Contents

FOREWORD TO THE FINANCIAL STATEMENTS

University Hospitals Birmingham NHS Foundation Trust

These financial statements for the year ended 31 March 2011 have been prepared by the University Hospitals Birmingham NHS Foundation Trust in accordance with paragraph 24 and 25 of Schedule 7 to the National Health Service Act 2006 in the form which Monitor has, with the approval of the Treasury, directed.

Signed………………………………………………….. Date June 2 2011
J Moore
Chief Executive

Statement of the Chief Executive's responsibilities as the accounting officer of University Hospitals Birmingham NHS Foundation Trust

The National Health Service Act 2006 states that the Chief Executive is the accounting officer of the NHS Foundation Trust. The relevant responsibilities of the Accounting Officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the NHS Foundation Trust Accounting Officer Memorandum issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

Under the National Health Service Act 2006, Monitor has directed the University Hospitals Birmingham NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of University Hospitals Birmingham NHS Foundation Trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the NHS Foundation Trust Annual Reporting Manual and in particular to:

- Observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the NHS Foundation Trust Annual Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable him to ensure that the accounts comply with the requirements outlined in the above mentioned Act. The Accounting Officer is 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.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor's NHS Foundation Trust Accounting Officer Memorandum.

Signed……………………………………………… Date June 2 2011

J Moore

Chief Executive

Insert Audit Report

Insert Audit Report

ANNUAL GOVERNANCE STATEMENT

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of University Hospitals Birmingham NHS Foundation Trust's (the "Trust") policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the Trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Trust for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts.

3. Capacity to handle risk

3.1 Overall responsibility for the management of risk within the Trust rests with the Board of Directors. Reporting mechanisms are in place to ensure that the Board of Directors receives timely, accurate and relevant information regarding the management of risks.

3.2 Risk issues are reported through the Clinical Quality Framework and the Trust's Management Structures. Management and ownership of risk is delegated to the appropriate level from Director to local management teams through the Divisional Management Structure.

3.3 The Audit Committee monitors and oversees both internal control issues and the process for risk management. RSM Tenon (Internal Auditors) and KPMG (External Auditors) attend the Audit Committee meetings. Both the Board of Directors and the Audit Committee receive reports that relate to clinical risks.

3.4 All new staff joining the Trust are required to attend Corporate Induction which covers key elements of risk management. Existing members of staff are trained in the specific elements of risk management dependent on their level within the organisation. Managers attend the 'Managing Risks' course that covers the principles of risk assessment and the management of Risk Registers. The Trust's guidance document, available to all staff via the Trust's intranet ('Guidance on the Implementation and Management of Risk Registers') sets out the processes for managing risk at all levels within the Trust. Risk Management is included on all Trust and Divisional development programmes. Learning from incidents and good practice is discussed at the Clinical Quality Monitoring Group, reporting monthly to the Board of Directors, and locally at department and ward level. Senior staff are trained in Root Cause Analysis (RCA), which is carried out on all Serious Incidents that Require Investigation. Learning from RCA is disseminated through the organisation in a number of ways, including Executive reviews for Infection Control and Clinical RCA reviews overseen by the Chief Execu

ANNUAL GOVERNANCE STATEMENT

4. The risk and control framework

4.1 The Board of Directors is responsible for the strategic direction of the Trust in relation to Clinical Governance and Risk Management. It is supported by the Audit Committee which provides assurance to the Board of Directors on risk management issues. Clinical governance is overseen directly by the Board of Directors, which, in addition to receiving reports, carries out regular unannounced clinical governance visits.

4.2 The Board of Directors has established an Investment Committee to provide the Board of Directors with assurance over investments, borrowings, and compliance with Trust treasury polices and procedures.

4.3 The Board of Directors approved the Trust's Risk Management Strategy and Risk Management Policy, (next review date is November 2011), which clearly defines risk management structures, accountability and responsibilities and the level of acceptable risk for the Trust. The Board of Directors reviewed and approved the Board Assurance Framework, identifying key risks that related to the Trust's corporate aims and objectives. The Board Assurance Framework is reviewed on a quarterly basis by Executive Directors who review the Annual Plan risks and the high level Divisional risks. The Board Assurance Framework is reviewed regularly by the Audit Committee, which then provides assurance to the Board of Directors.

4.4 The Trust was successfully assessed at level 2 against the NHSLA Risk Management Standards for Trusts (RMS) in February 2009 and the next assessment is in 2012.

4.5 <u>Quality Governance Arrangements and Compliance with CQC registration</u>

4.5.1 The Clinical Governance team (CGT) is responsible for liaising with manager leads for all parts of the CQC standards to review compliance using position statements initially completed in January 2010. The aim of this process is to ensure that any non-compliance against the standards is reported to the Board of Directors and action plans are produced to resolve compliance issues identified.

4.5.2 The CGT prompts manager leads to provide evidence to support their position statements, where required. The CGT reviews the quality of the evidence and ensures that any moderate or major concerns regarding compliance are raised with the relevant Director. The Director will then be responsible for reviewing the issue raised and making the decision to report to the Board of Directors where necessary.

4.5.3 Where necessary, the CGT will liaise with leads to formulate action plans to achieve compliance and ensure the relevant Director is made aware of and approves the plans. The CGT will monitor that action plans are completed when the proposed completion date is reached.

4.5.4 The Planning and Performance team compile a monthly performance report for the Board, including compliance against CQC standards. The CGT liaise with Planning and Performance to either confirm that no areas of concern have been identified against the standards, or, in conjunction with the relevant lead Director, will ensure a report is made on any non compliance against the standards. The information that is presented to the CGT is also checked by the Clinical Quality Monitoring Group to ensure it is accurate.

4.5.5 The Director of Corporate Affairs' Governance Group will provide assurance on the monitoring process by reviewing a sample of the standards and reporting to the Audit Committee. Where any major concerns about compliance are identified, this will be reported to the Board of Directors as part of the Planning and Performance report.

4.6 Risk identification, evaluation and control

4.6.1 Risks are identified via a variety of mechanisms, which are briefly described below.

4.6.2 All areas within the Trust report incidents and near misses in line with the Trust's Incident Reporting Policy. Details of incidents are reported through the Divisional Clinical Quality Monitoring meetings and to the Clinical Quality Monitoring Group.

4.6.3 Risk Assessments, including Health and Safety and Infection Control Audits are undertaken throughout the Trust. Identified risks at all levels are evaluated using a common methodology based on the risk matrix contained in the Risk Management Standard AS/NZ 43360:1999.

4.6.4 Other methods of identifying risks are:

a) Complaints and Care Quality Commission reports and recommendations;
b) Inquest findings and recommendations from HM Coroners;
c) Health and Safety visits undertaken by Director of Operations of each Division;
d Medico-legal claims and litigation;
e) Ad hoc risk issues brought to either the Divisional Clinical Quality Group meetings, Health, Safety and Environment Committee, Clinical Quality Monitoring Group, Care Quality Group or Safeguarding Group:
f) Incident reports and trend analysis;
g) Internally generated reports from the Health Informatics Team;
h) Internal and external audit reports; and
i) Regular Performance Reviews.

4.6.5 Identified risks are added to the Risk Registers and reviewed on a quarterly basis to ensure that action plans are being carried out and that risks are being added or deleted, as appropriate. High level risks identified by the Divisional Management Teams and corporate risks are reported regularly through Divisional Performance Reviews and the Audit Committee, through the Assurance Framework process.

4.6.6 The Audit Committee undertakes a detailed examination of the Assurance Framework and the associated risk management processes assessing whether there are any gaps in assurance or weaknesses in the effectiveness of controls. This is done on a quarterly basis.

4.6.7 Clinical risks are reported directly to the Board of Directors through the Clinical Quality Reporting Framework. Non-clinical risks are reported to the Board of Directors through the responsible Executive Directors and the Risk Management Structure. The process of the reporting of risks is monitored and overseen by the Audit Committee.

4.6.8 Risks to information are managed and controlled in accordance with the Trust's Risk Management Policy and framework, through the Information Governance Group, chaired by the Director of Corporate Affairs, who has been appointed as the Senior Information Risk Officer. The Executive Medical Director, as Caldicott Guardian, is responsible for the protection of patient information, although all information governance issues are integrated through the Information Governance Group. The Board of Directors has received a report regarding its systems of control for information governance. These include satisfactory completion of its annual self-assessment against the Information Governance Toolkit, mapping of data flows, monitoring of access to data and reviews of incidents.

4.6.9 The Trust completed the Information Governance Toolkit assessment for 2010/11 and achieved a score of 77%, achieving Level 2 or above for all the requirements, which is satisfactory.

ANNUAL GOVERNANCE STATEMENT

4.7 The Trust's Major Risks

4.7.1 The move into the New Hospital (commenced June 2010) has been identified as a major risk to the Trust. The risks associated with the move are managed through the New Hospital Board and Commissioning Group, where mitigation against the controls and action plans are monitored in line with the overall project plan.

4.7.2 The financial risks associated with the new hospital project are also identified as a major risk both in year and for the future. These are managed through financial controls, including a ten year plan and regular reports to the Audit Committee.

4.7.3 The Board Assurance Framework contains strategic level risks that may impact on the achievement of the Trust's overarching Strategic Priorities for 2011/2012. These are linked to the Annual Plan and the Care Quality Commission's Essential Standards; the risks will be reviewed by the Audit Committee, who provides assurance to the Board of Directors. This process ensures that the Board is informed about the most serious risks faced by the Trust.

4.7.4 The change in government and the impact of the current economic climate on public funding has been identified as a major risk, both in year and for the future. The Trust has completed a robust downside assessment, submitted to Monitor and will continue to apply effective financial controls to mange this risk.

4.7.5 Changes in the regulatory framework for FTs resulting from the change in government also presents a risk to the Trust. The Trust will manage this risk by ensuring it has a comprehensive, effective and robust governance framework that is regularly reviewed and supported by the Trust's informatics and data gathering systems.

4.8 Infection Prevention and Control

4.8.1 Infection control is a high priority risk. The Infection Prevention and Control Committee, chaired by the Executive Chief Nurse (Executive Director of Prevention and Control), meets on a monthly basis. In addition, key infection control indicators (MRSA/Clostridium difficile) are reported to the Board of Directors on a monthly basis. This data is also reported to Divisional Clinical Quality Groups for local follow up action.

4.8.2 The Board of Directors has reviewed, revised and enhanced its arrangements for ensuring that it is compliant with the Code of Practice on Healthcare Associated Infections (HCAI) and is assured that suitable systems and arrangements are in place to ensure that the code is being observed in this Trust, and that no significant lapses have been identified. Executive and Non-Executive members of the Board of Directors carry our regular visits to operational areas to observe compliance with infection control procedures.

4.8.3 There are clear policies and escalation procedures for the management of HCAI, which forms part of the Infection Prevention and Control Plan for the Trust. This has been reviewed and updated throughout 2010/11. The Trust Action Plan makes clear reference to the Code of Practice and there are plans in place to continue the ongoing yearly improvement of performance within the Trust.

4.8.4 The Trust has an ongoing relationship with the Department of Health who have worked with the wider infection control team to review clinical practices and have given advice and practical help including training and an objective view of systems, including those relating to hotel services. The Infection Prevention and Control report is a standing item on the agendas for meetings of the Board of Governors, the Board of Directors and the Chief Executive's Advisory Group.

4.8.5 All Serious Incident Requiring an Investigation (SIRI). are reported to South Birmingham PCT, including MRSA bacteraemia and C difficile deaths.

4.9 How is Risk Management Embedded in the Organisation

4.9.1 Risk Management is well embedded throughout the organisation. Risks are reported locally at Divisional level through the Clinical Quality Framework.

4.9.2 The culture of the organisation aids the confident use of the incident reporting procedures throughout the Trust. The introduction of online reporting has enabled a tighter management of incident reporting and has enabled more efficient and rapid reporting with the development of specific report forms for categories of incidents.

4.9.3 The Trust requires all clinical and non-clinical incidents, including near misses, to be formally reported. Members of staff involved or witnessing such an incident are responsible for ensuring that the incident is reported in compliance with this policy and associated procedural documents.

