scheme actuarial gains/(losses)	0	0
Additions/(reductions) in "other reserves"	0	0
Total recognised gains and losses for the financial year	<u><u>(4,113)</u></u>	<u><u>42,561</u></u>

The Trust has applied a negative land indexation in order to reflect current market conditions. This is in line with H M Treasury guidance. Other assets have been indexed at 0%.
Total indexation is reflected in the deficit of £23,146k (2007/08 - a surplus of £28,679)

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2009

	NOTE	2008/09 £000	2007/08 £000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	19.1	29,257	49,673
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		1,845	1,875
Interest paid		(4)	(2)
Interest element of finance leases		<u>0</u>	<u>0</u>
Net cash inflow from returns on investments and servicing of finance		1,841	1,873
CAPITAL EXPENDITURE			
(Payments) to acquire tangible fixed assets		(27,136)	(12,041)
Receipts from sale of tangible fixed assets		0	0
(Payments) to acquire intangible assets		(1,390)	(1,568)
Receipts from sale of intangible assets		0	0
(Payments to acquire)/receipts from sale of fixed asset investments		0	0
(Payments to acquire)/receipts from sale of financial instruments		<u>0</u>	<u>0</u>
Net cash inflow/(outflow) from capital expenditure		(28,526)	(13,609)
DIVIDENDS PAID			
		(15,523)	(13,122)
Net cash inflow/(outflow) before management of liquid resources and financing		<u>(12,951)</u>	<u>24,815</u>
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of financial assets with the Department of Health		0	0
(Purchase) of other current financial assets		0	0
Sale of financial assets with the Department of Health		0	0
Sale of other current financial asset		<u>0</u>	<u>0</u>
Net cash inflow/(outflow) from management of liquid resources		0	0
Net cash inflow/(outflow) before financing		<u>(12,951)</u>	<u>24,815</u>
FINANCING			
Public dividend capital received		361	557
Public dividend capital repaid		0	0
Loans received from the Department of Health		0	0
Other loans received		0	0
Loans repaid to the Department of Health		0	0
Other loans repaid		0	0
Other capital receipts		492	183
Capital element of finance lease rental payments		<u>0</u>	<u>0</u>
Net cash inflow/(outflow) from financing		<u>853</u>	<u>740</u>
Increase/(decrease) in cash		<u>(12,098)</u>	<u>25,555</u>

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 Trust Manual for Accounts which shall be agreed with HM Treasury. The accounting policies contained in that manual follow UK generally accepted accounting practice and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

It should be noted that in line with the adoption of IFRS requirements all accounting policies will be reviewed and amended with effect from 1st April 2009.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. NHS Trusts are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

1.2 Acquisitions and discontinued operations

Activities are considered to be 'acquired' only if they are acquired 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 Income Recognition

Income is accounted for applying the accruals convention. The main source of income for the Trust is from commissioners in respect of healthcare services provided under local agreements. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

1.4 Intangible fixed assets

Intangible assets are capitalised when they are capable of being used in a Trust's activities for more than one year; they can be valued; and they have a cost of at least £5,000.

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis, except capitalised Research and Development which is carried at current cost. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic lives.

1.5 Tangible fixed assets

Capitalisation

Borrowing costs associated with the construction of new assets are not capitalised.

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they:

- individually have a cost of at least £5,000; or

- collectively 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

- form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value each year. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years and in the intervening years by the use of indices. For 2008/09 the Trust has indexed land at -29% in line with HM Treasury guidance. Other assets have been indexed at 0% to reflect current property market conditions.

Professional valuations are carried out by the District Valuers of the Revenue and Customs Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied on the 31 March 2005.

The valuations are carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. The value of land for existing use purposes is assessed at Existing Use Value. For non-operational properties including surplus land, the valuations are carried out at Open Market Value.

Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

Gains arising from revaluations are taken to the Revaluation Reserve. Losses arising from revaluation are recognised as impairments and are charged to the revaluation reserve to the extent that a balance exists in relation to the revalued asset. Losses in excess of that amount are charged to the current year's Income & Expenditure account, unless it can be demonstrated that the recoverable amount is greater than the revalued amount in which case the impairment is taken to the revaluation reserve. Diminutions in value when newly constructed assets are brought into use are charged in full to the Income & Expenditure account. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Assets in the course of construction are valued at current cost. These assets include any existing land or buildings under the control of a contractor.

Operational equipment is carried at current value. Where assets are of low value, and/or have short useful economic lives, these are carried at depreciated historic cost as a proxy for current value. Equipment surplus to requirements is valued at net recoverable amount.

Depreciation, amortisation and impairments

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land and assets surplus to requirements.

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Trust, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the Valuer. Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset. This is taken to be 5 years for IT equipment and 7 years for all other equipment unless other information is available.

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale.

