NOTES TO THE ACCOUNTS

1. Accounting Policies

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

1.1 Accounting convention

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

1.2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Trust's accounting policies, the management of the Trust is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates and the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.2.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 1.2.2) that management has made in the process of applying the Trust's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The classification of leases into finance or operating leases is judgemental, as disclosed in Note 1.12. The impact of the classification of leases as finance leases is disclosed in Note 27 (Finance lease obligations).

The recognition criteria for provisions does require critical judgements to be made. Provisions are disclosed in Note 29.

1.2.2 Key sources of estimation uncertainty

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

i. The Trust holds a significant asset base and any variation in the useful economic lives of the asset base will have an impact on both the balance sheet and the in-year financial position of the Trust. During the previous financial year the Trust amended the useful economic lives of its buildings as a result of a full revaluation of the Trust's estate. There have been no significant revisions to the estimated lives of assets during the current financial year. Depreciation and amortisation charged during the year, including on donated assets, was £8,714,000 (2009/10: £9,299,000).

ii. Impairments are recognised where management believe that there is an indication of impairment (through, for example, obsolescence). They are recognised where the carrying amount of an asset exceeds its recoverable amount. Significant assets to the Trust are reviewed for impairment as they are brought into operational use. During the previous financial year, additional impairments were recognised as part of the Trust's estate revaluation. The value of impairments charged to the Statement of Comprehensive Income is disclosed in Note 18 (Impairments).

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

iii. The valuation of the Trust's estate is based on reports from a Chartered Surveyor on a five-year rolling basis, supplemented by indices provided by the Surveyor in the intervening period. The net book value of the Trust's land, buildings and dwellings as at 31 March 2011 was £132,265,000 (31 March 2010: £127,113,000).

iv. To determine the recoverable amount from an asset, estimates are made on the expected future cash flow benefits which are expected to accrue. The future cash flow benefits and applicable discount rates used are based on estimates, and has an impact on the impairment recognised. Impairments have been disclosed in Note 18.

v. Income is recognised as it is earned. Consequently, income has been accrued for those patients for whom their treatment is part-completed at the year-end (see Note 1.3). The income relating to these patients at the balance sheet date is based on management estimates and is subject to uncertainty. The value of part-completed spell income at 31 March 2011 was £2,056,586 (31 March 2010 £2,366,604).

vi. In estimating net realisable value of inventories, management takes into account the most reliable evidence available at the year-end. Inventories are valued at the lower of cost or net realisable value and are disclosed in Note 20.

vii. The Trust holds a number of provisions where the actual outcome may vary from the amount recognised in the financial statements. Provisions are based on the most reliable evidence available at the year-end. Details surrounding provisions held at the year-end are included in Note 29. Uncertainties and issues arising from provisions and contingent liabilities are assessed and reported in the same note.

viii. The Trust has a number of agreements in place to provide services over more than one year (for example, contracts relating to research and development). These are reviewed for profitability at each balance sheet date, but the assessment of future costs to complete are subject to uncertainty. The revenue recognised in the year reflected management's judgement about each agreement's outcome and stage of completion. Income which has been deferred to future periods relating to these contracts at 31 March 2011 amounted to £827,000 (31 March 2010: £796,000).

ix. Events which occur after the balance sheet date can have a material impact on the Trust's balance sheet. Where the event should reasonably have been foreseen at the balance sheet date, the impact has been included in the financial statements. If this is not the case, the impact has been included as a narrative disclosure.

1.3 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are apportioned across the financial years on the basis of costs incurred to date compared to total expected costs.

Where income is received for a specific activity that is to be delivered in the following year, that income is deferred.

The Trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer. The Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

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

1.4 Employee Benefits

1.4.1 Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. The cost of leave or bonuses earned but not taken by, or paid to, employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

1.4.2 Retirement benefit costs

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

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

1.5 Other expenses

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

1.6 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

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

Valuation

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

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

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

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

The Trust has adopted HM Treasury's preferred approach to depreciated replacement cost valuations based on modern equivalent assets. Note 16 includes details on the effects of this.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss where a specific event may have occurred. Cost includes professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by International Accounting Standard 23 (Borrowing Costs) for assets held at fair value. Assets are revalued and depreciation commences when they are brought into use.

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

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

Subsequent expenditure
Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

1.7 Intangible assets

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

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

- the technical feasibility of completing the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use it;
- the ability to sell or use the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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

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

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

1.8 Depreciation, amortisation and impairments

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

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

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

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

1.9 Donated assets

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

1.10 Government grants

Government grants are grants from government bodies other than revenue from NHS bodies for the provision of services. Revenue grants are treated as deferred income initially and credited to income to match the expenditure to which they relate.

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

1.11 Non-current assets held for sale

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

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

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

1.12 Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases. The Trust is a lessee of assets held under finance and operating leases, but is a lessor of only assets held under operating leases.

