

Annual Accounts

2008/09

North West London Hospitals NHS Trust - Annual Accounts 2008/09

ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2009

These accounts are for North West London Hospitals NHS Trust for the year ended 31 March 2009.

Directors

The following have been Directors of the Trust during the year:

Chairman	-	Mr Tony Caplin	- appointed 1 July 2008
	-	Ms Moira Black CBE	- resigned 30 June 2008
Executive Directors:			
Chief Executive	-	Ms Fiona Wise	
Chief Operating Officer	-	Mr Daniel Elkeles	
Medical Director	-	Mr Mike Burke	
Finance Director	-	Mr Kishamer Sidhu	- appointed 1 September 2008
	-	Ms Margaret Ashworth	- resigned 15 September 2008
Director of Nursing	-	Ms Liz Robb	
Non-Executive Directors	-	Dr John Green	
	-	Mr John Rhys	
	-	Mrs Shelagh Szulc	
	-	Mr Ketan Varia	
	-	Mr Mark Versallion	- appointed 1 March 2009
	-	Mr David Squire	- resigned 28 February 2009

Bankers

Lloyds TSB Bank Plc
286/288 Station Road
Harrow
Middlesex
HA1 2EB

Auditors

Grant Thornton UK LLP
Chartered Accountants
Grant Thornton House
Melton Street
London
NW1 2EP

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DIRECTORS' STATEMENTS

Statement of the Chief Executive's responsibilities as the Accountable Officer of the Trust

The Secretary of State has directed that the Chief Executive should be the Accountable Officer to the Trust. The relevant responsibilities of Accountable Officers, including their responsibility for the propriety and regularity of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Accountable Officers' Memorandum issued by the Department of Health.

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

F Wise (Chief Executive)

8 June 2009

Statement of Directors' responsibilities in respect of the accounts

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

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

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

The Directors confirm they have complied with the above requirements in preparing the accounts.

By order of the Board

F Wise (Chief Executive)

8 June 2009

K Sidhu (Finance Director)

8 June 2009

STATEMENT ON INTERNAL CONTROL

1 Scope of responsibility

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

I am regularly performance appraised by the Chair of the Board of North West London Hospitals NHS Trust. I also meet with the Chief Executive of the Provider Agency or the Agency team, which is part of the London Strategic Health Authority, whose responsibility for performance management of the Trust is discharged via a range of regular meetings with Trust staff, data submission and feed back.

The Trust has a range of mechanisms in place to facilitate effective working with key partners. These include performance management of service level agreements with PCTs, Local Authority Scrutiny Committees, and Chief Officer and Executive Director meetings with the PCT Chief Executives and the PCT Directors, and attendance at the Local Strategic Partnership for Brent. I also participate in the North West London Sector Provider Reference Group, which is considering both provider and service reconfiguration.

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

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

3 Capacity to handle risk

I am confident that the Risk Management process impacts on all that the Trust does and will significantly enhance the achievement of our objectives. The Trust is committed to the continuous development of all its activities by a workforce that is well motivated, trained and equipped.

Throughout the Trust there are procedures which enable capture, evaluation, understanding and learning from risks.

The Trust Board and Senior Managers are committed to the support and development of a system of internal control and continuous learning from knowledge gained.

A range of risk management training is available to ensure that staff are equipped to manage risks appropriate to their authority and duties, and are competent to fulfil their roles. We are systematically reviewing attendance at mandatory training courses. There is a range of policies in place to describe staff roles in relation to the identification and management of risk. Relevant policies are available on the Trust intranet.

During the year Internal Audit carried out a review of the Trust's risk management processes and identified a number of areas that could be enhanced. At the end of the year a number of these improvements had been made enhancing the Assurance Framework going forward.

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4 The risk and control framework

The system of internal control is based on an ongoing risk management process, which combines the following elements:

- the identification and treatment of principal risks to the achievement of the organisation's objectives.
- the identification of risks through the comparison of Trust practice against external standards such as the Clinical Negligence Scheme for Trusts (CNST) and Healthcare Commission Standards for Better Health. The Trust has achieved CNST Level 2 status for Maternity Services.
- the analysis, recording and learning from untoward occurrences or near misses.

In all cases the Trust evaluates the nature and extent of the risks and aims to manage them as efficiently, effectively and economically as possible.

Risks are monitored through a formal reporting process where they are graded and allocated to a specific monitoring body. The monitoring of risks and action plans is undertaken by the following:

- the Trust Board including monthly updates on any new risks
- the Trust Governance Compliance and Risk Committee
- sub-committees of the above

The Audit Committee reports to the Board as to the level of overall assurance of the effectiveness of these processes.

The Assurance Framework identifies the assurances available to the Board in relation to the achievement of the Trust's principal objectives and opportunities, the significant risks to achievement of these objectives and opportunities, and the effectiveness of the operation of key controls. The Assurance Framework identifies some gaps in control and assurance, and action plans are in place to address all gaps in control or assurance identified within the Assurance Framework.

Stakeholders in the Trust have the opportunity to be assured that risks will be addressed by the Trust's risk management process and treated accordingly through their attendance at the Trust Board, the consultation process and complaints reporting. There are also cross organisation forums involving the Trust that act in this manner.