1.6 Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also 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 the Income and Expenditure account. Similarly, any impairment on donated assets charged to the Income and Expenditure Account is matched by a transfer from the Donated Asset Reserve. On sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

1.7 Government Grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. Gains and losses on revaluations are also 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 Income and Expenditure Account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Reserve.

1.8 Private Finance Initiative (PFI) transactions

The NHS follows HM Treasury's Technical Note 1 (Revised) "How to Account for PFI transactions" which provides practical guidance for the application of the Application Note F to FRS 5 and the guidance 'Land and Buildings in PFI schemes Version 2'.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI obligations are recorded as an operating expense. Where the trust has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Income and Expenditure Account. Where, at the end of the PFI contract, a property reverts to the Trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

Where the balance of risks and rewards of ownership of the PFI property are borne by the Trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.9 Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.10 Research and development

Expenditure on research is not capitalised. Expenditure on development is capitalised if it meets the following criteria:

- there is a clearly defined project;
- the related expenditure is separately identifiable;

- the outcome of the project has been assessed with reasonable certainty as to:
 - its technical feasibility;
 - its resulting in a product or service which will eventually be brought into use;
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. NHS Trusts are unable to disclose the total amount of research and development expenditure charged in the income and expenditure account because some research and development activity cannot be separated from patient care activity.

Fixed assets acquired for use in research and development are amortised over the life of the associated project.

1.11 Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 17.

Non-clinical risk pooling

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

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

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 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. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date 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 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 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.

Scheme Provisions as at 31 March 2009

The scheme is a 'final salary' scheme.

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 income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made. From 1 April 2008 a voluntary additional pension facility became available, under which members may purchase up to £5,000 per annum of additional pension at a cost determined by the actuary from time-to-time.

Early payment of a pension 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, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

Existing members at 1 April 2008

Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there has been the opportunity of giving up some of the pension to increase the retirement lump sum. 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. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

New entrants from 1 April 2008

Annual pensions for new entrants from 1 April 2008 will be based on 1/60th of the best three-year average of pensionable earnings in the ten years before retirement. Members wishing to obtain a retirement lump sum may give up some of this pension to obtain a retirement lump of up to 25% of the total value of their retirement benefits. Survivor pensions will be available to married and unmarried partners and will be equal to 37.5% of the member's pension.

1.13 Liquid resources

Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cashflow statement. The Trust does not hold any investments with maturity dates exceeding one year from the date of purchase.

1.14 Value Added Tax

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

1.15 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the Income and Expenditure Account.

1.16 Third Party Assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 28 to the accounts.

1.17 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS Trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

1.18 Public Dividend Capital (PDC) and PDC Dividend

Public Dividend Capital represents the outstanding public debt of an NHS Trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the NHS Trust.

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash 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. 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.

1.19 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 each individual case is handled.

Losses and Special Payments are charged to the relevant functional headings in the Income and Expenditure Account 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).

1.20 EU Emission Trading Scheme

EU Emission Trading Scheme allowances are accounted for as Government Granted Other Current Asset, valued at open market value. As the Trust 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 current asset, provision and Government Grant Reserve are valued at current market value at the Balance Sheet date.

1.21 Financial Instruments

Financial Assets

Financial assets are recognised on the balance sheet when the Trust becomes party to the financial instrument contract or, in the case of trade debtors, 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.

1.21 Financial Instruments (cont)

a) Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the Income and Expenditure Account. The net gain or loss incorporates any interest earned on the financial asset.

b) Held to maturity investments

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

c) Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the Revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the Income and Expenditure Account on de-recognition.

d)

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 net carrying amount of the financial asset.

At the balance sheet date, 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.

Financial liabilities

Financial liabilities are recognised on the balance sheet when the Trust becomes party to the contractual provisions of the financial instrument or, in the case of trade creditors, 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.

Financial liabilities are initially recognised at fair value.

2 SEGMENTAL ANALYSIS

The Trust is not required to segment its results as a consequence of any business activity.

3. Income from Activities

	2008/09 £000	2007/08 £000
Strategic Health Authorities	10,223	10,130
NHS Trusts	0	0
Primary Care Trusts	521,350	493,487
Foundation Trusts	0	0
Local Authorities	0	0
Department of Health	27,059	20,281
NHS Other	0	0
Non NHS:		
- Private patients	3,389	3,946
- Overseas patients (non-reciprocal)	921	324
- Injury cost recovery	1,381	1,310
- Other	473	488
	<u>564,796</u>	<u>529,966</u>

Income from Primary Care Trusts includes £2,796k in respect of healthcare activity in progress at 31 March 2009 which has been recognised for the first time.

Injury cost recovery income is subject to a provision for doubtful debts to reflect expected rates of collection. The national guidance is 7.8%, however the Trust has opted to increase this provision, based on actual aged debt levels.

