

The Accounts

Foreword to the Accounts

These accounts for the year ended 31 March 2007 have been prepared by Heart of England NHS Foundation Trust in accordance with paragraphs 24 and 25 of Schedule 1 to the 2003 Act.

Mark Goldman
Chief Executive

6 June 2007

A handwritten signature in black ink, reading 'Mark Goldman', written in a cursive style.



we have
exceeded
all the
financial
targets we set
ourselves

This has been a fantastic year for Heart of England where we have exceeded all the financial targets we set ourselves at the start of the financial year. It gives us a strong platform on which to develop the Trust's four sites, and to embark upon a journey of sustained investment to really improve the patient experience now and into the future.

Mr Adrian Stokes
Director of Finance

Accounting Policies

The Trust has had another very successful year. As well as improving performance at Heart of England, we have been running a management contract at Good Hope Hospital and improving its performance. We are especially proud of our achievements with both organisations ending the year in surplus. This means greater opportunity for investment in improving quality of care across all four sites.

Heart of England's senior management team has risen to the significant challenge of effectively running two large organisations. The team's resolve to find solutions and meet delivery targets has been inspiring.

2006/07 has been a year in which we have started to think about how we redesign our services to improve quality, timeliness and costs. We have started to introduce private sector tools such as LEAN methodologies to identify waste and streamline processes.

2007/08 will be a year when we set ourselves up using a paradigm shift in delivery. The LEAN methodology helps us to improve efficiency by removing waste and bottlenecks to focus on what is really important – patient care.

Preparation work for the merger with Good Hope Hospital has allowed us to look more strategically to the future in the way we deliver services for the benefit of our enlarged catchment of over one million patients.

Having laid the foundation as a new combined organisation, Heart of England can look forward to an exciting future at the forefront of change in the NHS.

Mrs Beccy Fenton
Deputy Chief Executive (since 1 April 2007),
Managing Director and Chief Finance Officer



A Basis of Preparation of Accounts

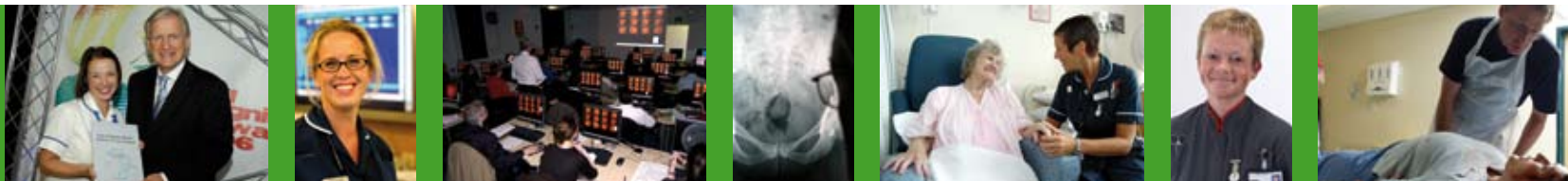
Monitor has directed that the financial statements of NHS Foundation Trusts should meet the accounting requirements of the NHS Foundation Trust Financial Reporting Manual which should be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2006/07 NHS Foundation Trust Financial Reporting Manual issued by Monitor. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

B Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of tangible fixed assets at their value to the business by reference to their current costs. NHS foundation trusts, in compliance with HM Treasury's Financial Reporting Manual, are not required to comply with the FRS3 requirements to report 'earnings per share' or historical profits and losses.

C 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' where they meet all the following conditions:



a. The sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements approved;

b. The former activities have ceased entirely;

c. the sale or termination has a material effect on the nature and focus of the reporting NHS foundation trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the NHS foundation trusts continuing operations; and

d. the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial purposes.

Operations not satisfying all these conditions are classified as continuing.

D Income Recognition

Income is accounted for applying the accruals convention. The main source of income for the Trust is under contract from commissioners in respect of healthcare services. 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. The NHS foundation trust changed the form of its contracts with NHS commissioners to follow the Department of Health's Payment By Results (PbR) methodology in 2006/07. To manage the financial

impact of this transition, PbR clawback is being paid back to the Department of Health. The income recognised in the accounts is net of this clawback payment.