4.9.4 When an incident occurs and there is a remaining risk, all practical and reasonable steps are taken to prevent re-occurrence. The line manager is responsible for the provision of primary support for staff involved in the incident and this is made available immediately. Any incidents which are considered to be ‘serious’ by the Risk Management Advisor are escalated to an appropriate Executive Director who decides whether the incident should be treated as a SIRI.

4.9.5. All SIRIs must be investigated using the RCA methodology. And are reported and managed in accordance with the national framework.

4.9.6 All new and revised policies undergo an equality impact assessment as part of the approval process.

4.10 Involvement of Public Stakeholders

4.10.1 There are elements of risk management where public stakeholders are closely involved. Members of the public are encouraged to participate through the regular ‘Clean your hands’ campaign led by the Divisional Patient Council supported by the Trust. There are patient representatives on the Trust Cleaning groups and involved in the PEAT environmental visits. Aspects of risk, including infection control, are discussed at all Divisional Patient Council meetings. The Board of Governors is represented on the Care Quality Group and receives regular reports on care quality, infection control and the new hospital project.

4.11 The Trust is fully compliant with the CQC essential standards of quality and safety and has been registered with CQC with no compliance conditions.

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

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

4.14 The Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on the UKCIP 2009 weather projects, to ensure that this organisation’s obligations under the Climate Change Act and the Adaptation reporting requirements are complied with.

ANNUAL GOVERNANCE STATEMENT

5. Review of Economy, Efficiency and Effective Use of Resources

5.1 The Trust's Financial Plan for 2010/11 was approved by the Board of Directors in April 2010. Achievement of the financial plan relied on delivery of cash releasing efficiency savings of around £16m during the financial year. This has been accomplished through the establishment of a 3.5% cost improvement programme applied to all relevant budgets across Divisions and Corporate Departments. Progress against delivery of cost improvements is monitored throughout the year and reported to the Board of Directors via the monthly Finance and Activity Performance Report.

5.2 In addition to the agreed annual cost improvement programme, further efficiency savings are realised in year through initiatives, such as ongoing tendering and procurement rationalisation and review of all requests to recruit to both new and existing posts via the Workforce Approval Committee.

5.3 During 2010/11 the Board of Directors have continued to receive a monthly report on Key Performance Indicators. This includes trend data on a number of measures of efficiency and use of resources such as the average length of stay, day case rates, theatre utilisation and sickness absence. Performance is measured against national benchmarks where available, for example day case rates.

5.4 The objectives set out in the Trust's Internal Audit Plan include ensuring the economical, effective and efficient use of resources and this consideration is applied across all of the work-streams carried out. The findings of Internal Audit are reported to the Board through the Audit Committee.

6. Annual Quality Report

6.1 The directors are required under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010 to prepare Quality Accounts for each financial year. Monitor has issued guidance to NHS foundation trust boards on the form and content of annual Quality Reports which incorporate the above legal requirements in the NHS Foundation Trust Annual Reporting Manual.

6.2 The content of the Trust's Quality Report for 2010-11 builds on the 2009-10 report and was agreed by the Clinical Quality Monitoring Group, chaired by the Executive Medical Director, and the Board of Directors with input from the Trust's Governors and Birmingham Local Involvement Network (LINk) UHB Action Group.

6.3 The Trust uses the same systems and processes to collect, validate, analyse and report on data for the annual Quality Reports as it does for other clinical quality and performance information. Information is subject to regular review and challenge at specialty, divisional and Trust levels, by the Clinical Quality Monitoring Group, Care Quality Group and Board of Directors for example.

6.4 The quality improvement priorities and metrics identified in the Quality Report form part of the Trust's Annual Plan objectives for 2009-10, 2010-11 and 2011-12. In line with the Trust's commitment to transparency, the data included is not just limited to good performance and is publicly reported on a quarterly basis.

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7. Review of effectiveness

7.1 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the Internal Auditors, clinical audit and the executive managers and clinical leads within the Trust who have responsibility for the development and maintenance of the internal control framework. I have drawn on the content of the Quality Report attached to this Annual Report and other performance information available to me.

7.2 My review is also informed by comments made by the External Auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board of Directors the Audit Committee, Internal Audit, the Foundation Secretary and External Audit. The system of internal control is regularly reviewed and plans to address any identified weaknesses and ensure continuous improvement of the system are put in place.

7.3 The processes applied in maintaining and reviewing the effectiveness of the system of control include:

a) the maintenance of a view of the overall position with regard to internal control by the Board of Directors through its routine reporting processes and its work on Corporate risks maintained a view of the overall position;

b) review of the Assurance Framework and the receipt of Internal and External Audit reports on the Trust's internal control processes by the Audit Committee;

c) personal input into the controls and risk management processes from all Executive Directors and Senior Managers and individual clinicians;

d) the provision of comment by Internal Audit, through their annual report, on the Trust's system of Internal Control; and

e) Quarterly reports from the Clinical governance support unit regarding national and local audit.

7.4 The Board's review of the Trust's risk and internal control framework is supported by the Annual Head of Internal Audit opinion which states that "significant assurance can be given that there is a sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently". Whilst Internal Audit identified some weakness in the inconsistent application of controls, which could put the achievement of particular objectives at risk, based on the work they have undertaken on the Trust's system of internal control, they do not consider that there are any issues that need to be flagged as significant issues within this statement. For all weaknesses identified, agreed action plans have been established and are tracked via the Audit Committee to ensure that improvement is made.

7.5 During 2010-11, both the Trust's external auditors and internal auditors have reviewed the effectiveness of some of the processes through which data is extracted and reported in the Quality Report. The Trust intends to use the recommendations from these reviews to further improve the robustness of the processes underpinning the Quality Reports.

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8. Conclusion

8.1 There are no significant internal control issues I wish to report. I am satisfied that all internal control issues raised have been, or are being, addressed by the Trust through appropriate action plans and that the implementation of these action plans is monitored.

Signed………………………………………………….. Date June 2 2011

J Moore

Chief Executive

INCOME STATEMENT

	Notes	Before non-recurring items £000	Material non-recurring items £000	Year Ended 31 March 2011 Total £000	Year Ended 31 March 2010 Total £000
Revenue	3 - 4	535,705	-	535,705	496,194
Operating expenses	5	(524,934)	(250,055)	(774,989)	(480,597)
Operating surplus		10,771	(250,055)	(239,284)	15,597
Finance costs					
Finance income	10	358	-	358	664
Finance expense	10	(10,497)	-	(10,497)	(47)
Net finance expense		(10,139)	-	(10,139)	617
Surplus / (deficit) for the year		632	(250,055)	(249,423)	16,214
PDC Dividends payable	11	(231)	-	(231)	(2,433)
Retained surplus / (deficit) for the year		401	(250,055)	(249,654)	13,781

STATEMENT OF COMPREHENSIVE INCOME

	Year Ended 31 March 2011 £000	Restated * Year Ended 31 March 2010 £000
Surplus for the year	(249,654)	13,781
Other comprehensive income		
Revaluation gains / (losses) on property	(3,623)	(16,617)
Receipt of donated assets	1,607	369
Transfers from donated asset reserve	(704)	(937)
Donated assets disposed of	-	-
Other recognised losses	-	-
Other comprehensive income for the year	(2,720)	(17,185)
Total comprehensive income for the year	(252,374)	(3,404)

All income and expenditure is derived from continuing operations.

* 2009/10 figures have been restated to reflect the adoption of the amendment to IAS 17 with effect from 1 April 2009 – see note 14.3 to the financial statements on page 48.

The notes on pages 17 to 64 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	31 March 2011 £000	Restated * 31 March 2010 £000	Restated * 1 April 2009 £000
Assets				
Non-current assets				
Intangible assets	13	993	753	897
Property, plant and equipment	14	436,983	170,721	180,946
Trade and other receivables	18	2,864	2,769	2,836
Other assets	19	254	30,249	16,535
		441,094	204,492	201,214
Current assets				
Inventories	17	12,790	10,851	9,601
Trade and other receivables	18	53,909	37,513	22,860
Other current assets	19	41	41	41
Cash and cash equivalents	20	62,009	96,290	97,793
		128,749	144,695	130,295
Total assets		569,843	349,187	331,509
Liabilities				
Current liabilities				
Trade and other payables	22	(64,411)	(62,604)	(47,058)
Borrowings	25	(10,935)	(68)	(84)
Provisions	29	(3,280)	(3,646)	(5,054)
Tax payable	23	(6,340)	(6,054)	(5,530)
Other liabilities	24	(13,661)	(27,469)	(19,042)
		(98,627)	(99,841)	(76,768)
Total assets less current liabilities		471,216	249,346	254,741
Non-current liabilities				
Borrowings	25	(447,934)	(7)	(75)
Provisions	29	(1,700)	(2,220)	(3,967)
Other liabilities	24	(54,525)	(27,688)	(27,864)
		(504,159)	(29,915)	(31,906)
Total liabilities		(602,786)	(129,756)	(108,674)
Net assets / (liabilities)		(32,943)	219,431	222,835
Taxpayers' equity				
Public dividend capital		171,012	171,012	171,012
Revaluation reserve		103,916	109,052	125,884
Donated asset reserve		8,659	7,735	8,197
Income and expenditure reserve		(316,530)	(68,368)	(82,258)
Total taxpayers' equity		(32,943)	219,431	222,835

* 2009/10 figures have been restated to reflect the adoption of the amendment to IAS 17 with effect from 1 April 2009 – see note 14.3 to the financial statements on page 48.

The financial statements on pages 13 to 16 were approved by the Board of Directors on 2 June 2011 and were signed on its behalf by:

Signed……………………………………………………………. J Moore, Chief Executive

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Public Dividend Capital £000	Revaluation Reserve £000	Donated Asset Reserve £000	Income and Expenditure Reserve £000	Total £000
Balance at 1 April 2009	171,012	75,884	8,197	(82,258)	172,835
Adoption of amendment to IAS 17 (note 14.3)	-	50,000	-	-	50,000
Balance at 1 April 2009 as restated	171,012	125,884	8,197	(82,258)	222,835
Income for the year					
Surplus for the year	-	-	-	13,781	13,781
Other comprehensive income					
Transfers in respect of assets disposed of	-	(109)	-	109	-
Revaluation gains / (losses) on property	-	(16,723)	106	-	(16,617)
Receipt of donated assets	-	-	369	-	369
Transfers in respect of depreciation, impairment and disposal of donated assets	-	-	(937)	-	(937)
Total other comprehensive income	-	(16,832)	(462)	109	(17,185)
Total comprehensive income for the year	-	(16,832)	(462)	13,890	(3,404)
Balance at 31 March 2010 as restated	171,012	109,052	7,735	(68,368)	219,431
Income for the year					
Deficit for the year	-	-	-	(249,654)	(249,654)
Other comprehensive income					
Transfers in respect of assets disposed of	-	(1,492)	-	1,492	-
Revaluation gains / (losses) on property	-	(3,644)	21	-	(3,623)
Receipt of donated assets	-	-	1,607	-	1,607
Transfers in respect of depreciation, impairment and disposal of donated assets	-	-	(704)	-	(704)
Total other comprehensive income	-	(5,136)	924	1,492	(2,720)
Total comprehensive income for the year	-	(5,136)	924	(248,162)	(252,374)
Balance at 31 March 2011	171,012	103,916	8,659	(316,530)	(32,943)

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2011

	Notes	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Cash flows from operating activities			
Operating surplus for the year before non-recurring items		10,771	15,597
Non-recurring items		(250,055)	-
Operating surplus for the year		(239,284)	15,597
Depreciation and amortisation		16,534	10,840
Impairments		243,557	1,232
Loss on disposal of property, plant and equipment		-	51
Transfer from donated asset reserve		(704)	(937)
(Increase) / decrease in inventories		(1,939)	(1,250)
(Increase) / decrease in trade and other receivables		(16,500)	(14,576)
(Increase) / decrease in other assets		41	(13,714)
Increase / (decrease) in trade and other payables		5,947	12,038
Increase / (decrease) in taxation		286	524
Increase / (decrease) in other liabilities		13,029	8,251
Increase / (decrease) in provisions		(930)	(3,194)
Net cash generated from operating activities		20,037	14,862
Cash flows from investing activities			
Interest received		354	666
Payments to acquire property, plant and equipment		(29,848)	(14,760)
Receipts from sale of property, plant and equipment		-	-
Payments to acquire intangible assets		(281)	(103)
Net cash used in investing activities		(29,775)	(14,197)
Cash flows from financing activities			
Capital element of finance lease obligations		(68)	(84)
Interest element of finance lease obligations		(4)	(8)
Capital element of PFI obligations		(15,541)	-
Interest element of PFI obligations		(10,449)	-
PDC dividends received / (paid)		(88)	(2,445)
Other capital receipts		1,607	369
Net cash used in financing activities		(24,543)	(2,168)
Net decrease in cash and cash equivalents		(34,281)	(1,503)
Cash and cash equivalents at 1 April 2010		96,290	97,793
Cash and cash equivalents at 31 March 2011	20	62,009	96,290

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

General information

Monitor has directed that the financial statements of the NHS foundation trusts shall meet the accounting requirements of the NHS Foundation Trust Annual Reporting Manual which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2010/11 NHS Foundation Trust Annual Reporting Manual issued by Monitor. The accounting policies contained in that manual follow International Financial Reporting Standards (IFRS) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the financial statements.

Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRS) and International Finance Reporting Interpretation Committee (IFRIC) interpretations, issued by the International Accounting Standard Board (IASB), as adopted for use in the European Union effective at 31 March 2011, and appropriate to this Foundation Trust as noted above.

These financial statements have been prepared under the historical cost convention, on a going concern basis, except where modified to account for the revaluation of property, plant and equipment.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and judgements. An analysis and explanation of the critical accounting estimates and judgements used in producing this set of financial statements is made in accounting policy note 1.28.

Basis of consolidation

A subsidiary is an entity controlled by the Trust. Control exists when the Trust has the power, directly or indirectly, to govern the financial and operating policies of the entity so as to derive benefits from its activities. The Trust's consolidated financial statements include the financial statements of the Trust and all of its subsidiary undertakings at the reporting date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

An associate is an entity, being neither a subsidiary nor a joint venture, in which the Trust holds a long-term interest and where the Trust has a significant influence. The results of associates are accounted for using the equity method of accounting.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.2 Revenue recognition

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 in respect of healthcare services. Revenue relating to patient care spells that are part-completed at the year end are apportioned across the financial years on the basis of length of stay at the end of the reporting period compared to expected total length of stay.

Partially completed spells of patient care relate to Finished Consultant Episodes (FCEs). A revenue value is attributed to these spells by reference to episode type (elective, non-elective etc.), the relevant HRG, and any local or national tariff.

Where revenue is received for a specific activity which is to be delivered in the following financial years, that revenue is deferred.

1.3 Expenditure on employee benefits

Short term employee benefits

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

Post employment benefits - pension costs

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

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

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

a) Full actuarial (funding) valuation

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

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

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

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

b) Accounting valuation

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

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

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

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

Accounting policies (continued)

c) Scheme provisions

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

Annual Pensions

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.4 Expenditure on other goods and services

Recurring items

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as property, plant and equipment.

Non-recurring items

Non-recurring items are those items that are unusual because of their size, nature or incidence. The Trust's management consider that these items should be separately identified within their relevant operating expenses category to enable a full understanding of the Trust's results.

1.5 Property, plant and equipment

Recognition

Property, plant and equipment assets are capitalised where:

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

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

Valuation

All property, plant and equipment are stated 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.

After recognition of the asset, property is carried at fair value using the 'Revaluation model' set out in IAS 16, in accordance with HM Treasury's Finance Reporting Manual. Property used for the Trust's services or for administrative purposes is carried at a revalued amount, being its fair value as determined 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 measured as follows:

Accounting policies (continued)

Land and non specialised buildings - existing use value
Specialised buildings - depreciated replacement cost

Valuations are carried out by a professionally qualified valuer in accordance with the Royal Institute of Chartered Surveyors (RICS) Valuation Standards, 6th Edition. The District Valuation Service has carried out the valuation of the Trust's property as at the reporting date. Where depreciated replacement cost has been used, the valuer has had regard to RICS Valuation Information Paper No. 10 'The Depreciated Replacement Cost (DRC) Method of Valuation for Financial Reporting', as supplemented by Treasury guidance. HM Treasury require the measurement of 'DRC' using the 'Modern Equivalent Asset' (MEA) estimation technique, see accounting policy 1.28 for details.

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.

Equipment and fixtures are carried at cost less accumulated depreciation and any accumulated impairment losses, as this is not considered to be materially different from the fair value of assets which have low values or short economic useful lives.

Revaluation

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation decrease that has previously been recognised in operating expenses, in which case they are recognised in operating income. Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses. 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 added to the asset’s carrying value. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised.

1.6 Intangible assets

Expenditure on computer software which is deemed not to be integral to the computer hardware and will generate economic benefits beyond one year is capitalised as an intangible asset. Computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. These intangible assets are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to the Statement of Comprehensive Income on a straight line basis.

Accounting policies (continued)

1.7 Depreciation, amortisation and impairments

Freehold land and properties under construction are not depreciated.

Otherwise, depreciation and amortisation are charged on a straight line basis 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. The 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 economic lives or, where shorter, the lease term.

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

In accordance with the FT ARM, impairments that are due to a loss of economic benefits or service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment arising from a loss of economic benefit or service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating income to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.

Other impairments are treated as revaluation losses. Reversals of other impairments are treated as revaluation gains.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.8 Donated assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to the donated asset reserve. Donated assets are valued, depreciated and impaired as described 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 the sale of donated assets, the net book value is transferred from the donated asset reserve to retained earnings.

1.9 Government grants

Government grants are grants from government bodies other than revenue from NHS bodies or the MOD 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 recognised as a 'non-current liability' and are released to the Statement of Comprehensive Income 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.

1.10 Leases

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

The Trust as lessee

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 of interest on the remaining balance of the liability. Finance charges are charged directly to the Statement of Comprehensive Income.

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

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

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

The Trust as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Trust's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Trust's net investment outstanding in respect of the leases.

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

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.11 Private Finance Initiatives (PFI) transactions

Recognition

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes following the principles of the requirements of IFRIC 12. Where the government body (the Grantor) meets the following conditions the PFI scheme falls within the cope of a 'service concession' under IFRIC 12:

- The grantor controls the use of the infrastructure and regulates the services to be provided to whom and at what price; and
- The grantor controls the residual interest in the infrastructure at the end of the arrangement as service concession arrangements.

The Trust therefore recognises the PFI asset as an item of property, plant and equipment on the Statement of Financial Position together with a liability to pay for it. The PFI asset recognised is the 'Queen Elizabeth Hospital Birmingham' as detailed in note 28.1 to the financial statements on page 56. The services received under the contract are recorded as operating expenses.

Valuation

The PFI assets are recognised as property, plant and equipment, when they come into use, in accordance with the HM Treasury interpretation of IFRIC 12. The assets are measured initially at fair value in accordance with the principles of IAS 17, HM Treasury guidance for PFI assets is the construction cost and capitalised fees incurred as at financial close, disclosed in the PFI contract. 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, as detailed in accounting policy note 1.5 'Property, plant and equipment - valuation'. For specialised buildings this is depreciated replacement cost.

The PFI asset's fair value at the reporting date is detailed in note 14.2 to the financial statements on page 47.

A PFI liability is recognised at the same time as the PFI asset is 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.

The PFI lease obligations due at the reporting date are detailed in note 28.1 to the financial statements on page 56.

Subsequent expenditure

The annual contract payments are apportioned, using appropriate estimation techniques between the repayment of the liability, a finance cost, lifecycle replacement and the charge for services.

Accounting policies (continued)

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance expense and to repay the lease liability over the contract term. The annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is recognised under the relevant finance costs heading within note 10 to the financial statements on page 43.

The fair value of services received in the year is recognised under the relevant operating expenses headings within note 5 to the financial statements on page 38.

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.

The lifecycle prepayment recognised at the reporting date is detailed in note 18 to the financial statements on page 51.

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.

Other assets contributed by the Trust to the operator

Where existing Trust Buildings are to be retained as part of the PFI scheme, a deferred asset will be created at the point that the Trust transfers those buildings to the PFI partner. The deferred asset will be written off through the Statement of Comprehensive Income over the life of the concession.

Where current estate will be retained in use and maintained by the PFI provider but the risks and rewards will not pass to the provider, that part of the estate will remain on balance sheet and refurbishment costs which are included in the PFI will also be capitalised.

Accounting policies (continued)

1.12 Inventories

Inventories are valued at the lower of cost and net realisable value. Pharmacy and warehouse stocks are valued at weighted average cost, other inventories are valued on a first-in first-out basis. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks. Work-in-progress comprises goods and services in intermediate stages of production.

1.13 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases bank overdrafts are shown within borrowings in 'current liabilities' on the Statement of Financial Position. 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. These balances exclude monies held in the Trust's bank accounts belonging to patients, see accounting policy note 1.26 for third party assets.

1.14 Finance income and costs

Interest earned on bank accounts and interest charged on overdrafts is recorded as, respectively, 'interest receivable' and 'interest payable' in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

1.15 Financial assets and financial liabilities

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Trust becomes party to the contractual provision of the financial instrument, or in the case of trade receivables and payables, when the goods or services have been delivered or received, respectively.

Financial assets and financial liabilities are initially recognised at fair value. Public Dividend Capital is not considered to be a financial instrument, see accounting policy note 1.21 and is measured at historical cost.

Financial assets are de-recognised when the contractual rights to receive cashflows have expired or the asset has been transferred. Financial liabilities are de-recognised when the obligation has been discharged, cancelled or has expired.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

Classification

Financial assets are classified as: 'financial assets at fair value through income and expenditure'; 'held to maturity investments'; 'available for sale financial assets'; or as 'loans and receivables'.

Financial liabilities are classified as: 'financial liabilities at fair value through income and expenditure'; or as 'other financial liabilities'.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date, which are classified as non-current assets.

The Trust's loans and receivables comprise: cash and cash equivalents, NHS and trade debtors, accrued income and 'other debtors'.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost, using the effective interest method. Interest is recognised using the effective interest method and is credited to 'finance income'. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Other financial liabilities

Other financial liabilites are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost, using the effective interest method. Interest is recognised using the effective interest method and is charged to 'finance costs'. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities, except for those amounts payable more than 12 months after the reporting date, which are classified as non-current liabilities.

The Trust's other financial liabilities comprise: finance lease obligations, NHS and trade creditors, accrued expenditure and 'other creditors'.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

Impairment of financial assets

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.

Accounting for derivative financial instruments

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through income and expenditure. They are held at fair value, with any subsequent movement recognised as gains or losses in the Statement of Comprehensive Income.

1.16 Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Trust will not be able to collect all amounts due according to the original terms of receivables. The movement of the provision is recognised in the Statement of Comprehensive Income.

1.17 Deferred income

Deferred income represents grant monies received where the expenditure has not occurred in the current financial year. The deferred income is included in current liabilities unless the expenditure, in the opinion of management, will take place more than 12 months after the reporting date, which are classified in non-current liabilities.

1.18 Borrowings

The Trust can borrow within the limits set by Monitor's Prudential Borrowing Code. The Trust's borrowings and position against its prudential borrowing limit are respectively disclosed in notes 25 and 26 to the financial statements on page 54. The Trust has not utilised any loan or working capital facility, borrowing as at the reporting date consists of obligations under finance leases and the 'Queen Elizabeth Hospital Birmingham' Private Finance Initiative contract.

Accounting policies (continued)

1.19 Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms, except for early retirement provisions and injury benefit provisions which both use the HM Treasury's pension discount rate of 2.9% in real terms.

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. 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 in note 29 to the financial statements on page 58, but is not recognised in the Trust's financial statements.

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 when the liability arises. The Trust has also taken out additional insurance to cover claims in excess of £1million.

1.20 Contingencies

Contingent liabilities are not recognised but are disclosed in note 32 to the financial statements on page 60, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- Possible obligations arising from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the entity's control; or
- Present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 32 to the financial statements on page 60 where an inflow of economic benefits is probable.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.21 Public Dividend Capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS trust. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by the NHS foundation trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the NHS foundation trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets, (ii) net cash balances held with the Government Banking Services (GBS), excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the pre-audit version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

1.22 Research and Development

Expenditure on research is not capitalised, it is treated as an operating cost in the year in which it is incurred.