4. Other Operating Income

	2008/09 £000	2007/08 £000
Patient transport services	0	0
Education, training and research	62,609	63,954
Charitable and other contributions to expenditure	0	0
Transfers from Donated Asset Reserve	794	1,052
Transfers from Government Grant Reserve	56	64
Non-patient care services to other bodies	4,162	3,947
Rental income from finance leases	0	0
Rental income from operating leases	611	604
Income generation	4,471	4,473
Other income	14,660	11,095
	<u>87,363</u>	<u>85,189</u>

Other income for 2007/08 has been analysed in more detail. This affects:

- Non patient care services to other bodies
- Rental income from finance leases
- Income Generation
- Education, training and research

Other income includes £3.6million for the comprehensive local research network which the Trust hosts.

3. Income from Activities

	2007/08	2006/07
	£000	£000
Strategic Health Authorities	10,130	0
NHS Trusts	0	222
Primary Care Trusts	493,487	469,157
Foundation Trusts	0	0
Local Authorities	0	0
Department of Health	20,281	23,957
NHS Other	0	323
Non NHS:		
- Private patients	3,946	4,345
- Overseas patients (non-reciprocal)	324	540
- Road Traffic Act	-	1,272
- Injury cost recovery	1,310	0
- Other	488	425
	<u>529,966</u>	<u>500,241</u>

Injury cost recovery income is subject to a provision for doubtful debts to reflect expected rates of collection. The national guidance is 7.8%, however, the Trust has opted to increase this provision, based on actual aged debt levels.

4. Other Operating Income

	2007/08	2006/07
	£000	£000
Patient transport services	0	0
Education, training and research	60,210	57,588
Charitable and other contributions to expenditure	0	0
Transfers from donated asset reserve	1,052	1,156
Transfers from government grant reserve	64	26
Non-patient care services to other bodies	0	0
Income Generation	0	0
Other income	23,863	29,655
	<u>85,189</u>	<u>88,425</u>

5.2 Operating leases

5.2/1 Operating expenses include:

	2008/09 £000	2007/08 £000
Hire of plant and machinery	1,097	1,346
Other operating lease rentals	257	304
	<u>1,354</u>	<u>1,650</u>

5.2/2 Annual commitments under non - cancellable operating leases are:

	Land and buildings		Other leases	
	2008/09 £000	2007/08 £000	2008/09 £000	2007/08 £000
Operating leases which expire:				
Within 1 year	0	0	189	167
Between 1 and 5 years	0	0	745	747
After 5 years	0	0	414	410
	<u>0</u>	<u>0</u>	<u>1,348</u>	<u>1,324</u>

6. Staff costs and numbers

6.1 Staff costs

	Total	2008/09 Permanently Employed	Other	2007/08
	£000	£000	£000	£000
Salaries and wages	341,052	331,960	9,092	319,477
Social Security Costs	25,224	25,224	0	23,599
Employer contributions to NHS BSA - Pensions Division	36,731	36,731	0	34,872
Other pension costs	48	48	0	1,973
	<u>403,055</u>	<u>393,963</u>	<u>9,092</u>	<u>379,921</u>

6.2 Average number of persons employed

	Total	2008/09 Permanently Employed	Other	2007/08
	Number	Number	Number	Number
Medical and dental	1,503	1,426	77	1,520
Ambulance staff	0	0	0	0
Administration and estates	2,036	1,967	69	2,016
Healthcare assistants and other support staff	697	696	1	669
Nursing, midwifery and health visiting staff	4,405	4,301	104	4,320
Nursing, midwifery and health visiting learners	0	0	0	0
Scientific, therapeutic and technical staff	1,405	1,369	36	1,386
Social care staff	0	0	0	0
Other	153	145	8	187
Total	<u>10,199</u>	<u>9,904</u>	<u>295</u>	<u>10,098</u>

6.3 Employee benefits

There are no employee benefit schemes in operation within the Trust.

6.4 Management costs

	2008/09 £000	2007/08 £000
Management costs	22,057	22,338
Income	652,159	615,155

6.5 Retirements due to ill-health

During 2008/09 there were 17 (2007/08, 19) early retirements from the NHS Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £1,080,792 (2007/08: £1,005,124). The cost of these ill-health retirements will be borne by the NHS Business Services Authority -Pensions Division.

7. Better Payment Practice Code

7.1 Better Payment Practice Code - measure of compliance

	2008/09	
	Number	£000
Total Non-NHS trade invoices paid in the year	132,493	358,519
Total Non NHS trade invoices paid within target	109,341	309,491
Percentage of Non-NHS trade invoices paid within target	83%	86%
Total NHS trade invoices paid in the year	4,800	47,408
Total NHS trade invoices paid within target	3,207	32,155
Percentage of NHS trade invoices paid within target	67%	68%

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.

