



annual**accounts**
2006/07

Financial Review -Year Ended 31 March 2007

Financial Position

The Trust delivered a balanced Income and Expenditure position despite severe and well publicised financial pressures in 2006/07. A combination of measures were required throughout the year , including stringent restrictions on recruitment, reductions in bank and agency staff and targeted programmes to curtail expenditure on non pay items. These necessary actions placed undoubted strains on all of our staff and I must join the Chairman in paying tribute to their commitment and professionalism throughout a difficult period.

The financial results achieved by the Trust are shown in the table below. In common with all NHS Trusts we are required to meet a number of targets set by the Department of Health.

Target	Actual Performance	
	2006/07	2005/06
To break even on income and expenditure, taking one year with another	Surplus of £355k	Surplus of £309k
To achieve a capital cost absorption rate of between 3% and 4%	Rate of 3.3%	Rate of 3.3%
To operate within an External Financing Limit set by the Department of Health	Requirement of £21,865. Undershoot of £72k	Requirement of £6,565k. Undershoot of £206k
To remain within a Capital Resource Limit set by the Department of Health	Expenditure of £43,853k. Under-spend of £3,573k	Expenditure of £31,000k. Under-spend of £1,908k
To pay 95% of invoices from non-NHS trade creditors within 30 days	93% of bills paid within target	85% of bills paid within target

Only the requirement to pay 95% of supplier invoices was missed and then by a small margin. The result for the year of 93% does represent a significant improvement over 2005/06 and demonstrates the Trust's commitment to achieving excellence in all aspects of our commercial dealings.

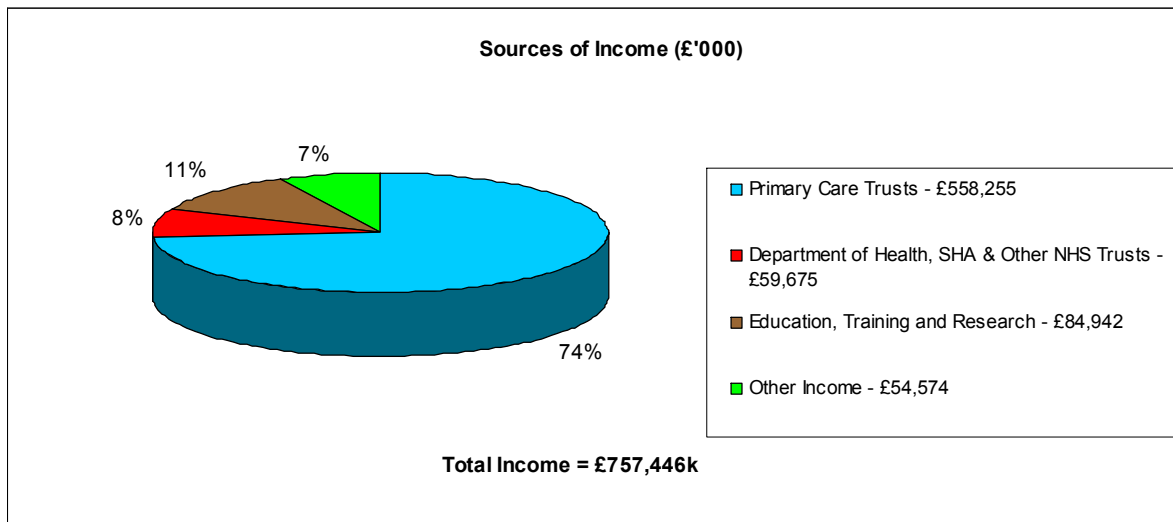
Where our money comes from

In 2006/07 the Trust received total income of £757 million, an increase on the previous year of 5%.

Most of this money is received from Primary Care Trusts (PCTs), who purchase healthcare on behalf of their local populations. The PCTs negotiate Service Agreements with the Trust, although much of the activity they pay for is at a nationally determined fixed price, or tariff, under the Payment by Results system. In 2006/07 over £558 million was received from PCTs, of which £371 million was in respect of services provided to the residents of Leeds. A further £143 million was received to treat patients from the surrounding area, reflecting the specialist nature of many of the services we provide.

Leeds Teaching Hospitals provide nationally recognised education, training and research. Funding to support these important activities amounted to £85 million last year. This amounted to 11% of all the income we received as illustrated in the chart below.

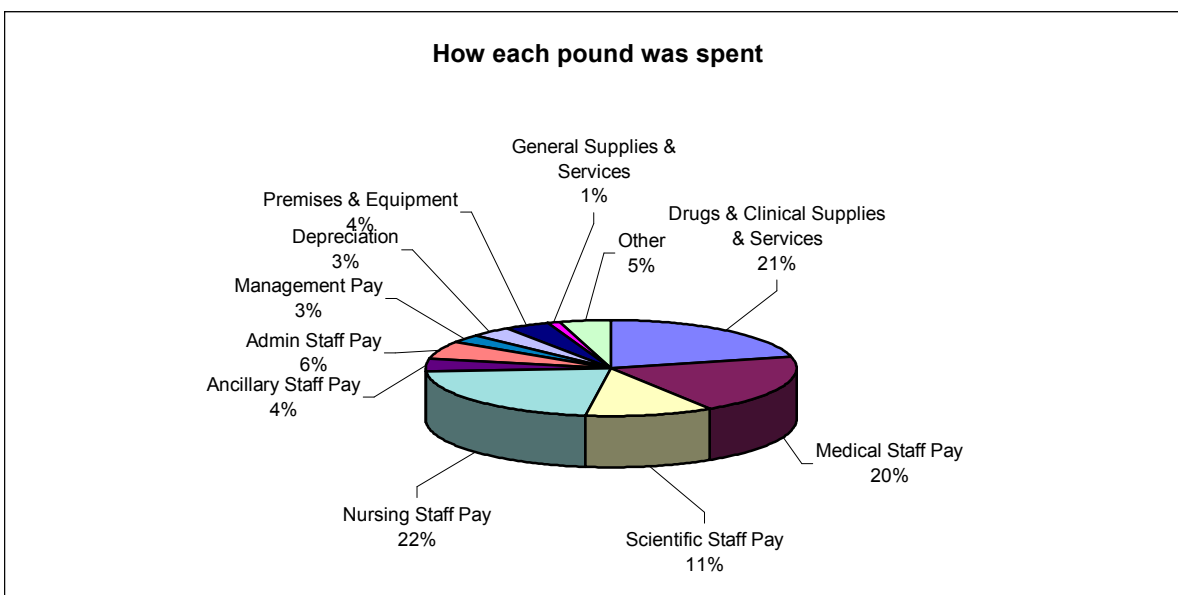
Financial Review -Year Ended 31 March 2007 (Continued)



