North Cumbria University Hospitals NHS Trust

ANNUAL ACCOUNTS

2009/10

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

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

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;

- value for money is achieved from the resources available to the trust;

- the expenditure and income of the trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;

- effective and sound financial management systems are in place; and

- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

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

Signed........Carole Heatly........Chief Executive

Date 7/6/10

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, recognised gains and losses and cash flows for the year. In preparing those accounts, directors are required to:

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;

- make judgements and estimates which are reasonable and prudent;

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

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

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

By order of the Board

7th JUNE '10 ....Date....Carole Heatley....Chief Executive

7/6/10 ....Date....[signature]....Finance Director

STATEMENT ON INTERNAL CONTROL FOR THE YEAR ENDED 31 MARCH 2010

1. SCOPE OF RESPONSIBILITY

The Trust Board has full accountability and responsibility for internal control. As Accountable Officer and Chief Executive, I have responsibility for maintaining a sound system of internal control that supports the organisation's policies, aims and objectives. I have responsibility for safeguarding public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum. In addition to this I have responsibility for ensuring our system for internal control supports the safety and quality of care given to patients.

The Trust recognises the importance of working in partnership and collaboration with members of the public and key stakeholders on the development of the organisation's services and the delivery of the key strategic objectives. Engagement with key stakeholders and groups throughout the year has included:

- Regular meetings with the Chief Executive and Executive Directors of NHS North West and NHS Cumbria
- Regular meetings with Cumbria Partnership NHS Foundation Trust
- Meetings and regular dialogue with the Overview and Scrutiny Committee and supporting task/working groups
- Developing our relationships with Local Involvement Networks
- Weekly Director team meetings
- Stakeholder group meetings on the new hospital development at Whitehaven
- Patient Panel meetings
- Regular meetings with the Trust Partnership Forum involving representatives of all trade unions
- Monthly meetings with the Trust Management Committee to discuss the impact of service developments on key stakeholders

In addition to this, specific engagement with key external stakeholders has taken place throughout the year on the development of the new hospital in Whitehaven, which will continue during 2010/11 as the project develops.

The lead commissioner for the Trust is NHS Cumbria. The Trust has engaged and aligned its key business and service development strategies to those set out by NHS Cumbria in its strategic plan, and has continued to implement the vision set out in Closer to Home. Engagement on the potential impact of future commissioning intentions and the sustainability of secondary care services in north Cumbria continues to be developed and discussed on a regular basis with key officers.

Arrangements to work more collaboratively with the other main acute provider in Cumbria, University Hospitals of Morecambe Bay NHS Trust, have also been developed during 2009/10.

The engagement of key stakeholders in the delivery of the organisation's objectives also allows for key business risks to be discussed and reviewed in terms of mitigating actions, within and across organisational boundaries.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It therefore provides reasonable and not absolute assurances 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.

I can confirm that the system of internal control has been in place in North Cumbria University Hospitals NHS Trust for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts.

3. CAPACITY TO HANDLE RISK

The Trust has a Risk Management Strategy, which is reviewed and approved annually by the Trust Board. As Accountable Officer, I have overall responsibility for the management of risk across the organisation in conjunction with the lead Executive Director for risk management, the Director of Nursing, Quality and Governance. In addition each Executive Director has a clear objective to ensure they adopt a system of robust risk management within their defined area of responsibility.

The Trust has a Governance Committee, which supports the Trust Board in ensuring the principles of sound governance are adopted across the organisation. The Governance Committee is supported by a range of sub committees and groups, including the Risk Management Assurance Committee. This committee reviews the risks arising within the organisation, monitors the risk register and ensures appropriate action plans to mitigate risks are implemented.

The Audit Committee ensures the Trust's Internal Audit activity supports the system of internal control by identifying current standards and practices in clinical and non clinical areas. The Audit Committee scrutinises the overall framework for risk to ensure the necessary controls and related assurance underpin the delivery of the organisation's objectives.

The Trust places high importance upon the identification, deterrence and detection of fraud issues within the NHS. The Trust's LCFS work plan is structured around the seven domains as highlighted within the Secretary of State Directions. In addition to proactive activities, the Trust supplements this work programme with additional resource for investigative activities.

All activities, both planned and investigative, are reported to and discussed within the Trust's Audit Committee to ensure planned activities are delivered in supporting organisational objectives and investigative activities are appropriately investigated and concluded in a timely way to minimise potential future risks within the Trust's systems of internal control.

Through the Trust Board, Audit Committee, Governance Committee, Risk Management Assurance Committee and the four Divisional Management Boards, I am assured effective leadership for Risk Management is provided and that the Strategic Objectives for Risk

Management are embedded in the organisation. This will continue to be developed during 2010/11 as the Trust makes further improvements to its governance and risk management arrangements.

The Trust has four clinical divisions that have clearly defined responsibilities for the operational management of risk and are supported by a dedicated Governance Facilitator. The Divisional Governance Facilitators ensure support and leadership for the effective operational management of risk exists within clinical areas.

Each Division has a number of Business Units (clinical wards and departments) that provide assurance to the respective Divisional Management Boards on the following items in relation to operational risk management:

- Investigation and lessons learned from untoward incidents and near misses
- Identification and assessment of risks, including supporting action plans
- Information on complaints, trends and action plans
- Standards of clinical practice and appropriate benchmarks

Development of the linkages between strategic and operational activities across the four divisions continues to be embedded, to ensure that robust performance management and governance arrangements are in place from all areas in the organisation through to the Trust Board. The delivery of the Divisional objectives including management of risk is monitored through the Trust's performance management and governance frameworks.

During the year improvements to the Divisional reporting arrangements on key governance issues, including Divisional risks were made. The Divisional reports are reviewed in detail by the Governance Committee to ensure a joined up approach to key safety and risk issues across the Trust as well as providing the opportunity to share good practice and learn lessons across the Divisions. The Divisional reports continue to be reviewed with the new Divisional Governance Facilitators as well as reviewing quality and safety information in preparation for the introduction of the Trust's Quality Account in June 2010.

The depth of reporting on mortality, including the use of clinical benchmarking tools, such as CHKS, has been improved across the Divisions to allow greater understanding at clinical specialty level of the standards of care provided, in relation to other comparable organisations.

The introduction of Mortality and Morbidity meetings across the Divisions has commenced and will continue to be developed during 2010.

Risk management, risk assessment and incident reporting are included in the core induction programme and handbook for all new employees. Training on risk management is included in the Trust's annual mandatory training programme. Additional training on specific aspects of risk management is provided. Details of attendance at all training sessions is maintained.

The Trust has robust policies and procedures in place for the management of risks and incidents, which are monitored in terms of their implementation by the Governance Department and individual Divisional Business Units.

The Trust has an effective system for monitoring the implementation of best practice and ensuring lessons are learnt from key safety alerts. This includes:

- Learning lessons from serious untoward incidents and conducting robust root cause analysis
- Conducting gap analysis and internal reviews following national inquiry reports
- Reviewing the clinical effectiveness and benchmarks through the Trust's Clinical Policy Group

The Trust has developed its performance reporting to the Board to ensure joined up information on quality, workforce and finance as well as delivery against key national and local indicators, to allow the Board to create a joined up approach in assessing the key performance risks. The performance reporting will continue to be reviewed and developed in accordance with best practice.

4. THE RISK AND CONTROL FRAMEWORK

The Trust's strategy sets out the Trust's overall framework for the management of risk. It supports the delivery of safe care for patients and staff and is disseminated with associated policies and procedures for all staff to use.

The Risk Management Strategy defines the structures for the management and ownership of risks and specifies how new and existing activities, including key projects, are assessed in terms of initial and residual risk.

Risks within the organisation are identified through a variety of routes and at various levels. All risks are reported through the Governance and Risk Management Department, to ensure adequate reporting and assessment of risk.

The aims of the Risk Management Strategy are to allow for the assessment and identification of risk at all levels. Risks are assessed using a 'five-by-five' matrix in terms of likelihood and consequence, in relation to financial value, quality of care, impact on service delivery and wider organisation, including stakeholders. The Trust will be moving towards implementation of the National Patient Safety Agency matrix from 1 April 2010. The process followed within the Trust for assessment of risks is as follows:

- Identify the context
- Identify and analysing the risk(s)
- Consider the controls that operate to reduce/monitor the risk
- Consider the consequence of the risk and ascribe a consequence score
- Consider the likelihood of the risk occurring and ascribe a likelihood score
- From these scores determine a risk score (consequence x likelihood)
- Develop a treatment plan dependent on the risk score
- Monitor the risk (if low risk) or the effectiveness of the treatment plan (if a moderate, high or extreme risk).

The Trust has in place a Risk Register which consists of individual division/department risks. The key divisional risks are reviewed at the Divisional Management Board, with high scoring risks reviewed at the Risk Management Assurance Committee.

Risk Registers for the delivery of strategic objectives have been developed and are aligned to the overall risks set out in the Trust's assurance framework, these have included:

- Risk register for the new West Cumberland Hospital Project
- Risk register for the achievement of Foundation Trust status

The development of the Divisional risk registers will continue to be progressed during 2010/11 as part of the embedding of Divisional Governance standards across all clinical and corporate departments.

The Trust has a robust assurance framework in place which sets out the principal risks affecting the delivery of the organisation's strategic objectives. The assurance framework is reported to the Trust Board and scrutinised by the Audit Committee in terms of effectiveness to review the strategic risks affecting the organisation. The populating and review of the assurance framework is an ongoing exercise throughout the year, which all Directors contribute to.

The Trust maintained Level 1 accreditation in the National Health Service Litigation Authority's Risk Management Standards (NHSLA) and Level 1 for Maternity Services in the Clinical Negligence Scheme for Trusts (CNST) during the year.

The Trust declared full compliance on the Standards for Better Health both at the mid year and full year terms and the Trust has registered with the Care Quality Commission within the deadline. It has been awarded full registration with no conditions. The Trust Board and Governance Committee have reviewed the detail and supporting evidence against the standards and regulations.

The Trust continues to develop its incident reporting systems and plans are in place to move to full online reporting during 2010. Linkages to incidents across the Trust in terms of risk are monitored by the Director of Nursing, Quality and Governance to ensure a robust system is in place to learn from incidents and near misses.

During the year the Board has discussed progress against its five strategic objectives and received regular reports on outstanding issues and risks associated against their delivery.

The Board recognises the future challenges facing the wider National Health Service in terms of reduced overall budget, which will bring significant challenges for the forthcoming year, particularly in relation to financial sustainability of services.

I am confident the Board has the necessary procedures in place to agree plans to mitigate against risks that arise in the running of the organisation, which will continue to be reviewed and developed throughout the year with the Trust Board.

Assurance Framework

The Trust has an assurance framework, which sets out what the Trust is aiming to achieve and the principal risks affecting the delivery of those objectives. The assurance framework is a 'live' document which ensures that specific strategic risks are reviewed by the Executive Directors. The Audit Committee provides the scrutiny in terms of its effectiveness to review the strategic risks affecting the organisation. The Trust Board receives regular progress reports on the status of the delivery of the organisation's objectives.

The assurance framework provides evidence to support the Statement of Internal Control by identifying gaps and areas for further improvement or development. As part of reviewing the 2009/10 year end position, the Trust Board received a report on the organisation's strategic objectives and the principal risks affecting the delivery of those objectives. This report highlighted key areas to be progressed during 2010/11 as part of the ongoing development of the Trust's risk and assurance arrangements.