E Expenditure

Expenditure is accounted for by applying the accruals convention.

F Intangible Fixed Assets

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

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. 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.

G Tangible fixed assets

Capitalisation

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

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or

- form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost

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. 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. A three yearly interim valuation is also carried out.

Professional valuations are carried out by the District Valuers of the Inland Revenue Government Department.



The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. 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 the revaluation was accounted for on 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.

Assets in the course of construction are valued at cost and were valued by professional valuers as part of the five-year or three-yearly valuation or when they are brought into use.

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 valued at net current replacement cost. 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 NHS Foundation Trust's professional valuers. Leaseholds are depreciated over the primary lease term.

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

In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation

periods for the principal categories of tangible assets are, in general, as follows:

- | | |
|--------------------------|---|
| • plant & machinery | 5-15 years |
| • transport equipment | 7 years |
| • information technology | 5 years |
| • furniture & fittings | 5-10 years |
| • dwellings | up to 58 years per District Valuers valuation |
| • other buildings | up to 58 years per District Valuers valuation |

Fixed asset impairment resulting from losses of economic benefits are charged to the income and expenditure account. All other impairments are taken to the revaluation reserve and reported in the statement of total recognised gains and losses to the extent that there is a balance on the revaluation reserve in respect of that asset.

H 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 net book value of the asset is transferred from the donated asset reserve to the Income and Expenditure Reserve.



I Government Grants

Government grants are grants from Government bodies other than income from primary care trusts for the provision of services. Grants from the Department of Health, including those for achieving three star status, are accounted for as Government grants as are grants from the Big Lottery Fund. Where the Government grant is used to fund revenue expenditure it is taken to the Income and Expenditure account to match that expenditure. Where the grant is used to fund capital expenditure the grant is held as deferred income and released to the income and expenditure account over the life of the asset on a basis consistent with the depreciation charge for that asset.

J Private Finance Initiative (PFI) Transactions

The NHS follows HM Treasury's technical Note 1 (Revised) "How to Account for PFI Transactions" which provides definitive guidance for the application of application note F to FRS 5.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the trust has contributed land and buildings, 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.

Where the balance of risks and rewards of ownership of the PFI property are borne by the trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

K 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.

L 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 and
 - 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 which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible the Trust discloses the total amount of research and development expenditure charged in the income and expenditure account separately.

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

M Cash, Bank and Overdrafts

Cash, bank and overdraft balances are recorded at the current values of those balances in the NHS foundation trust's cashbook. These balances exclude monies held in the NHS Foundation Trust's bank account belonging to patients. Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases overdrafts are disclosed within creditors. 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 they relate to.



N 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 16.

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.

O Contingencies

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 22 where an inflow of economic benefit is probable. Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed in note 22 unless the probability of a transfer is remote. Contingent liabilities are defined as:

Possible obligations arising from past events whose existence will be confirmed only by the 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 obligation cannot be measured with sufficient reliability.

P Pension Costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the NHS foundation trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme under FRS17.

Employers pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements

are not funded by the scheme except where the retirement is due to ill-health. 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.

Q 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.

R 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.

S 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.



T Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS foundation 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.

U Public Dividend Capital (PDC) and PDC Dividend

PDC is a type of public sector equity finance based on the excess of assets over liabilities i.e. the net assets of a public benefit corporation.

A charge, reflecting the forecast cost of capital utilised by the NHS foundation 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 relevant net assets of the NHS Foundation Trust.

Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant net assets.

V Losses and Special Payments

Losses and Special Payments are charged to the relevant functional headings on a cash 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).

W Investments

Investments in subsidiary undertakings, associates and joint ventures are treated as fixed asset investments and valued at market value. Fixed asset investments are reviewed annually for impairments.

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. These assets, and other current assets, are valued at cost less any amounts written off to represent any impairments in value, and are reviewed annually for impairments.