The Trust is actively implementing the Information Governance Assurance requirements as specified in the programme for all NHS Trusts. These requirements and progress to completing them are reported through the IG Toolkit and Assurance reporting tools. Confidentiality and the security of person identifiable information is a priority and there is regular training for our staff with these responsibilities. A review of Information Governance by Internal Audit has identified issues that could be enhanced to improve the evidence required by the Trust and which has now been gathered to support its IG Toolkit submission.

The Trust is fully compliant with the core Standards for Better Health.

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

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

5 Review of effectiveness

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

5 Review of effectiveness (continued)

My review is also informed by CNST, Healthcare Commission and Health & Safety Executive inspections and by the core standards self-assessment declaration, and by Internal and External Auditors.

Based on the work undertaken in 2008/09, significant assurance can be given that there is a generally sound system of internal control, designed to meet the Trust's objectives, and that controls are generally being applied consistently. However, some weakness in the design and the inconsistent application of controls put the achievement of particular objectives at risk.

Significant Control Issues

During the year the Trust achieved its main performance targets for treating patients within 18 weeks of referral by their GP, infection control, delayed discharges and access targets for Cancer and Accident & Emergency attendees seen within 4 hours. However the Trust failed to achieve one of its other key targets, which was:

- the Trust did not meet its target for operations cancelled on the day of surgery. 1.6% of operations were cancelled against a target of 0.8%.

In February 2009, a fire at Northwick Park Hospital required an orderly evacuation and the curtailment of a number of services. The Trust implemented its major incident plan to minimise the effect on staff and patients.

The Executive Directors and I have identified action plans to address matters as part of the business plan for 2009/10, which are referred to elsewhere in the compliance statement.

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, Audit Committee, Governance Compliance and Risk Committee and sub-committees of these. A plan to address weaknesses and ensure continuous improvement of the system is in place and includes:

- a review of clinical pathways to improve performance against access targets for Accident & Emergency attendees.
 - a review of strategic options to recover the Trust's cumulative financial position.
 - more regular review of the Trust's Board Assurance framework by the Trust Board.
 - strengthening Information Governance by improving evidence for the IG Toolkit submission.
 - a local work plan is in place to continue to improve the Trust's performance against infection control targets with actions around the Department of Health Hygiene Code.
 - an action plan to achieve Trust-wide readiness for Care Record Service Deployment in 2009/10.
 - the implementation of a new policy and the introduction of a task force to achieve the target for cancelled operations in 2009/10.
-
- a plan to restore all services affected by the fire and to address any lessons learned from the incident.

Significant Control Issues

The Trust has recovered its in-year financial position in 2006/07, 2007/08 and 2008/09 and has recorded a break-even for all three years. The Strategic Health Authority agreed a loan of £23.8m, repayable over 5 years, to mitigate the cash shortfall caused by the Trust's deficit in 2003/04 to 2005/06. The Trust was able to repay the instalments of £4.8m when due during 2007/08 and 2008/09.

The Trust has a duty to ensure that its expenditure does not exceed its income "taking one year with another". This is generally interpreted to have been met if expenditure is covered by income over a rolling three-year (or exceptionally five-year) period. The Trust made deficits in each of the years 2003/04, 2004/05 and 2005/06 and small surpluses in 2006/07, 2007/08 and 2008/09. The Trust did not make a sufficiently large surplus in 2008/09 to eliminate this accumulated deficit in the year and this means that the Trust is technically in breach of its statutory break-even duty taking the period 2003 to 2009 as a whole.

As a consequence the auditors are required to take certain actions, which may include (a) submitting a Section 19 report to the Secretary of State and (b) stating that they have reached a "qualified conclusion" regarding the Trust's use of resources. The Trust does not currently have a plan to break-even in 2009/10 but intends to deliver a break-even position in each of the years 2010/11 to 2011/12. Following the review of strategic options, the Trust will implement a plan that will deliver the financial surplus required to eliminate the historic deficit.

The Trust has identified a shortfall of £16m in its financial plan for 2009/10. A deficit of this magnitude will require service reconfiguration to resolve sustainably. The Trust is participating in a review of Acute Services in North West London in conjunction with the Strategic Health Authority and local Primary Care Trusts. The Trust has also applied to the Challenged Trust Board.

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS OF NORTH WEST LONDON HOSPITALS NHS TRUST

Opinion on the financial statements

We have audited the financial statements of North West London Hospitals NHS Trust for the year ended 31 March 2009 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service set out within them. We have also audited the information in the Remuneration Report that is described as having been audited.

This report is made solely to the Board of Directors of North West London Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's directors' as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

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

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. We report whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included within the Operating and Financial Review included in the Annual Report, is consistent with the financial statements.

We review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'Guidance on Completing the Statement on Internal Control 2008/09' issued 25 February 2009. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

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

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Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that:

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

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2009 and of its income and expenditure for the year then ended;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England; and
- information which comprises the commentary on the financial performance included within the Operating and Financial Review included within the Annual Report, is consistent with the financial statements.

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

Directors' Responsibilities

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

Auditor's Responsibilities

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

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Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. In so doing, we were unable to obtain sufficient appropriate evidence that North West London Hospitals NHS Trust is projecting that it will break-even in 2009/10.

Having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, North West London Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009 except that it did not put in place:

- adequate arrangements to ensure that its spending matches its available resources.

Exception reports

Auditor's responsibilities

We have a duty under the Audit Commission Act 1998 to refer the matter to the Secretary of State if we have a reason to believe that the body, or an officer of the body, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency.