Data Security

Risks to data security are actively managed and monitoring is undertaken by the Information Governance Group which reports to the Governance Committee via the Informatics Steering Board. The Group is chaired by the Senior Information Risk Owner and the Caldicott Guardian also forms part of the core membership. A range of policies are in place to support this, the key policies are outlind below:

- Confidentiality Policy
- Data Protection Policy
- Electronic Communications Policy
- Information Governance Policy
- Encryption Policy
- Information Security Policy
- Offsite Use and Security of Computing Devices

Operational guidance and procedures are available via the Intranet. All staff receive training at induction and by completion of mandatory annual training. Additional training is provided to identified Information Asset Owners and Asset Administrators.

Data security incidents are reported using the Trust's Incident Reporting Procedure and monitored through the Information Governance Group with summary reports to the Trust Risk Management and Assurance Committee.

The Trust works proactively to reduce "information risk" and having encrypted all mobile computers has implemented port control on all networked devices. In the context of Pseudonymisation we are also actively limiting access to patient identifiable data.

During 2009/10 there were no Serious Untoward Incidents related to data security. The Trust completed its Information Governance Toolkit self assessment at Level 2 or above in respect of all standards, corroborated by Internal Audit opinion in respect of those which comprise the N3 Information Governance Assurance Statement which predominantly relate to Information Security.

Equality and Diversity

All policies and guidelines are equality impact assessed as part of the ratification process. This ensures the risk of discrimination is eliminated and reduced when considering the implementation of policies and guidelines. The Trust takes equality very seriously and has implemented the following measures to ensure robust embedding of its importance within Trust business and the running of day-to-day activities:

- Mandatory Equality and Diversity training for all staff
- The inclusion of Equality and Diversity as a core dimension within the Knowledge and Skills Framework (e-KSF) for all staff subject to Agenda for Change terms and conditions
- An Equality and Diversity Strategy whose action plan is monitored by the Equality and Diversity Steering group

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

Following an Employment Tribunal held in 2008, a Remedies Hearing took place in January 2010. This hearing concluded that no associated costs were to be made to the claimant and the Trust was requested to pay a compensation claim of £115,000.

A training programme on Equality and Diversity has been put in place for 2010/11 for the Trust Board and Senior Managers.

NHS Pension Scheme

The Trust can confirm that it complies with NHS Pension Scheme regulations and 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 met. This includes ensuring deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and member Pension Scheme records are accurately updated in accordance with the timescales detailed in the regulations.

Carbon Reduction

The Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, based on UKCIP 2009 weather projects, to ensure the Trusts' obligations under the Climate Change Act and the Adaptation Reporting requirements are achieved. The Trust is committed to meeting the national targets for carbon reduction and has set out five specific actions for 2010/11 to reduce its carbon footprint and continue to make improvements on its energy and sustainability plans to ensure it acts as a NHS Good Corporate Citizen.

5. REVIEW OF EFFECTIVENESS

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Head of Internal Audit Opinion 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 and managers 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 has been reviewed. My review is also informed by:

- The Trust's mid and full year declaration against the Standards for Better Health
- Registration, with no conditions, with the Care Quality Commission
- Compliance with the Hygiene Code Act, including a Care Quality Commission inspection in January 2010
- Delivery of the Trust's Statutory Financial Duties
- Achievement of Level 1 for NHSLA General Services and CNST Level 1 for Maternity
- Consistent delivery of all key access targets reported to the Trust Board monthly

- Executive Directors' appraisals including the monitoring and completion of objectives
- Liaison with the NHS Security Management Service
- Trust Internal Audit Reports and Activities
- External audit by the Audit Commission
- Audit Committee findings and processes
- Annual programme of work and Divisional Reporting at the Governance Committee
- Annual self-assessment using the NHS Information Governance Toolkit, thus providing assurances on the Trust's systems of information governance in protecting patient information through the principles of confidentiality, integrity and availability of patient information

Where internal control issues are identified, the risk management process results in the establishment of an action plan to control, as far as is practicable, the risk involved.

Management and implementation of the action plan is the responsibility of a designated Executive Director. Progress in implementing these action plans is monitored by the Risk Management Department and through the Trust's assurance committee structure, to ensure internal control issues are managed at the most appropriate level. Residual risk is recorded in the Risk Register.

Strategically significant risks are highlighted and monitored through the assurance framework by the Trust Board. Internal Audit provides quarterly reports to the Audit Committee with full reports to the Director of Finance and appropriate line managers. The Audit Committee receives details of any actions that remain outstanding following the follow up of previous audit work.

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the above mentioned processes, committees and individuals. A plan to address weaknesses and ensure continuous improvement of the system is in place.

As at 31 March 2010 the Trust had no outstanding significant internal control issues.

Carole Heatly

CHIEF EXECUTIVE

HEAD OF INTERNAL AUDIT OPINION ON THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL AT NORTH CUMBRIA UNIVERSITY HOSPITALS NHS TRUST FOR THE YEAR ENDED 31 MARCH 2010

Roles and responsibilities

The whole Board is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Statement on Internal Control (SIC) is an annual statement by the Accountable Officer, on behalf of the Board, setting out:

- how the individual responsibilities of the Accountable Officer are discharged with regard to maintaining a sound system of internal control that supports the achievement of policies, aims and objectives;
- the purpose of the system of internal control as evidenced by a description of the risk management and review processes, including the Assurance Framework process;
- the conduct and results of the review of the effectiveness of the system of internal control including any disclosures of significant control failures together with assurances that actions are or will be taken where appropriate to address issues arising.

The organisation's Assurance Framework should bring together all of the evidence required to support the SIC requirements.

In accordance with NHS Internal Audit Standards, the Head of Internal Audit (HoIA) is required to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below.

The opinion does not imply that Internal Audit have reviewed all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led Assurance Framework. As such, it is one component that the Board takes into account in making its SIC.

The Head of Internal Audit Opinion

The purpose of my annual HoIA Opinion is to contribute to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the organisation's system of internal control. This Opinion will in turn assist the Board in the completion of its SIC, and may also be taken into account by the Care Quality Commission in relation to the Standards for Better Health.

My opinion is set out as follows:

1. Overall opinion;
2. Basis for the opinion;
3. Commentary.

My **overall opinion** is that[1]

- o Significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and/or inconsistent application of controls, put the achievement of particular objectives at risk.

The **basis** for forming my opinion is as follows:

1. An assessment of the design and operation of the underpinning Assurance Framework and supporting processes; and

2. An assessment of the range of individual opinions arising from risk-based audit assignments, contained within internal audit risk-based plans that have been reported throughout the year. This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses.

Additional areas of work that may support the opinion will be determined locally but are not required for DH purposes e.g.

3. An assessment of the process by which the organisation has arrived at its declaration in respect of the Standards for Better Health;

4. Any reliance that is being placed upon third party assurances.

The **commentary** below provides the context for my opinion and together with the opinion should be read in its entirety.

<u>The design and operation of the Assurance Framework and associated processes.</u>[2]

The underpinning systems for risk management are fundamentally sound and further work has been carried out this year on the structure of the Risk Register and Assurance Framework documents. There is some risk in separating responsibility for the two and the Trust must continue to ensure that the documents are fully cross referenced to prevent any potential mis-match arising and to maintain clarity at board level. Work began in-year on a review of this control mechanism. Progress has been made at departmental level and in strengthening systems to ensure inclusion of identified issues in risk registers. Internal Audit has been involved in facilitating this work.

Board awareness and development training includes the assurance framework process and continued work in this area is planned going forward as several new members have joined the Trust over the year. Internal audit will be involved in facilitating this training.

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[1] *Heads of Internal Audit will select from one of the opinion categories. If a different classification is used then an explanation should be given as to why the model has not been followed.*
The principle of "comply and explain" is central to the opinion as it enables the HoIA to provide a full account of local circumstances surrounding the planning, conduct and reporting of audit work.

[2] *This would be described as a critical piece of work which concludes upon the reasonableness or unreasonableness of the central methodology through which the organisation conducts its review of the system of internal control. The absence, or limited presence, of an effective Assurance Framework would very likely constitute a material failure in respect of the system of internal control and would have a consequent impact in the forming of the overall opinion. It would be unlikely that an organisation failing in this aspect of the opinion would be able to secure an overall opinion above "limited" but there may be some mitigation in respect of new organisations or organisations operating equivalent processes.*

The range of individual opinions arising from risk-based audit assignments, contained within risk-based plans that have been reported throughout the year.

A risk based internal audit plan is derived from both an audit needs assessment and use of the Trust's own Risk Register and Assurance framework. The plan is explicitly linked to these documents (and to Standards for Better Health) by relevant risk identification numbers and Healthcare Standards references.

The internal audit plan ensures annual coverage of risk and governance management processes and work on fundamental financial and information systems.

Operational audit work is carried out on other risk areas identified in the planning process and the scope of internal audit work is not restricted in any way.

The following areas of review were not complete to opinion stage at the year end:

IT – management review
ASCRIBE pharmacy system review
Integra – accounting system application review

The range of individual opinions arising from risk-based audit assignments, contained within risk-based plans that have been reported throughout the year.[3]

The table below summarises the reviews completed to opinion stage in the 2009-2010 financial year:

Audit Area	**Level of Assurance**
Overall Governance arrangements	Significant
Healthcare Standards (Oct 09 compliance)	Limited – but improvement noted by year end
Sterile Services Unit	Limited
Equality and Diversity	Limited –actions taken reported to audit committee by year end to improve
Health and Safety	Limited – improvement noted by year end
PALS	Significant

[3] *This part of the commentary would allow the HoIA to provide an overview of how the risk-based plan was constructed i.e. from the Assurance Framework or other risk assessment processes (audit needs assessment) or a combination. Then the HoIA would have the facility to present at a high level a summary of those resulting opinions and assurances including any major control weaknesses. The judgements relating to respective materiality, risk and control issues could also be explained in this section together with an explanation as to the impact of this aspect of the work upon the overall opinion. Substantial opportunity exists to set out themes of control issues, progress against recommendations as well as comparisons with prior years. Consideration needs to be given to minimum financial coverage.*

Audit Area	Level of Assurance
Safeguarding children	Significant
Information Governance	Significant
Records Management	Limited
Financial Management & Budgetary Control Systems	Significant
Main Accounting System	Significant
Procurement	Significant – process aspects Limited – value for money aspects
Assets recording/accounting	Limited
Accounts Payable	Significant
Accounts Receivable	Significant
Cash Bank and Treasury Management Systems	Significant
Payroll Errors	Limited – due to quality of information supplied NOT bureau processing error.
Bank and Non-medical agency payments	Limited

The Trust continues to face a difficult and challenging financial future with a continuing need to identify and meet a significant cost improvement programme. This has not been fully identified at the beginning of the 10/11 financial year which presents risks to achievement within timescale. The impact of demand management needs of the Closer to Home strategy adopted by the PCT continue to create tensions in the system. These (and other) risks are well documented within the Trust who continue to work together with the PCT towards a smooth transition of service delivery within Cumbria.

Cheryl McAdams
Head of Internal Audit and Counter Fraud
April 2010.

The Audit Commission's

Trust Practice

audit commission

Independent auditor's report to the Board of Directors of North Cumbria University Hospitals NHS Trust

Opinion on the financial statements

I have audited the financial statements of North Cumbria University Hospitals NHS Trust for the year ended 31 March 2010 under the Audit Commission Act 1998. The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. These financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service set out within them.

I have also audited the information in the Remuneration Report that is subject to audit, being:

- the table of salaries and allowances of senior managers and related narrative notes on page 41 and
- the table of pension benefits of senior managers and related narrative notes on page 42.