Research and development activity cannot be separated from patient care activity and is not a material operating segment within the Trust. It is therefore not separately disclosed.

1.23 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 non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.24 Corporation Tax

The Trust is a Health Service Body within the meaning of s519A ICTA 1988 and accordingly is exempt from taxation in respect of income and capital gains within categories covered by this. There is a power for the Treasury to disapply the exemption in relation to specified activities of a Foundation Trust (s519A (3) to (8) ICTA 1988). Accordingly, the Trust is potentially within the scope of corporation tax in respect of activities where income is received from a non public sector source. HM Treasury have stated that corporation tax will be applied to Foundation Trusts from the financial year commencing 1 April 2011.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.25 Foreign exchange

The functional and presentational currency of the Trust 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 Statement of Comprehensive Income 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. However, they are disclosed in a separate note to the financial statements in accordance with the requirements of HM Treasury's Financial Reporting Manual.

1.27 Losses and Special Payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is 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 foundation trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, the note on losses and special payments is compiled directly from the losses and compensations register which reports amounts on an accruals basis with the exception of provisions for future losses.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.28 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.

The critical accounting judgements and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Modern equivalent asset valuation of property

As detailed in accounting policy note 1.5 'Property, plant and equipment - valuation', the District Valuation Service provided the Trust with a valuation of the land and building assets (estimated fair value and remaining useful life). The significant estimation being the specialised building - depreciated replacement value, using modern equivalent asset methodology, of the new PFI hospital (the 'Queen Elizabeth Hospital Birmingham'). This valuation, based on estimates provided by a suitably qualified professional in accordance with HM Treasury guidance, leads to a significant reduction in the reported fair value of the new PFI hospital; see note 14.2 to the financial statements on page 47 for details. Future revaluations of the Trust's property may result in further material changes to the carrying values of non-current assets.

Provisions

Provisions have been made for legal and constructive obligations of uncertain timing or amount as at the reporting date. These are based on estimates using relevant and reliable information as is available at the time the financial statements are prepared. These provisions are estimates of the actual costs of future cash flows and are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Employer and public liability claims are based on information received from the NHS Litigation Authority (NHSLA) which handles claims on behalf of the Trust, see accounting policy note 1.19 for details. For cases not yet concluded, provision is made for the 'excess' of each non-clinical case, according to the NHSLA view of the expected outcome.

Pension provisions due to early retirements and ill health are based on information received from NHS Pensions Scheme, see accounting policy note 1.3 for details. The calculation is based on current payments and the future life expectancy of recipients, using information supplied by Government statistics and discounted at the HM Treasury 'pensions rate' of 1.8% to reflect the future timing of payments.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

Other provisions for legal and constructive obligations are made by Trust management where past events are known, settlement by the Trust is probable and a reliable estimate can be made.

The carrying amounts of the Trust's provisions are detailed in note 29 to the financial statements on page 57.

1.29 Accounting standards, interpretations and amendments adopted in the year ended 31 March 2011

The following new, revised and amended standards and interpretations have been adopted in the reporting year and have affected the amounts reported in these financial statements or have resulted in a change in presentation or disclosure.

IFRIC 12 "Service Concession Arrangements" - requires assets built under the Private Finance Initiative (PFI) and their associated liabilities to be disclosed in the financial statements of NHS Foundation Trusts, where certain conditions are met. The Trust opened a new PFI hospital (the 'Queen Elizabeth Hospital Birmingham') on 15th June 2010 and as this infrastructure asset falls within the scope of a 'service concession' under IFRIC 12, this interpretation has been adopted as at the reporting date. See accounting policy note 1.11 for details of the material impact of this transaction on the financial statements.

Amendment to IAS 17 "Leases - classification of leases of land and buildings". Requires the classification of leased land as a finance lease, where the lease term is for several decades or more and at the end of the lease term no title can pass to the lessee, because substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered to be negligible. The material impact of this amendment is the reclassification of the land on the Queen Elizabeth Hospital Site, which is leased over 999 years, from an operating lease to a finance lease. The Trust has presented a restated Statement of Financial Position from the 31 March 2009, the beginning of the comparative period under IAS 1 "Presentation of Financial Statements". See note 14.3 to the financial statements on page 48 for details.

IFRS 8 "Operating Segments - disclosure requirements". This standard amends the requirements for disclosure of segmental performance and does not have any effect on the Trust's overall reported results. See note 2 to the financial statements on page 35 for details

In addition to the above, all other new, revised and amended standards and interpretations, which are mandatory as at the reporting date, have been adopted in the year. None have had a material impact on the Trust's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Accounting policies (continued)

1.30 Accounting standards, interpretations and amendments to published standards not yet effective

The following standards, interpretations and amendments have been issued by the IASB for future reporting periods and are not yet adopted by the EU:

- IFRS 7 (amendment) 'Financial Instruments' - transfers of financial assets (effective 1 April 2012)
- IFRS 9 'Financial Instruments' - recognition and measurement of financial assets (effective 1 April 2013)
- IAS 12 (amendment) 'Income Taxes' - deferred tax, recovery of underlying assets (effective 1 April 2012)
- IAS 24 (revised) 'Related Party Disclosures' - government related entities (effective 1 April 2011)
- IFRIC 14 (amendment) 'Prepayments of a Minimum Funding Requirement' (effective 1 April 2011)
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective 1 April 2011)
- Annual Improvements to IFRSs 2010 (effective 1 April 2011)

The Trust does not consider that these or any other standards, amendments or interpretations issued by the IASB, but not yet adopted by the EU, will have a material impact on the financial statements:

2. Segmental Analysis

The Board (the Chief Operating Decision Maker as defined by IFRS 8 Operating Segments) has determined that the Trust operates one material business segment, which is the provision of healthcare services. The operating results of this segment are regularly reviewed by the Board.

Revenue from activities (medical treatment of patients) is analysed by customer type in note 3 to the financial statements on page 36. Other operating revenue is analysed in note 4 to the financial statements on page 37 and materially consists of revenues from healthcare research and development, medical education and the provision of services to other NHS bodies. Total revenue by individual customers within the whole of HM Government and considered material, is disclosed in the related parties transactions note 31 to the financial statements on page 59.

The percentage of total revenue receivable from within the whole of HM Government is disclosed below. The significant factor behind which is the 'mandatory services requirement' (NHS healthcare), as set out in the Trust's Terms of Authorisation from Monitor and defined by legislation.

	Year ended 31 March 2011 £000	%	Year Ended 31 March 2010 £000	%
Revenue from whole HM Government	501,423	93.6%	477,656	96.3%
Revenue from non HM Government sources	34,282	6.4%	18,538	3.7%
	535,705	100.0%	496,194	100.0%

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue from Activities	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Foundation Trusts	120	102
NHS Trusts	326	353
Strategic Health Authorities	15,031	13,570
Primary Care Trusts	395,601	374,900
Department of Health - other	-	88
NHS Scotland, Wales and Northern Ireland	3,690	4,791
Private Patients	2,989	2,799
NHS Injury Cost Recovery scheme	2,813	3,051
Ministry of Defence	10,736	9,170
	431,306	408,824

Healthcare activity income from the Ministry of Defence of £10,735,871 relates to the Trust contract with the Royal Centre for Defence Medicine (2009/10 - £9,169,814).

NHS Injury Cost Recovery scheme income is subject to a provision for impairment of receivables of 9.6% to reflect expected rates of collection.

3.1 Revenue from Activities	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Elective	98,226	88,704
Non elective	78,613	80,948
Outpatients	63,422	51,788
A & E	7,656	7,032
Other NHS clinical	166,851	165,332
Private patients	2,989	2,799
Other non-protected clinical	13,549	12,221
	431,306	408,824

With the exception of private patient and other non-protected clinical revenue, all of the above revenue from activities arises from mandatory services as set out in the Trust's Terms of Authorisation from Monitor.

NOTES TO THE FINANCIAL STATEMENTS

3. Revenue from activities (cont.)

3.2 Private Patients	Financial Year 2010/11 £000	Base Year 2002/03 £000
Private patients	2,989	2,773
Total patient related revenue	431,306	225,193
Proportion (as percentage)	0.69%	1.23%

The Trust's Terms of Authorisation contain a private patient income cap (limit) of 1.23% of income earned from activities. This cap is based on actual results for reporting year 2002/03 as disclosed above and defined in section 44 of the National Health Service Act 2006. The private patient cap has not been breached. In February 2010 Monitor amended the definition of 'private patient income' which requires the revision of base year data under this wider definition where applicable. No additional private patient income has been identified and therefore the Trust has not restated the base year data.

4. Other Operating Revenue	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Research and development	21,430	17,275
Education and training	34,694	28,799
Charitable and other contributions to expenditure	1,420	1,132
Transfers from donated asset reserve	704	937
Non-patient care services to other bodies	10,970	11,842
Other revenue	35,181	27,385
	104,399	87,370

Other revenue includes a one off contribution towards the construction of the new Queen Elizabeth Hospital Birmingham of £7,321,000 from the University of Birmingham due to their occupation of the new medical research facilities. Also included is rental income of £1,216,000 (2009/10 - £nil) due to the leasing of new hospital facilities by the University of Birmingham and Ministry of Defence; £4,174,000 from Clinical Excellence Awards (2009/10 - £4,391,000); recharges of £2,422,000 to the Ministry of Defence to fund the training expenditure of Nurses along with catering and car parking costs associated with the military contract (2009/10 - £5,377,000); £2,082,000 from the National Quality Assurance Service (2009/10 - £1,951,000); and funding of £2,441,000 (2009/10 - £1,998,000) for the organ retrieval service.

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

NOTES TO THE FINANCIAL STATEMENTS

5. Operating Expenses

	Year Ended 31 March 2011			Year Ended 31 March 2010
	Before non-recurring items	Material non-recurring items	Total	Total
	£000	£000	£000	£000
Services from Foundation Trusts	2,321	-	2,321	2,007
Services from other NHS Trusts	5,416	13	5,429	4,536
Services from PCTs	1,507	-	1,507	913
Services from other NHS bodies	-	-	-	135
Purchase of healthcare from non NHS bodies	10,271	94	10,365	9,551
Directors' costs	1,672	-	1,672	1,552
Non executive directors' costs	164	-	164	159
Staff costs	288,405	2,366	290,771	273,827
Supplies and services - clinical	123,163	783	123,946	116,116
Supplies and services - general	6,542	245	6,787	6,296
Consultancy services	4,903	705	5,608	4,086
Establishment	4,540	131	4,671	4,415
Transport	893	539	1,432	916
Premises	20,585	2,098	22,683	20,084
Provision for Impairment of Receivables	640	-	640	1,035
Depreciation on property, plant and equipment	16,223	-	16,223	10,593
Amortisation on intangible assets	311	-	311	247
Impairments of property, plant and equipment	612	242,945	243,557	1,232
Loss on Disposal of property, plant and equipment	-	-	-	51
Audit services - statutory audit	93	-	93	86
Other auditors remuneration - other services	40	-	40	82
Clinical negligence	3,392	-	3,392	3,501
Other	33,241	136	33,377	19,177
	524,934	250,055	774,989	480,597

Other expenditure includes £12,222,000 (2009/10 - £nil) in relation to payments to the Trust's PFI partner for services provided; Research Grants distributed to other West Midlands NHS organisations of £9,895,000 (2009/10 - £9,278,000) due to the Trust acting as host body for the Comprehensive Local Research Network; Training, Courses and Conference fees of £3,145,000 (2009/10 - £4,009,000) and fees payable to RSM Tenon with regard to internal audit and counter fraud services of £132,000 (2009/10 - £161,000).

Non-recurring items are detailed in note 5.1 to the financial statements on page 39.

The loss on disposal of property, plant and equipment arises entirely from the disposal of non protected assets, which had supported continuing operations.

The Trust's contract with its external auditors, KPMG LLP, provides for a limitation of the auditors liability of five hundred thousand pounds sterling.