We have referred a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 in relation to the Trust failing to achieve the statutory break even duty in 2008/09, and the planned non-achievement of its statutory breakeven target by 31 March 2010, which we have reason to believe exceeded the Trust's statutory powers.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have finalised our referral to the Secretary of State under section 19 of the Audit Commission Act 1998 referred to above. We are satisfied that this issue does not have a material effect on the financial statements.

Paul Winrow
Senior Statutory Auditor
for and behalf of Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP
8 June 2009

FOREWORD TO THE ACCOUNTS

North West London Hospitals NHS Trust

These accounts for the year ended 31 March 2009 have been prepared by the North West London Hospitals NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form which the Secretary of State has, with the approval of the Treasury, directed.

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

	NOTE	2008/09 £000	2007/08 £000
Income from activities	3	289,851	260,960
Other operating income	4	48,730	45,414
TOTAL INCOME		338,581	306,374
Operating expenses	5-7	(330,236)	(301,582)
OPERATING SURPLUS		8,345	4,792
Profit on disposal of fixed assets	8	5	2,652
SURPLUS BEFORE INTEREST		8,350	7,444
Interest receivable		421	833
Interest payable	9	(969)	(1,217)
Other finance costs - unwinding of discount	17	(110)	(130)
SURPLUS FOR THE FINANCIAL YEAR		7,692	6,930
Public dividend capital dividends payable		(7,575)	(5,900)
RETAINED SURPLUS FOR THE YEAR		117	1,030

The notes on pages 14 to 45 form part of these accounts.
All income and expenditure is derived from continuing operations.

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**BALANCE SHEET AS AT
31 March 2009**

	NOTE	31 March 2009 £000	31 March 2008 £000
FIXED ASSETS			
Intangible assets	10	404	335
Tangible assets	11	<u>244,625</u>	<u>264,897</u>
TOTAL FIXED ASSETS		245,029	265,232
CURRENT ASSETS			
Stocks and work in progress	12	3,512	3,544
Debtors	13	14,411	16,133
Cash at bank and in hand	19.3	<u>798</u>	<u>798</u>
TOTAL CURRENT ASSETS		18,721	20,475
CREDITORS: Amounts falling due within one year	15.1	<u>(43,215)</u>	<u>(41,531)</u>
NET CURRENT LIABILITIES		(24,494)	(21,056)
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>220,535</u>	<u>244,176</u>
CREDITORS: Amounts falling due after more than one year	15.2	(9,532)	(14,298)
PROVISIONS FOR LIABILITIES AND CHARGES	17	(5,220)	(5,044)
TOTAL ASSETS EMPLOYED		<u>205,783</u>	<u>224,834</u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	23	156,934	154,619
Revaluation reserve	18	57,158	85,669
Donated asset reserve	18	9,949	10,698
Government grant reserve	18	2,463	2,442
Income and expenditure reserve	18	(20,721)	(28,594)
TOTAL TAXPAYERS' EQUITY		<u>205,783</u>	<u>224,834</u>

Fiona Wise (Chief Executive)

8 June 2009

Kishamer Sidhu (Finance Director)

8 June 2009

The financial statements were approved by the Board on 8 June 2009

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

	2008/09	2007/08
	£000	£000
Surplus for the financial year before dividend payments	7,692	6,930
Fixed asset impairment losses	(25,937)	(415)
Unrealised surplus on fixed asset revaluations/indexation	4,890	17,698
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	172	88
Total recognised gains and losses for the financial year	(13,183)	24,301
Prior period adjustment	0	(1,255)
Total gains and losses recognised in the financial year	<u>(13,183)</u>	<u>23,046</u>

**CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2009**

	NOTE	2008/09 £000	2007/08 £000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	19.1	25,944	46,557
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		479	828
Interest paid		<u>(975)</u>	<u>(1,209)</u>
Net cash outflow from returns on investments and servicing of finance		(496)	(381)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(15,602)	(17,736)
Receipts from sale of tangible fixed assets		7	7,074
Payments to acquire intangible assets		<u>0</u>	<u>(318)</u>
Net cash outflow from capital expenditure		(15,595)	(10,980)
DIVIDENDS PAID			
		(7,575)	(5,900)
Net cash inflow before financing		<u>2,278</u>	<u>29,296</u>
FINANCING			
Public dividend capital received		2,315	1,024
Public dividend capital repaid		0	(25,642)
Loans repaid to the Department of Health		(4,766)	(4,766)
Other capital receipts		173	88
Net cash outflow from financing		<u>(2,278)</u>	<u>(29,296)</u>
Increase in cash		<u>0</u>	<u>0</u>

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

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

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

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

Income relating to patient spells in respect of healthcare services provided, which are part completed at the year end, are apportioned across the financial years to which they relate. The basis of apportionment between financial years assumes that, on average, spells are equally divided between both years. The income for these patient spells is agreed with the main commissioners of these services.

1.4 Intangible fixed assets

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

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

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

1.5 Tangible fixed assets

Capitalisation

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

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

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

Valuation

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

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years and in the intervening years by the use of indices. The buildings index is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

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

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

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

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

Assets in the course of construction are valued at current cost. The assets are revalued annually in line with other similar assets. These assets include any existing land or buildings under the control of a contractor.