X Corporation Tax

NHS foundation trusts are potentially liable to corporation tax in certain circumstances. A review of other operating income is performed annually to assess any potential liability in conjunction with guidance on the HMR&C website. As a result of this review it is concluded that the Trust does not have a corporation tax liability in 2006/07.



Income And Expenditure Account Year To 31 March 2007

	NOTE	2006 / 07 £000	2005 / 06 £000
Income from activities	2	271,579	247,414
Other operating income	4	32,103	33,635
Operating expenses	5-7	(290,061)	(269,008)
OPERATING SURPLUS		<u>13,621</u>	<u>12,041</u>
Profit (loss) on disposal of fixed assets	8	(106)	(75)
SURPLUS BEFORE INTEREST		<u>13,515</u>	<u>11,966</u>
Interest receivable	9	2,047	865
Interest payable	9	0	0
Other finance costs		(14)	(42)
SURPLUS FOR THE FINANCIAL YEAR		<u>15,548</u>	<u>12,789</u>
Public Dividend Capital dividends payable		(7,479)	(7,353)
RETAINED SURPLUS FOR THE YEAR		<u><u>8,069</u></u>	<u><u>5,436</u></u>

All income and expenditure is derived from continuing operations.

Balance Sheet As At:

	NOTE	31 March 2007 £000	31 March 2006 As restated £000
FIXED ASSETS			
Intangible assets	10	1,864	886
Tangible assets	11	219,778	221,472
		<u>221,642</u>	<u>222,358</u>
CURRENT ASSETS			
Stocks and work-in-progress	12	3,977	4,158
Debtors	13	15,713	15,762
Investments	14	20,000	11,500
Cash at bank and in hand	19.3	7,063	284
		<u>46,753</u>	<u>31,704</u>
CREDITORS: Amounts falling due within one year	15	(27,965)	(22,368)
NET CURRENT ASSETS (LIABILITIES)		<u>18,788</u>	<u>9,336</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>240,430</u>	<u>231,694</u>
CREDITORS: Amounts falling due after more than one year	15	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	16	(1,729)	(2,472)
TOTAL ASSETS EMPLOYED		<u><u>238,701</u></u>	<u><u>229,222</u></u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	23	130,700	128,845
Revaluation reserve	17	91,625	91,646
Donated asset reserve	17	2,087	2,511
Income and expenditure reserve	17	14,289	6,220
TOTAL TAXPAYERS EQUITY		<u><u>238,701</u></u>	<u><u>229,222</u></u>



Mark Goldman
Chief Executive

6 June 2007





Statement Of Total Recognised Gains And Losses Year To 31 March 2007

	2006 / 07 £000	2005 / 06 £000
Surplus (deficit) for the financial year before dividend payments	15,548	12,789
Fixed asset impairment losses	0	0
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	0	510
Increases in the donated asset reserve due to receipt of donated financed assets	178	101
Reductions in the donated asset reserve due to the depreciation, impairment and disposal of donated financed assets	(606)	(741)
Total recognised gains and losses for the financial year	<u>15,120</u>	<u>12,659</u>

Cash Flow Statement

Year To 31 March 2007

	NOTE	2006 / 07 £000	2005 / 06 £000
OPERATING ACTIVITIES			
Net cash inflow/(outflow) from operating activities	19.1	30,090	24,062
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		2,047	865
Net cash inflow/(outflow) from returns on investments and servicing of finance		2,047	865
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		(10,165)	(5,384)
Payments to acquire intangible fixed assets		(1,069)	(79)
Net cash inflow/(outflow) from capital expenditure		(11,234)	(5,463)
DIVIDENDS PAID			
		(7,479)	(7,353)
Net cash inflow/(outflow) before management of liquid resources and financing		13,424	12,111
MANAGEMENT OF LIQUID RESOURCES			
Purchase of current asset investments		(254,000)	(11,500)
Sale of current asset investments		245,500	0
Net cash inflow/(outflow) from management of liquid resources		(8,500)	(11,500)
Net cash inflow/(outflow) before financing		4,924	611
FINANCING			
Public dividend capital received		1,855	0
Other loans repaid		0	(800)
Other capital receipts		0	460
Net cash inflow/(outflow) from financing		1,855	(340)
Increase/(decrease) in cash		6,779	271