This report is made solely to the Board of Directors of North Cumbria University Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of directors and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I report whether the financial statements and the part of the Remuneration Report subject to audit have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Operating and Financial Review, included in the Annual Report, is consistent with the financial statements. I am not required to consider, nor have I considered, information regarding future projections included within the annual report.

I review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'Guidance on Completing the Statement on Internal Control 2009/10' issued in February 2010. I 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 I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the directors' Statement on Internal Control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises:

- Welcome
- Trust Profile
- Our Vision & Values
- Our Services
- We've Been Busy
- Getting the Basics Right
- Our Activity
- Patient Safety & Quality
- Preventing Infection
- Patient Safety First
- Advancing Quality
- Our Annual Health Check
- Transforming West Cumberland Hospital
- A Safe Trust
- Our Carbon Footprint
- Improving Services
- Working in Partnership
- Fit for the Future
- The NHS Constitution
- Involving Our Patients
- Developing, Rewarding & Supporting Staff
- Celebrating Excellence 2009
- Charitable Funds
- Thank You!
- Trust Board Profile
- Non Executive Directors
- Executive Directors

I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my 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 subject to audit. 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.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error; and
- the financial statements and the part of the Remuneration Report subject to audit have been properly prepared.

In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report subject to audit.

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2010 and of its income and expenditure for the year then ended;
- the financial statements and the part of the Remuneration Report subject to audit have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England; and
- information which comprises the commentary on the financial performance included within the Operating and Financial Review, included within the Annual Report, is consistent with the financial statements.

Jackie Bellard
Engagement Lead

Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

10 June 2010

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

Directors' Responsibilities

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

Auditor's Responsibilities

I am 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 me to report to you my conclusion in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. I report if significant matters have come to my attention which prevent me from concluding that the Trust has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Qualified Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In so doing, I identified that:

- the Trust has a financial recovery plan agreed with the Strategic Health Authority, tied to a loan agreement with the Department of Health, which required the Trust to achieve a minimum annual surplus of £860,000. In the year ended 31 March 2010 the Trust reported a surplus of £327,000. This means that the Trust had not delivered against the agreed recovery plan for the year; and
- the Trust set a balanced budget for the 2010/11 financial year in March 2010. This budget included a Cost Improvement Programme target of £21 million however the Trust has not yet identified where £7 million of this saving will be made. This means that the financial plans are not supported by detailed action plans for the savings that are required to deliver against the agreed recovery plan in 2010/11.

Having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, North Cumbria University Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2010 except for arrangements to ensure that its spending matches its available resources.

The Audit Commission's
Trust Practice

Certificate

I certify that I 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.

Jackie Bellard
Engagement Lead

Audit Commission
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ

15 September 2010

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 March 2010

	Note	2009/10 £000	2008/09 £000
Revenue			
Revenue from patient care activities	5	**202,420**	199,581
Other operating revenue	6	**13,678**	12,081
Operating expenses	8	**(217,490)**	(199,857)
Operating surplus/(deficit)		**(1,392)**	11,805
Finance costs:			
Investment revenue	14	**39**	504
Other gains and (losses)	15	**0**	(336)
Finance costs	16	**(6,751)**	(8,148)
Surplus/(deficit) for the financial year		**(8,104)**	3,825
Public dividend capital dividends payable		**(2,026)**	(2,695)
Retained surplus/(deficit) for the year		**(10,130)**	**1,130**

	Note	2009/10 £000	2008/09 £000
Other comprehensive income			
Impairments and reversals	17/19	(16,058)	(2,263)
Gains on revaluations		0	472
Receipt of donated/government granted assets	17/18	307	72
Net gain/(loss) on other reserves (e.g. defined benefit pension scheme)		0	0
Net gains/(losses) on available for sale financial assets		0	0
Reclassification adjustments:			
- Transfers from donated and government grant reserves	6	(286)	(402)
- On disposal of available for sale financial assets		0	0
Total comprehensive income for the year		**(26,167)**	**(991)**

Reconciliation to Department of Health Breakeven Performance Duty, Note 39.

		2009/10 £000
Surplus/(deficit) for the financial year		***(10,130)***
Adjustments for impairments	*a*	***4,992***
Adjustments for dual accounting under IFRIC12	*b*	***5,465***
Current Year Breakeven Position		***327***

Note a: net impairments from land and buildings excluding PFI Hospital.
Note b: includes impairments of £7,328k relating to the PFI Hospital.
Total net impairments were £12,320 which is included in Operating Expenses.

The notes on pages 25 to 64 form part of these accounts.

STATEMENT OF FINANCIAL POSITION AS AT 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000	1 April 2008 £000
Non-current assets				
Property, plant and equipment	17	**125,521**	143,685	147,127
Intangible assets	18	**117**	32	32
Investment property		**0**	0	0
Other financial assets	23	**0**	0	0
Trade and other receivables	22	**2,566**	2,104	2,343
Total non-current assets		**128,204**	145,821	149,502
Current assets				
Inventories	21	**3,354**	2,749	2,575
Trade and other receivables	22	**11,506**	12,341	19,214
Other financial assets	23	**0**	0	0
Other current assets	24	**0**	0	0
Cash and cash equivalents	25	**1,001**	650	614
		15,861	15,740	22,403
Non-current assets held for sale	26	**0**	0	0
Total current assets		**15,861**	15,740	22,403
Total assets		**144,065**	161,561	171,905
Current liabilities				
Trade and other payables	27	**(19,742)**	(15,211)	(19,969)
Other liabilities	29	**0**	0	0
Department of Health Working capital loan	28	**(856)**	(856)	(856)
Department of Health Capital loan		**0**	0	0
Borrowings	28	**(1,915)**	(1,362)	(1,740)
Other financial liabilities	34	**0**	0	0
Provisions	35	**0**	0	0
Net current assets/(liabilities)		**(6,652)**	(1,689)	(162)
Total assets less current liabilities		**121,552**	144,132	149,340
Non-current liabilities				
Borrowings	28	**(57,203)**	(59,119)	(61,174)
Department of Health Working capital loan		**(9,418)**	(10,274)	(11,130)
Department of Health Capital loan		**0**	0	0
Trade and other payables	27	**(1,900)**	(1,705)	(2,427)
Other financial liabilities	34	**0**	0	0
Provisions	35	**(2,555)**	(3,191)	(3,775)
Other liabilities	29	**0**	0	0
Total assets employed		**50,476**	69,843	70,834
Financed by taxpayers' equity:				
Public dividend capital		**53,818**	47,018	47,018
Retained earnings		**(18,861)**	(8,731)	(10,938)
Revaluation reserve		**12,576**	28,609	31,448
Donated asset reserve		**1,470**	1,438	1,760
Government grant reserve		**1,473**	1,509	1,546
Other reserves		**0**	0	0
Total Taxpayers' Equity		**50,476**	69,843	70,834

The financial statements on pages 20 to 64 were approved by the Board on 8 June 2010 and signed on its behalf by:

Signed: Carole Heatly ....(Chief Executive)   Date: 7/6/10 ....

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

Prior Year

	Public dividend capital (PDC) £000	Retained earnings £000	Revaluation reserve £000	Donated asset reserve £000	Govt. grant reserve £000	Other reserves £000	Total £000
Balance at 31 March 2008							
As previously stated	47,018	(10,938)	31,448	1,760	1,546	0	70,834
Prior Period Adjustment	0	0	0	0	0	0	0
Restated balance	47,018	(10,938)	31,448	1,760	1,546	0	70,834
Changes in taxpayers' equity for 2008/09							
Total Comprehensive Income for the year:							
Retained surplus/(deficit) for the year	0	1,130	0	0	0	0	1,130
Transfers between reserves	0	1,077	(1,040)	0	(37)	0	0
Impairments and reversals	0	0	(2,263)	0	0	0	(2,263)
Net gain on revaluation of property, plant, equipment	0	0	464	8	0	0	472
Net gain on revaluation of intangible assets	0	0	0	0	0	0	0
Net gain on revaluation of financial assets	0	0	0	0	0	0	0
Net gain on revaluation of non current assets held for sale	0	0	0	0	0	0	0
Receipt of donated/government granted assets	0	0	0	72	0	0	72
Net gain/loss on other reserves (e.g. defined benefit pension scheme)	0	0	0	0	0	0	0
Movements in other reserves	0	0	0	0	0	0	0
Reclassification adjustments:							
- transfers from donated asset/government grant reserve	0	0	0	(402)	0	0	(402)
- on disposal of available for sale financial assets	0	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0	0
Originating capital for Trust establishment in year	0	0	0	0	0	0	0
New PDC received	0	0	0	0	0	0	0
PDC repaid in year	0	0	0	0	0	0	0
PDC written off	0	0	0	0	0	0	0
Other movements in PDC in year	0	0	0	0	0	0	0
Balance at 31 March 2009	47,018	(8,731)	28,609	1,438	1,509	0	69,843

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

Current Year

	Public dividend capital (PDC)	Retained earnings	Revaluation reserve	Donated asset reserve	Govt. grant reserve	Other reserves	Total
	£000	£000	£000	£000	£000	£000	£000
Changes in taxpayers' equity for 2009/10							
Balance at 1 April 2009	47,018	(8,731)	28,609	1,438	1,509	0	69,843
Total Comprehensive Income for the year:							
Retained surplus/(deficit) for the year	0	(10,130)	0	0	0	0	(10,130)
Transfers between reserves	0	0	0	0	0	0	0
Impairments and reversals	0	0	(16,033)	(25)	0	0	(16,058)
Net gain on revaluation of property, plant, equipment	0	0	0	0	0	0	0
Net gain on revaluation of intangible assets	0	0	0	0	0	0	0
Net gain on revaluation of financial assets	0	0	0	0	0	0	0
Net gain on revaluation of non current assets held for sale	0	0	0	0	0	0	0
Receipt of donated/government granted assets	0	0	0	307	0	0	307
Net gain/loss on other reserves (e.g. defined benefit pension scheme)	0	0	0	0	0	0	0
Movements in other reserves	0	0	0	0	0	0	0
Reclassification adjustments:							
- transfers from donated asset/government grant reserve	0	0	0	(250)	(36)	0	(286)
- on disposal of available for sale financial assets	0	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0	0
Originating capital for Trust establishment in year	0	0	0	0	0	0	0
New PDC received	6,800	0	0	0	0	0	6,800
PDC repaid in year	0	0	0	0	0	0	0
PDC written off	0	0	0	0	0	0	0
Other movements in PDC in year	0	0	0	0	0	0	0
Balance at 31 March 2010	53,818	(18,861)	12,576	1,470	1,473	0	50,476

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 March 2010

	Note	2009/10 £000	2008/09 £000
Cash flows from operating activities			
Operating surplus/(deficit)		**(1,392)**	11,805
Depreciation and amortisation	*17/18*	**5,882**	8,046
Impairments and reversals	*17*	**12,320**	0
Net foreign exchange gains/(losses)		**0**	0
Transfer from donated asset reserve		**(250)**	(402)
Transfer from government grant reserve		**(36)**	0
Interest paid		**(6,702)**	(8,053)
Dividends paid	*39*	**(2,521)**	(2,695)
(Increase)/decrease in inventories		**(605)**	(174)
(Increase)/decrease in trade and other receivables		**868**	7,112
(Increase)/decrease in other current assets		**0**	0
Increase/(decrease) in trade and other payables		**246**	(4,523)
Increase/(decrease) in other current liabilities		**0**	0
Increase/(decrease) in provisions	*35*	**(685)**	(584)
Net cash inflow/(outflow) from operating activities		**7,125**	10,532
Cash flows from investing activities			
Interest received		**39**	504
(Payments) for property, plant and equipment		**(11,327)**	(7,711)
Proceeds from disposal of plant, property and equipment		**0**	0
(Payments) for intangible assets		**(67)**	0
Proceeds from disposal of intangible assets		**0**	0
(Payments) for investments with DH		**0**	0
(Payments) for other investments		**0**	0
Proceeds from disposal of investments with DH		**0**	0
Proceeds from disposal of other financial assets		**0**	0
Revenue rental income		**0**	0
Net cash inflow/(outflow) from investing activities		**(11,355)**	**(7,207)**
Net cash inflow/(outflow) before financing		**(4,230)**	3,325
Cash flows from financing activities			
Public dividend capital received		**6,800**	0
Public dividend capital repaid		**0**	0
Loans received from the DH		**0**	0
Other loans received		**0**	0
Loans repaid to the DH	*28*	**(856)**	(856)
Other loans repaid		**0**	0
Other capital receipts		**0**	0
Capital element of finance leases and PFI		**(1,363)**	(2,433)
Cash transferred to NHS Foundation Trusts		**0**	0
Net cash inflow/(outflow) from financing		**4,581**	(3,289)
Net increase/(decrease) in cash and cash equivalents		**351**	36
Cash (and) cash equivalents (and bank overdrafts) at the beginning of the financial year		**650**	614
Effect of exchange rate changes on the balance of cash held in foreign currencies		**0**	0
Cash (and) cash equivalents (and bank overdrafts) at the end of the financial year	*25*	**1,001**	650

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS Trusts shall meet the accounting requirements of the NHS Trusts Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2009/10 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the NHS Trusts Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment.