What we spend the money on

From a total operating expenditure of £757 million, approximately £485 million, or 65%, was spent meeting salaries and wages costs. Throughout the year we employed an average of 13,700 staff, including 1,646 doctors, 6,637 nurses and healthcare assistants plus 2,509 scientific and technical staff. The recruitment restrictions introduced in 2006/07 resulted in reductions to our workforce numbers in excess of 300 full time equivalents in the last 5 months of the year. After adjusting for funded developments (Renal and New Oncology Wing) there was an overall reduction of 37 in our average number of staff when compared to 2005/06. It is particularly pleasing to note that no redundancies were required. The costs associated with employing agency staff fell by 28%. This followed a 25% fall in the previous year.

A further £157 million was spent on clinical supplies and services such as drugs and consumables used in providing healthcare to patients. Efficiency improvements across services and measures taken to reduce procurement costs have seen this figure reduce from last year's total of £168 million. The chart below identifies this expenditure as a proportion of total operating costs and gives further analysis of our payroll cost.



Financial Review -Year Ended 31 March 2007 (Continued)

Capital Investment

In 2006/07 capital expenditure, including donations, totalled £44 million, the highest level in the history of the Trust and significantly more than last year's previous record of £32.4 million. Over £23 million was spent on upgrading our buildings. A significant element of this was linked to the Trust's Acute Services Reconfiguration programme and included improving the Jubilee Wing reception area and A&E facilities at the LGI.

The programme to improve our general infrastructure and maintain safe facilities for patients and staff continued throughout the year at a cost of £6 million.

Some £15 million was spent on purchasing medical and surgical equipment. New radiology equipment, including 2 MRI scanners, accounted for £3.5 million of this with 2 linear accelerators to treat cancer patients purchased for £2.9 million. A further MRI scanner was bought for the catheter laboratories at LGI.

Investment in IT of £4 million included £1.1 million on the Picture Archiving and Communication System (PACS) to provide digital imaging in Radiology.

Construction of the PFI-financed new Oncology Wing at St James's is now well-advanced and scheduled for completion in late 2007. During the year expenditure of £2.1 million was incurred on equipment and some building related schemes.

Financial Outlook

The Trust faces a major financial challenge over the next three years and is required to save approximately 3.5% of its budget per annum. This is due to the need to meet Department of Health efficiency targets and meet the loss of income following the introduction of National Tariffs under Payments by Results (PbR). Under PbR, every trust will receive a standard price ("tariff") for the same procedures across the NHS. In common with many teaching hospitals and tertiary centres this Trust's costs are higher than the national average and need to be brought into line with those national averages to avoid future deficits.

Financial balance has been achieved in each of the last 7 years and the board is determined to implement the efficiency improvements necessary to meet our financial targets. A balanced medium-term financial plan is an essential requirement for future Foundation Trust status.

NEIL CHAPMAN
Director of Finance

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, including their responsibility for the propriety and regularity of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Accountable Officers' Memorandum issued by the Department of Health.

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.

.....Date.....Chief Executive

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury
- make judgements and estimates which are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

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

By order of the Board

.....Date.....Chief Executive

.....Date.....Director of Finance

STATEMENT ON INTERNAL CONTROL 2006/07

1 SCOPE OF RESPONSIBILITY

1.1

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

1.2 As Accountable officer I have in place processes in which I work with partner organisations including PCTs, the SHA, the Local Authority, the Patient Forum, the Department of Health and other Acute and Mental Health Trusts. Examples of these are:

- Monthly Yorkshire and Humber SHA, PCT and Chief Executives meetings
- Trust attendance at the Local Authority overview and Scrutiny Committee
- Joint working on incidents with the SHA and the NPSA
- Trust Board presence by the Patient Forum
- Leeds Reforming Emergency Care Network
- Workforce Development Confederation
- University of Leeds Joint Strategy Board

2 THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

2.1

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

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

2.2 The system of internal control has been in place in The Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3 CAPACITY TO HANDLE RISK

3.1 The Trust Board has endorsed the Trust's Risk Management Strategy which:

- sets out the organisation's attitude to risk;
- defines the structures for the management and ownership of risk and for the management of situations in which control failure leads to material realisation of risks;
- specifies the way in which risk issues are to be considered at each level of business planning ranging from the corporate process to the setting of individual staff's objectives;
- specifies how new and existing activities are assessed for risk and incorporated into risk management structures;
- ensures common understanding of terminology used in relation to risk issues;
- defines the structures for gaining assurance about the management of risk;
- defines the criteria which will inform assessment of risk and the definition of specific risks as 'key';
- defines the way in which the risk register and risk evaluation criteria will be regularly reviewed.

STATEMENT ON INTERNAL CONTROL 2006/07 (continued)

3.2 The Risk Management Strategy has been made available to all staff via senior managers and is available on the Trust's intranet. It was last reviewed and updated in March 2006. The Trust's ongoing programme of training in relation to risk assessment has been developed throughout 2006/7 to reflect the Risk Strategy and Policy.

4 THE RISK AND CONTROL FRAMEWORK

4.1 The Trust's risk management, assurance and quality matters are now embedded within the Business Planning process with Integrated Governance arrangements in place. As such, risk management, assurance and quality are now managed and scrutinised via the same arrangements as other Trust business i.e. Finance and Access, with the Quality Management Team reporting to the Trust Board via the Trust Management Board and scrutinised by the Trust Audit Committee. These arrangements mirror those set out in the Integrated Governance Handbook published in February 2006.

4.2

The structure incorporates consideration of a wide range of stakeholders including patients, public interests, service users, wider societal views, Healthcare Commission and other national priorities including NSFs, NICE and NPSA recommendations, as well as the interests of key suppliers of goods and services. These considerations are integral to the Trust's relationships with PCTs, SHAs, DoH and government ministers.