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

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

Depreciation, amortisation and impairments

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

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

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

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

	Years
Software Licences	5 to 8
Buildings excluding dwellings	5 to 80
Plant & Machinery	5 to 15
Transport Equipment	7
Information Technology	5 to 8
Furniture and Fittings	10

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

1.6 Donated fixed assets

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

1.7 Government Grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. Gains and losses on revaluations are also taken to the Government Grant Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government Grant Reserve to the Income and Expenditure Account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Reserve.

1.8 Private Finance Initiative (PFI) transactions

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

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

1.9 Stocks and work-in-progress

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

1.10 Research and development

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

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

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

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

1.11 Provisions

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

Clinical negligence costs

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

Non-clinical risk pooling

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

1.12 Pension costs

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

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

a) Full actuarial (funding) valuation

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

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

b) FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

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

The valuation of the Scheme liability as at 31 March 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 with summary global member and accounting data.

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

Scheme Provisions as at 31 March 2009

The scheme is a 'final salary' scheme.

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

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

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

Existing members at 1 April 2008

Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there is the opportunity of giving up some of the pension to increase the retirement lump sum. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

New entrants from 1 April 2008

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

1.13 Liquid resources

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

1.14 Value Added Tax

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

1.15 Foreign Exchange

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

1.16 Third Party Assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 29 to the accounts.

1.17 Leases

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

1.18 Public Dividend Capital (PDC) and PDC Dividend

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

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. A note to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

1.19 Losses and Special Payments

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

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

2 SEGMENTAL ANALYSIS

The Trust has only one business segment which is the provision of healthcare. A segmental analysis is therefore not applicable.

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3. Income from Activities

	2008/09 £000	2007/08 £000
Strategic Health Authorities	0	1,274
NHS Trusts	661	393
Primary Care Trusts	232,502	213,424
Local Authorities	562	516
Department of Health	49,116	37,903
Non NHS:		
- Private patients	5,213	5,674
- Overseas patients (non-reciprocal)	758	735
- Injury cost recovery	914	881
- Other	125	160
	289,851	260,960

Injury cost recovery income is subject to a provision for doubtful debts of 7.8% to reflect expected rates of collection.

4. Other Operating Income

	2008/09 £000	2007/08 £000
Education, training and research	26,545	23,375
Transfers from Donated Asset Reserve	576	565
Transfers from Government Grant Reserve	32	31
Non-patient care services to other bodies	0	175
Rental income from operating leases	2,150	1,845
Income generation	19,177	18,904
Other income	250	519
	48,730	45,414

5. Operating Expenses

5.1 Operating expenses comprise:

	2008/09	2007/08
	£000	£000
Services from other NHS Trusts	1,525	2,280
Services from PCTs	1,361	1,192
Purchase of healthcare from non NHS bodies	2,182	1,096
Directors' costs	828	828
Staff costs	207,790	189,594
Supplies and services - clinical	52,921	49,018
Supplies and services - general	13,397	10,479
Consultancy services	686	509
Establishment	3,355	3,173
Transport	1,831	1,890
Premises	21,232	18,311
Impairment of debtors	300	88
Depreciation	11,561	10,747
Amortisation	106	12
Tangible fixed asset impairments and reversals	1,210	415
Audit fees	220	213
Other auditor's remuneration	24	0
Clinical negligence	3,946	3,285
Redundancy costs	987	513
Education and training	711	560
Other	4,063	7,379
	<u>330,236</u>	<u>301,582</u>

5.2 Operating leases

5.2/1 Operating expenses include:

	2008/09	2007/08
	£000	£000
Other operating lease rentals	<u>2,001</u>	<u>2,196</u>

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

	Other leases	
	2008/09	2007/08
	£000	£000
Operating leases which expire:		
Within 1 year	295	78
Between 1 and 5 years	1,194	1,920
After 5 years	126	58
	<u>1,615</u>	<u>2,056</u>

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6. Staff costs and numbers

6.1 Staff costs

	Total	2008/09 Permanently Employed	Other	2007/08
	£000	£000	£000	£000
Salaries and wages	175,688	168,327	7,361	159,928
Social Security Costs	14,742	14,742	0	13,829
Employer contributions to NHS Pension Scheme	17,987	17,987	0	16,546
	<u>208,417</u>	<u>201,056</u>	<u>7,361</u>	<u>190,303</u>

6.2 Average number of persons employed

	Total	2008/09 Permanently Employed	Other	2007/08
	Number	Number	Number	Number
Medical and dental	717	710	7	697
Administration and estates	950	937	13	931
Healthcare assistants and other support staff	503	501	2	473
Nursing, midwifery and health visiting staff	1,502	1,480	22	1,403
Nursing, midwifery and health visiting learners	4	4	0	10
Scientific, therapeutic and technical staff	812	772	40	769
Total	<u>4,488</u>	<u>4,404</u>	<u>84</u>	<u>4,283</u>

6.3 Employee benefits

There were no employee benefits.

6.4 Management costs

	2008/09	2007/08
	£000	£000
Management costs	11,733	11,224
Income	338,581	306,374
Percentage of Income	3.5%	3.7%

6.5 Retirements due to ill-health

During 2008/09 there were 2 (2008: 4) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £104,000 (2008: £116,000). The cost of these ill-health retirements will be borne by the NHS Business Services Authority Pensions Division.