1.2 Acquisitions and discontinued operations

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

1.3 Critical accounting judgements and key sources of estimation uncertainty

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

1.4 Critical judgements in applying accounting policies

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

The Trust has revalued its Land, Buildings and Dwellings. All valuations have been completed by the Trust’s external valuer and the valuation methodology is compliant with IAS 16. The Trust has specialised buildings, for which there is no active market to determine value, therefore an estimate of fair value has been used. This estimate uses the cost of construction of a Modern Equivalent Asset with the same service potential as an approximation to fair value.

1.4.1 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

- Asset life for buildings and dwellings is determined by professional advice relating to the remaining useful economic life of the asset (Note 17).

- Provision balances are determined as per note 35.

- Estimation by sample of staff to determine the cost of holiday leave untaken as at 31 March 2010 as per note 27 (accruals)

- Estimation of annual unitary payments in relation to PFI transactions as per note 1.15.

1.5 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the Trust is from commissioners for healthcare services.

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.

The Trust receives revenue for Provider to Provider services and goods. This revenue is recognised when performance occurs and is measured at the fair value of the consideration receivable.

1.6 Employee Benefits

Short-term employee benefits

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

Retirement benefit costs

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

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

1.7 Other expenses

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

1.8 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

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

The Trust has identified component parts of the estate as individual buildings, which are separately identifiable, 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 specialised buildings are measured at modern equivalent asset value, dwellings are at market value and all other assets are recorded at depreciated historic cost.

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

Fair values are determined as follows:

- Land and Non-specialised buildings – market value for existing use

- Specialised buildings – depreciated replacement cost (determined by Modern Equivalent Asset valuations)

Until 31 March 2008, the depreciated replacement cost of specialised buildings has been estimated for an exact replacement of the asset in its present location. HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site can be valued. HM Treasury has agreed that NHS Trusts must apply these new valuation requirements by 1 April 2010 at the latest.

The Trust performed a revaluation of its land, buildings and dwellings, in which specialised assets were valued on a modern equivalent asset basis, as at 1 April 2009, with a further revision at 31 March 2010. The initial revaluation resulted in a reduction in the value of the asset base by £18,696k, made up of reduction in the revaluation reserve of £15,053k, a reduction in the donated asset reserve of £4k and a net impairment of £3,639k.

The updated revaluation at 31 March 2010 resulted in a reduction in the value of the asset base by £9,662k, made up of a reduction in the revaluation reserve of £1,005k, a reduction in the donated asset reserve of £21k, a reversal of prior impairments of £45k and a net impairment of £8,681k.

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

Until 31 March 2008, fixtures and equipment were carried at replacement cost, as assessed by indexation and depreciation of historic cost. From 1 April 2009 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 is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive income in the Statement of Comprehensive Income.

Subsequent expenditure

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

1.9 Intangible assets

Recognition

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

Intangible assets acquired separately are initially recognised at fair value. Software that is integral to the operating of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset.

The Trust has no internally generated intangible assets.

1.10 Depreciation, amortisation and impairments

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

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

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

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

1.11 Donated assets

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

1.12 Government grants

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

1.13 Non-current assets held for sale

The Trust has no non-current assets that are classified as held for sale.

1.14 Leases

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

The Trust as lessee

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

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

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

Where a lease is for land and buildings, the land and building components are separated. Leased land is treated as an operating lease. Leased buildings are assessed as to whether they are operating or finance leases.

1.15 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The Trust therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) Payment for the fair value of services received;
b) Payment for the PFI asset, including finance costs; and
c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within ‘operating expenses’.

PFI Asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IAS 17. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Trust’s approach for each relevant class of asset in accordance with the principles of IAS 16.

PFI liability

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

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

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

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

Lifecycle replacement

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

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

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

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

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

Other assets contributed by the Trust to the operator

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

1.16 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.

1.17 Cash and cash equivalents

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

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

1.18 Provisions

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

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

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

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

1.19 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 35.

1.20 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.

1.21 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.

1.22 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. The Trust recognizes two categories of financial assets - cash and receivables.

Cash is the value of cash balances the Trust holds with its banking providers (Citibank, RBS and the Office of the HM Paymaster General) and petty cash balances.

Receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market therefore they are carried at cost as an approximation to fair value.

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

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

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

1.23 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.

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

1.24 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.

1.25 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.

1.26 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 41 to the accounts.

1.27 Public Dividend Capital (PDC) and PDC dividend

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

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

1.28 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).

1.29 Charitable Funds

The Trust does not consolidate the NHS charitable funds for which it is the corporate trustee. HM Treasury has agreed a divergence from IAS 27 where NHS charitable funds need not be consolidated where the NHS Trust is considered to have the power to control the funds

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

The following accounting standards have been issued by the IASB and IFRIC but have not been adopted because they are not yet required to be adopted or are not relevant:

IAS 11	Construction Contracts
IAS 12	Income Taxes
IAS 26	Accounting and Reporting by Retirement Benefit Plans
IAS 33	Earnings per Share
IAS 34	Interim Financial Reporting

IAS 41	Agriculture
IFRS 2	Share-based Payment
IFRS 4	Insurance Contracts
IFRS 6	Exploration for and Evaluation of Mineral Resources
SIC 7	Introduction of the Euro
SIC 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC 25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
IFRIC 2	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 17	Distributions of non-cash assets to owners
IFRIC 18	Transfer of assets from customers

2. Pooled Budget

The Trust did not participate in any Pooled Budget Projects during 2009/10 (2008/09: nil).

3. Operating segments

The Trust has one operating segment which is Healthcare and operates in one geographical location, North Cumbria.

The Trust's "Chief Operating Decision Maker" is the Trust Board. Information presented to the Board is not split into segments.

The Trust received income from external organisations for Patient Care activities amounting to £202,420k (2008/09 £199,581k) as shown in note 5.

£196,891k of this income comes from Primary Care Trusts in England (2008/09: £187,634k) , which is 97% of the total (2008/09: 94%).

4. Income generation activities

The Trust generated income of £1,631k during 2009/10 (2008/09: £1,359k).
The main activities include: car parking £342k; Staff accommodation £439k; catering £393k and pharmacy income from the out of hours GP service £102k.

5. Revenue from patient care activities

	2009/10	2008/09
	£000	£000
Strategic health authorities	**0**	0
NHS trusts	**177**	103
Primary care trusts	**196,846**	194,306
Foundation trusts	**29**	38
Local authorities	**157**	165
Department of Health	**70**	0
NHS other	**0**	0
Non-NHS:		
Private patients	**996**	857
Overseas patients (non-reciprocal)	**15**	20
Injury costs recovery (a)	**846**	1,159
Other (b)	**3,284**	2,933
	202,420	**199,581**

a: Injury cost recovery income is subject to a provision for impairment of receivables of 7.8% (2008/09: 7.8%) to reflect expected rates of collection.

b: The primary source of income for patient related activities is from Primary Care Trusts in England. In addition it receives income from Health Boards in other parts of the UK, the main ones being Dumfries and Galloway £2,786k (2008/09: £2,357k) and Borders £271k (2008/09: £250k), which are included in 'Non NHS Other'.

6. Other Operating Revenue	2009/10 £000	2008/09 £000
Patient transport services	**0**	0
Education, training and research	**6,669**	6,552
Charitable and other contributions to expenditure	**34**	(510)
Transfers from Donated Asset Reserve	**250**	402
Transfers from Government Grant Reserve	**36**	0
Non-patient care services to other bodies	**3,522**	2,162
Income generation	**1,631**	1,359
Rental revenue	**0**	0
Other revenue	**1,536**	1,568
	13,678	11,533

Note: Income received for education, training and research includes: £4,363k Post Graduate Medical Training; £961k Service Increment for Teaching, both from North East SHA ; £755k North West SHA funding for medical and non-medical training.

7. Revenue

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

8. Operating Expenses	2009/10 £000	2008/09 £000
Services from other NHS Trusts	**0**	0
Services from PCTs	**0**	0
Services from other NHS bodies	**0**	0
Services from Foundation Trusts	**0**	0
Purchase of healthcare from non NHS bodies	**45**	188
Directors' costs (note a)	**753**	661
Other Employee Benefits	**134,047**	129,516
Supplies and services - clinical (note b)	**38,082**	36,401
Supplies and services - general	**5,541**	5,458
Consultancy and legal services (note c)	**944**	1,383
Establishment	**2,934**	2,852
Transport	**1,814**	1,884
Premises	**9,658**	9,710
Provision for impairment of receivables (note d)	**17**	(22)
Inventories write offs	**0**	0
Depreciation	**5,864**	8,033
Amortisation	**18**	13
Impairments and reversals of property, plant and equipment (note e)	**12,320**	0
Impairments and reversals of intangible assets	**0**	0
Impairments and reversals of financial assets [by class]	**0**	0
Impairments and Reversals for Non Current Assets held for sale	**0**	0
Audit fees	**196**	178
Other auditor's remuneration	**0**	0
Clinical negligence (note f)	**3,854**	1,991
Research and development	**20**	0
Education and Training	**497**	515
Other (note g)	**886**	1,096
	217,490	199,857

Note a: Directors' costs have increased as all posts were filled throughout 2009/10 (vacancies in 2008/09)
Note b: Supplies and services - clinical have increased as a result of increased high cost drug charges and general activity levels.
Note c: Consultancy and legal services reduced due to lower management consultancy support during 2009/10.
Note d: The impairment of debtors figure reflects an increase in the provision made by the Trust for bad debts relating to injury costs recovery.
Note e: The revaluation of the Trust’s land, buildings and dwellings led to significant impairments due to the change to a modern equivalent asset basis and the general economic climate. See notes 17 and 19 for further details.

Note f: The significant increase in clinical negligence costs reflects the Trust's share of the increased costs faced by the National Health Service's Litigation Authority (NHSLA) as a result of increased claims, an increase in claims settling at high values and Court of Appeal decisions.
Note g: Other costs include the costs of legal claims and provisions, insurance and internal audit services.