4.3 The Risk Management Strategy and Policy has the following key elements:

- provides a consistent and structured method to identify, assess, prioritise, manage and record risks at all levels of the organisation for all areas of Trust business;
- defines accountability and reporting structures and identifies how risks will be managed;
- management plans for all risks are evaluated and performance-managed within the Trust's Business Planning and Performance Management Process;
- managements plans will evaluate risks and give consideration to service delivery, financial and stakeholder issues, and assess the adequacy of controls;
- funding and management plan for significant risks is determined by the Trust Board as advised by the Trust Management Board;
- review and assurance mechanisms are embedded in the organisation by the Business Planning and Performance Management Process;
- Integrated structure contains a mechanism whereby lessons learnt can be shared across the organisation;

- the requirement for independent assurance is set out in the Trust's Assurance Framework.

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

- covers all of the organisation's main activities;
- identifies which objectives and targets the organisation is striving to achieve;
- links the short to medium term objectives to the related individual Standards for Better Health;
- identifies the risks to the achievement of objectives and targets;
- identifies and examines the system of internal control in place to manage the risks;
- identifies and examines the review and assurance mechanisms which relate to the effectiveness of the system of internal control;
- records the actions taken by the Board to address control and assurance gaps.

4.5 The Trust Assurance Framework together with our Risk Management Strategy and Policy, operating via the Integrated Governance arrangements provides an effective risk and control framework and a means to identifying gaps in control and assurance. During 2006/7 these arrangements have continued to be embedded and further improve aspects of control and assurance in clinical and non-clinical areas to address gaps as they are identified.

STATEMENT ON INTERNAL CONTROL 2006/07 (continued)

5 REVIEW OF EFFECTIVENESS

5.1

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive Directors within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by:

- The Trust's Performance Management reporting process;
- The arrangements to monitor other key controls, assurance standards and areas of potentially significant organisational risk;
- Trust wide and Maternity CNST assessments;
- The monthly Board Integrated Performance Report;
- Royal College visits;
- National Audit Office assessment of Trust services including benchmarking against a relevant peer group;
- SHA monitoring including the Assurance Framework Trust Declaration;
- External audit opinion statement;
- Assurance from other review bodies as recorded in the Trust's Assurance Register;
- External audit report;
- Healthcare Commission visits as part of the Standards for Better Health review process.

5.2 I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Trust Board, the Trust Board Audit Committee and the Trust Management Board. Systems and processes are in place to address weaknesses and ensure continuous improvement of the system is in place.

5.3 During 2006/7 revised interim committee and reporting arrangements have continued to enable risk, assurance and quality issues to be identified, managed and communicated from operational levels alongside all other Trust business through to the Trust Board as necessary. It is considered that these arrangements are now embedded throughout the organisation.

5.4 This process ensures that the Trust Board is effectively and regularly informed and engaged in reviewing internal control and risk management arrangements. These arrangements will be monitored during 2007/08 and beyond.

5.5 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 to the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations. Whilst controls within the Trust are operating satisfactorily problems with the interface between the ESR Payroll system and the Pensions Agency are known to exist.

5.6 No gaps were identified in the 2006/07 Assurance Framework by the Trust. However, it was noted that appointment to the Head of Education and Training post had been deferred until 2007/08 (due to the financial circumstances of the Trust). Additionally, the interim management arrangements had required the development and implementation of a short- term organisational development plan managed directly by the Trust Management Board, thereby deferring the production of an Organisational Development Strategy and the need to establish the People Development Board until the substantive Management arrangements and committee structures have been determined

STATEMENT ON INTERNAL CONTROL 2006/07 (continued)

- 5.7 In addition, the Head of Internal Audit has identified and recorded in Internal Audit reports concerns relating to the various control weaknesses.
- 5.8 Action plans to address these internal audit concerns have been agreed with senior managers and further details are recorded in the Internal Audit quarterly progress reports and in the Annual Report presented to the Audit Committee. During the year a new system has been introduced by Internal Audit to monitor the implementation of all agreed recommendations and report back to the Audit Committee on a regular basis.
- 5.9 The Trust has prepared its self assessment for the Core Standards for Better Health and has declared non-compliance with four of standards as follows: Hospital Acquired Infection; Decontamination; Records Management and Mandatory Training.

Signed

Chief Executive Officer

(On behalf of the Board)

Date

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

Opinion on the financial statements

We have audited the financial statements of the Leeds Teaching Hospitals NHS Trust for the year ended 31 March 2007 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out within them.

This report is made solely to the Board of Leeds Teaching Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

We review whether the directors' statement on internal control reflects compliance with the Department of Health's requirements dated 2 April 2007. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

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

Independent auditor's/auditors' report to the Directors of the Board of Leeds Teaching Hospitals NHS Trust (continued)

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2007 and of its income and expenditure for the year then ended; and

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

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

Directors' Responsibilities

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

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Trust for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Trust has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, the Leeds Teaching Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007 except that it did not put in place a medium term financial strategy that is soundly based and designed to deliver its strategic priorities.

Certificate

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

RSM ROBSON RHODES LLP
Leeds, England
31-May-07

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 MARCH 2007**

	NOTE	2006/07 £000	Restated 2005/06 £000
Income from activities	2	629,140	598,916
Other operating income	3	128,306	122,499
Operating expenses	4	<u>(743,067)</u>	<u>(708,770)</u>
OPERATING SURPLUS		14,379	12,645
Profit/(loss) on disposal of fixed assets	7	<u>88</u>	<u>(88)</u>
SURPLUS BEFORE INTEREST		14,467	12,557
Interest receivable		900	1,621
Interest payable	8	(13)	0
Other finance costs - unwinding of discount	15	(16)	(12)
Other finance costs - change in discount rate on provisions		<u>0</u>	<u>(65)</u>
SURPLUS FOR THE FINANCIAL YEAR		15,338	14,101
Public Dividend Capital dividends payable		<u>(14,983)</u>	<u>(13,792)</u>
RETAINED SURPLUS FOR THE YEAR		<u><u>355</u></u>	<u><u>309</u></u>

The notes on pages 5 to 31 form part of these financial statements.
All income and expenditure is derived from continuing operations.