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

	2008/09 £000	2007/08 £000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	3	2
Compensation paid to cover debt recovery costs under this legislation	0	2
TOTAL	3	4

8. Other gains and losses

	2008/09 £000	2007/08 £000
Gain on disposal of fixed asset investments	0	0
(Loss) on disposal of fixed asset investments	0	0
Gain on disposal of intangible fixed assets	0	0
(Loss) on disposal of intangible fixed assets	0	0
Gain on disposal of land and buildings	0	0
(Loss) on disposal of land and buildings	0	0
Gains on disposal of plant and equipment	0	0
(Loss) on disposal of plant and equipment	(8)	0
Gain/(loss) on foreign exchange	0	0
Change in fair value of financial assets carried at fair value through profit and loss	0	0
Change in fair value of financial liabilities carried at fair value through profit and loss	0	0
Recycling of gain/(loss) from equity on disposal of financial assets held for sale	0	0
	<u>(8)</u>	<u>0</u>

There were no major property disposals in the year (2007/08 nil)

9. Finance Costs & Interest receivable

	2008/09 £000	2007/08 £000
Finance Costs		
Finance leases	0	0
Late payment of commercial debt	3	2
Loans	0	0
Bank loans and overdrafts	1	0
Other interest and finance costs	0	0
TOTAL	<u>4</u>	<u>2</u>
Interest Receivable		
Bank accounts	1,655	1,977
Impaired financial assets	0	0
Other financial assets	0	0
TOTAL	<u>1,655</u>	<u>1,977</u>

10. Intangible Fixed Assets

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2008	3,272	0	0	0	3,272
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Revaluation	0	0	0	0	0
Additions purchased	905	0	0	0	905
Additions donated	0	0	0	0	0
Additions government granted	0	0	0	0	0
Disposals	0	0	0	0	0
Gross cost at 31 March 2009	4,177	0	0	0	4,177
Amortisation at 1 April 2008	0	0	0	0	0
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Revaluation	0	0	0	0	0
Charged during the year	658	0	0	0	658
Disposals	0	0	0	0	0
Amortisation at 31 March 2009	658	0	0	0	658
Net book value					
- Purchased at 1 April 2008	3,272	0	0	0	3,272
- Donated at 1 April 2008	0	0	0	0	0
- Government granted at 1 April 2008	0	0	0	0	0
- Total at 1 April 2008	3,272	0	0	0	3,272
- Purchased at 31 March 2009	3,519	0	0	0	3,519
- Donated at 31 March 2009	0	0	0	0	0
- Government granted at 31 March 2009	0	0	0	0	0
- Total at 31 March 2009	3,519	0	0	0	3,519

11. Tangible Fixed Assets**11.1 Tangible fixed assets at the balance sheet date comprise the following elements:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construct and poa	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2008	79,836	288,911	11,147	4,589	99,521	479	35,556	2,394	522,433
Additions purchased	0	8,968	223	4,529	7,220	19	3,907	0	24,866
Additions donated	0	110	0	0	370	0	12	0	492
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	624	0	(3,878)	0	0	3,254	0	0
Indexation	(23,146)	0	0	0	0	0	0	0	(23,146)
Revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(5,882)	0	(73)	0	(5,955)
Cost or Valuation at 31 March 2009	56,690	298,613	11,370	5,240	101,229	498	42,656	2,394	518,690
Depreciation at 1 April 2008	0	11,502	337	0	70,405	428	22,387	2,133	95,353
Charged during the year	0	0	0	0	7,099	12	4,291	61	23,302
Impairments	0	0	0	0	0	0	0	0	0
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	0	0	0	0	0
Revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(5,147)	0	(50)	0	(5,197)
Depreciation at 31 March 2009	0	11,502	337	0	72,357	440	26,628	2,194	113,458
Net book value									
- Purchased at 1 April 2008	79,836	280,042	11,147	4,589	27,495	51	13,136	174	416,470
- Donated at 1 April 2008	0	7,182	0	0	1,621	0	33	87	8,923
- Government granted at 1 April 2008	0	1,687	0	0	0	0	0	0	1,687
- Total at 1 April 2008	79,836	288,911	11,147	4,589	29,116	51	13,169	261	427,080
- Purchased at 31 March 2009	56,690	278,493	11,033	5,240	27,599	58	15,991	113	395,217
- Donated at 31 March 2009	0	6,987	0	0	1,273	0	37	87	8,384
- Government granted at 31 March 2009	0	1,631	0	0	0	0	0	0	1,631
- Total at 31 March 2009	56,690	287,111	11,033	5,240	28,872	58	16,028	200	405,232

Of the totals at 31 March 2009, £1,598,267 related to land valued at open market value and £3,412,662 related to dwellings valued at open market value.