9. Operating leases

9.1 As lessee

The Trust has 12 operating leases, excluding cars. The major operating lease being for 4 Toshiba ultrasound machines. The lease term began on 03/09/2007 for 5 years ending on 03/09/2012.
Repayments are at a fixed rate and made quarterly in advance. Written consent is required from the lessor if The Trust wishes to move the location of the Ultrasounds. The lease can be extended at the end of the lease for a lower quarterly payment at a value to be agreed in the last 6 months of the current lease agreement.

The other operating leases are very minor in comparison.

The Trust has lease agreements for 73 cars, the average monthly repayment is £260.14 per leased car, the usual term is three years and the majority of current leases will have expired by the end of the 2012 calendar year.

Payments recognised as an expense	**2009/10**	2008/09
	£000	£000
Minimum lease payments	**447**	918
Contingent rents	**0**	0
Sub-lease payments	**0**	0
	447	918

Total future minimum lease payments	**2009/10**	2008/09
	£000	£000
Payable:		
Not later than one year	**371**	283
Between one and five years	**356**	400
After 5 years	**0**	0
Total	**727**	683

9.2 As lessor

The Trust does not operate as a lessor for any leases.

10. Employee costs and numbers

10.1 Employee costs

	2009/10 Total	2009/10 Permanently Employed	2009/10 Other	2008/09 Total	2008/09 Permanently Employed	2008/09 Other
	£000	£000	£000	£000	£000	£000
Salaries and wages	**114,201**	**106,002**	**8,199**	110,042	104,407	5,635
Social Security Costs	**8,127**	**7,514**	**613**	7,647	7,238	409
Employer contributions to NHS Pension scheme	**12,757**	**12,474**	**283**	12,388	12,072	316
Other pension costs	**34**	**34**	**0**	41	41	0
Other post-employment benefits	**0**	**0**	**0**	0	0	0
Other employment benefits	**0**	**0**	**0**	0	0	0
Termination benefits	**0**	**0**	**0**	0	0	0
Employee benefits expense	**135,119**	**126,024**	**9,095**	130,118	123,758	6,360

	2009/10	2008/09
Of the total above:		
Charged to capital	380	0
Employee benefits charged to revenue	134,739	130,118
	135,119	**130,118**

Prior year comparator figures have changed to ensure consistency in respect of bank staff costs and junior medical staff for whom the Trust is not the lead employer but who are permanently employed by the NHS.

The increase in staff costs between 2008/09 and 2009/10 relates to pay awards, incremental drift, high agency premium charges and approved developments.

A number of employees working on various capital projects for the Trust have had their salary costs capitalised in 2009/10. These include staff working on the redevelopment of West Cumberland Hospital and IT projects.

10.2 Average number of people employed

	2009/10 Total	2009/10 Permanently Employed	2009/10 Other	2008/09 Total	2008/09 Permanently Employed	2008/09 Other
	Number	Number	Number	Number	Number	Number
Medical and dental (note a)	**414**	**361**	**53**	398	354	44
Ambulance staff	**0**	**0**	**0**	0	0	0
Administration and estates	**715**	**703**	**12**	711	672	39
Healthcare assistants and other support staff (note b)	**662**	**662**	**0**	690	690	0
Nursing, midwifery and health visiting staff (note b)	**1,091**	**1,091**	**0**	1,126	1,125	1
Nursing, midwifery and health visiting learners (note c)	**8**	**8**	**0**	16	16	0
Scientific, therapeutic and technical staff	**317**	**315**	**2**	320	317	3
Social care staff	**1**	**0**	**1**	1	0	1
Other	**2**	**1**	**1**	1	1	0
Total	**3,210**	**3,141**	**69**	3,263	3,175	**88**

	2009/10	2008/09
Of the above:		
Number of staff (WTE) engaged on capital projects (See note 10.1 above).	**7**	**0**

As with note 10.1, prior year comparators have been changed to ensure consistency in respect of junior medical staff for whom the Trust is not the lead employer but who are employed permanently by the NHS.

The number of persons employed is an average of contract hours across the 12 months of the financial year adjusted for locums, bank, agency and other staff recharged to the Trust. Consequently, developments or cost saving initiatives started during 2008/09 will have a full year impact in 2009/10 numbers whilst developments and cost saving initiatives in 2009/10 will only be partially reflected.

Note a: Significant investment in Anaesthetics and some impact as a result of further European Working Time Directive (EWTD) regulations introduced in August 2009.

Note b: Reductions in healthcare assistants and other support staff and nursing and midwifery relate partially to the full impact of 2008/09 voluntary severance and the transfer of a ward at the Cumberland Infirmary to NHS Cumbria and partially to the transfer of a ward at West Cumberland Hospital to NHS Cumbria alongside other bed reconfigurations at the start of 2009/10.

The Trust continued to use the Department of Health approved severance scheme, which cost £113,000 in the current year.

Note c: The number of nursing and midwifery trainees reduced during 2009/10 as the trainees completed their qualifications and took up new positions in the Trust. They have not been replaced due to changes in the education and training regime.

10.3 Staff sickness absence

	2009/10
	Number
Days lost (long term)	0
Days lost (short term)	34,668
Total days lost	**34,668**
Total staff years	**3,071**
Average working days lost	11.29

10.4 Management Costs

	2009/10	2008/09
	£000	£000
Management costs	7,327	6,611
Income	216,518	212,200
Management costs as a percentage of income	3.4%	3.1%

Management costs have increased above inflation due to additional investment in clinical management and the full year impact of investment in corporate management. The costs have increased marginally to 3.4% of income.

10.5 Salary and Pension entitlements of senior managers

A) Remuneration

Name and Title	2009-10 Salary (bands of £5000) £000	2009-10 Other Remuneration (bands of £5000) £000	2009-10 Benefits in kind To nearest £100	2008-09 Salary (bands of £5000) £000	2008-09 Other Remuneration (bands of £5000) £000	2008-09 Benefits in kind To nearest £100
Mr Michael Bonner, Non Executive Director & Acting Chair wef 7 December 2009	10-15	0	0	5-10	0	0
Mr Alexander Brown, Director of Nursing	95-100	0	2,300	85-90	0	2,400
Professor Suzanne Cholerton, Non Executive Director	5-10	0	0	0-5	0	0
Mr Kevin Clarkson, Chief Operating Officer/ Deputy Chief Executive	120-125	0	2,400	115-120	0	1,500
Ms Judith Cooke, Non Executive Director	5-10	0	0	0-5	0	0
Mr Philip Day, Non Executive Director	5-10	0	0	0-5	0	0
Mr Mark Evens, Non Executive Director	5-10	0	0	0-5	0	0
Mr Eric Gardiner, Acting Director of Finance & Performance 1 September 2009 - 31 January 2010	40-45	0	0	n/a	n/a	n/a
Ms Carole Heatly, Chief Executive	185-190	0	0	95-100	0	0
Mr Mike Little, Chair (On sick leave wef 7 December)	20-25	0	2,700	20-25	0	0
Mr Alistair Mulvey, Director of Finance & Performance wef 1 February 2010	15-20	0	0	n/a	n/a	n/a
Mr Simon Raimes, Medical Director	35-40	145-150	0	35-40	135-140	0
Mr Jonathan Wood, Director of Finance & Performance until 31 August 2009	45-50	0	0	105-110	0	0

This note relates only to those senior managers with a voting right on the Trust's Board of Directors.

The salary range quoted is pro rata to the annual salary and relates to the period that the individual was employed by the Trust in the stated post.

Ms Carole Heatly was in post as Chief Executive from 1 September 2008.

The benefits in kind relate to lease cars.

10.5 Salary and Pension entitlements of senior managers

B) Pension Benefits

Name and Title	Real increase in pension at age 60 (bands of £2,500) £000	Lump sum at aged 60 related to real increase in pension (bands of £2,500) £000	Total accrued pension pension at age 60 at 31 March 2010 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31st March 2010 (bands of £5,000) £000	Cash Equivalent Transfer Value at 31 March 2010 £000	Cash Equivalent Transfer Value at 31 March 2009 £000	Real Increase in Cash Equivalent Transfer Value £000	Employer's Contribution to stakeholder pension £00
Mr. Alexander Brown, Director of Nursing	0-2.5	5-7.5	20-25	70-75	427	361	47	0
Mr. Kevin Clarkson, Chief Operating Officer/ Deputy Chief Executive	0-2.5	5-7.5	40-45	120-125	681	587	65	0
Mr. Eric Gardiner, Acting Director of Finance & Performance 1 September 2009 - 31 January 2010	0-2.5	5-7.5	15-20	45-50	203	138	27	0
Ms Carole Heatly, Chief Executive	7.5-10	25-27.5	45-50	145-150	944	696	213	0
Mr. Alistair Mulvey, Director of Finance & Performance wef 1 February 2010	0-2.5	0-2.5	20-25	60-65	323	265	7	0
Mr. Simon Raimes, Medical Director	10-12.5	30-32.5	65-70	200-205	1,510	1,163	289	0
Mr. Jonathan Wood, Director of Finance & Performance until 31 August 2009	0-2.5	5-7.5	25-30	80-85	401	303	35	0

As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive members.

The real increases noted above only reflect the increase for the proportion of the year that the member of staff has been in stated post.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures and the other pension details include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV - This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

11. Pension costs

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

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

a) Full actuarial (funding) valuation

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

The conclusion from the 2004 valuation was that the scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme’s liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) Accounting valuation

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

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

The valuation of the scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

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

c) Scheme provisions

The 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 year’s pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member’s final year’s pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

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.

12. Retirements due to ill-health

During 2009/10 there were 3 (2008/09: 8) early retirements from the NHS Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of this ill-health retirement will be £111k (2008/09: £518k). The cost of these ill-health retirements is borne by the NHS Business Services Authority - Pensions Division.

13. Better Payment Practice Code

13.1 Better Payment Practice Code - measure of compliance	2009/10 Number	2009/10 £000	2008/09 Number	2008/09 £000
Total Non-NHS trade invoices paid in the year	**53,686**	**77,987**	41,873	69,468
Total Non NHS trade invoices paid within target	**51,249**	**74,079**	35,554	67,385
Percentage of Non-NHS trade invoices paid within target	**95%**	**95%**	85%	97%
Total NHS trade invoices paid in the year	**2,247**	**20,485**	2,219	19,664
Total NHS trade invoices paid within target	**2,131**	**20,249**	1,860	19,509
Percentage of NHS trade invoices paid within target	**95%**	**99%**	84%	99%

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

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

The Trust did not incur any finance or debt recovery costs from claims made under this legislation (2008/09: nil).