BALANCE SHEET AS AT 31 MARCH 2007

		2007	Restated
	NOTE	£000	2006 £000
FIXED ASSETS			
Intangible assets	9	812	1,116
Tangible assets	10	<u>505,831</u>	<u>455,510</u>
		506,643	456,626
CURRENT ASSETS			
Stocks and work in progress	11	15,766	15,352
Debtors	12	50,206	40,492
Cash at bank and in hand	17.3	<u>2,045</u>	<u>1,973</u>
		68,017	57,817
CREDITORS: Amounts falling due within one year	14	<u>(60,382)</u>	<u>(45,361)</u>
NET CURRENT ASSETS		7,635	12,456
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>514,278</u>	<u>469,082</u>
CREDITORS: Amounts falling due after more than one year	14	(4,980)	(1,969)
PROVISIONS FOR LIABILITIES AND CHARGES	15	(9,349)	(12,644)
TOTAL ASSETS EMPLOYED		<u>499,949</u>	<u>454,469</u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	21	255,196	239,863
Revaluation reserve	16	222,497	192,187
Donated asset reserve	16	20,085	20,652
Other reserves	16	42	42
Income and expenditure reserve	16	2,129	1,725
TOTAL TAXPAYERS' EQUITY		<u>499,949</u>	<u>454,469</u>

The financial statements on pages 1 to 31 were approved by the Board on 31 May 2007 and signed on its behalf by:

Signed:(Chief Executive)

.....(Director of Finance)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 MARCH 2007**

	2006/07	2005/06
	£000	£000
Surplus for the financial year before dividend payments	15,338	14,101
Unrealised surplus on fixed asset revaluations/indexation	31,760	11,993
Increases in the donated asset due to receipt of donated assets	55	1,349
Total recognised gains and losses for the financial year	47,153	27,443
Prior year adjustment (note 1.3)	2,051	0
Total gains and losses recognised in the financial year	49,204	27,443

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	NOTE	2006/07 £000	2005/06 £000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	17.1	34,214	37,707
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		900	1,621
Interest paid		(4)	0
Net cash inflow from returns on investments and servicing of finance		896	1,621
CAPITAL EXPENDITURE			
(Payments) to acquire tangible fixed assets		(42,103)	(33,799)
Receipts from sale of tangible fixed assets		159	(4)
(Payments) to acquire intangible assets		(71)	(173)
Net cash (outflow) from capital expenditure		(42,015)	(33,976)
DIVIDENDS PAID			
Net cash (outflow) before management of liquid resources and financing		(21,888)	(8,440)
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of investments with DH		0	0
(Purchase) of other current asset investments		0	0
Sale of investments with DH		0	0
Sale of other current asset investments		0	0
Net cash inflow/(outflow) from management of liquid resources		0	0
Net cash (outflow) before financing		(21,888)	(8,440)
FINANCING			
Public dividend capital received		61,937	6,771
Public dividend capital repaid (not previously accrued)		(46,604)	0
Loans received from DH		6,604	0
Other capital receipts		23	1,875
Net cash inflow from financing		21,960	8,646
Increase in cash		72	206

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 Government 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.

1.1 Accounting Convention

These financial statements 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.

FRS5 - Reporting the Substance of Transactions, Application Note G - Revenue Recognition, requires organisations to recognise income when they obtain the right to consideration in exchange for work carried out. Due to the changing nature of commissioning the Trust has considered the reporting of transactions and the associated recognition of income in respect of treatments that were not complete at the balance sheet date. This is a change in accounting policy.

The impact has been as follows:

- additional £2,085k of income from PCTs, offset by a prior year adjustment of £2,051k
- a prior year adjustment of £2,051k to reflect the value of treatments not complete at the opening balance sheet date. This has been reflected in the restatement of the opening Income and Expenditure Reserve and NHS Debtors

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 revalued using an appropriate index figure. 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

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.

Expenditure on digital hearing aids in the year ended 31 March 2004 (but not in earlier years) was treated as capital expenditure, in accordance with the amendment to the Capital Accounting Manual issued in July 2003, giving rise to an increase in fixed assets regardless of the cost of the individual hearing aids. Subsequent purchases of digital hearing aids are capitalised only when the total value is greater than £5,000. Where small numbers of appliances are purchased the costs are expensed as incurred.

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. The buildings index is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

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.

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. Falls in value when newly constructed assets are brought into use are also charged there. 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 using the indexes as for land and buildings, as above. These assets include any existing land or buildings under the control of a contractor.

Residual interests in off-balance sheet Private Finance Initiative (PFI) properties are included in tangible fixed assets as 'assets under construction and payments on account' where the PFI contract specifies the amount, or nil value at which the assets will be transferred to the Trust at the end of the contract. The residual interest is built up, on an actuarial basis, during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected fair value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance. The District Valuer should provide an estimate of the anticipated fair value of the assets on the same basis as the District Valuer values the NHS Trust's estate.

Operational equipment other than IT equipment, which is considered to have nil inflation, is valued at net current replacement cost through annual uplift by the change in the value of the GDP deflator. 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 District Valuer. Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset.

Impairment losses resulting from short-term changes in price that are considered to be recoverable in the longer term are taken in full to the revaluation reserve. These include impairments resulting from the revaluation of fixed assets from their cost to their value in existing use when they become operational. This may lead to a negative revaluation reserve in certain instances.

Where, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income may be paid by the Trust's main commissioner using funding provided by the NHS Bank.

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

1.7 Government Grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The Government Grants Reserve is maintained at a level equal to the net book value of the assets which it has financed. 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

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 definitive 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 interest 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 15.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2006/07 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

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. 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. As a consequence it is not possible for the NHS Trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period.

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employers contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Service Authority - Pensions Division website at www.nhs.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employers' contributions are set at 14% of pensionable pay from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The Scheme is a "final salary" scheme. 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. 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.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement is payable.

Additional pension liabilities arising from early retirement are not funded by the scheme except where the retirement is due to ill-health. For early retirements 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 NHS 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.

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 26 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. Note 23.2 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). Note 28 is compiled directly from the Losses and Compensations Register which is prepared on a cash basis.