11 Tangible Fixed Assets (contd)

11.2 Asset Financing

	Land	Buildings, excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value 31 March 2009									
Owned	56,690	287,111	11,033	5,240	28,872	58	16,028	200	405,232
Finance Leased	0	0	0	0	0	0	0	0	0
On balance sheet PFI contracts	0	0	0	0	0	0	0	0	0
PFI residual interests	0	0	0	0	0	0	0	0	0
Total 31 March 2009	56,690	287,111	11,033	5,240	28,872	58	16,028	200	405,232

Net book value 1 April 2008

Owned	79,836	288,911	11,147	4,589	29,116	51	13,169	261	427,080
Finance Leased	0	0	0	0	0	0	0	0	0
On balance sheet PFI contracts	0	0	0	0	0	0	0	0	0
PFI residual interests	0	0	0	0	0	0	0	0	0
Total 1 April 2008	79,836	288,911	11,147	4,589	29,116	51	13,169	261	427,080

11.3 The net book value of land, buildings and dwellings at 31 March 2009 comprises:

	2008/09 £000	2007/08 £000
Freehold	354,834	379,894
Long Leasehold	0	0
Short Leasehold	0	0
TOTAL	354,834	379,894

12. Stocks and Work in Progress

	31 March 2009 £000	31 March 2008 £000
Raw materials and consumables	10,514	9,454
Work-in-progress	0	0
Finished goods	0	0
TOTAL	<u><u>10,514</u></u>	<u><u>9,454</u></u>

13. Debtors

13.1 Debtors at the balance sheet date are made up of:

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
NHS debtors	15,852	11,426
Non NHS trade debtors	3,035	3,223
Provision for impairment of debtors	(2,848)	(3,495)
Other prepayments and accrued income	6,723	8,027
Current part of PFI payment	0	0
Other debtors	5,460	6,659
Sub Total: falling due within one year	<u>28,222</u>	<u>25,840</u>
Amounts falling due after more than one year:		
NHS debtors	128	356
Non NHS trade debtors	2,016	2,031
Provision for impairment of debtors	(1,818)	(1,921)
Other prepayments and accrued income	0	0
Other debtors	0	0
Sub Total: falling due after more than one year	<u>326</u>	<u>466</u>
TOTAL	<u><u>28,548</u></u>	<u><u>26,306</u></u>

Other Debtors include £0 prepaid pension contributions at 31 March 2009 (£0 at 31 March 2008)

NHS debtors includes £2,796k in respect of healthcare activity in progress at 31 March 2009 which has been recognised for the first time.

	31 March 2009 £000
13.2 Provision for impairment of debtors	
Balance at 1 April	5,416
Amount written off during the year	(331)
Amount recovered during the year	(2,751)
(Increase)/decrease in debtors impaired	2,332
Balance at 31 March	<u><u>4,666</u></u>

	31 March 2009 £000
13.3 Debtors past due date but not impaired:	
By up to 3 months	1,245
By 3 to 6 months	588
By more than 6 months	301
TOTAL	<u><u>2,134</u></u>

Note 13.3 does not include Injury cost recovery debtors as these are not covered under the Trusts payment terms.

14 Other Financial Assets

The Trust has no other financial assets.

15. Creditors**15.1 Creditors at the balance sheet date are made up of:**

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Bank overdrafts	0	0
Current instalments due on loans	0	0
Interest payable	0	0
Payments received on account	0	7,909
NHS creditors	7,885	5,976
Non - NHS trade creditors - revenue	8,397	17,274
Non - NHS trade creditors - capital	6,685	8,949
Tax	679	328
VAT	0	0
Social security costs	3,844	257
Obligations under finance leases and hire purchase contracts	0	0
Other creditors	3,392	2,444
Accruals and deferred income	22,223	20,021
Current part of finance leases element of on balance sheet PFI contracts	0	0
Sub Total: amounts falling due within one year	53,105	63,158
Amounts falling due after more than one year:		
Long - term loans	0	0
Obligations under finance leases and hire purchase contracts	0	0
NHS creditors	959	0
Imputed finance leases element of on balance sheet PFI contracts	0	0
Other	0	0
Sub Total: amounts falling due in more than one year	959	0
TOTAL	54,064	63,158

At 31/03/2008, the Trust had received payments on account from other NHS bodies of £7,909k. This arrangement was not repeated in 2008/09.

Other creditors include;

£12k outstanding pensions contributions at 31 March 2009 (31 March 2008 £50k).

The NHS creditor greater than a year represents a payment due to the NHS Litigation Authority in 2010/11 but relating to 2008/09.

15.2 Loans and other long-term financial liabilities

The Trust has no loans or other long term financial liabilities at 31/03/2009 (31/03/2008 - nil)

15.3 Finance lease obligations and commitments

The Trust has no finance lease obligations or commitments at 31/03/2009 (31/03/2008 - nil)

Under IFRS, the managed equipment scheme currently treated as a PFI scheme will be reclassified as a finance lease. The lease creditor at 1st April 2009 is £9.76 million with £3.57 million payable against this during 2009/10.