NOTES TO THE FINANCIAL STATEMENTS

5. Operating expenses (cont.)

5.1 Material non-recurring items

	Year Ended 31 March 2011 Total £000	Year Ended 31 March 2010 £000
Non-recurring operating expenses:		
Transition costs relating to relocation to the new PFI hospital (a)	7,110	-
Impairment of property - new PFI hospital (b)	242,945	-
	250,055	-

(a) Non-recurring costs associated with the relocation of healthcare services to the new 'Queen Elizabeth' PFI hospital and the consequent decommissioning of the Selly Oak hospital site. The timetable of moves to the new hospital is disclosed in note 28.1 to the financial statements on page 58. Details of the transition costs by expense type are disclosed in note 5 to the financial statements on page 38.

(b) Further disclosure of the impairment of the new 'Queen Elizabeth' PFI hospital, resulting from the difference between the PFI contracted cost and the fair value in operational use as at the reporting date, is given in note 14.2 to the financial statements on page 47.

NOTES TO THE FINANCIAL STATEMENTS

6. Operating leases

6.1 As lessee

Payments recognised as an expense	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Minimum lease payments	1,100	1,225

Total future minimum lease payments	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Payable:		
Not later than one year	1,177	1,041
Between one and five years	1,921	1,717
After 5 years	1,917	1,915
Total	5,015	4,673

6.2 As lessor

Rental revenue	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Rents recognised as income in the period	1,523	424

Total future minimum lease payments	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Receivable:		
Not later than one year	1,910	189
Between one and five years	5,567	432
After 5 years	5,419	1,111
Total	12,896	1,732

NOTES TO THE FINANCIAL STATEMENTS

7. Employee costs and numbers

7.1 Employee costs

	Year Ended 31 March 2011			Year Ended 31 March 2010		
	Total	Permanently Employed	Other	Total	Permanently Employed	Other
	£000	£000	£000	£000	£000	£000
Short term employee benefits - salaries and wages	231,151	214,897	16,254	219,346	204,210	15,136
Short term employee benefits - social security costs	18,481	18,481	-	17,463	17,463	-
Post employment benefits - employer contributions to NHS pension scheme	25,421	25,421	-	24,405	24,405	-
Termination benefits	359	359	-	187	187	-
Agency/contract staff	17,390	-	17,390	14,165	-	14,165
	292,802	259,158	33,644	275,566	246,265	29,301

7.2 Average number of persons employed

	Year Ended 31 March 2011			Year Ended 31 March 2010		
	Total	Permanently Employed	Other	Total	Permanently Employed	Other
Medical and dental	907	842	65	897	830	67
Administration and estates	1,468	1,468	-	1,470	1,470	-
Healthcare assistants and other support staff	564	564	-	581	581	-
Nursing, midwifery and health visiting staff	2,389	2,389	-	2,331	2,331	-
Scientific, therapeutic and technical staff	1,134	1,134	-	1,015	1,015	-
Bank and agency staff	268	-	268	232	-	232
	6,729	6,396	333	6,526	6,227	299

NOTES TO THE FINANCIAL STATEMENTS

7. Employee costs and numbers (cont.)

7.3 Key Management Compensation

	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Salaries and short term benefits	1,351	1,222
Social Security Costs	154	149
Employer contributions to NHSPA	167	181
	1,672	1,552

Key management compensation consists entirely of the emoluments of the Board of Directors of the Trust. Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report which is a part of the annual report and financial statements.

7.4 Termination of employment benefits

	Compulsory redundancies		Other agreed departures		Total termination packages	
	Number	Cost £'000	Number	Cost £'000	Number	Cost £'000
Termination benefit by band - Year Ended 31 March 2011						
< £10,000	9	33	-	-	9	33
£10,000 - £25,000	3	48	-	-	3	48
£25,000 - £50,000	1	35	-	-	1	35
£50,000 - £100,000	2	133	-	-	2	133
> £100,000	1	110	-	-	1	110
	16	359	-	-	16	359
Termination benefit by band - Year Ended 31 March 2010						
< £10,000	7	21	-	-	7	21
£10,000 - £25,000	4	63	-	-	4	63
£25,000 - £50,000	3	103	-	-	3	103
	14	187	-	-	14	187

There were no termination benefits paid or due in the reporting year to key management personnel, who are defined to be the Board of Directors of the Trust (2009/10 - £nil).

8. Retirements due to ill-health

During the year to 31 March 2011 there were 9 early retirements from the Trust agreed on the grounds of ill-health (2009/10 - 8). The estimated additional pension liabilities of these ill-health retirements will be £483,904 (2009/10 - £580,494). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.

NOTES TO THE FINANCIAL STATEMENTS

9. Better payment practice code

9.1 Measure of compliance

	Year Ended 31 March 2011		Year Ended 31 March 2010	
	Number	£000	Number	£000
Trade				
Total trade bills paid in the year	104,393	234,740	95,539	201,652
Total trade bills paid within target	103,156	232,928	94,269	199,643
Percentage of trade bills paid within target	98.82%	99.23%	98.67%	99.00%
NHS				
Total NHS bills paid in the year	4,937	90,237	5,020	89,613
Total NHS bills paid within target	4,688	85,495	4,669	85,191
Percentage of NHS bills paid within target	94.96%	94.74%	93.01%	95.07%

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.

9.2 The late payment of commercial debts (interest) Act 1998

Nil interest was charged to the Trust in the year for late payment of commercial debts.

10. Finance income and costs

	Year Ended 31 March 2011 £000	Year Ended 31 March 2010 £000
Financing income		
Interest receivable	358	664
	358	664
Financing costs		
Interest on obligations under PFI contracts	(10,449)	-
Interest on obligations under finance leases	(4)	(8)
Other financing charges	(44)	(39)
	(10,497)	(47)
Net finance expense	(10,139)	617

11. Public dividend capital dividends

Public dividend capital ('PDC') dividends paid and due to the Department of Health amounted to £231,000 (2009/10 - £2,433,000). PDC dividends are calculated as a percentage (3.5%) of average net relevant assets. The Trust has negative taxpayers' equity as at the reporting date hence the significant reduction in PDC payable in the year.

12. Taxation

The activities of the Trust have not given rise to any corporation tax liability in the year (2009/10 - £nil).

13. Intangible assets

	Computer software - purchased	Licences and trademarks	Intangible assets under construction	Total
	£000	£000	£000	£000
Cost				
At 1 April 2009	1,057	164	59	1,280
Additions	103	-	-	103
Reclassifications	59	-	(59)	-
At 31 March 2010	**1,219**	**164**	**-**	**1,383**
Prior period adjustment *	-	-	270	270
At 31 March 2010 as restated	**1,219**	**164**	**270**	**1,653**
Additions	196	85	-	281
Reclassifications	255	15	(270)	-
At 31 March 2011	**1,670**	**264**	**-**	**1,934**
Amortisation				
At 1 April 2009	345	38	-	383
Charged for the year	214	33	-	247
At 31 March 2010	**559**	**71**	**-**	**630**
Charged for the year	271	40	-	311
At 31 March 2011	**830**	**111**	**-**	**941**
Net book value				
At 31 March 2011	**840**	**153**	**-**	**993**
At 31 March 2010 - restated	660	93	270	1,023
At 1 April 2009 - restated	712	126	59	897

* The prior period adjustment is due to £270,000 of additions in 2009/10 classified as property, plant and equipment, now reclassified as intangible software and licences. See note 14 to the financial statements on page 45.

All intangible assets of the Trust have been purchased and none have been donated, funded by government grant or internally generated.

The valuation basis is described in accounting policy note 1.6. There is no active market for the Trust's intangible assets and there is no revaluation reserve.

The estimated useful economic lives of the Trust's intangible assets range from two to five years and each asset is being amortised over this period, as described in accounting policy note 1.7.

14. Property, plant and equipment - 2010/11	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost									
At 31 March 2010	72,500	59,050	1,348	3,381	69,082	119	12,497	5,165	223,142
Prior period adjustment *	-	4	-	(270)	(319)	(29)	(15)	(212)	(841)
At 31 March 2010 as restated	**72,500**	**59,054**	**1,348**	**3,111**	**68,763**	**90**	**12,482**	**4,953**	**222,301**
Additions purchased	-	479,652	-	561	15,825	-	1,184	143	497,365
Additions donated	-	-	-	5	1,602	-	-	-	1,607
Reclassifications	-	1,694	-	(2,512)	372	-	443	3	-
Transferred in from other non-financial assets **	-	30,963	-	-	-	-	-	-	30,963
Impairments charged to operating expenses	-	(243,557)	-	-	-	-	-	-	(243,557)
Impairments charged to revaluation reserve	(3,625)	(695)	-	-	-	-	-	-	(4,320)
Revaluation surpluses	-	(4,860)	(50)	-	-	-	-	-	(4,910)
Disposals other than by sale	-	-	-	-	(4,014)	-	-	(505)	(4,519)
At 31 March 2011	**68,875**	**322,251**	**1,298**	**1,165**	**82,548**	**90**	**14,109**	**4,594**	**494,930**
Depreciation									
At 31 March 2010	-	3,485	-	-	38,356	119	5,813	4,648	52,421
Prior period adjustment *	-	4	-	-	(319)	(29)	(15)	(212)	(571)
At 31 March 2010 as restated	**-**	**3,489**	**-**	**-**	**38,037**	**90**	**5,798**	**4,436**	**51,850**
Provided during the year	-	6,499	88	-	7,819	-	1,697	120	16,223
Revaluation surpluses	-	(5,519)	(88)	-	-	-	-	-	(5,607)
Disposals other than by sale	-	-	-	-	(4,014)	-	-	(505)	(4,519)
At 31 March 2011	**-**	**4,469**	**-**	**-**	**41,842**	**90**	**7,495**	**4,051**	**57,947**
Net book value									
Owned	26,125	49,132	1,272	1,159	37,474	-	6,614	531	122,307
Donated	-	5,389	26	6	3,226	-	-	12	8,659
Private Finance Initiative	-	263,261	-	-	-	-	-	-	263,261
Finance Leased	42,750	-	-	-	6	-	-	-	42,756
At 31 March 2011	**68,875**	**317,782**	**1,298**	**1,165**	**40,706**	**-**	**6,614**	**543**	**436,983**
Analysis of property, plant and equipment									
Net book value									
Protected assets	42,750	309,096	-	-	-	-	-	-	351,846
Unprotected assets	26,125	8,686	1,298	1,165	40,706	-	6,614	543	85,137
At 31 March 2011	**68,875**	**317,782**	**1,298**	**1,165**	**40,706**	**-**	**6,614**	**543**	**436,983**

Condition 9 of the Trust's Terms of Authorisation defines protected assets as "Property needed for the purposes of providing any of the mandatory goods and services". This comprises NHS healthcare and related education and training services, such properties cannot be sold without the prior approval of Monitor.

* The prior period adjustment is due to £270,000 of additions in 2009/10 classified as property, plant and equipment, now reclassified as intangible software and licences. See note 13 to the financial statements on page 44.

** Due to the opening of the Queen Elizabeth Hospital Birmingham and its subsequent recognition as an asset on 15 June 2010, £30,963,000 of construction work carried out prior to this date on the new PFI hospital was reclassified as property, plant and equipment from other non-financial assets, see note 18 to the financial statements on page 52.