1.20 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as government granted current asset investments, 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 investment, provision and government grant reserve are valued at current market value at the balance sheet date.

1.21 Deferred Donation Reserve

The Trust has a Deferred Donation Reserve which was established to reflect donated funds for capital schemes received before the acquisition of the asset in question, and to reflect any differences between the value of fixed assets taken over by the Trust at its inception and the corresponding figure in its originating debt.

2. Income from Activities

	2006/07 £000	2005/06 £000
NHS Trusts	962	3,772
Primary Care Trusts	558,255	553,030
Foundation Trusts	897	1,146
Local Authorities	212	357
Department of Health	59,675	30,712
NHS Other	0	3
Non NHS:		
- Private patients	5,058	5,671
- Overseas patients (non-reciprocal)	1,167	206
- Road Traffic Act	1,742	2,541
- Injury cost recovery	329	0
- Other	843	1,478
	<u>629,140</u>	<u>598,916</u>

Road Traffic Act income is subject to a provision for doubtful debts of 7.7% to reflect expected rates of collection

3. Other Operating Income

	2006/07 £000	2005/06 £000
Education, training and research	84,942	84,649
Charitable and other contributions to expenditure	2,695	2,612
Transfers from donated asset reserve	2,023	1,971
Non-patient care services to other bodies	25,003	23,550
Income generation	781	509
Other income	12,862	9,208
	<u>128,306</u>	<u>122,499</u>

4. Operating Expenses

4.1 Operating Expenses comprise:

	2006/07 £000	2005/06 £000
Purchase of healthcare from non NHS bodies	800	876
Directors' costs	983	933
Staff costs	484,918	465,274
Supplies and services - clinical	156,204	152,159
Supplies and services - general	7,538	7,545
Establishment	6,354	7,613
Transport	8,746	8,281
Premises	29,646	27,605
Bad debts	1,726	1,090
Depreciation	24,501	22,062
Amortisation	375	382
Fixed asset impairments and reversals	764	0
Audit fees	235	291
Clinical negligence	8,261	7,037
Redundancy costs	1,332	0
Other	10,684	7,622
	<u><u>743,067</u></u>	<u><u>708,770</u></u>

4.2 Operating Leases

4.2/1 Operating Expenses include:

	2006/07 £000	2005/06 £000
Hire of plant and machinery	349	502
Other operating lease rentals	4,222	4,433
	<u><u>4,571</u></u>	<u><u>4,935</u></u>

4.2 Operating Leases (contd)

4.2/2 Annual commitments under non - cancellable operating leases are:

	Land and buildings		Other leases	
	2006/07 £000	2005/06 £000	2006/07 £000	2005/06 £000
Operating leases which expire:				
Within 1 year	0	0	1,189	774
Between 1 and 5 years	121	0	1,749	2,321
After 5 years	796	511	38	71
	917	511	2,976	3,166

5. Staff Costs and Numbers

5.1 Staff Costs

	Total £000	2006/07	Other £000	2005/06
		Permanently Employed £000		£000
Salaries and wages	408,845	395,234	13,611	393,632
Social Security Costs	30,876	30,876	0	29,066
Employer contributions to NHS Pension Scheme	45,913	45,913	0	43,408
Other pension costs	231	231	0	0
	485,865	472,254	13,611	466,106

Staff costs amounting to £1,643k have been capitalised in 2006/07 (2005/06 £925k).

5.2 Average number of persons employed

	Total Number	2006/07	Other Number	2005/06
		Permanently Employed Number		Number
Medical and dental	1,646	1,634	12	1,599
Administration and estates	2,512	2,436	76	2,515
Healthcare assistants and other support staff	1,437	1,409	28	1,501
Nursing, midwifery and health visiting staff	5,156	4,879	277	5,206
Nursing, midwifery and health visiting learners	44	44	0	67
Scientific, therapeutic and technical staff	2,509	2,493	16	2,464
Social care staff	28	0	28	15
Other	368	367	1	370
Total	13,700	13,262	438	13,737

5.3 Management Costs

	2006/07 £000	2005/06 £000
Management costs	27,216	21,354
Income	753,365	720,660
Management costs as % of income	3.61%	2.96%

Management costs have increased following implementation of the national Agenda for Change pay system. This has brought a greater number of existing staff within the definition of management costs. Further information may be found at:

<http://www.dh.gov.uk/en/Policyandguidance/Organisationpolicy/Financeandplanning/NHSmanagementcosts/index.htm>

5.4 Retirements due to ill-health

During 2006/07 there were 36 (2005/06, 27) early retirements from the NHS Trust on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £2,310k (2005/06 £1,216k). The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.

These retirements represent 2.43 per 1000 active scheme members (2005/06 1.89 per 1000).

6. Better Payment Practice Code

6.1 Better Payment Practice Code - measure of compliance

	2006/07	
	Number	£000
Total Non-NHS trade invoices paid in the year	173,567	241,302
Total Non NHS trade invoices paid within target	161,635	221,283
Percentage of Non-NHS trade invoices paid within target	93%	92%
Total NHS trade invoices paid in the year	7,082	59,577
Total NHS trade invoices paid within target	5,336	51,882
Percentage of NHS trade invoices paid within target	75%	87%

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.

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

	2006/07 £000	2005/06 £000
Amounts included within Interest Payable (Note 8) arising from claims made under this legislation	4	0
Compensation paid to cover debt recovery costs under this legislation	0	0

7. Profit/(Loss) on Disposal of Fixed Assets

Profit/(loss) on the disposal of fixed assets is made up as follows:

	2006/07 £000	2005/06 £000
(Loss) on disposal of intangible fixed assets	0	(3)
(Loss) on disposal of land and buildings	0	(12)
Profits on disposal of plant and equipment	88	1
(Loss) on disposal of plant and equipment	0	(74)
	<u>88</u>	<u>(88)</u>

8. Interest Payable

	2006/07 £000	2005/06 £000
Late payment of commercial debt (note 6.2)	4	0
Loans from DH	9	0
	<u>13</u>	<u>0</u>