7. Better Payment Practice Code

7.1 Better Payment Practice Code - measure of compliance

	2008/09		2007/08	
	Number	£000	Number	£000
Total Non-NHS trade invoices paid in the year	50,802	84,017	53,525	74,368
Total Non NHS trade invoices paid within target	48,508	81,115	50,235	70,397
Percentage of Non-NHS trade invoices paid within target	95.5%	96.5%	93.9%	94.7%
Total NHS trade invoices paid in the year	1,370	9,540	1,807	11,031
Total NHS trade invoices paid within target	1,349	9,519	1,806	11,030
Percentage of NHS trade invoices paid within target	98.5%	99.8%	99.9%	100.0%

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

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

There were no payments under this legislation.

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8. Other gains and losses

	2008/09 £000	2007/08 £000
Gain on disposal of land and buildings	0	2,740
Gains on disposal of plant and equipment	10	0
Loss on disposal of plant and equipment	(5)	(88)
	<u>5</u>	<u>2,652</u>

9. Finance Costs & Interest receivable

	2008/09 £000	2007/08 £000
Finance Costs		
Loans	<u>969</u>	<u>1,217</u>
Interest Receivable		
Bank accounts	<u>421</u>	<u>833</u>

10. Intangible Fixed Assets

	2008/09 £000	2007/08 £000
Gross cost at 1 April 2008	854	536
Impairments	(23)	0
Reclassifications	237	0
Revaluation	(39)	0
Additions purchased	0	318
Gross cost at 31 March 2009	<u>1,029</u>	<u>854</u>
Amortisation at 1 April 2008	519	507
Charged during the year	106	12
Amortisation at 31 March 2009	<u>625</u>	<u>519</u>
Net book value at 1 April 2008	<u>335</u>	<u>29</u>
Net book value at 1 April 2009	<u>404</u>	<u>335</u>

11. Tangible Fixed Assets

11.1 Tangible fixed assets at the balance sheet date comprise the following elements:

	Land	Buildings excluding dwellings	Assets under construction	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2008	53,160	188,036	2,188	43,115	136	25,594	2,258	314,487
Additions purchased	13	6,775	1,534	3,706	0	1,327	199	13,554
Additions donated	0	38	0	103	0	2	29	172
Impairments	(16,851)	(8,853)	(107)	(103)	0	0	0	(25,914)
Reclassifications	0	0	0	(39)	0	(198)	0	(237)
Indexation	0	4,115	48	2,645	1	0	65	6,874
Disposals	0	0	0	(5)	0	0	0	(5)
Cost or Valuation at 31 March 2009	36,322	190,111	3,663	49,422	137	26,725	2,551	308,931
Depreciation at 1 April 2008	0	0	0	30,988	114	16,963	1,525	49,590
Charged during the year	0	7,296	0	2,337	6	1,794	128	11,561
Impairments	0	1,210	0	0	0	0	0	1,210
Indexation	0	0	0	1,901	0	0	44	1,945
Depreciation at 31 March 2009	0	8,506	0	35,226	120	18,757	1,697	64,306
Net book value								
- Purchased at 1 April 2008	53,160	175,585	2,188	11,640	22	8,554	608	251,757
- Donated at 1 April 2008	0	10,009	0	487	0	77	125	10,698
- Government granted at 1 April 2008	0	2,442	0	0	0	0	0	2,442
- Total at 1 April 2008	53,160	188,036	2,188	12,127	22	8,631	733	264,897
- Purchased at 31 March 2009	36,322	169,861	3,663	13,713	17	7,919	718	232,213
- Donated at 31 March 2009	0	9,281	0	483	0	49	136	9,949
- Government granted at 31 March 2009	0	2,463	0	0	0	0	0	2,463
- Total at 31 March 2009	36,322	181,605	3,663	14,196	17	7,968	854	244,625

Notes:

1. The residual interests in off balance sheet PFI schemes is included under assets under construction. The Value assessed is £3,202,000 (2008: £2,188,000). During the year the residual interest in the multi-storey car park PFI scheme was added to assets under construction (£461,000)
2. A set of indices has been used to account for the general fall in prices of land and buildings to reflect the economic downturn.
3. An impairment of £1.2m due to the fire at Northwick Park Hospital has been recognised reflecting the loss of economic benefit.

11 Tangible Fixed Assets (contd)

11.2 Asset Financing

	Land	Buildings, excluding dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Net book value 31 March 2009								
Owned	36,322	181,605	0	14,196	17	7,968	854	240,962
PFI residual interests	0	0	3,663	0	0	0	0	3,663
Total 31 March 2009	36,322	181,605	3,663	14,196	17	7,968	854	244,625
Net book value 1 April 2008								
Owned	53,160	188,036	0	12,127	22	8,631	733	262,709
PFI residual interests	0	0	2,188	0	0	0	0	2,188
Total 1 April 2008	53,160	188,036	2,188	12,127	22	8,631	733	264,897

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

	2008/09 £000
Freehold	<u>217,927</u>

12. Stocks and Work in Progress

	31 March 2009	31 March 2008
	£000	£000
Raw materials and consumables	<u>3,512</u>	<u>3,544</u>

13. Debtors

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

	31 March 2009	31 March 2008
	£000	£000

Amounts falling due within one year:

NHS debtors	5,165	7,966
Provision for impairment of debtors	(2,290)	(2,393)
Other prepayments and accrued income	809	895
Other debtors	9,750	8,586
Sub Total: falling due within one year	<u>13,434</u>	<u>15,054</u>

Amounts falling due after more than one year:

Other debtors	977	1,079
Sub Total: falling due after more than one year	<u>977</u>	<u>1,079</u>

TOTAL	<u>14,411</u>	<u>16,133</u>
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	31 March 2009 £000
13.2 Provision for impairment of debtors	
Balance at 1 April	2,393
Amount written off during the year	(403)
Increase in debtors impaired	300
Balance at 31 March	<u><u>2,290</u></u>

	31 March 2009 £000
13.3 Debtors past due date but not impaired:	
By up to 3 months	1,307
By 3 to 6 months	644
By more than 6 months	0
TOTAL	<u><u>1,951</u></u>

14 Other Financial Assets

There were no other financial assets.