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant and equipment - 2009/10	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost									
At 1 April 2009	42,500	92,815	3,156	5,592	62,160	119	10,677	5,240	222,259
Adoption of amendment to IAS 17 *	50,000	-	-	-	-	-	-	-	50,000
At 1 April 2009 as restated	**92,500**	**92,815**	**3,156**	**5,592**	**62,160**	**119**	**10,677**	**5,240**	**272,259**
Additions purchased	-	4,142	-	1,331	10,670	-	1,632	124	17,899
Additions donated	-	129	-	3	237	-	-	-	369
Reclassifications	-	2,755	-	(3,545)	602	-	188	-	-
Impairments charged to operating expenses	-	(1,232)	-	-	-	-	-	-	(1,232)
Impairments charged to revaluation reserve	(20,000)	-	(1,808)	-	-	-	-	-	(21,808)
Revaluation surpluses	-	(39,559)	-	-	-	-	-	-	(39,559)
Disposals other than by sale	-	-	-	-	(4,587)	-	-	(199)	(4,786)
At 31 March 2010	**72,500**	**59,050**	**1,348**	**3,381**	**69,082**	**119**	**12,497**	**5,165**	**223,142**
Depreciation									
At 1 April 2009	-	43,821	1,416	-	37,157	119	4,288	4,512	91,313
Provided during the year	-	2,892	106	-	5,735	-	1,525	335	10,593
Impairments charged to revaluation reserve	-	-	(1,522)	-	-	-	-	-	(1,522)
Revaluation surpluses	-	(43,228)	-	-	-	-	-	-	(43,228)
Disposals other than by sale	-	-	-	-	(4,536)	-	-	(199)	(4,735)
At 31 March 2010	**-**	**3,485**	**-**	**-**	**38,356**	**119**	**5,813**	**4,648**	**52,421**
Net book value									
Owned	27,500	50,108	1,322	3,244	28,560	-	6,684	498	117,916
Donated	-	5,457	26	137	2,096	-	-	19	7,735
Finance Leased	45,000	-	-	-	70	-	-	-	45,070
At 31 March 2010 - restated	**72,500**	**55,565**	**1,348**	**3,381**	**30,726**	**-**	**6,684**	**517**	**170,721**
Analysis of property, plant and equipment									
Net book value									
Protected assets	45,000	26,665	-	-	-	-	-	-	71,665
Unprotected assets	27,500	28,900	1,348	3,381	30,726	-	6,684	517	99,056
At 31 March 2010 - restated	**72,500**	**55,565**	**1,348**	**3,381**	**30,726**	**-**	**6,684**	**517**	**170,721**

* Adoption of the amendment to IAS 17 results in the reclassification of the Queen Elizabeth Hospital 'QEH' site land from an operating lease to a finance lease, see note 14.3 to the financial statements on page 48.

14. Property, plant and equipment (cont.)

14.1 Estimated useful economic lives

The estimated useful economic lives of the Trust's property, plant and equipment are as follows with each asset being depreciated over this period, as described in accounting policy note 1.7.

	Minimum life Years	Maximum life Years
Buildings (excluding dwellings)	10	50
Dwellings	15	30
Plant and Machinery	5	15
Information technology	5	10
Furniture and fittings	5	10

14.2 Valuation at the reporting date

The land, buildings and dwellings were valued at the reporting date by an independent valuer, the District Valuation Service 'DVS'. The purpose of this exercise being to determine a fair value for Trust property, as detailed in accounting policy notes 1.5 'Property, plant and equipment - valuation' and 1.28 'Critical accounting judgements and key sources of estimation uncertainty'.

The revaluation exercise resulted in a net impairment being charged to operating expenses, within the Income Statement.

Impairments of property, plant and equipment	**Year Ended 31 March 2011 £000**
Impairments charged to Statement of Comprehensive Income	
Queen Elizabeth Hospital - new PFI facility	**242,945**
Trust owned property	**612**
	243,557

During the year the Trust opened the new Private Finance Initiative hospital (the 'Queen Elizabeth Hospital Birmingham'), which gave rise to an impairment resulting from the difference between the cost directly attributable to the construction (including interest charges and fees) and the fair value in operational use, as measured at 31 March 2011. The impairment is disclosed in non-recurring operating expenses within the Income Statement, see note 5 to the financial statements on page 38.

The impairment to Trust owned property charged to operating expenses arose from the difference between the cost attributable to a refurbishment of office accomodation (the 'Wolfson' building) and the fair value of the asset in operational use, as measured at the reporting date and exceeding the available revaluation reserve balance to offset this charge.

14. Property, plant and equipment (cont.)

The surpluses and deficits upon the revaluation exercise resulted in the following gains and losses being charged to the revaluation or donated asset reserves, see the Statement of Changes in Taxpayers' Equity on page 15 of the financial statements.

Revaluation gains / (losses) on property, plant and equipment

	Year ended 31 March 2011		
	Revaluation reserve	Donated asset reserve	**Total**
	£000	£000	**£000**
Surpluses / (deficits) due to revaluation of property recognised in other comprehensive income			
Land	(3,625)	-	**(3,625)**
Buildings	(56)	20	**(36)**
Dwellings	37	1	**38**
	(3,644)	**21**	**(3,623)**

14.3 Restatement under IFRS

The amendment to accounting standard IAS 17 'Leases - classification of leases of land and buildings' at the reporting date, has resulted in the following change to the disclosure of property, plant and equipment. The land on the Queen Elizabeth Hospital 'QEH' site is reclassified from an operating lease to a finance lease, because substantially all risks and rewards are transferred to the lessee:

	Land
	£000
Net book value	
At 1 April 2009 as previously reported	42,500
Adoption of amendment to IAS 17	50,000
At 1 April 2009 as restated	**92,500**
At 31 March 2010 as previously reported	27,500
Adoption of amendment to IAS 17	45,000
At 31 March 2010 as restated	**72,500**
Movements in 2009/10 recognised in other comprehensive income	(5,000)

The change in value of the 'QEH' site land at the respective prior reporting dates is due to revaluations of the carrying value to fair value. The land previously disclosed at the prior reporting dates is the Selly Oak site whose freehold is owned by the Trust.

NOTES TO THE FINANCIAL STATEMENTS

14. Property, plant and equipment (cont.)

14.4 Assets held under finance leases and PFI arrangements	PFI assets	Assets held under finance leases	Total
	£000	£000	£000
Cost			
At 1 April 2009	-	238	238
Adoption of amendment to IAS 17	-	50,000	50,000
At 1 April 2009 as restated	**-**	**50,238**	**50,238**
Additions	-	-	-
Impairments to revaluation reserve	-	(5,000)	(5,000)
Reclassifications	-	-	-
At 31 March 2010	**-**	**45,238**	**45,238**
Additions	478,544	-	478,544
Impairments to revaluation reserve	-	(2,250)	(2,250)
Transferred in from other non-financial assets	30,963	-	30,963
Impairments to operating expenses	(242,945)	-	(242,945)
At 31 March 2011	**266,562**	**42,988**	**309,550**
Depreciation			
At 31 March 2009	-	84	84
Charged for the year	-	84	84
At 31 March 2010	**-**	**168**	**168**
Charged for the year	3,301	64	3,365
At 31 March 2011	**3,301**	**232**	**3,533**
Net book value			
At 31 March 2011	**263,261**	**42,756**	**306,017**
At 31 March 2010	-	45,070	45,070
At 31 March 2009	-	50,154	50,154

The Private Finance Initiative asset is the new Queen Elizabeth Hospital Birmingham as detailed in note 28.1 to the financial statements on page 56. The impairment is detailed in note 14.2 above and the transfer in from other non-financial assets is detailed in note 19 to the financial statements on page 52.

15. Capital commitments

Commitments under capital expenditure contracts at the end of the period, not otherwise included in these financial statements, were £7,018,000 (31 March 2010 - £10,257,000). This amount relates entirely to property, plant and equipment, there are nil contracted capital commitments for intangible assets. Included within these amounts are £6,437,000 (31 March 2010 - £5,996,000) for committed orders to purchase equipment for the new PFI Hospital.

16. Subsidiaries and investments

The Trust has two wholly owned subsidiary companies. The income, expenses, assets, liabilities, equity and reserves of the subsidiaries have been consolidated into the Trust's financial statements and group financial statements have been prepared. There are no equity or reserves attributable to minority interests and the amounts consolidated are drawn from the published financial statements of the subsidiaries whose reporting dates are the same as that of the Trust (31 March). Where subsidiaries' accounting policies are not aligned with those of the Trust (including where they report under UK GAAP) then amounts are adjusted during consolidation where the differences are material.

'Pharmacy@QEHB Ltd', company no. 07547768, with a share capital comprising one share of £1 owned by the Trust. The company is preparing to trade as an Outpatients Dispensary service in the new 'Queen Elizabeth Hospital Birmingham' and has begun purchasing the necessary equipment, a cost of £32,130 paid to suppliers as at the reporting date. The Trust has provided the funding for the asset purchases of Pharmacy@QEHB Ltd and the £32,130 is disclosed on the Trust's own statement of financial position as a loan to subsidiary within trade and other receivables. The asset is disclosed within property, plant and equipment as an asset under construction in the consolidated financial statements.

Birmingham Systems (Healthcare) Ltd', company no. 7136767, with a share capital comprising one share of £1 owned by the Trust. The company is dormant and has not yet traded, therefore there are nil assets and liabilities to consolidate into the Trust's financial statements.

The Trust has one investment comprising a 12% shareholding in a company 'Sapere Systems Limited', company no. 7171338, the Trust's shareholding purchased for £12. This company is dormant and has not yet traded, therefore the investment is recognised in the Trust's statement of financial position at cost.

NOTES TO THE FINANCIAL STATEMENTS

17. Inventories	31 March 2011 £000	31 March 2010 £000
Materials	12,787	10,846
Work in progress	-	-
Finished goods	3	5
	12,790	10,851

Inventories carried at fair value less costs to sell where such value is lower than cost are nil (31 March 2010 - £nil).

The Trust expensed £122,025,000 of inventories during the year (2009/10 - £113,296,000). The Trust charged £13,000 to operating expenses in the year due to write-downs of obsolete inventories (2009/10 - £33,000).

18. Trade and other receivables	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
NHS receivables	35,010	13,114	-	370
Receivables with other related parties	10,887	9,082	-	-
Commercial trade receivables	3,475	2,338	-	-
Provision for impaired receivables	(2,263)	(1,772)	(304)	(203)
PFI prepayments - lifecycle replacements	14	-	-	-
Prepayments	2,164	9,069	-	-
Accrued income	1,061	1,086	-	-
Other receivables	3,561	4,584	3,168	2,602
PDC receivable	-	12	-	-
	53,909	37,513	2,864	2,769

NHS receivables consist of balances owed by NHS bodies in England, receivables with other related parties consist of balances owed by other HM Government organisations. Related party transactions are detailed in note 31 to the financial statements on page 59.

Included within trade and other receivables are balances with a carrying amount of £12,692,000 (31 March 2010: £9,273,000) which are past due at the reporting date but for which no specific provision has been made as they are considered to be recoverable based on previous trading history.

Aged analysis of past due but not impaired	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
By up to three months	2,058	2,131	-	-
By three to six months	3,200	1,655	-	-
By more than six months	4,558	3,091	2,876	2,396
	9,816	6,877	2,876	2,396

NOTES TO THE FINANCIAL STATEMENTS

18. Trade and other receivables (cont.)

Provision for impaired receivables	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Movement in the provision for impaired receivables				
Balance at 1 April	1,772	873	203	200
Increase in provision	1,210	1,429	117	84
Amounts utilised	(48)	(52)	-	(81)
Unused amounts reversed	(671)	(478)	(16)	-
	2,263	1,772	304	203
Aged analysis of impaired receivables				
By up to three months	41	591	-	-
By three to six months	270	107	-	-
By more than six months	1,952	1,074	304	203
	2,263	1,772	304	203

19. Other non financial assets

	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
PFI deferred assets - building works variations	-	-	-	29,955
PFI deferred assets - bullet payment	41	41	254	294
	41	41	254	30,249

Deferred assets - building works variations' arose from the Trust making direct payments to the PFI partner, for additional construction work to the new PFI hospital. Upon the opening of the Queen Elizabeth Hospital Birmingham and its subsequent recognition as an asset on 15 June 2010, the carrying value of the deferred asset of £30,963,000 was reclassified to property, plant and equipment. This amount being the sum of the balance at 1 April 2010 - £29,955,000 and the expenditure incurred during the year to 15 June 2010 - £1,008,000, see note 14 to the financial statements on page 45.

Deferred assets - bullet payment' arises from the Trust making payments direct to the PFI partner for the provision of IT services. This payment made to the PFI partner will be amortised over the remaining 7 years of the contract.

NOTES TO THE FINANCIAL STATEMENTS

20. Cash and cash equivalents	31 March 2011 £000	31 March 2010 £000
Cash and cash equivalents	**62,009**	96,290
Made up of		
Cash with Government Banking Service	61,109	95,897
Commercial banks and cash in hand	900	393
Current investments	-	-
Cash and cash equivalents as in statement of financial position	**62,009**	96,290
Bank overdraft - Government Banking Service	-	-
Bank overdraft - Commercial banks	-	-
Cash and cash equivalents as in statement of cash flows	**62,009**	96,290

21. Non-current assets held for sale

The Trust has no non-current assets held for sale (31 March 2010 - £nil).