9. Intangible Fixed Assets

	Software licences £000
Gross cost at 1 April 2006	2,131
Additions purchased	71
Gross cost at 31 March 2007	<u>2,202</u>
Amortisation at 1 April 2006	1,015
Charged during the year	375
Amortisation at 31 March 2007	<u>1,390</u>
Net book value	
- Purchased at 1 April 2006	1,084
- Donated at 1 April 2006	32
- Total at 1 April 2006	<u>1,116</u>
- Purchased at 31 March 2007	788
- Donated at 31 March 2007	24
- Total at 31 March 2007	<u>812</u>

10. Tangible Fixed Assets

10.1 Tangible Fixed Assets at the balance sheet date comprise the following elements:

	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
Cost or valuation at 1 April 2006	118,889	281,409	5,826	10,779	152,811	452	22,745	9,317	602,228
Additions purchased	0	5,609	0	17,955	15,879	0	4,399	0	43,842
Additions donated	0	0	0	44	11	0	0	0	55
Reclassifications	0	4,930	0	(4,930)	0	0	0	0	0
Indexation	6,794	22,817	472	725	4,186	33	0	266	35,293
Disposals	0	0	0	(27)	(4,340)	0	0	0	(4,367)
Cost or Valuation at 31 March 2007	125,683	314,765	6,298	24,546	168,547	485	27,144	9,583	677,051
Depreciation at 1 April 2006	0	0	0	0	120,504	440	18,651	7,123	146,718
Charged during the year	0	13,197	237	0	8,695	4	1,425	943	24,501
Impairments	0	764	0	0	0	0	0	0	764
Indexation	0	0	0	0	3,298	30	0	205	3,533
Disposals	0	0	0	0	(4,296)	0	0	0	(4,296)
Depreciation at 31 March 2007	0	13,961	237	0	128,201	474	20,076	8,271	171,220
Net book value									
- Purchased at 1 April 2006	118,889	265,853	5,826	10,743	27,396	0	4,013	2,170	434,890
- Donated at 1 April 2006	0	15,556	0	36	4,911	12	81	24	20,620
- Total at 1 April 2006	118,889	281,409	5,826	10,779	32,307	12	4,094	2,194	455,510
- Purchased at 31 March 2007	125,683	284,889	6,061	24,463	36,347	2	7,035	1,290	485,770
- Donated at 31 March 2007	0	15,915	0	83	3,999	9	33	22	20,061
- Total at 31 March 2007	125,683	300,804	6,061	24,546	40,346	11	7,068	1,312	505,831

10.2 The net book value of land, buildings and dwellings at 31 March 2007 comprises:

	31 March 2007	31 March 2006
	£000	£000
Freehold	422,408	396,356
Long leasehold	10,140	9,768
TOTAL	<u>432,548</u>	<u>406,124</u>

11. Stocks and Work in Progress

	31 March 2007	31 March 2006
	£000	£000
Raw materials and consumables	<u>15,766</u>	<u>15,352</u>

12. Debtors

	31 March 2007	Restated 31 March 2006
	£000	£000

Amounts falling due within one year:

NHS debtors	31,903	17,318
Provision for irrecoverable debts	(2,974)	(1,613)
Other prepayments and accrued income	6,627	10,605
Other debtors	<u>12,735</u>	<u>11,912</u>
Sub Total	<u>48,291</u>	<u>38,222</u>

Amounts falling due after more than one year:

Other debtors	1,915	2,270
TOTAL	<u>50,206</u>	<u>40,492</u>

There were no prepaid pension contributions at 31 March 2007 (31 March 2006 £nil).

NHS Debtors at 31 March 2006 have been restated by £2,051k as a result of the prior year adjustment made following the change of accounting policy in respect of income recognition (see note

13. Investments

The Leeds Teaching Hospitals NHS Trust did not hold any investments at 31 March 2007 (31 March 2006 £nil).

14. Creditors

14.1 Creditors at the balance sheet date are made up of:

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
Current instalments due on loans (note 14.2)	3,302	0
Interest payable	9	0
NHS creditors	4,178	3,484
Non - NHS trade creditors - revenue	9,661	8,523
Non - NHS trade creditors - capital	3,276	1,482
Tax	6,752	1,330
Social security costs	5,012	756
Other creditors	9,279	11,245
Accruals and deferred income	18,913	18,541
Sub Total	60,382	45,361
Amounts falling due after more than one year:		
Long - term loans (note 14.2)	3,302	0
Other creditors	1,678	1,969
Sub Total	4,980	1,969
TOTAL	65,362	47,330

Other creditors include £5,983k outstanding pensions contributions at 31 March 2007 (31 March 2006- £5,677k).

14.2 Loans [and other long-term financial liabilities]

	31 March 2007 £000	31 March 2006 £000
Amounts falling due:		
In one year or less (note 14.1)	3,302	0
Between one and two years (note 14.1)	3,302	0
TOTAL	6,604	0
	31 March 2007 £000	31 March 2006 £000
Wholly repayable within five years	6,604	0

14.3 Finance Lease Obligations and Commitments

The Leeds Teaching Hospitals NHS Trust has no finance lease obligations or commitments (31 March 2006 £nil).

15. Provisions for Liabilities and Charges

	Pensions relating to other staff £000	Legal claims £000	Other £000	Total £000
At 1 April 2006	3,564	341	8,739	12,644
Arising during the year	557	2,178	1,556	4,291
Utilised during the year	(328)	(285)	(6,792)	(7,405)
Reversed unused	0	0	(197)	(197)
Unwinding of discount	16	0	0	16
At 31 March 2007	<u>3,809</u>	<u>2,234</u>	<u>3,306</u>	<u>9,349</u>

Expected timing of cashflows:

Within one year	301	2,189	3,306	5,796
Between one and five years	1,204	45	0	1,249
After five years	2,304	0	0	2,304

Pensions relating to staff represent amounts payable to the NHS Business Services Authority - Pensions Division to meet the costs of early retirements and industrial injury benefits.

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

Other provisions relate to estimated pay arrears due to employees under the terms of the national Agenda for Change initiative and other staff related costs. Payments of outstanding amounts are expected to be made during 2007/08.

£40,521k is included in the provisions of the NHS Litigation Authority at 31 March 2007 in respect of clinical negligence liabilities of the Leeds Teaching Hospitals NHS Trust (31 March 2006 £32,968k).