16 Other Financial Liabilities

The Trust has no other financial liabilities (2007/08 - nil)

17 Provisions for liabilities and charges

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Restructurings £000	Other £000	Total £000
At 1 April 2008	155	2,578	0	0	5,005	7,738
Arising during the year	371	75	0	0	722	1,168
Utilised during the year	(63)	(187)	0	0	(379)	(629)
Reversed unused	0	(331)	0	0	(1,445)	(1,776)
Unwinding of discount	10	46	0	0	3	59
At 31 March 2009	473	2,181	0	0	3,906	6,560

Expected timing of cashflows:

Within one year	56	192	0	0	3,331	3,579
Between one and five years	380	713	0	0	229	1,322
After five years	37	1,276	0	0	346	1,659

Pensions relating to former directors and other staff relate to early retirements.

Other provisions include non clinical liability cases and for these debtors of £560k have been included within NHS debtors for reimbursements expected (2007/08 £356k)

£50,397,140 is included in the provisions of the NHS Litigation Authority at 31 March 2009 in respect of clinical negligence liabilities of the NHS Trust. (31 March 2008 £50,068,726).

A provision for outstanding property, employer and public liability cases has a related contingent liability entry included at note 21.

A provision is included in other provisions for Agenda for Change claims that have either arisen or not been resolved in year.

18 Movements on Reserves

Movements on reserves in the year comprised the following:

	Revaluation Reserve £000	Donated Asset Reserve £000	Government Grant Reserve £000	Other Reserves £000	Income and Expenditure Reserve £000	Total £000
At 1 April 2008 as previously stated	132,636	8,923	1,687	272	11,505	155,023
PPA: other	0	0	0	0	0	0
PPA: elimination of negative revaluation reserves in respect of change in policy on impairments	0	0	0	0	0	0
At 1 April 2008 as restated	132,636	8,923	1,687	272	11,505	155,023
Transfer from the income and expenditure account					3,018	3,018
Fixed asset impairments	0	0	0	0	0	0
Surplus/(deficit) on other revaluations/indexation of fixed/current assets	(23,146)	0	0	0	0	(23,146)
Transfer of realised profits/(losses) to the income and expenditure reserve	0	(206)	0	0	206	0
Receipt of donated/government granted assets	0	492	0	0	0	492
Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets	0	(794)	(56)	0	0	(850)
Other transfers between reserves	(2,817)	(31)	0	0	2,848	0
Other movements on reserves	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 March 2009	106,673	8,384	1,631	272	17,577	134,537

19 Notes to the cash flow Statement

19.1 Reconciliation of operating surplus to net cash flow from operating activities:

	2008/09 £000	2007/08 £000
Total operating surplus/(deficit)	16,957	11,791
Depreciation and amortisation charge	23,960	24,564
Asset impairments and reversals, and movement in financial instruments	0	0
Transfer from Donated Asset Reserve	(794)	(1,052)
Transfer from the Government Grant Reserve	(56)	(64)
(Increase)/decrease in stocks	(1,060)	(67)
(Increase)/decrease in debtors	(1,683)	(1,165)
Increase/(decrease) in creditors	(6,830)	12,036
Increase/(decrease) in provisions	(1,237)	3,630
	<u>29,257</u>	<u>49,673</u>
Net cash inflow/(outflow) from operating activities before restructuring costs	29,257	49,673
Payments in respect of fundamental reorganisation/restructuring	0	0
Net cash inflow from operating activities	<u><u>29,257</u></u>	<u><u>49,673</u></u>

19.2 Reconciliation of net cash flow to movement in net debt

	2008/09 £000	2007/08 £000
Increase/(decrease) in cash in the period	(12,098)	25,555
Cash (inflow) from new debt	0	0
Cash outflow from debt repaid and finance lease capital payments	0	0
Cash (inflow)/outflow from (decrease)/increase in liquid resources	0	0
Change in net debt resulting from cash flows	(12,098)	25,555
Non - cash changes in debt	0	0
Net debt at 1 April 2008	27,326	1,771
Net debt at 31 March 2009	<u><u>15,228</u></u>	<u><u>27,326</u></u>

19.3 Analysis of changes in net debt

	At 1 April 2008	Cash Transferred (to)/from other NHS bodies	Other cash changes in year	Non-cash changes in year	At 31 March 2009
	£000	£000	£000	£000	£000
OPG cash at bank	27,725	0	(12,116)		15,609
Commercial cash at bank and in hand	(399)	0	18		(381)
Bank overdraft	0	0	0		0
Loan from the Department of Health due within one year	0	0	0	0	0
Other debt due within one year	0	0	0	0	0
Loan from the Department of Health due after one year	0	0	0	0	0
Other debt due after one year	0	0	0	0	0
Finance leases	0	0	0	0	0
Current asset investments	0	0	0	0	0
Current financial assets	0	0	0	0	0
	<u>27,326</u>	<u>0</u>	<u>(12,098)</u>	<u>0</u>	<u>15,228</u>

20 Capital Commitments

Commitments under capital expenditure contracts at 31 March 2009 were £6.3m (31 March 2008 £3.6m)

21 Post Balance Sheet Events

There are no post Balance Sheet events which require disclosure

22 Contingencies

	2008/09 £000	2007/08 £000
Contingent liabilities	(272)	(121)
Amounts recoverable against contingent liabilities	147	0
Net value of contingent liabilities	<u>(125)</u>	<u>(121)</u>
Contingent Assets	<u>0</u>	<u>0</u>

The contingent liabilities are for outstanding property and employer and public liability cases. Provisions are also included for these at note 17.