14. Investment revenue	**2009/10**	2008/09
	£000	£000
Rental revenue:		
PFI finance lease revenue:		
planned	0	0
contingent	0	0
Other finance lease revenue	0	0
Interest revenue:		
Bank accounts	39	504
Other loans and receivables	0	0
Impaired financial assets	0	0
Other financial assets	0	0
Total	39	504

15. Other gains and losses	**2009/10**	2008/09
	£000	£000
Gain/(loss) on disposal of property, plant and equipment	**0**	(336)
Gain/(loss) on disposal of intangible assets	**0**	0
Gain/(loss) on disposal of financial assets	**0**	0
Gain/(loss) on foreign exchange	**0**	0
Change in fair value of financial assets carried at fair value through profit and loss	**0**	0
Change in fair value of financial liabilities carried at fair value through profit and loss	**0**	0
Change in fair value of investment property	**0**	0
Recycling of gain/(loss) from equity on disposal of financial assets available for sale	**0**	0
Total	**0**	(336)

16. Finance Costs	**2009/10**	2008/09
	£000	£000
Interest on loans and overdrafts	**565**	608
Interest on obligations under finance leases	**102**	123
Interest on obligations under PFI contracts:		
- main finance cost	**4,979**	5,142
- contingent finance cost	**1,056**	2,225
Interest on late payment of commercial debt	**0**	0
Other interest expense	**0**	50
Total interest expense	**6,702**	8,148
Other finance costs	**49**	0
Total	**6,751**	**8,148**

17. Property, plant and equipment

Current Year 2009/10:	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construct and poa £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Cost or valuation at 1 April 2009	14,518	105,412	3,683	0	32,138	64	11,615	1,675	169,105
Additions purchased	0	3,396	160	7,635	3,702	0	841	73	15,807
Additions donated	0	0	0	0	226	0	14	31	271
Additions government granted	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0	0	0	0
Revaluation/indexation gains	0	0	0	0	0	0	0	0	0
Impairments	(6,492)	(8,983)	(583)	0	0	0	0	0	(16,058)
Reversal of impairments	0	0	0	0	0	0	0	0	0
Transfers to Foundation Trust	0	0	0	0	0	0	0	0	0
At 31 March 2010	**8,026**	**99,825**	**3,260**	**7,635**	**36,066**	**64**	**12,470**	**1,779**	**169,125**
Depreciation at 1 April 2009	0	0	0	0	17,949	59	6,584	828	25,420
Reclassifications	0	0	0	0	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0	0	0	0
Revaluation/indexation gains	0	0	0	0	0	0	0	0	0
Impairments	0	11,674	646	0	0	0	0	0	12,320
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Charged during the year	0	1,491	53	0	2,959	1	1,183	177	5,864
Transfer to Foundation Trust	0	0	0	0	0	0	0	0	0
Depreciation at 31 March 2010	**0**	**13,165**	**699**	**0**	**20,908**	**60**	**7,767**	**1,005**	**43,604**
Net book value									
Purchased	8,026	84,707	2,561	7,635	14,264	4	4,689	728	122,614
Donated	0	480	0	0	894	0	14	46	1,434
Government granted	0	1,473	0	0	0	0	0	0	1,473
Total at 31 March 2010	**8,026**	**86,660**	**2,561**	**7,635**	**15,158**	**4**	**4,703**	**774**	**125,521**
Asset financing									
Owned	**8,026**	**29,491**	**2,561**	**7,635**	**13,722**	**4**	**4,703**	**774**	**66,916**
Finance Leased	**0**	**0**	**0**	**0**	**1,436**	**0**	**0**	**0**	**1,436**
Private finance initiative	**0**	**57,169**	**0**	**0**	**0**	**0**	**0**	**0**	**57,169**
PFI residual interests	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total 31 March 2010	**8,026**	**86,660**	**2,561**	**7,635**	**15,158**	**4**	**4,703**	**774**	**125,521**

The Trust Revalued its Land, Buildings and Dwellings on 1 April 2009 and on 31 March 2010. These were carried out by the Trust's external valuer and are consistent with the requirements of IAS16. As the Trust has specialist assets for which there is no active market, the valuer has used Modern Equivalent Asset (MEA) valuations as a substitute for fair value. This differs from the previous valuation by the District Valuer which used a depreciated replacement cost method which is based on replacing the asset like for like. MEA is based on the value of an asset with the same service potential, not a like for like replacement. The reduction in value as a result of the valuation at 1 April 2009 was a combination of the general economic downturn and the move to MEA valuation basis. The reduction in value as a result of the valuation at 31 March 2010 was solely the result of the economic downturn. The gross impairment was £28,358k of which £16,058k went to the revaluation reserve, £25k went to the donated assets reserve and £45k reversed previous impairments leaving a net impairment of £12,320k as per note 19.

The external valuer has also provided asset lives for the Trust's estate. Prior to 1 April 2009, asset lives were determined at the quinquennial valuations carried out by the District Valuer. The valuer's method of assessing residual asset lives takes into account the fact that certain elements that make up a building will be renewed one or more times over its useful life. The results of this are noticeably extended asset lives which are more realistic in the Trust's opinion than the District Valuer's averaging method.These new lives represent a change in an accounting estimate and affect the depreciation expense for the current period and for each future period during the assets remaining useful life. The effect of the change in the current period is recognised as a reduction in depreciation expense of £1,374k. The effect on future periods is impracticable to estimate.

Donated assets in year came from North Cumbria University Hospitals NHS Trust Charitable Fund.

Asset lives for each class of asset are as follows:
Land - Infinite
Buildings - up to 86 years
Dwellings - up to 64 years
Information Management & Technology - between 5 and 10 years
Fixtures & Fittings - between 5 and 10 years
Plant & Machinery - between 5 and 20 years

Prior Year 2008/09:	Land	Buildings excluding dwellings	Dwellings	Assets under construct and poa	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2008	14,680	105,812	3,900	804	35,585	60	11,852	1,562	174,255
Opening Balance Adjustments	(32)	0	(2)	35	82	3	(1,022)	16	(920)
Additions purchased	0	1,114	79	2,737	1,986	0	785	56	6,757
Additions donated	0	0	0	0	72	0	0	0	72
Additions government granted	0	0	0	0	0	0	0	0	0
Reclassifications	0	3,677	0	(3,677)	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	(6,457)	0	0	0	(6,457)
Revaluation/indexation gains	0	0	0	101	870	1	0	41	1,013
Impairments	(130)	(1,963)	(170)	0	0	0	0	0	(2,263)
Reversal of impairments	0	0	0	0	0	0	0	0	0
At 31 March 2009	**14,518**	**108,640**	**3,807**	**0**	**32,138**	**64**	**11,615**	**1,675**	**172,457**
Depreciation at 1 April 2008	0	0	0	0	20,128	53	6,322	625	27,128
Opening Balance Adjustments	0	0	0	0	83	3	(1,022)	16	(920)
Reclassifications	0	0	0	0	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	(6,010)	0	0	0	(6,010)
Revaluation/indexation gains	0	0	0	0	523	1	0	17	541
Impairments	0	0	0	0	0	0	0	0	0
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Charged during the year	0	3,228	124	0	3,225	2	1,284	170	8,033
Depreciation at 31 March 2009	**0**	**3,228**	**124**	**0**	**17,949**	**59**	**6,584**	**828**	**28,772**
Net book value									
Purchased	14,518	103,397	3,683	0	13,277	5	5,029	829	140,738
Donated	0	506	0	0	912	0	2	18	1,438
Government granted	0	1,509	0	0	0	0	0	0	1,509
Total at 31 March 2009	**14,518**	**105,412**	**3,683**	**0**	**14,189**	**5**	**5,031**	**847**	**143,685**
Asset financing									
Owned	**14,518**	**44,443**	**3,683**	**0**	**12,403**	**5**	**5,030**	**847**	**80,929**
Finance Leased	**0**	**0**	**0**	**0**	**1,786**	**0**	**1**	**0**	**1,787**
Private finance initiative	**0**	**60,969**	**0**	**0**	**0**	**0**	**0**	**0**	**60,969**
PFI residual interests	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Total 31 March 2009	**14,518**	**105,412**	**3,683**	**0**	**14,189**	**5**	**5,031**	**847**	**143,685**

During 2008/09 the Trust carried out a validation exercise on medical equipment and identified assets with a gross replacement cost of £6,457k that were no longer in use (Trust assets of £5,397k and donated assets of £1,060k). The accumulated depreciation on these assets was £6,010k (Trust assets £5,031k and donated assets £979k) giving a net book value write-off of £447k (Trust assets £366k and donated assets £81k).

The Dental Education Centre was completed during 2008/09, and its cost of construction has been transferred from assets under construction to buildings (excluding dwellings).

The PFI (Private Finance Initiative) buildings have been brought on to the Statement of Financial Position and have a value of £61m as at 31 March 2009.

Donated assets in year came from North Cumbria University Hospitals NHS Trust Charitable Fund.

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 1 April 2005.

Asset lives for each class of asset are as follows:
Land - infinite
Buildings - up to 71 years
Dwellings - up to 41 years
Information Management & Technology - between 5 and 10 years
Fixtures & Fittings - between 7 and 10 years
Plant & Machinery - between 5 and 20 years

18. Intangible assets

Current Year **2009/10:**	**Computer software - purchased**	**Computer software - internally generated**	**Licences & trade-marks**	**Patents**	**Development expenditure (internally generated)**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Gross cost at 1 April 2009	106	0	0	0	0	106
Additions purchased	67	0	0	0	0	67
Additions internally generated	0	0	0	0	0	0
Additions donated	36	0	0	0	0	36
Additions government granted	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0
Revaluation/indexation	0	0	0	0	0	0
Impairments	0	0	0	0	0	0
Reversals of impairments	0	0	0	0	0	0
Gross cost at 31 March 2010	**209**	**0**	**0**	**0**	**0**	**209**
Amortisation at 1 April 2009	74	0	0	0	0	74
Reclassifications	0	0	0	0	0	0
Reclassifications as held for sale	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0
Revaluation	0	0	0	0	0	0
Impairments	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0
Charged during the year	18	0	0	0	0	18
Amortisation at 31 March 2010	**92**	**0**	**0**	**0**	**0**	**92**
Net book value						
Purchased	81	0	0	0	0	81
Donated	36	0	0	0	0	36
Government granted	0	0	0	0	0	0
Total at 31 March 2010	**117**	**0**	**0**	**0**	**0**	**117**

All purchased software is amortised over a period between 5 and 7 years.

Included in purchased software are Audiology software and TSSU software which are fully amortised

Prior year

2008/09:	**Computer software - purchased**	**Computer software - internally generated**	**Licences & trade-marks**	**Patents**	**Development expenditure (internally generated)**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Gross cost at 1 April 2008	93	0	0	0	0	93
Additions purchased	13	0	0	0	0	13
Additions internally generated	0	0	0	0	0	0
Additions donated	0	0	0	0	0	0
Additions government granted	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Reclassified as held for sale	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0
Revaluation / indexation	0	0	0	0	0	0
Impairments	0	0	0	0	0	0
Reversals of impairments	0	0	0	0	0	0
Gross cost at 31 March 2009	**106**	**0**	**0**	**0**	**0**	**106**
Amortisation at 1 April 2008	61	0	0	0	0	61
Reclassifications	0	0	0	0	0	0
Reclassifications as held for sale	0	0	0	0	0	0
Disposals other than by sale	0	0	0	0	0	0
Revaluation	0	0	0	0	0	0
Impairments	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0
Charged during the year	13	0	0	0	0	13
Amortisation at 31 March 2009	**74**	**0**	**0**	**0**	**0**	**74**
Net book value						
Purchased	32	0	0	0	0	32
Donated	0	0	0	0	0	0
Government granted	0	0	0	0	0	0
Total at 31 March 2009	**32**	**0**	**0**	**0**	**0**	**32**

18.2 Revaluation reserve balance for intangible assets

The Trust has no revaluation reserve for intangible assets.

19. Impairments

The Trust revalued its Land, Buildings and Dwellings on 1 April 2009 and on 31 March 2010 where specialised assets were valued on a Modern Equivalent Asset (MEA) basis. Non specialised assets were valued at market value. The reduction in value as a result of the valuation at 1 April 2009 was a combination of the general economic downturn and the move to MEA valuation basis. The reduction in value as a result of the valuation at 31 March 2010 was solely the result of the economic downturn.Further details of the revaluation are shown in note 17.