16. Movements on Reserves

Movements on reserves in the year comprised the following:

	Revaluation Reserve £000	Donated Asset Reserve £000	Other Reserves £000	Income and Expenditure Reserve £000	Total £000
At 1 April 2006 as previously stated	192,187	20,652	42	(326)	212,555
Prior Year Adjustment	0	0	0	2,051	2,051
At 1 April 2006 as restated	192,187	20,652	42	1,725	214,606
Transfer from the Income and Expenditure Account	0	0	0	355	355
Surplus on other revaluations/indexation of fixed assets	30,359	1,401	0	0	31,760
Receipt of donated/government granted assets	0	55	0	0	55
Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets	0	(2,023)	0	0	(2,023)
Other transfers between reserves	(49)	0	0	49	0
At 31 March 2007	222,497	20,085	42	2,129	244,753

The Prior Year Adjustment is for income recognition relating to incomplete episodes of healthcare at the 31st March. This income has been included in the Trust's financial statements for the first time in 2006/07 in line with revised Department of Health guidance (see note 1.3).

17. Notes to the Cash Flow Statement

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

	2006/07 £000	2005/06 £000
Total operating surplus	14,379	12,645
Depreciation and amortisation charge	24,876	22,444
Fixed asset impairments and reversals	764	0
Transfer from donated asset reserve	(2,023)	(1,971)
(Increase)/decrease in stocks	(414)	1,214
(Increase)/decrease in debtors	(9,682)	17,752
Increase/(decrease) in creditors	9,625	(17,463)
(Decrease)/increase in provisions	(3,311)	3,086
Net cash inflow from operating activities	34,214	37,707

17.2 Reconciliation of net cash flow to movement in net debt

	2006/07 £000	2005/06 £000
Increase in cash in the year	72	206
Cash (inflow) from new debt	(6,604)	0
Change in net debt resulting from cash flows	(6,532)	206
Net debt at 1 April 2006	1,973	1,767
Net debt at 31 March 2007	(4,559)	1,973

17.3 Analysis of changes in net debt

	At 1 April 2006 £000	Other cash changes in year £000	At 31 March 2007 £000
OPG cash at bank	1,832	(186)	1,646
Commercial cash at bank and in hand	141	258	399
Loan from DH due within one year (note 14.2)	0	(3,302)	(3,302)
Loan from DH due after one year (note 14.2)	0	(3,302)	(3,302)
	1,973	(6,532)	(4,559)

18. Capital Commitments

Commitments under capital expenditure contracts at 31 March 2007 were £14,015k (31 March 2006 £15,126k).

19. Post Balance Sheet Events

There were no post balance sheet events having a material effect on the accounts.

20. Contingencies

	2006/07	2005/06
	£000	£000
Contingent liabilities	(2,151)	(721)
Amounts recoverable against contingent liabilities	132	163
Net value of contingent liabilities	<u>(2,019)</u>	<u>(558)</u>

The contingent liabilities figure of £2,151k includes an amount of £2,001k which may be payable by the Trust in future settlement of personal injury and other legal claims. The remaining value of £150k, including recoverable amounts, relates to cases managed on the Trust's behalf by the NHS Litigation Authority as part of the Property Expenses Scheme. Settlement of these cases is uncertain, as are the amounts and timing of any payments. The level of uncertainty is too great to allow inclusion of these cases as chargeable expenses in the accounts. Other cases of the types described above are included in the Trust's provisions for liabilities and charges (see note 15).

21. Movement in Public Dividend Capital

	2006/07	2005/06
	£000	£000
Public Dividend Capital as at 1 April 2006	239,863	233,092
New Public Dividend Capital received	61,937	6,771
Public Dividend Capital repaid in year	(46,604)	0
Public Dividend Capital as at 31 March 2007	<u>255,196</u>	<u>239,863</u>

22. Financial Performance Targets

22.1 Breakeven Performance

The Trust's breakeven performance for 2006/07 is as follows:

	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Turnover	432,071	455,627	504,292	550,749	596,678	627,148	677,981	721,415	757,446
Retained surplus/(deficit) for the year	(5,800)	(4,132)	36	0	3,473	(309)	178	309	355
Adjustment for:									
- Timing/non-cash impacting distortions									
- Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	0	0	26	50	0	0	0	0	0
- 1999/2000 Prior Period Adjustment (relating to 1997/98 and 1998/99)	4,067	0	0	0	0	0	0	0	0
- 2000/01 Prior Period Adjustment (relating to 1997/98 to 1999/2000)	0	0	0	0	0	0	0	0	0
- 2001/02 Prior Period Adjustment (relating to 1997/98 to 2000/01)	0	0	0	0	0	0	0	0	0
- 2002/03 Prior Period adjustment (relating to 1997/98 to 2001/02)	0	0	0	0	0	0	0	0	0
- 2003/04 Prior Period Adjustment (relating to 1997/98 to 2003/03)	0	0	0	0	0	0	0	0	0
- 2004/05 Prior Period Adjustment (relating to 1997/98 to 2003/04)	0	0	0	0	0	0	0	0	0
- 2005/06 Prior Period Adjustment (relating to 1997/98 to 2004/05)	0	0	0	0	0	0	0	0	0
- 2006/07 Prior Period Adjustment (relating to 1997/98 to 2005/06)	0	0	0	0	0	0	0	2,051	0
- Other agreed adjustments	0	0	0	0	0	0	0	0	0
Break-even in-year position	(1,733)	(4,132)	62	50	3,473	(309)	178	2,360	355
Break-even cumulative position	(1,733)	(5,865)	(5,803)	(5,753)	(2,280)	(2,589)	(2,411)	(51)	304
Materiality test (i.e. is it equal to or less than 0.5%):									
- Break-even in-year position as a percentage of turnover	(0.40%)	(0.91%)	0.01%	0.01%	0.58%	(0.05%)	0.03%	0.33%	0.05%
- Break-even cumulative position as a percentage of turnover	(0.40%)	(1.29%)	(1.15%)	(1.04%)	(0.38%)	(0.41%)	(0.36%)	(0.01%)	0.04%

22.2 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 £14,983k, bears to the average relevant net assets of £455,102k, that is 3.3%.