22. Trade and other payables	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
NHS payables	12,467	19,884	-	-
Amounts due to other related parties	167	540	-	-
Commercial trade payables	18,293	19,383	-	-
Trade payables - capital	1,284	5,555	-	-
Other payables	1,308	392	-	-
Accruals	30,666	16,370	-	-
Receipts in advance	95	480	-	-
PDC payable	131	-	-	-
	64,411	62,604	-	-

NHS payables consist of balances owed to NHS bodies in England, amounts due to other related parties consist of balances owed to other HM Government organisations. Related party transactions are detailed in note 32 to the financial statements on page 59. Included within NHS payables are NHS pension contributions of £3,218,000 (31 March 2010: £3,116,000).

23. Tax Payable	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Amounts due to other related parties	6,340	6,054	-	-

Tax payable consists of employment taxation only (Pay As You Earn and National Insurance Contributions), owed to Her Majesty's Revenue and Customs at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

24. Other liabilities

	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Deferred income	13,615	27,423	51,894	25,040
Deferred government grant	46	46	2,631	2,648
	13,661	27,469	54,525	27,688

25. Borrowings

	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Obligations under finance leases	7	68	-	7
Obligations under Private Finance Initiative contracts	10,928	-	447,934	-
	10,935	68	447,934	7

The Private Finance Initiative obligation relates to the new Queen Elizabeth Hospital Birmingham as detailed in note 28.1 to the financial statements on page 56.

26. Prudential borrowing limit

	31 March 2011 £000	31 March 2010 £000
Total long term borrowing limit set by Monitor	561,100	592,100
Working capital facility agreed by Monitor	20,000	1,000
	581,100	593,100
Long term borrowing at 1st April	75	159
Net actual borrowing / (repayment) in year - long term	458,794	(84)
Long term borrowing at 31st March	458,869	75
Working capital borrowing at 31st March	-	-

The Trust is required to comply and remain within a prudential borrowing limit. This is made up of two elements:

- the maximum cumulative amount of long term borrowing. This is set by reference to the four ratios test set out in Monitor's Prudential Borrowing Code. The financial risk rating set under Monitor's Compliance Framework determines one of the ratios and therefore can impact on the long term borrowing limit

- the amount of any working capital facility approved by Monitor.

Further information on the NHS Foundation Trust Prudential Borrowing Code and Compliance Framework can be found on the website of Monitor, the Independent Regulator of NHS Foundation Trusts.

26. Prudential borrowing limit (cont.)

The long term borrowing limit set by Monitor is due to the new private finance initiative contract and the actual net borrowing is the non-current PFI obligation at the reporting date.

The ratio tests used to determine the maximum long term borrowing limit and the Trust's performance against them is set out below. As the Trust has a PFI scheme it is measured against Monitor's Tier 2 limits:

	Tier 2 Limits	31 March 2011	31 March 2010
Minimum dividend cover	> 1.0	**76.9**	11.7
Minimum interest cover	> 2.0	**2.8**	-
Minimum debt service cover	> 1.5	**1.5**	-
Maximum debt service to revenue	< 10%	**3.5%**	-

The Trust has achieved the four Tier 2 ratios laid down by Monitor in the Prudential Borrowing Code.

27. Finance lease obligations (other than PFI)

	Minimum lease payments		Present value of minimum lease payments	
	31 March 2011 £000	31 March 2010 £000	**31 March 2011 £000**	31 March 2010 £000
Gross lease liabilities	**7**	80	6	76
Of which liabilities are due:				
Not later than one year	**7**	72	6	70
Later than one year, not later than five years	**-**	8	-	6
Later than five years	**-**	-	-	-
Net finance charges allocated to future periods	**-**	(5)	-	(4)
Net lease liabilities	**7**	75	**6**	72
Not later than one year	7	68	6	66
Later than one year, not later than five years	-	7	-	6
Later than five years	-	-	-	-

28. Private finance initiative contracts

28.1 PFI schemes on-statement of financial position

A contract for the development of the new hospital was signed by the Trust and its PFI partner on 14 June 2006. The purpose of the scheme is to deliver a modern, state of the art acute hospital facility on the QE site which is due to be fully operational in 2012. This is part of a wider PFI deal between the Trust, Birmingham & Solihull Mental Health Trust and a consortium led by Consort Healthcare (Birmingham) Limited. The ownership of the consortium entity is as follows:

Balfour Beatty Infrastructure Investments Ltd (40%), HSBC Infrastructure Fund (30%) and Royal Bank of Scotland Investments Ltd (30%).

The contracted value of the new PFI hospital is £584,600,000 (of which £484,889,000 is capital and £99,711,000 are fees and finance costs incurred prior to 15 June 2010). The 'Queen Elizabeth Hospital Birmingham' is being handed over in three phases:

- phase 1 on 15 June 2010 and phase 2 on 17 November 2010 were delivered on schedule and are complete as at the reporting date.
- phase 3 is scheduled for 11 October 2011 in the next reporting year.

As at the reporting date there were 122 formal contract variations which relate to the Trust. The cost of the approved variations have been included in the accounts where the work has been completed.

Total obligations for on-statement of financial position PFI contracts due:	31 March 2011 £000	31 March 2010 £000
Gross PFI liabilities	856,059	-
Of which liabilities are due:		
Not later than one year	28,429	-
Later than one year, not later than five years	119,646	-
Later than five years	707,984	-
Net finance charges allocated to future periods	(397,197)	-
Net PFI liabilities	458,862	-
Not later than one year	10,929	-
Later than one year, not later than five years	48,378	-
Later than five years	399,555	-

The PFI obligation above is only that part of the unitary payment allocated to the finance lease rental, ie the annual finance expense and capital repayment of lease liability over the contract term. This apportionment of the unitary payment is described in accounting policy note 1.11 and the total unitary payment commitment, including annual service expense and lifecycle replacement is disclosed below:

The annual unitary payment for the reported year of £25,934,000 (2009/10 - £nil) reflects the phased opening of the new PFI hospital. The Trust will be committed to the full unitary payment upon final handover and will then be committed till the contract expires on 14 August 2046, at which time the building will revert to the ownership of the Trust. The unitary payment is subject to change based on movements in the Retail Prices Index.

28. Private Finance Initiative contracts (cont.)

The Trust is committed to making the following unitary payments for on-statement of financial position PFI commitments during the next reporting year and until the contract expires:

Total commitments for on-statement of financial position PFI contracts due:	Unitary payments		Present value of unitary payments	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Of which commitments are due:				
Not later than one year	44,013	-	44,013	-
Between one and five years	188,162	-	172,783	-
After 5 years	1,428,539	-	759,143	-
Total PFI commitments	1,660,714	-	975,939	-

28.2 PFI schemes off-statement of financial position

The Trust does not have any PFI schemes which are deemed to be off-statement of financial position at the period end.

29. Provisions

	Current		Non current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Pensions relating to other staff	33	34	134	169
Legal claims	1,335	1,201	1,566	1,681
Other	1,912	2,411	-	370
	3,280	3,646	1,700	2,220

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Other £000	Total £000
At 1 April 2010	-	203	2,882	2,781	5,866
Arising during the year	-	-	291	1,113	1,404
Used during the year	-	(34)	(148)	(1,924)	(2,106)
Reversed unused	-	(7)	(163)	(58)	(228)
Unwinding of discount	-	5	39	-	44
At 31 March 2011	-	167	2,901	1,912	4,980
Expected timing of cash flows:					
Within one year	-	33	1,335	1,912	3,280
Between one and five years	-	119	1,519	-	1,638
After five years	-	15	47	-	62

NOTES TO THE FINANCIAL STATEMENTS

29. Provisions (cont.)

The provisions included under 'legal claims' are for personal injury pensions £1,653,000 (31 March 2010: £1,775,000), employers and public liability £355,000 (31 March 2010: £224,000) and other claims notified by the Trust's solicitors £893,000 (31 March 2010: £883,000). The provisions for personal injury pensions have been calculated on guidance received from the NHS Business Services Authority - Pensions Division. Employers and public liability have been calculated based on information received from the NHS Litigation Authority (NHSLA) taking into account indications of uncertainty and timing of payments.

Early retirement pension provisions of £167,000 (31 March 2010: £203,000), disclosed as 'pensions relating to other staff' have been calculated on guidance received from the NHS Business Services Authority - Pensions Division.

The 'other' provisions include annual leave entitlement earned but not taken by employees at the period end £926,000 (31 March 2010: £802,000) and provisions in respect of NHS pay agreements £986,000 (31 March 2010: £1,514,000).

Provisions within the annual accounts of the NHS Litigation Authority at 31 March 2011 include £20,022,000 in respect of clinical negligence liabilities of the Trust (31 March 2010: £18,207,000).

30. Events after the reporting period

The phased handover of the new Queen Elizabeth Hospital to the Trust is detailed in note 28.1 to the financial statements on page 56. The first and second phases are complete at the reporting date, with that part of the asset in operational use recognised at fair value on the statement of financial position. As detailed in note 14.2 to the financial statements on page 47, the Trust has already recognised at the reporting date £509,507,000 of non-current assets with an associated impairment of £242,945,000 due to the completed handover of the first and second phases of the new hospital.

The third and final phase of the handover is scheduled to occur on 11 October 2011 in the subsequent reporting year ending 31 March 2012. The Trust believes £110,197,000 of non-current assets with an associated impairment of £49,060,000 will be recognised in this subsequent reporting year, due to the third and final phase of the new hospital achieving operational status.

On 24 March 2011, the Board of Directors approved that the Trust proceed with the proposed transfer of part of the staff and services in respect of the Community Sexual Health services of Heart of Birmingham Teaching PCT, subject to the resolution of a number of issues around finance and risk transfer. The transfer of these services is planned to take place on 1 April 2011.

The transfer is expected to increase income by £8,872,000 in the 2011/12 financial year and increase expenditure by an equivalent amount, therefore having no overall effect on the planned surplus. Net assets are expected to increase by £424,000 as a result of the transfer of equipment.

NOTES TO THE FINANCIAL STATEMENTS

31. Related party transactions

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

The Trust considers other NHS Foundation Trusts to be related parties, as they and the Trust are under the common performance management of Monitor - part of the NHS in England. During the year the Trust contracted with certain other Foundation Trusts for the provision of clinical and non clinical support services.

The Department of Health is also regarded as a related party. During the year University Hospitals Birmingham NHS Foundation Trust has had a significant number of material transactions with the Department, and with other entities of the NHS in England to which the Department is regarded as the parent organisation. These entities are listed below:

NHS in England	Receivables	Payables	Revenue	Expenditure
	£'000	£'000	£'000	£'000
Birmingham Community Healthcare NHS Trust	2,050	(50)	649	(1,235)
South Birmingham PCT	12,685	-	128,209	(240)
Heart of Birmingham Teaching PCT	304	(457)	25,163	(1,217)
Birmingham East and North PCT *	-	(230)	152,733	(131)
West Midlands SHA	133	-	30,713	(5,008)
Dudley PCT	1,123	-	7,857	-
Sandwell PCT	1,283	(493)	12,774	(328)
Solihull PCT	522	-	7,920	
Warwickshire PCT	16	-	5,472	(2)
Worcestershire PCT	2,735	(6)	19,591	(24)
South Staffordshire PCT	1,478	-	10,522	-
Walsall PCT	633	-	4,946	-
Wolverhampton PCT	216	-	3,033	-
Herefordshire PCT	736	-	3,710	-
Coventry PCT	786	-	2,672	-
Shropshire PCT	1,427	-	3,668	-
West Midlands Ambulance Service NHS Trust	-	(473)	24	(4,437)
Sandwell and West Birmingham NHS Trust	394	(403)	821	(2,937)
Birmingham and Solihull Mental Health FT	259	(1,037)	437	(1,944)
The Royal Orthopaedic Hospital FT	580	(887)	2,035	(238)
Heart of England FT	593	(1,102)	348	(2,541)
Birmingham Children's Hospital FT	404	(637)	1,353	(2,491)
Birmingham Women's FT	1,689	(367)	3,143	(930)
London SHA (National Commissioning Group)	118	-	15,057	-
NHS Blood and Transplant Agency	30	(582)	556	(8,715)
NHS Purchasing & Supply Agency	-	(785)	-	(12,100)
NHS Business Services Authority	-	(187)	-	(2,184)
NHS Pension Scheme	-	(3,218)	-	(25,421)
NHS Litigation Authority	-	-	-	(3,399)
Other	4,816	(1,553)	24,720	(5,273)
	35,010	(12,467)	468,126	(80,795)

* The West Midlands Local Collaborative Commissioning Boards (LCCB) and Specialised Services Authority (SSA) are all administered by the Birmingham East and North Primary Care Trust.