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15. Creditors

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

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Current instalments due on loans	4,766	4,766
Interest payable	34	40
Payments received on account	758	152
NHS creditors	3,161	2,711
Non - NHS trade creditors - revenue	5,205	9,365
Non - NHS trade creditors - capital	4,122	6,003
Tax	2,610	2,567
Social security costs	2,071	1,929
Accruals and deferred income	20,488	13,998
Sub Total: amounts falling due within one year	<u>43,215</u>	<u>41,531</u>
Amounts falling due after more than one year:		
Long - term loans	9,532	14,298
Sub Total: amounts falling due in more than one year	<u>9,532</u>	<u>14,298</u>
TOTAL	<u><u>52,747</u></u>	<u><u>55,829</u></u>

Other creditors include:

£2,312,000 outstanding pensions contributions at 31 March 2009 (2008: £2,052,000).

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15.2 Loans

	31 March 2009	31 March 2008
	£000	£000
Amounts falling due:		
In one year or less	4,766	4,766
Between one and two years	4,766	4,766
Between two and five years	4,766	9,532
TOTAL	<u>14,298</u>	<u>19,064</u>

	31 March 2009	31 March 2008
	£000	£000
Wholly repayable within five years	<u>14,298</u>	<u>19,064</u>

16 Other Financial Liabilities

There were no other financial liabilities.

17 Provisions for liabilities and charges

	Pensions relating to other staff	Legal claims	Restructurings	Total
	£000	£000	£000	£000
At 1 April 2008	4,954	90	0	5,044
Arising during the year	193	133	544	870
Utilised during the year	(386)	(40)	0	(426)
Reversed unused	(339)	(39)	0	(378)
Unwinding of discount	109	1	0	110
At 31 March 2009	<u>4,531</u>	<u>145</u>	<u>544</u>	<u>5,220</u>

Expected timing of cashflows:

Within one year	386	145	544	1,075
Between one and five years	1,544	0	0	1,544
After five years	2,601	0	0	2,601
	<u>4,531</u>	<u>145</u>	<u>544</u>	<u>5,220</u>

Notes:

a Reimbursement of £72,000 (2008: £40,000) is expected from the NHS Litigation Authority in respect of legal claims.

b £32,007,000 is included in the provisions of the NHS Litigation Authority at 31 March 2009 in respect of clinical negligence liabilities of the NHS Trust (2008: £12,570,000).

c Provisions for Restructuring are the estimated costs of reorganisation.

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18 Movements on Reserves

Movements on reserves in the year comprised the following

	Revaluation Reserve £000	Donated Asset Reserve £000	Government Grant Reserve £000	Income and Expenditure Reserve £000	Total £000
At 1 April 2008 as previously stated	85,669	10,698	2,442	(28,594)	70,215
Transfer from the income and expenditure account	0	0	0	117	117
Fixed asset impairments	(25,340)	(597)	0	0	(25,937)
Surplus on other revaluations/indexation of fixed/current assets	4,585	252	53	0	4,890
Receipt of donated/government granted assets	0	172	0	0	172
Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets	0	(576)	(32)	0	(608)
Other transfers between reserves	(7,756)	0	0	7,756	0
At 31 March 2009	<u>57,158</u>	<u>9,949</u>	<u>2,463</u>	<u>(20,721)</u>	<u>48,849</u>

19 Notes to the cash flow Statement

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

	2008/09	2007/08
	£000	£000
Total operating surplus	8,345	4,792
Depreciation and amortisation charge	11,667	10,759
Asset impairments and reversals, and movement in financial instruments	1,210	415
Transfer from Donated Asset Reserve	(576)	(565)
Transfer from the Government Grant Reserve	(32)	(31)
Decrease in stocks	32	539
Decrease in debtors	1,667	27,160
Increase in creditors	3,565	4,565
Decrease in provisions	66	(1,077)
Net cash inflow from operating activities	<u>25,944</u>	<u>46,557</u>

19.2 Reconciliation of net cash flow to movement in net debt

	2008/09	2007/08
	£000	£000
Increase in cash in the period	0	0
Cash outflow from debt repaid and finance lease capital payments	4,766	4,766
Change in net debt resulting from cash flows	4,766	4,766
Net debt at 1 April 2008	(18,266)	(23,032)
Net debt at 31 March 2009	<u>(13,500)</u>	<u>(18,266)</u>

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19.3 Analysis of changes in net debt

	At 1 April 2008	Other cash changes in year	At 31 March 2009
	£000	£000	£000
OPG cash at bank	76	(45)	31
Commercial cash at bank and in hand	722	45	767
Loan from the Department of Health due within one year	(4,766)	0	(4,766)
Loan from the Department of Health due after one year	(14,298)	4,766	(9,532)
	<u>(18,266)</u>	<u>4,766</u>	<u>(13,500)</u>

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20 Capital Commitments

Commitments under capital expenditure contracts at 31 March 2009 were £738,000 (2008: £1,810,000)

21 Post Balance Sheet Events

There were no post balance sheet events.