All assets are held at value in use. The Trust does not intend to sell any assets as at 31 March 2010.

The net impairment charged to the Statement of Comprehensive Income is £12,320k. Details of the assets impaired are listed below:

	Land	Buildings excluding dwellings	Dwellings	Total
	£000	£000	£000	£000
01/04/2009 Revaluation				
Gross Impairment (01/04/2009)	6,492	11,143	1,061	18,696
Movement on Revaluation Reserve	(6,492)	(7,967)	(594)	(15,053)
Movement on Donated Asset Reserve		(4)		(4)
Reversal of Prior Impairments				0
Net Impairment (01/04/2009)	**0**	**3,172**	**467**	**3,639**
31/03/2010 Revaluation				
Gross Impairment (31/03/2010)	0	9,503	159	9,662
Movement on Revaluation Reserve		(1,016)	11	(1,005)
Movement on Donated Asset Reserve		(21)		(21)
Reversal of Prior Impairments		36	9	45
Net Impairment (31/03/2010)	**0**	**8,502**	**179**	**8,681**
Total Gross Impairment	**6,492**	**20,646**	**1,220**	**28,358**
Movement on Revaluation Reserve	**(6,492)**	**(8,983)**	**(583)**	**(16,058)**
Movement on Donated Asset Reserve	**0**	**(25)**	**0**	**(25)**
Reversal of Prior Impairments	**0**	**36**	**9**	**45**
Total Net Impairment	**0**	**11,674**	**646**	**12,320**

20. Capital commitments
There are no capital commitments at 31 March 2010 (2008/09: nil)

21. Inventories

21.1. Inventories	31 March 2010 £000	31 March 2009 £000
Drugs	**1,556**	1,339
Work in progress	**0**	0
Consumables	**1,332**	1,310
Energy	**61**	59
Other	**405**	41
Total	**3,354**	2,749
Of which held at net realisable value:	3,354	2,749

The increase in inventories in year relates to Theatre stock increasing by £348k, Pharmacy stock increasing £192k and Radiology £45k.

21.2 Inventories recognised in expenses	31 March 2010 £000	31 March 2009 £000
Inventories recognised as an expense in the period	**28,109**	31,607
Write-down of inventories (including losses)	**0**	0
Reversal of write-downs that reduced the expense	**0**	(156)
Total	**28,109**	31,451

22. Trade and other receivables

22.1 Trade and other receivables	Current		Non-current	
	31 March 2010 £000	31 March 2009 £000	31 March 2010 £000	31 March 2009 £000
NHS receivables-revenue (note a)	**6,082**	5,041	**1,900**	1,705
NHS receivables-capital	**0**	0	**0**	0
Non-NHS receivables-revenue	**1,666**	1,833	**722**	550
Non-NHS receivables-capital	**0**	0	**0**	0
Provision for the impairment of receivables	**(147)**	(35)	**(56)**	(151)
Accrued income	**3,143**	4,725	**0**	0
Finance lease Receivables	**0**	0	**0**	0
Operating lease receivables	**0**	0	**0**	0
VAT	**505**	682	**0**	0
Other receivables	**257**	95	**0**	0
Total	**11,506**	12,341	**2,566**	2,104

The great majority of trade is with Primary Care Trusts, as commissioners for NHS patient care services. As Primary Care Trusts are funded by Government to buy NHS patient care services, no credit scoring of them is considered necessary.

Note a: At 31 March 2010 NHS receivables include current back-to-back cover (with NHS Cumbria) for Equal Value claims of £1,155k (at 31 March 2009: £1,350k) and non current cover of £1,900k (at 31 March 2009: £1,705k).

22.2 Receivables past their due date but not impaired	31 March 2010 £000	31 March 2009 £000
By up to three months	**730**	968
By three to six months	**383**	233
By more than six months	**618**	273
Total	**1,731**	**1,474**

22.3 Provision for impairment of receivables

	31 March 2010	31 March 2009
	£000	£000
Balance at 1 April	**(186)**	(221)
Amount written off during the year	**0**	13
Amount recovered during the year	**0**	0
(Increase)/decrease in receivables impaired	**(17)**	22
Balance at 31 March	**(203)**	(186)

Non NHS Injury costs recovery (ICR) revenue is accrued and a provision for impairment is made at 7.8% of the accrued revenue.

23. Other financial assets

There are no other financial assets (2008/09: nil).

24. Other current assets

There are no other current assets (2008/09: nil).

25. Cash and cash equivalents

	31 March 2010 £000	31 March 2009 £000
Balance at 1 April	**650**	614
Net change in year	**351**	36
Balance at 31 March	**1,001**	650
Made up of		
Cash with Office of HM Paymaster General and the Government Banking Service	**988**	627
Commercial banks and cash in hand	**13**	23
Current investments	**0**	0
Cash and cash equivalents as in statement of financial position	**1,001**	650
Bank overdraft - Office of HM Paymaster General and the Government Banking Service	**0**	0
Bank overdraft - Commercial banks	**0**	0
Cash and cash equivalents as in statement of cash flows	**1,001**	650

26. Non-current assets held for sale

The Trust does not hold any non-current assets for sale (2008/09: nil).

27. Trade and other payables

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Interest payable	**0**	0		
NHS payables-revenue	**1,874**	1,063	**0**	0
NHS payables-capital	**0**	0	**0**	0
Non NHS trade payables - revenue	**3,589**	1,842	**0**	0
Non NHS trade payables - capital	**5,497**	1,017	**0**	0
Accruals and deferred income (note a)	**4,202**	6,867	**0**	0
Social security costs	**2,795**	2,542		
VAT	**0**	0	**0**	0
Tax	**0**	0		
Other (note a & b)	**1,785**	1,880	**1,900**	1,705
Total	**19,742**	15,211	**1,900**	1,705

Note a: Accruals and deferred income falling due within one year and other payables falling due after more than one year include liabilities in respect of Equal Value claims which have reduced by £326k during 2009/10. The total amounts outstanding at 31 March 2010 was £2,212k (31/3/2009: £2,538k).

Note b: Other payables include £1,662k outstanding pension contributions at 31 March 2010. (31/3/2009: £1,552k).

28. Borrowings

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Loans from:				
Department of Health	**856**	856	**9,418**	10,274
Other entities	**0**	0	**0**	0
PFI liabilities	**1,553**	1,030	**56,187**	57,739
LIFT	**0**	0	**0**	0
Finance lease liabilities	**362**	332	**1,016**	1,380
Other	**0**	0	**0**	0
Total	**2,771**	2,218	**66,621**	69,393

The loan from the Department of Health consists of three separate fixed interest rate loans over 15 years:
£9,600k at 5.20% - 15 year loan commencing 22/3/2007
£330k at 5.10% - 14.5 year loan commencing 15/9/2007
£344k at 4.34% - 14 year loan commencing 15/3/2008

Finance lease liabilities are discussed further in Note 30
The PFI liability is discussed further in Note 33.2

29. Other liabilities

The Trust has no other liabilities (2008/09: nil).

30. Finance lease obligations

Amounts payable under finance leases:	**Minimum lease payments**		**Present value of minimum lease payments**	
	31 March 2010 £000	31 March 2009 £000	**31 March 2010 £000**	31 March 2009 £000
Within one year	**443**	435	**362**	332
Between one and five years	**1,143**	1,587	**1,016**	1,380
After five years	**0**	0	**0**	0
Less future finance charges	**(208)**	(310)	**0**	**0**
Present value of minimum lease payments	**1,378**	1,712	**1,378**	1,712
Included in:				
Current borrowings			**362**	332
Non-current borrowings			**1,016**	1,380
			1,378	1,712

The Trust has 4 finance leases:

1. Beds - commenced 11/11/2007 - term 6 years
2. Fluoroscopy Equipment - commenced 6/6/2005 - term 7 years
3. CT Scanner - commenced 9/8/2007 - term 7 years
4. MRI Scanner - commenced 9/8/2007 - term 7 years

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

The Trust has no finance leases where it acts as the lessor (2008/09: nil).

32. Finance lease commitments

The Trust entered into a finance lease agreement for beds whereby they were made available for use and rental payments commenced in November 2007. The minimum payments under the lease total £744k, payable over 6 years.

The Trust entered into a finance lease agreement for a Fluoroscopy System whereby it was made available for use and rental payments commenced in June 2005. The minimum payments under the lease total £238k, payable over 7 years.

The Trust has finance lease agreements with Alliance & Leicester to provide MRI and CT Scanners. These assets were made available for use between August 2007 and August 2014. No option to purchase exists and any renewal will be negotiated at the market rate at the end of the lease term.

33. Private Finance Initiative contracts

33.1 Charges to operating expenditure and future commitments in respect of PFI schemes on-Statement and off-Statement

	31 March 2010 £000	31 March 2009 £000
Total charge to operating expenses in year - PFI OFF SOFP	**0**	0
Service element of PFI ON SOFP charged to operating expenses in year	**8,135**	7,860
Total	**8,135**	7,860

Payments the Trust is committed to in respect of off SOFP PFI and the service element of on SOFP PFI analysed by the period in which the commitment expires are as follows:

No Later than One Year	**0**	0
Later than One Year, No Later than Five Years	**0**	0
Later than Five Years	**239,126**	247,261
Total	**239,126**	247,261

33.2 PFI schemes on-Statement of Financial Position

The PFI scheme is for the provision of a hospital facility, the Cumberland Infirmary. The scheme was completed in 2000 and the contract runs for 45 years with a break clause after 30 years.

The scheme is a design, build, finance and operate contract for a 444 bedded hospital which has enabled all services to be centralised on one site in Carlisle. The capital value of the scheme was £67m. Payments made to the consortium in 2009/10 were £17.3m (2008/09: £17.6m) with a recurring annual commitment of £17.5m (at March 2010 prices) subject to changes in inflation, performance of provider, availability of asset, and agreed variations to services provided by PFI operator.

Under IFRIC 12, the asset is treated as an asset of the Trust; the substance of the contract is that the Trust has a finance lease and payments comprise two elements – imputed finance lease charges and service charges – details of the imputed finance lease are shown below.
During the year the Trust renegotiated the PFI contract with the PFI operator and reached agreement towards the end of March. The Trust has not made any changes to the accounts for 2009/10 because the impact is not significant.

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

	31 March 2010 £000	31 March 2009 £000
Not later than one year	**6,434**	6,009
Later than one year, not later than five years	**23,387**	25,316
Later than five years	**93,650**	98,154
Sub total	**123,471**	129,479
Less: interest element	**(65,731)**	(70,710)
Total	**57,740**	58,769

Contingent rents recognised as an expense £1,056k (prior year £2,226k) -see note 16.

33.3 Charges to expenditure

The total charged in the year to expenditure in respect of on-statement financial position PFI contracts was £15,032 (prior year £16,610k).

The Trust is committed to the following annual charges

	31 March 2010	31 March 2009
	£000	£000
PFI scheme expiry date:		
Not later than one year	**0**	0
Later than one year, not later than five years	**0**	0
Later than five years	**15,032**	16,610
Total	**15,032**	16,610

34. Other financial liabilities

The Trust has no other financial liabilities (2008/09: nil).