NOTES TO THE FINANCIAL STATEMENTS

31. Related party transactions (cont.)

Mr Kevin Bolger - an Executive Director of the Trust is the partner of Ms Michelle McLoughlin - an Executive Director of Birmingham Childrens Hospital NHS Foundation Trust. The Trust's formal Service Level Agreement with the Birmingham Childrens Hospital Foundation NHS Trust for the year ended 31 March 2011 has resulted in an income to the Trust of £2,042,000 and an expenditure of £319,000.

The Trust has had a number of material transactions with other Government Departments and local Government bodies. These are detailed below:

Other related parties	Receivables	Payables	Revenue	Expenditure
	£'000	£'000	£'000	£'000
Ministry of Defence	8,639	-	14,369	(272)
Department of Health	20	-	17,765	(75)
Birmingham City Council	1,329	(166)	1,029	(1,838)
HM Revenue and Customs taxes	848	-		
Other	51	(1)	134	(461)
	10,887	(167)	33,297	(2,646)

The Trust has also received revenue and capital payments from the University Hospital Birmingham Charities. David Ritchie who was a Trustee of UHB Charities throughout 2010/11, was also a non-executive director of the Trust.

32. Contingencies

There are £144,000 of contingent liabilities at 31 March 2011 which relate to amounts notified by the NHSLA for potential employer and public liability claims over and above the amounts provided for in note 29 to the financial statements on page 57 (31 March 2010: £126,000). There are no contingent assets at the reporting date (31 March 2010: £nil).

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments and related disclosures

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. All the financial instruments of the Trust are initially measured at fair value on recognition and subsequently at amortised cost. The following table is a comparison by category of the carrying amounts and the fair values of the Trust's financial assets and financial liabilities:

Carrying values and fair values of financial instruments	Notes	Carrying Value 31 March 2011 £000	Fair Value 31 March 2011 £000	Carrying Value 31 March 2010 £000	Fair Value 31 March 2010 £000
Current financial assets					
Cash and cash equivalents	1	62,009	62,009	96,290	96,290
Loans and receivables:					
Trade and receivables	1	51,763	51,763	28,432	28,432
		113,772	113,772	124,722	124,722
Non-current financial assets					
Loans and receivables:					
Trade and receivables	1	2,864	2,864	2,769	2,769
		2,864	2,864	2,769	2,769
Total financial assets		116,636	116,636	127,491	127,491
Current financial liabilities					
Financial liabilities:					
Finance leases	2	7	7	68	68
Private Finance Initiative contracts	2	10,928	10,928	-	-
Trade and other payables	1	64,185	64,185	62,124	62,124
Provisions under contract	1	3,150	3,150	3,517	3,517
		78,270	78,270	65,709	65,709
Non-current financial liabilities					
Financial liabilities:					
Finance leases	2	-	-	7	7
Private Finance Initiative contracts	2	447,934	447,934	-	-
Provisions under contract	1	10	10	371	371
		447,944	447,944	378	378
Total financial liabilities		526,214	526,214	66,087	66,087
Net financial assets / (liabilities)		(409,578)	(409,578)	61,404	61,404

The fair value on all these financial assets and financial liabilities equates to their carrying value.

(1) Fair values of cash, trade receivables, trade payables and provisions under contract are assumed to approximate to cost due to the short-term maturity of the instruments.

33. Financial instruments and related disclosures (cont.)

(2) Fair values of borrowings - finances leases and private finance initiative contracts, are carried at amortised cost. Fair values are estimated by discounting expected future contractual cash flows using interest rates implicit in the contracts. The maturity profile of both finance lease and private finance initiative contract liabilities are disclosed in notes 27 and 28.1 to the financial statements on pages 55 and 56 respectively.

The financial assets and financial liabilities of cash and cash equivalents, finance leases and private finance initiative contracts all equate to the amounts disclosed on the statement of financial position and supporting notes to the financial statements. Trade receivables, trade payables and provisions include non-financial assets and liabilities not disclosed in the table above. The reconciling amounts are as follows:

- Trade receivables includes prepayments and PDC receivable which are not financial instruments, see note 18 to the financial statements on page 51.
- Trade payables includes receipts in advance which is not a financial instrument, see note 22 to the financial statements on page 53.
- Provisions includes liabilities incurred under legislation, rather than by contract - early retirements due to ill health or injury. These are not considered by HM Treasury to fit the definition of a financial instrument, see note 29 to the financial statements on page 57.

Risk management policies

The Trust's activities expose it to a variety of financial risks, though due to their nature the degree of the exposure to financial risk is substantially reduced in comparison to that faced by business entities. The financial risks are mainly credit and inflation risk, with limited exposure to market risks (currency and interest rates) and to liquidity risk.

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 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 Investment Committee. The main responsibilities of the Trust's treasury operation are to:

- Ensure adequate liquidity for the Trust,
- Invest surplus cash, and
- Manage the clearing bank operations of the Trust.

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments and related disclosures (cont.)

(i) Credit risk

As a consequence of the continuing service provider relationship that the Trust has with primary care trusts (PCTs) and the way those PCTs are financed, the Trust is exposed to a degree of customer credit risk, but substantially less than that faced by business entities. In the current financial environment where PCT's must manage increasing healthcare demand and affordability within fixed budgets, the Trust regularly reviews the level of actual and contracted activity with the PCT's to ensure that any income at risk is discussed and resolved at a high level at the earliest opportunity available.

As a majority of the Trust's income comes from contracts with other public sector bodies, see note 2 to the financial statements on page 35, there is limited exposure to credit risk from individuals and commercial entities. The maximum exposures to trade and other receivables as at the reporting date, are disclosed in note 18 to the financial statements on page 51. The Trust mitigates its exposure to credit risk through regular review of receivables due and by calculating a bad debt provision.

In accordance with the Trust's treasury policy, the Trust's cash is held in current accounts at UK banks only. There are no cash or cash equivalent investments held, the result being to minimise the counter party credit risk associated with holding cash at financial institutions.

(ii) Inflation risk

The Trust's has exposure to annual price increases of medical supplies and services (pharmaceuticals, medical equipment and agency staff) arising from its core healthcare activities. The Trust mitigates this risk through, for example, transferring the risk to suppliers by contract tendering and negotiating fixed purchase costs (including prices set by nationally agreed frameworks across the NHS) or reducing external agency staff costs via operation of the Trust's own employee 'staff bank'.

The unitary payment of the new 'Queen Elizabeth Hospital Birmingham' private finance initiative contract is subject to change based on movements in the Retail Prices Index (RPI), as disclosed in note 28.1 to the financial statements on page 56. For the reporting year the relevant RPI index was 219.2 (annualised rate of 3.7%) fixed at February 2010. The sensitivity of the Trust's retained surplus and taxpayers equity to changes in this RPI inflation rate are set out in the following table:

RPI sensitivity analysis	**Year Ended 31 March 2011**		Year Ended 31 March 2010	
	£000	**£000**	£000	£000
	+1.0%	**-1.0%**	+1.0%	-1.0%
Retained surplus / (deficit)	**(317)**	**318**	-	-
Taxpayers' equity	**(317)**	**318**	-	-

NOTES TO THE FINANCIAL STATEMENTS

33. Financial instruments and related disclosures (cont.)

(iii) Market risk

The Trust has limited exposure to market risk for both interest rate and currency risk:

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 nor investments and all Trust cash is held in Sterling at UK banks: Barclays bank and the Government Banking Service 'GBS'. The Trust therefore has minimal exposure to currency rate fluctuations.

Interest rate risk - other than cash balances, the Trust's financial assets and all of its financial liabilities carry nil or fixed rates of interest. Cash balances at UK banks earn interest linked to the Bank of England base rate. The Trust therefore has minimal exposure to interest rate fluctuations.

(iv) Liquidity risk

The Trust's net operating costs are incurred under annual service agreements with local Primary Care Trusts, which are financed from resources voted annually by Parliament. The Trust ensures that it has sufficient cash or committed loan facilities to meet all its commitments when they fall due. This is achieved by the Trust's compliance with the Prudential Borrowing Code made by Monitor, the Independent Regulator of NHS Foundation Trusts, detailed in note 26 to the financial statements on page 54. The Trust is not, therefore, exposed to significant liquidity risks.

(v) Capital management risk

The Trust's capital is 'Public Dividend Capital' (PDC) wholly owned and controlled by the Department of Health, there is no other equity. The 3.5% cost of capital - the 'PDC dividend' is disclosed in note 11 to the financial statements on page 43. Therefore, the Trust does not manage its own capital. Liquidity risk and the funding of the Trust's activities are described above.

34. Third Party Assets

The Trust held £2,963 of cash at 31 March 2011 (31 March 2010: £4,288) which relates to monies held by the Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

35. Losses and Special Payments

There were 2,389 cases of losses and special payments (2009/10 - 2,091 cases) totalling £236,000 (2009/10 - £316,000) approved in the year.

There were no clinical negligence, fraud, personal injury, compensation under legal obligation or fruitless payment cases where the net payment or loss for the individual case exceeded £100,000.

NOTES TO THE FINANCIAL STATEMENTS

NATIONAL HEALTH SERVICE ACT 2006

DIRECTION BY MONITOR, INDEPENDENT REGULATOR OF NHS FOUNDATION TRUSTS IN RESPECT OF FOUNDATION TRUSTS' ANNUAL REPORTS AND THE PREPARATION OF ANNUAL REPORTS

Monitor, the Independent Regulator of NHS Foundation Trusts, in exercise of powers conferred on it by paragraph 24 and 25 of schedule 7 to the National Health Service Act 2006, hereby directs that the keeping of accounts and the annual report of each NHS foundation trust shall be in the form as laid down in the annual reporting guidance for NHS foundation trusts with the *NHS Foundation Trust Annual Reporting Manual*, known as the *FT ARM*, that is in force for the relevant financial year.

Signed by authority of Monitor, the Independent Regulator of NHS foundation trusts.

Signed:

Name: David Bennett (Chairman)

Dated: 28 February 2011

NOTES TO THE FINANCIAL STATEMENTS

NATIONAL HEALTH SERVICE ACT 2006

DIRECTIONS BY MONITOR IN RESPECT OF NATIONAL HEALTH SERVICE FOUNDATION

Monitor, the Independent Regulator of NHS Foundation Trusts, with the approval of HM Treasury, in exercise of powers conferred on it by paragraph 25(1) of schedule 7 to the National Health Service Act 2006, (the 2006 Act) hereby gives the following Directions:

1. Application and Interpretation

(1) These Directions apply to NHS foundation trusts in England.

(2) In these direction "The Accounts" means:

for an NHS foundation trust in its first operating period since authorisation, the accounts of an NHS foundation trust for the period from authorisation until 31 March; or

for an NHS foundation trust in its second or subsequent operating period following authorisation, the accounts of an NHS foundation trust for the period from 1 April until 31 March.

"the NHS foundation trust" means the NHS foundation trust in question.

2. Form of accounts

(1) The accounts submitted under paragraph 25 of Schedule 7 to the 2006 Act shall show, and give a true and fair view of, the NHS foundation trust's gains and losses, cash flows and financial state at the end of the financial period.

(2) The accounts shall meet the accounting requirements of the '*NHS Foundation Trust Annual Reporting Manual*' (*FT ARM*) as agreed with HM Treasury, in force for the relevant financial year.

(3) The Statement of Financial Position shall be signed and dated by the chief executive of the NHS foundation trust.

(4) The Statement on Internal Control shall be signed and dated by the chief executive of the NHS foundation trust.

3. Statement of accounting officer's responsibilities

(1) The statement of accounting officer's responsibilities in respect of the accounts shall be signed and dated by the chief executive of the NHS foundation trust.

4. Approval on behalf of HM Treasury

(1) These Directions have been approved on behalf of HM Treasury.

Signed by the authority of Monitor, the Independent Regulator of NHS foundation trusts

Signed:

Name: David Bennett (Chairman)

Dated: 28 February 2011