22 Contingencies

	2008/09	2007/08
	£000	£000
Contingent liabilities	(108)	(65)
Amounts recoverable against contingent liabilities	53	32
Net value of contingent liabilities	(55)	(33)

23 Movement in Public Dividend Capital

	2008/09	2007/08
	£000	£000
Public Dividend Capital as at 1 April 2008	154,619	179,237
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	2,315	1,024
Public Dividend Capital repaid in year	0	(25,642)
Public Dividend Capital as at 31 March 2009	156,934	154,619

24 Financial Performance Targets

24.1 Breakeven Performance

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

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09
	£000	£000	£000	£000	£000	£000
Turnover	249,259	264,348	271,946	295,886	306,374	338,581
Retained surplus/(deficit) for the year	(3,099)	(11,744)	(24,064)	23	1,030	117
Adjustment for:						
2007/08 Prior Period Adjustment (relating to 1997/98 to 2006/07)	0	0	0	(1,202)	0	0
- Adjustments for Impairments	0	0	0	0	0	1,210
- Other agreed adjustments	0	988	13,855	0	0	0
Break-even in-year position	(3,099)	(10,756)	(10,209)	(1,179)	1,030	1,327
Break-even cumulative position	(1,802)	(12,558)	(22,767)	(23,946)	(22,916)	(21,589)

The Trust's recovery plan, approved by the SHA aims to achieve break-even over a 9 year period in 2011/12.

Materiality test (i.e. is it equal to or less than 0.5%):

- Break-even in-year position as a percentage of turnover	(1.2%)	(4.1%)	(3.8%)	(0.4%)	0.3%	0.4%
- Break-even cumulative position as a percentage of turnover	(0.7%)	(4.8%)	(8.4%)	(8.1%)	(7.5%)	(6.4%)

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24.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £7,575,000, bears to the average relevant net assets of £204,932,000, that is 3.7%.

The variance from 3.5% is within the Department of Health materiality range of 3% to 4%.

24.3 External financing

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

	2008/09	2007/08
	£000	£000
External financing limit	(2,451)	(29,384)
Cash flow financing	(2,278)	(29,296)
Finance leases taken out in the year	0	0
Other capital receipts	(173)	(88)
External financing requirement	<u>(2,451)</u>	<u>(29,384)</u>
Undershoot	<u><u>0</u></u>	<u><u>0</u></u>

24.4 Capital Resource Limit

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

	2008/09	2007/08
	£000	£000
Gross capital expenditure	13,726	15,028
Less: book value of assets disposed of	(5)	(4,422)
Plus: loss on disposal of donated assets	0	4
Less: donations towards the acquisition of fixed assets	(172)	(88)
Charge against the capital resource limit	<u>13,549</u>	<u>10,522</u>
Capital resource limit	13,715	10,947
Underspend against the capital resource limit	<u><u>166</u></u>	<u><u>425</u></u>

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25. Related Party Transactions

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

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

The Department of Health is regarded as a related party. During the year the Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department.

The most significant (over £700,000) cumulative transactions (including both income and expenditure) are as follows together with debtor and creditors outstanding at the end of the year:

			Creditors	Debtors
	2008/09 £000	2007/08 £000	2008/09 £000	2008/09 £000
Brent PCT	99,841	122,845	475	1,254
Harrow PCT	75,767	63,878	230	322
Department of Health & Social Care	56,205	85,315	0	70
NHSPA Benefits Agency	28,040	25,091	2,404	0
London SHA	19,995	18,566	0	522
Ealing PCT	19,743	15,503	12	857
Hillingdon PCT	13,557	12,983	10	622
Barnet PCT	7,654	6,521	0	58
Imperial College Healthcare Trust	6,558	2,686	298	48
National Commissioning Group	6,171	3,248	0	0
NHS Cancer Screening Programmes	4,904	2,983	0	0
NHS Supply Chain	4,708	3,736	462	0
Bexley PCT	4,364	4,132	1	13
East of England Specialist Commissioning	3,729	1,958	0	132
NHS Litigation Authority	3,444	4,205	2	72
National Blood Authority	3,230	2,868	96	0
Central & North West London Mental Health Trust	2,979	2,858	25	275
London Borough of Brent	2,598	1,534	0	0
Tower Hamlets PCT	2,479	2,519	0	119
West Hertfordshire PCT	1,550	2,249	0	20
Westminster PCT	1,102	896	0	171
Lambeth PCT	1,030	952	65	0
Hammersmith & Fulham PCT	972	657	0	101
Hounslow PCT	856	588	10	622
Royal National Orthopaedic Hospital	841	811	52	252
Hillingdon Hospital Trust	837	722	50	176
Berkshire East PCT	814	654	0	100
Royal Brompton and Harefield Trust	750	234	52	57

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the Trustees for which are also members of the Trust Board. During the year these included:

	2008/09 £000	2007/08 £000
North West London Hospitals General Charitable Funds	308	432

The Board is the Corporate Trustee of North West London Hospitals General Charitable Fund.