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

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

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

The Trust as lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

1.13 Inventories

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

1.14 Cash and cash equivalents

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

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

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

1.15 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rate of 2.2% in real terms. Where a provision relates to a retirement benefit, the pensions discount rate of 2.9% has been used. Prior to 1 April 2010 the Trust applied the general discount rate of 2.2% when pensions rate applicable at the time was 1.8%. This change represents a change in accounting policy, but the prior year comparative figures have not been restated as the impact is immaterial.

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

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

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

1.16 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at Note 29 (Provisions).

1.17 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.

1.18 EU Emissions Trading Scheme

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

During 2007/08, the Trust became aware that it would not receive its full requirement of allowances. Consequently, a provision was made to recognise the additional costs to the Trust over the duration of the scheme. In 2008/09 the Trust acquired on the open market the additional allowances which were estimated to be required for the scheme. The value of these investments is matched to the related provision for future years and has been included on the Statement of Financial Position at the market value at 31 March 2011. This has managed the risk of exposure to the future market value of the allowances.

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

1.19 Contingencies

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

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

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

1.20 Financial assets

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

Financial assets are initially recognised at fair value.

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

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

The Trust's European Union Emissions Scheme allowances are held as financial assets at fair value. The value is ascertained through the market at each transaction and reporting date.

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.

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

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

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

1.21 Financial liabilities

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

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

Other financial liabilities

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

1.22 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.

1.23 Foreign currencies

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

1.24 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 39 to the accounts.

1.25 Public Dividend Capital (PDC) and PDC dividend

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

An annual charge, reflecting the cost of capital utilised by the Trust, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury of 3.5% (2009/10: 3.5%) on the average carrying amount of all assets less liabilities, except for donated assets and cash balances with the Government Banking Service. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

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

1.26 Losses and Special Payments

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

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

1.27 Subsidiaries

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

1.28 Research and Development

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

1.29 Accounting policies not adopted

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

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

2. Operating segments

The Trust's Chief Decision Maker has been defined as the Trust Board, and is responsible for allocating the resources across the Trust. The Trust Board receives information on the Trust activities as a whole, as one operating segment. The Trust has therefore determined that there is only one segment, that of providing acute healthcare.

As a result the segmental analysis is as stated in the Statement of Comprehensive Income and Statement of Financial Position.

3. Income generating activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. None of the Trust's income generating activities exceeds £1m in turnover or is otherwise material.

4. Revenue from patient care activities

	2010/11 £000	2009/10 £000
NHS Trusts	**226**	337
Primary Care Trusts	**192,459**	197,560
Department of Health	**41**	212
Foundation Trusts	**427**	488
Local Authorities	**95**	137
Non-NHS:		
Private patients	**1,864**	2,191
Overseas patients (non-reciprocal)	**55**	63
Injury costs recovery	**655**	895
Other	**199**	246
	196,021	**202,129**

Injury cost recovery income is subject to a provision for impairment of receivables of 9.6% (2009/10: 7.8%) to reflect expected rates of collection.

5. Other Operating Revenue

	2010/11 £000	2009/10 £000 (Restated)
Education, training and research	**8,611**	10,427
Charitable and other contributions to expenditure	**1,150**	1,262
Transfers from Donated Asset Reserve	**754**	1,127
Transfers from Government Grant Reserve	**21**	17
Non-patient care services to other bodies	**878**	592
Income generation	**3,565**	3,236
Rental revenue	**459**	445
Other revenue	**4,902**	4,913
	20,340	22,019

Operating expenses (Note 7), Employment costs (Note 9.1) and Other Operating Revenue for 2009/10 have been restated to recognise expenditure incurred by the Trust on behalf of the Royal United Hospital Charitable Fund and the reimbursement of that expenditure by the Charity.

6. Revenue

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

7. Operating Expenses

	2010/11 £000	2009/10 £000 (Restated)
Services from other NHS Trusts	**440**	481
Services from NHS Primary Care Trusts	**1,598**	1,697
Services from other NHS bodies	**2,028**	2,038
Services from NHS Foundation Trusts	**286**	374
Purchase of healthcare from non NHS bodies	**411**	1,295
Trust Chairman and Other Non-Executive Directors	**44**	50
Other Employee Benefits	**136,210**	137,862
Supplies and services - clinical	**36,481**	36,331
Supplies and services - general	**3,722**	3,871
Consultancy services	**863**	1,139
Establishment	**1,605**	1,883
Transport	**1,354**	1,779
Premises	**6,969**	7,647
Provision for impairment of receivables	**101**	73
Inventories write-offs	**56**	97
Depreciation	**8,563**	9,224
Amortisation	**185**	75
Impairments and reversals of property, plant and equipment	**52**	4,402
Audit fees	**182**	179
Other auditors' remuneration	**0**	0
Clinical negligence insurance premium	**4,373**	3,938
Research and development (excluding staff costs)	**63**	338
Education and Training	**527**	441
Other	**723**	1,363
	206,836	216,577

Prior year balances have been restated to reflect a requirement to disclose the salaries of the Trust Chairman and Other Non-Executive Directors. This replaces the requirement in 2009/10 to disclose the salaries of all Trust Directors.