The Capital Cost Absorption rate of 3.3% falls within the Department of Health's materiality threshold of 3.0% to 4.0%.

22.3 External Financing

The Trust is given an External Financing Limit which it is not permitted to overshoot.

	2006/07	2005/06
	£000	£000
External Financing Limit	21,937	6,771
Cash flow financing	21,888	8,440
Other capital receipts	<u>(23)</u>	<u>(1,875)</u>
External financing requirement	<u>21,865</u>	<u>6,565</u>
Undershoot against the External Financing Limit	<u><u>72</u></u>	<u><u>206</u></u>

22.4 Capital Resource Limit

The Trust is given a Capital Resource Limit which it is not permitted to overspend

	2006/07	2005/06
	£000	£000
Gross capital expenditure	43,968	32,420
Less: book value of assets disposed of	(71)	(84)
Plus: loss on disposal of donated assets	11	13
Less: donations towards the acquisition of fixed assets	<u>(55)</u>	<u>(1,349)</u>
Charge against the capital resource limit	43,853	31,000
Capital Resource Limit	47,426	32,908
Underspend against the Capital Resource Limit	<u><u>3,573</u></u>	<u><u>1,908</u></u>

23. Related Party Transactions

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

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

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

Leeds PCT
Wakefield PCT
Bradford and Airedale PCT
Kirklees PCT
Calderdale PCT
North Yorkshire and York PCT
Yorkshire and Humber Strategic Health Authority
NHS Business Services Authority
NHS Litigation Authority;
NHS Purchasing and Supply Agency;

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

The Trust has also received revenue and capital payments from a number of charitable funds, including The Leeds Teaching Hospitals Charitable Foundation. Mr M.H. Buckley, the Chairman of the Trust, served as a Trustee of the Foundation until the 13th of February 2007. The audited accounts of The Leeds Teaching Hospitals Charitable Foundation are published separately and may be obtained from:

The Leeds Teaching Hospitals Charitable Foundation
Trustees Office
The General Infirmary at Leeds
Great George Street
Leeds
LS1 3EX

24. Private Finance Transactions

24.1 PFI schemes deemed to be off-balance sheet

	2006/07	2005/06
	£000	£000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet - gross	2,749	2,685
Net charge to operating expenses	<u>2,749</u>	<u>2,685</u>

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

PFI scheme which expires;		
2nd to 5th years (inclusive)	361	330
6th to 10th years (inclusive)	974	1,023
26th to 30th years (inclusive)	1,464	1,430
31st to 35th years (inclusive)	6,700	0

The schemes are	Contract Start Date	Contract End Date
St James's Combined Heat and Power Plant	Jun 1995	Jun 2010
LGI Power station Scheme	Dec 1991	Dec 2016
Wharfedale General Hospital	Oct 2004	Oct 2034
St James's New Oncology Wing	Dec 2007	Dec 2037

These schemes have a capital value of £245,100k

25 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Trust has with local 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 the listed companies to which FRS 13 mainly applies. 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.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures other than the currency profile. Provisions are shown gross. Any amount expected in reimbursement against a provision (and included in debtors) is separately disclosed.

Liquidity risk

The NHS Trust's net operating costs are incurred under annual service agreements with local Primary Care Trusts, which are financed from resources voted annually by Parliament. The Trust also largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. The Leeds Teaching Hospitals NHS Trust is not, therefore, exposed to significant liquidity risks.

Interest-Rate Risk

19.5% of the Trust's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The Leeds Teaching Hospitals NHS Trust is not exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities:

25.1 Financial Assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling	2,045	1,646	0	399	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	2,045	1,646	0	399			
At 31 March 2006							
Sterling	1,973	1,832	0	141	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	1,973	1,832	0	141			

25.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling - Loan from DH	(6,604)	0	(6,604)	0	5.55%	2	0
Sterling - Others	(260,755)	0	(3,809)	(256,946)	2.20%	0	0
Gross financial liabilities	(267,359)	0	(10,413)	(256,946)			
At 31 March 2006							
Sterling - Loan from DH	0	0	0	0	0.00%	0	0
Sterling - Others	(243,768)	0	(3,905)	(239,863)	2.20%	0	0
Gross financial liabilities	(243,768)	0	(3,905)	(239,863)			

Note: The public dividend capital is of unlimited term.

Foreign Currency Risk

The Trust has negligible foreign currency expenditure.

25.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the NHS Trust's financial assets and liabilities as at 31 March 2007.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	2,045	2,045	
Total	<u>2,045</u>	<u>2,045</u>	
Financial liabilities			
Provisions under contract	(5,559)	(5,559)	Note a
Loans	(6,604)	(6,604)	
Public dividend capital	(255,196)	(255,196)	Note b
Total	<u>(267,359)</u>	<u>(267,359)</u>	

Notes

a Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.

b The figure here should be the full value of PDC in the balance sheet and 'book value' should equal 'fair value'.

26 Third Party Assets

The Trust held £7k cash at bank and in hand at 31 March 2007 (£11k - at 31 March 2006) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

27 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	20,555	0	23,396	3,302
Balances with Local Authorities	344	0	0	0
Balances with NHS Trusts and Foundation Trusts	12,355	0	989	0
Balances with Public Corporations and Trading Funds	39	0	851	0
Balances with bodies external to government	14,998	1,915	35,146	1,678
At 31 March 2007	<u>48,291</u>	<u>1,915</u>	<u>60,382</u>	<u>4,980</u>
Balances with other Central Government Bodies	11,908	0	9,377	0
Balances with Local Authorities	437	0	0	0
Balances with NHS Trusts and Foundation Trusts	5,379	0	1,135	0
Balances with Public Corporations and Trading Funds	109	0	735	0
Balances with bodies external to government	20,389	2,270	34,114	1,969
At 31 March 2006	<u>38,222</u>	<u>2,270</u>	<u>45,361</u>	<u>1,969</u>

28 Losses and Special Payments

There were 413 cases of losses and special payments (2005/06: 2,140 cases) totalling £373,860 (2005/06: £657,694) paid during 2006/07.

None of these cases exceeded £250,000

Note: The total costs included in this note are on a cash basis and will not reconcile to the amounts in the notes to the accounts which are prepared on an accruals basis.