26 Private Finance Transactions

26.1 PFI schemes deemed to be off-balance sheet

	2008/09	2007/08
	£000	£000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet - gross	8,137	7,822

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

	2008/09	2007/08
	£000	£000
PFI scheme which expires; 26th to 30th years (inclusive)	8,687	8,687

The estimated annual payments in future years are not expected to be materially different from those which the NHS Trust is committed to make during the next year.

Estimated capital value of the PFI scheme	£000 74,956	£000 74,956
Contract Start date:	March 2006	March 2006
Contract End date:	March 2036	March 2036

The scheme, which commenced in March 2006, relates to the building and equipping of the new Central Middlesex Hospital and the ongoing maintenance of this building and the existing ACAD building. At the end of the scheme the assets will transfer to the Trust without charge. A proportion of the annual payment is therefore being capitalised in order to create a residual interest which represents the expected value in current prices at the transfer date. The value was assessed by the District Valuer during the current year as £49.9 million. There are no deferred assets in the scheme. Payments are made monthly with the final payment being due in April 2036.

During the year the residual interest in a PFI scheme relating to the multi-storey car park at Northwick Park Hospital was capitalised. There are no ongoing operating expenses relating to this scheme and the Trust is not committed to any payments.

Estimated capital value of the PFI scheme	£000 1,508	£000 1,508
Contract Start date:	February 1998	February 1998
Contract End date:	February 2038	February 2038

26.2 'Service' element of PFI schemes deemed to be on-balance sheet

There were no PFI schemes deemed to be on-balance sheet.

27 Financial Instruments

Financial Reporting Standard 29 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Trust has with Primary Care Trusts and the way those Primary Care Trusts are financed, the NHS Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which these standards mainly apply. The NHS Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Trust in undertaking its activities.

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

Currency risk

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

Interest-rate risk

The Trust borrows from Government for working capital and capital expenditure subject to affordability as confirmed by the Strategic Health Authority. The current borrowings are for 5 years and interest is charged at the National Loans Fund rate (5.5% in 2007), fixed for the life of the loan. The Trust therefore has low exposure to interest rate fluctuations.

Credit risk

Because of the majority of the Trust's income comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposure as at 31 March 2009 are in receivables from customers, as disclosed in the debtors note.

Liquidity risk

The Trust's new operating costs are incurred under contract with Primary Care Trusts, which are financed from resources voted annually by Parliament. The trust funds its capital expenditure from funds obtained within its Prudential Borrowing Limit. The Trust is not, therefore, exposed to significant liquidity risks.

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28.1 Financial Assets

	Total	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
				Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	%	Years	Years
At 31 March 2009						
Debtors over 1 year	977	0	977	0	0	0
Sterling	742	0	742	0	0	0
Other Currency	56	0	56	0	0	0
Gross financial assets	1,775	0	1,775			
At 31 March 2008						
Debtors over 1 year	1,079	0	1,079	0	0	0
Sterling	675	0	675	0	0	0
Other Currency	123	0	123	0	0	0
Gross financial assets	1,877	0	1,877			

28.2 Financial Liabilities

Currency	Total	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
				Weighted average interest rate	Weighted average period for which fixed	
	£000	£000	£000	%	Years	Years
At 31 March 2009						
Sterling	(14,298)	(14,298)	0	5.5	5	0
Gross financial liabilities	(14,298)	(14,298)	0			
At 31 March 2008						
Sterling	(19,064)	(19,064)	0	5.5	5	0
Gross financial liabilities	(19,064)	(19,064)	0			

Note: The public dividend capital is of unlimited term.

28.3 Financial Assets

	Loans and Receivables £000	Total £000
Debtors over 1 year	977	977
Cash at bank and in hand	798	798
Total at 31 March 2009	<u><u>1,775</u></u>	<u><u>1,775</u></u>

28.4 Financial Liabilities

	Other £000	Total £000
Borrowings	14,298	14,298
Total at 31 March 2009	<u><u>14,298</u></u>	<u><u>14,298</u></u>

FRS 29 provides an option to exclude from the interest-rate risk and fair values disclosures financial assets and liabilities which are due within one year and are entered in the accounts under debtors, prepayments and accrued income, creditor amounts falling within one year, provisions for liabilities and charges and accruals and deferred income. The Trust has adopted this option.

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29 Third Party Assets

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

30 Intra-Government and Other Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government Bodies	0	0	4,766	9,532
Balances with Local Authorities	0	0	1	0
Balances with NHS Trusts and Foundation Trusts	834	0	676	0
Intra Government balances	834	0	5,443	9,532
Balances with bodies external to Government	12,600	977	37,772	0
At 31 March 2009	<u>13,434</u>	<u>977</u>	<u>43,215</u>	<u>9,532</u>
Balances with other Central Government Bodies	0	0	4,766	14,298
Balances with Local Authorities	21	0	0	0
Balances with NHS Trusts and Foundation Trusts	6,103	0	0	0
Intra Government balances	6,124	0	4,766	14,298
Balances with bodies external to Government	8,930	1,079	36,765	0
At 31 March 2008	<u>15,054</u>	<u>1,079</u>	<u>41,531</u>	<u>14,298</u>

31 Losses and Special Payments

There were 678 cases of losses and special payments (2008: 771) totalling £1,868,000 (2008: £427,000) during 2008/09.

There was one loss over £250,000 during the year. This case was damage to buildings and equipment due to a fire at Northwick Park Hospital in February 2009. The total value of the loss was £1,274,000.

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PRODUCED BY

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The North West London Hospitals 
NHS Trust