Operating expenses and Other Operating Income (Note 5) for 2009/10 have been restated to recognise expenditure incurred by the Trust on behalf of the Royal United Hospital Charitable Fund and the reimbursement of that expenditure by the Charity.

8. Operating leases

8.1 As lessee

The Trust enters into a number of lease agreements as part of its operating activities. There are no leases which are individually material to the Trust.

Payments recognised as an expense	2010/11 £000	2009/10 £000
Minimum lease payments	**249**	231
	249	231

No balances were payable in respect of contingent rent or subleases (2009/10: nil).

Total future minimum lease payments	2010/11 Land £000	2010/11 Other £000	2010/11 Total £000	2009/10 Total £000
Payable:				
Not later than one year	**3**	**189**	**192**	158
Between one and five years	**0**	**673**	**673**	6
After 5 years	**0**	**0**	**0**	0
Total	**3**	**862**	**865**	164

The Trust does not lease any buildings (2009/10: none). Other leases mainly comprise of plant and machinery. There are no future contingent rentals or sublease payments which the Trust expected to make (2009/10: nil).

8.2 As lessor

The Trust is a lessor for accommodation on short term arrangements. All arrangements are for a period of less than one year.

Rental Revenue	2010/11 £000	2009/10 £000
Rental Revenue	459	445
Total rental revenue	459	445

Rental revenue contains no contingent rentals.

Total future minimum lease payments	2010/11 £000	2009/10 £000
Receivable:		
Not later than one year	38	37
Total	38	37

Rent is charged on a rolling monthly basis. Therefore the commitment receivable into 2011/12 represents one month of lease payments.

9. Employee costs and numbers

9.1 Employee costs

	2010/11 Total	2010/11 Permanently Employed	2010/11 Other	2009/10 Total (Restated)	2009/10 Permanently Employed (Restated)	2009/10 Other
	£000	£000	£000	£000	£000	£000
Salaries and wages	115,080	108,947	6,133	116,382	109,181	7,201
Social Security Costs	8,597	8,213	384	9,273	8,893	380
Employer contributions to NHS Pension scheme	12,923	12,605	318	12,611	12,296	315
Termination benefits	49	49	0	186	186	0
Employee benefits expense	136,649	129,814	6,835	138,452	130,556	7,896
Of the total above:						
Charged to capital expenditure	439			590		
Charged to earnings	136,210			137,862		
Trust Chairman and Other Non-Executive Director	44			50		
Other employee benefits	136,210			137,862		
Total employee costs charged to earnings	136,254			137,912		

Comparative information for 2009/10 has been restated to reflect the additional disclosure required to recognise termination benefits. This amendment has not changed the gross employee costs for the Trust. A restatement has also been made to recognise recognise expenditure incurred by the Trust on behalf of the Royal United Hospital Charitable Fund and the reimbursement of that expenditure by the Charity.

9.2 Average number of people employed

	2010/11 Total	2010/11 Permanently Employed	2010/11 Other	2009/10 Total	2009/10 Permanently Employed	2009/10 Other
	Number	Number	Number	Number	Number	Number
Medical and dental	452	442	10	443	437	6
Administration and estates	935	903	32	991	937	54
Healthcare assistants and other support staff	360	360	0	395	395	0
Nursing, midwifery and health visiting staff	1,055	925	130	1,055	935	120
Scientific, therapeutic and technical staff	548	545	3	564	555	9
Other	89	89	0	80	80	0
Total	3,439	3,264	175	3,528	3,339	189
Of the above:						
Number of whole time equivalent staff engaged on capital projects	11			15		

9.3 Exit packages

2010/11 Salary banding	Compulsory redundancies Number	Compulsory redundancies Cost £'000	Other departures Number	Other departures Cost £'000	Total exit packages Number	Total exit packages Cost £'000
Less than £20,001	0	0	11	49	11	49
Between £20,001 and £40,000	0	0	0	0	0	0
Between £40,001 and £100,000	0	0	0	0	0	0
Between £100,001 and £150,000	0	0	0	0	0	0
Between £150,001 and £200,000	0	0	0	0	0	0
Greater than £200,000	0	0	0	0	0	0
Total	0	0	11	49	11	49
2009/10						
Less than £20,001	2	18	10	21	12	39
Between £20,001 and £40,000	0	0	0	0	0	0
Between £40,001 and £100,000	0	0	0	0	0	0
Between £100,001 and £150,000	1	146	0	0	1	146
Between £150,001 and £200,000	0	0	0	0	0	0
Greater than £200,000	0	0	0	0	0	0
Total	3	164	10	21	13	185

No exit packages involved making any special payments as defined by the NHS Manual for Accounts (2009/10: nil).