35. Provisions

	Current		Non-current	
	31 March 2010	31 March 2009	**31 March 2010**	31 March 2009
	£000	£000	**£000**	£000
Pensions relating to former directors	**0**	0	**0**	0
Pensions relating to other staff	**0**	0	**968**	1,029
Legal claims	**0**	0	**1,587**	2,162
Restructurings	**0**	0	**0**	0
Continuing care	**0**	0	**0**	0
Equal pay	**0**	0	**0**	0
Agenda for change	**0**	0	**0**	0
Other (specify)	**0**	0	**0**	0
Total	**0**	0	**2,555**	3,191

	Pensions relating to former directors	**Pensions relating to other staff**	**Legal claims**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
At 1 April 2008	0	1,079	2,584	112	**3,775**
Arising during the year	0	37	925	0	**962**
Used during the year	0	(112)	(575)	(112)	**(799)**
Reversed unused	0	0	(797)	0	**(797)**
Unwinding of discount	0	24	26	0	**50**
Transfers in year	0	0	0	0	**0**
At 1 April 2009	0	1,028	2,163	0	**3,191**
Arising during the year	0	34	392	0	**426**
Used during the year	0	(117)	(340)	0	**(457)**
Reversed unused	0	0	(654)	0	**(654)**
Unwinding of discount	0	23	26	0	**49**
Transfers in year	0	0	0	0	**0**
At 31 March 2010	0	968	1,587	0	**2,555**
Expected timing of cash flows:					
In the remainder of the spending review period to 31 March 2011	0	0	0	0	**0**
Between 1 April 2011 and 31 March 2016	0	221	377	0	**598**
Between 1 April 2016 and 31 March 2021	0	747	1,210	0	**1,957**
Thereafter	0	0	0	0	**0**
	0	968	1,587	0	**2,555**

Pensions relating to other staff

The figure is considered to be a realistic assessment of future pension costs. A cost of £117k has been calculated for 2009/10 and has been included within payables (2008/09: £112k).

Legal Claims

Personal Injury Benefit is included within legal claims. The provision stands at £1,408k as at 31/3/2010 (31/3/2009: £1,186k). The cost for 2009/10 is £85k and is included within payables (2008/09: £72k).

NHS Litigation Authority

Provisions for legal claims also contain claims made through the NHS Litigation Authority. This includes ongoing cases where the date of conclusion and settlement figures are not certain. The total value of the provision made for NHS Litigation Authority is £149k (2008/09: £147k).

Included in the provisions for the NHS Litigation Authority at 31/3/2010 is £32k in respect of clinical negligence liabilities (31/03/2009: £31k).

36. Contingencies

In addition to those claims for equal value subject to the commercial settlement entered into by the Trust, the Trust has received approximately 3,500 grievances from employees alleging a right to equal pay. Of these 1,474 have progressed to being claims and are registered with the Tribunal as at 31 March 2010 . Many of the claimants were being represented by the "no win, no fee" solicitor, Stefan Cross, who has now withdrawn from the case and work to review which claims are still being pursued is currently underway. The Trust is engaged in a legal process to understand the validity of these claims. At this stage it is not possible to assess their validity or to quantify them in financial terms.

37. Financial Instruments

37.1 Financial assets	At fair value through profit and loss	Loans and receivables	Available for sale	Total
	£000	£000	£000	£000
Prior Year:				
Embedded derivatives	0	0	0	**0**
Receivables	0	10,955	0	**10,955**
Cash at bank and in hand	0	650	0	**650**
Other financial assets	0	0	0	**0**
Total at 31 March 2009	0	11,605	0	**11,605**
Current Year:				
Embedded derivatives	**0**	**0**	**0**	**0**
Receivables	**0**	**10,260**	**0**	**10,260**
Cash at bank and in hand	**0**	**1,001**	**0**	**1,001**
Other financial assets	**0**	**0**	**0**	**0**
Total at 31 March 2010	**0**	**11,261**	**0**	**11,261**

37.2 Financial liabilities	At fair value through profit and loss	Other	Total
	£000	£000	£000
Prior Year:			
Embedded derivatives	0	0	**0**
Payables	0	12,449	**12,449**
Other borrowings	0	11,130	**11,130**
PFI and finance lease obligations	0	60,483	**60,483**
Other financial liabilities	0	0	**0**
Total at 31 March 2009	0	84,062	**84,062**
Current Year:			
Embedded derivatives	**0**	**0**	**0**
Payables	**0**	**17,719**	**17,719**
Other borrowings	**0**	**10,274**	**10,274**
PFI and finance lease obligations	**0**	**59,119**	**59,119**
Other financial liabilities	**0**	**0**	**0**
Total at 31 March 2010	**0**	**87,112**	**87,112**

At 31 March 2010 Other borrowings consist of three loans from the Department of Health with a book value of £10,274k carried at fixed interest rates. The fair value of these loans at 31 March 2010 is £15,693k

The fair values of these loans have been obtained with reference to the current fixed interest rates offered by the Department of Health for similar loans for periods matching the remaining life of the existing loans.

37.3 Financial risk management
Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the NHS trust has with primary care trusts and the way those primary care trusts are financed, this Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Trust in undertaking its activities.

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

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

Interest rate risk
The Trust may borrow from Government for capital expenditure, subject to affordability as confirmed by the North West Strategic Health Authority. The borrowings are for 1 – 25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The Trust therefore has low exposure to interest rate fluctuations.

Credit risk
Because the majority of the Trust's income comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2010 are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk
The Trust's operating costs are incurred under contracts with primary care trusts, which are financed from resources voted annually by Parliament . The Trust funds its capital expenditure from funds obtained within its prudential borrowing limit. The Trust is not, therefore, exposed to significant liquidity risks.

38. Events after the reporting period

There were no post-balance sheet events.

39. Financial performance targets

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

39.1 Breakeven Performance	**1997 - 2005** £000	**2005/06** £000	**2006/07** £000	**2007/08** £000	**2008/09** £000	**2009/10** £000
Turnover		172,640	182,406	197,824	212,236	216,098
Retained surplus/(deficit) for the year		56	97	51	993	(10,130)
Adjustment for:						
Timing/non-cash impacting distortions:						
Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]		0	0	0	0	0
2006/07 PPA (relating to 1997/98 to 2005/06)		0				
2007/08 PPA (relating to 1997/98 to 2006/07)		0	0			
2008/09 PPA (relating to 1997/98 to 2007/08)		0	0	0		
Adjustments for Impairments					0	4,992
Consolidated Budgetary Guidance - Adjustment for Dual Accounting under IFRIC12*						5,465
Other agreed adjustments		0	0	0	0	0
Break-even in-year position		56	97	51	993	327
Break-even cumulative position	(6,411)	(6,355)	(6,258)	(6,207)	(5,214)	(4,887)

The Trust's recovery plan, as approved by the Strategic Health Authority, aims to achieve break-even in 2015/16.

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

	2005/06 %	**2006/07** %	**2007/08** %	**2008/09** %	**2009/10** %
Materiality test (I.e. is it equal to or less than 0.5%):					
Break-even in-year position as a percentage of turnover	0%	0%	0%	0%	0%
Break-even cumulative position as a percentage of turnover	-4%	-3%	-3%	-2%	-2%

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

39.2 Capital cost absorption rate

For 2008/09 the trust was required to absorb the cost of capital at a rate of 3.5% of forecast average relevant net assets.

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

	2009/10	2008/09
	£000	£000
Dividends paid on Public Dividend Capital	**2,026**	2,695
Average relevant net assets	**57,898**	73,804
Capital cost absorption rate (%)	**3.5%**	3.7%

39.3 External financing

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

		2009/10	2008/09
	£000	£000	£000
External financing limit		**5,951**	(857)
Cash flow financing	4,230		(892)
Finance leases taken out in the year	0		0
Other capital receipts	0		0
External financing requirement		**4,230**	(892)
Under spend/(over spend)		**1,721**	35

39.4 Capital Resource Limit

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

	2009/10	2008/09
	£000	£000
Gross capital expenditure	**16,181**	7,321
Less: book value of assets disposed of	**0**	(447)
Plus: loss on disposal of donated assets	**0**	81
Less: capital grants	**0**	0
Less: donations towards the acquisition of non-current assets	**(307)**	(72)
Charge against the capital resource limit	**15,874**	6,883
Capital resource limit	**15,882**	7,249
(Over)/Under spend against the capital resource limit	**8**	366

40. Related party transactions

North Cumbria University Hospitals NHS Trust is a body corporate established by order of the Secretary of State for Health.

During the year none of the Department of Health Ministers, Trust Board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with North Cumbria University Hospitals NHS Trust

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

Cumbria Primary Care Trust
Cumbria Partnership NHS Trust
NHS Litigation Authority
NHS Purchasing and Supply Agency
Northumberland Care Trust
North West Ambulance Services NHS Trust
North West Strategic Health Authority
North East Strategic Health Authority

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 Scottish Office in respect of Scottish Health Boards and the Department of Education and Employment in respect of University Hospitals.

During 2009/10, North Cumbria University Hospitals NHS Trust Charitable Fund spent £784k (2008/09 £626k) on medical and educational equipment, salaries and training courses from which the Trust has benefited. North Cumbria University Hospitals NHS Trust is the sole corporate trustee for the Charity.

Accounts for the North Cumbria University Hospitals NHS Trust Charitable Funds and a Trustee's report will be available separately.

41. Third Party Assets

The Trust held no cash at bank or in hand at 31 March 2010 which relates to monies held by the NHS Trust on behalf of patients (31 March 2009 £nil).

42. Intra-Government and Other Balances	**Current receivables £000**	**Non-current receivables £000**	**Current payables £000**	**Non-current payables £000**
Balances with other Central Government Bodies	505	0	5,392	9,418
Balances with Local Authorities	8	0	3	0
Balances with NHS Trusts and Foundation Trusts	6,082	1,900	2,477	0
Balances with Public Corporations and Trading Funds	0	0	0	0
Intra Government balances	6,595	1,900	7,872	9,418
Balances with bodies external to Government	4,911	666	14,641	59,103
At 31 March 2010	**11,506**	**2,566**	**22,513**	**68,521**
Balances with other Central Government Bodies	5,214	1,705	4,461	10,274
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	509	0	0	0
Balances with Public Corporations and Trading Funds	0	0	0	0
Intra Government balances	5,723	1,705	4,461	10,274
Balances with bodies external to Government	6,618	399	14,060	59,732
At 31 March 2009	12,341	2,104	18,521	70,006

43. Losses and Special Payments

There were 120 cases of losses and special payments totalling £75k paid during 2009/10 (2008/09: 145 cases totalling £121k).

44. Transition to IFRS in 2008/09

	Public Dividend Capital £000	Retained earnings £000	Revaluation reserve £000	Donated asset reserve £000	Government grant reserve £000	Totals £000
Taxpayers' equity at 31 March 2009 under UK GAAP:	47,018	(1,627)	28,609	1,440	0	**75,440**
Adjustments for IFRS changes:						**0**
Private finance initiative	0	(7,059)	0	0	1,938	**(5,121)**
Leases	0	74	0	0	0	**74**
Others -Employees' Holiday Pay	0	(548)	0	0	0	**(548)**
Others -Government Grant	0	429	0	0	(429)	**0**
Others	0	0	0	(2)	0	**(2)**
Adjustments for:						
Impairments recognised on transition	0	0	0	0	0	**0**
UK GAAP errors	0	0	0	0	0	**0**
Taxpayers' equity at 1 April 2009 under IFRS:	**47,018**	**(8,731)**	**28,609**	**1,438**	**1,509**	**69,843**

The main impact in relation to IFRS is the inclusion of a PFI hospital on the Statement of Financial Position.

	£000
Surplus/(deficit) for 2008/09 under UK GAAP	993
Adjustments for:	
Private finance initiative	256
Leases	(39)
Accrual for annual leave not taken	(80)
Surplus/(deficit) for 2008/09 under IFRS	**1,130**