In 2007, the Trust received notification of a potential claim against it relating to the Pathway Project. Based on the Trust Board's understanding of the potential claim at this time, they believe they have strong grounds to defend and intend to vigorously defend, any formal claim received.

23 Movement in Public Dividend Capital

	2008/09 £000	2007/08 £000
Public Dividend Capital as at 1 April 2008	267,519	266,962
New Public Dividend Capital received	361	557
Public Dividend Capital repaid in year	0	0
Public Dividend Capital written off	0	0
Other movements in Public Dividend Capital in year	0	0
Public Dividend Capital as at 31 March 2009	<u>267,880</u>	<u>267,519</u>

24 Financial Performance Targets

24.1 Breakeven Performance

The Trust's breakeven performance for 2008/09 is as follows:

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	£000	£000	£000	£000	£000	£000
Turnover	460,444	513,404	556,656	588,666	615,155	652,159
Retained surplus/(deficit) for the year	52	64	60	61	577	3,018
Adjustment for:						
- Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	0	0	0	0	0	0
- 2004/05 Prior Period Adjustment (relating to 1997/98 to 2003/04)	0	0	0	0	0	0
- 2005/06 Prior Period Adjustment (relating to 1997/98 to 2004/05)	0	0	0	0	0	0
- 2006/07 Prior Period Adjustment (relating to 1997/98 to 2005/06)	0	0	0	0	0	0
- 2007/08 Prior Period Adjustment (relating to 1997/98 to 2006/07)	0	0	0	0	0	0
- 2008/09 Prior Period Adjustment (relating to 1997/98 to 2007/08)	0	0	0	0	0	0
- Adjustments for Impairments	0	0	0	0	0	0
- Other agreed adjustments	0	0	0	0	0	0
Break-even in-year position	52	64	60	61	577	3,018
Break-even cumulative position	130	194	254	315	892	3,910
Materiality test (i.e. is it equal to or less than 0.5%):						
- Break-even in-year position as a percentage of turnover	0.01%	0.01%	0.01%	0.01%	0.09%	0.46%
- Break-even cumulative position as a percentage of turnover	0.03%	0.04%	0.05%	0.05%	0.15%	0.60%

24.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £15,523k, bears to the average relevant net assets of £382,159k, that is 4.1%.

This variation from the target of 3.5% reflects the negative indexation applied to land which has reduced the relevant net asset base.

24.3 External financing

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

	2008/09	2007/08
£000	£000	£000
External financing limit	17,761	(22,503)
Cash flow financing	12,951	(24,815)
Finance leases taken out in the year	0	0
Other capital receipts	(492)	(183)
External financing requirement	<u>12,459</u>	<u>(24,998)</u>
Undershoot	<u><u>5,302</u></u>	<u><u>2,495</u></u>

24.4 Capital Resource Limit

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

	2008/09	2007/08
	£000	£000
Gross capital expenditure	26,263	20,451
Less: book value of assets disposed of	(758)	(2,744)
Plus: loss on disposal of donated assets	209	0
Less: capital grants	0	0
Less: donations towards the acquisition of fixed assets	(492)	(183)
Charge against the capital resource limit	<u>25,222</u>	<u>17,524</u>
Capital resource limit	25,590	25,249
Underspend against the capital resource limit	<u><u>368</u></u>	<u><u>7,725</u></u>

25 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 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
NHS Purchasing and Supply Agency
NHS London

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 employed by the University of Leicester, 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 £10,651k (2007/08, £10,086k). The majority of these payments relate to the provision of services to the Trust by medical staff employed by the University of Leicester. As at 31st March 2009, a sum of £614k (2007/08, £313k) is included in creditors in respect of the University of Leicester.

The Trust received income of £2,493k (2007/08 £2,038k) from the University of Leicester. A sum of £670k (2007/08, £1.4m) is included in debtors in respect of the University of Leicester.

One of the Trust's non executive directors is a member of the Children's Hospital School Board for Trustees.

Members of the Trust Board are also Corporate Trustees for the Leicester Hospitals Charity. Leicester Hospitals Charity is an independent charity registered with the Charities Commission and in 2008/09 the Trust received donations of Capital equipment from the Charity of £492k.

Full details will be included in the Charities accounts as submitted to the Charities Commission.

26 Private Finance Transactions

26.1 PFI schemes deemed to be off-balance sheet

	2008/09 £000	2007/08 £000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet - gross	6,056	2,865
Amortisation of PFI deferred asset	(159)	(97)
Net charge to operating expenses	<u>5,897</u>	<u>2,768</u>

The Trust is committed to make the following payments during the next year.

PFI scheme which expires;		
Within one year	0	0
2nd to 5th years (inclusive)	0	0
6th to 10th years (inclusive)	0	0
11th to 15th years (inclusive)	0	0
16th to 20th years (inclusive)	6,824	5,676
21st to 25th years (inclusive)	0	0
26th to 30th years (inclusive)	0	0
31st to 35th years (inclusive)	0	0

	£000	£000
Estimated capital value of the PFI scheme	72,228	72,228
Contract Start date: - August 2007		
Contract End date: - May 2026		

Under IFRS the Managed Equipment Service contract currently treated as a PFI off balance sheet will be re-classified as a finance lease and will then become on balance sheet. The 2008/09 balance sheet will be restated to reflect this change in line with Department of Health requirements.

There is a deferred asset linked with the scheme with a balance at 31 March 2009 of £3,237k. This has been valued at Net Book Value at the date of transfer to the sheme and is charged to expenditure in equal instalments over the life of the contract.

27 Financial Instruments

Financial Reporting Standard 29 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 these 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 of 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 exposure as at 31 March 2009 are in receivables from customers, as disclosed in the debtors note.

Liquidity risk

The Trust's new operating costs are incurred under contract 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.

27.1 Financial Assets

Currency	Total £000	Floating rate £000	Fixed rate £000	Non- interest bearing £000	Fixed rate		Non-interest bearing Weighted average term Years
					Weighted average interest rate %	Weighted average period for which fixed Years	
At 31 March 2009							
Sterling	15,788	15,228	128	432	2	24	1
Other	0	0	0	0	0	0	0
Gross financial assets	15,788	15,228	128	432			
At 31 March 2008							
Sterling	27,681	27,325	356	0	0	24	1
Other	0	0	0	0	0	0	0
Gross financial assets	27,681	27,325	356	0			

27.2 Financial Liabilities

Currency	Total £000	Floating rate £000	Fixed rate £000	Non- interest bearing £000	Fixed rate		Non-interest bearing Weighted average term Years
					Weighted average interest rate %	Weighted average period for which fixed Years	
At 31 March 2009							
Sterling	(1,514)	0	0	(1,514)	0	0	0
Other	0	0	0	0	0	0	0
Gross financial liabilities	(1,514)	0	0	(1,514)			
At 31 March 2008							
Sterling	796	0	796	0	0	15	1
Other	0	0	0	0	0	0	0
Gross financial liabilities	796	0	796	0			

Note: The public dividend capital is of unlimited term and excluded from note 27.

27.3 Financial Assets

	At 'fair value through profit and loss £000	Loans and receivables £000	Available for sale £000	Total £000
Embedded derivatives	0	0	0	0
NHS debtors	0	560	0	560
Non NHS debtors	0	0	0	0
Cash at bank and in hand	0	15,228	0	15,228
Other financial assets	0	0	0	0
Total at 31 March 2009	0	15,788	0	15,788

27.4 Financial Liabilities

	At 'fair value through profit and loss £000	Other £000	Total £000
Embedded derivatives	0	0	0
NHS creditors	0	(1,514)	(1,514)
Non NHS creditors	0	0	0
Borrowings	0	0	0
Private Finance Initiative and finance lease obligations	0	0	0
Other financial liabilities	0	0	0
Total at 31 March 2009	0	(1,514)	(1,514)

The fair value of assets and liabilities equals the carrying amount in all cases.

28 Third Party Assets

The Trust held £8k cash at 31 March 2009 (£3k - at 31 March 2008) which relates to monies held on behalf of patients. This has been excluded from the cash at bank and in hand figure reported in the accounts.

29 Intra-Government and Other Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government Bodies	15,512	326	11,142	959
Balances with Local Authorities	15	0	6	0
Balances with NHS Trusts and Foundation Trusts	1,118	0	1,398	0
Balances with Public Corporations and Trading Funds	263	0	0	0
Intra Government balances	16,908	326	12,546	959
Balances with bodies external to Government	11,314	0	40,559	0
At 31 March 2009	<u>28,222</u>	<u>326</u>	<u>53,105</u>	<u>959</u>
Balances with other Central Government Bodies	11,613	466	4,558	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	0	0	1,220	0
Balances with Public Corporations and Trading Funds	0	0	0	0
Intra Government balances	11,613	466	5,778	0
Balances with bodies external to Government	14,227	0	57,380	0
At 31 March 2008	<u>25,840</u>	<u>466</u>	<u>63,158</u>	<u>0</u>

30 Losses and Special Payments

There were 504 cases of losses and special payments (2007/08: 929 cases) totalling £508,468 (2007/08: £942,681) during 2008/09.