Notes^{To} The Accounts



1. Segmental Analysis

The following information segments the results of the Trust by:

- Research activities
- Healthcare activities, being all the other activities of the Trust

	Healthcare 2006/07 £000	Healthcare 2005/06 £000	Research 2006/07 £000	Research 2005/06 £000	Total 2006/07 £000	Total 2005/06 £000
INCOME	300,982	278,172	2,700	2,877	303,682	281,049
SURPLUS/(DEFICIT)						
Segment surplus/(deficit)	13,515	11,097	0	869	13,515	11,966
Common costs	0	0	0	0	0	0
Surplus/(deficit) before interest	13,515	11,097	0	869	13,515	11,966
NET ASSETS:						
Segment net assets	<u>237,103</u>	<u>227,686</u>	<u>1,598</u>	<u>1,536</u>	<u>238,701</u>	<u>229,222</u>

2. Income from Activities

	2006/07 £000	2005/06 £000
Primary Care Trusts	252,194	264,957
Department of Health	17,501	(19,301)
NHS Other	0	159
Non NHS:		
- Private Patients	287	360
- Overseas patients (non-reciprocal)	90	60
- Road Traffic Act	1,507	1,179
- Other	0	0
TOTAL	<u>271,579</u>	<u>247,414</u>

Road Traffic Act income is subject to a provision for doubtful debts of 8.7% to reflect expected rates of collection.

Income from PCTs includes £582,417 (2005/06 £711,000) of income accrued for partially completed spells (pcs) to comply with Application Note G of FRS5 for spells that have started but not completed at 31 March 2007. In 2006/07 pcs have been recognised at 2007/08 Payment by Results prices, in 2005/06 pcs were recognised at 2005/06 prices.

As part of the transitional arrangements of the implementation of Payment by Results (PbR), the Trust paid £7,331,000 (2005/06 £19,301,000) to the Department of Health as PbR clawback. As part of PbR the Trust also receives a Market Forces Factor (MFF). In 2006/07 the Trust received £24.2m direct from the DoH (2005/06 £22.3m disclosed in Primary Care Trust income).

2.1 Mandatory and non-mandatory split of income from activities

Of the total income from activities, £270,300,000 (2005/06 £246,249,000) is mandatory and £1,279,000 (2005/06 £1,165,000) is non-mandatory income.

3. Private Patient Cap

The private patient cap has not been exceeded in 2006/07

	2006/07	Base year
Private patient income (£'000)	287	422
Total patient related income (£'000)	271,579	178,478
Proportion (%)	0.11%	0.24%

4. Other Operating Income

	2006/07 £000	2005/06 £000
Education, training and research	12,911	14,506
Transfers from donated asset reserve	606	741
Services to other bodies	9,258	10,098
Other income	9,328	8,290
TOTAL	32,103	33,635

5. Operating Expenses

5.1 Operating expenses comprise:

	2006/07 £000	2005/06 £000
Directors' costs	960	756
Staff costs	188,745	172,607
Drug costs	19,324	16,478
Supplies and services - clinical	26,299	26,101
Supplies and services - general	10,219	9,793
Establishment	2,987	3,125
Research & Development	1,511	2,008
Transport	485	477
Premises	11,266	10,139
Bad debts	4,078	3,593
Depreciation and amortisation	12,716	13,779
Audit fees	124	113
Clinical negligence	3,859	3,747
Other	7,488	6,292
TOTAL	290,061	269,008



Of the total audit fees, £79,000 (2005/06 £75,000) relates to audit services statutory audit work, £10,000 (2005/06 £5,000) for additional services provided by the auditors and £35,000 (2005/06 £33,000) for audit related regulatory reporting.

The research and development value includes £949,333 (2005/06 £1,032,000) of staff costs. All of the research and development expenditure is current year expenditure.

5.2 Operating leases

5.2/1 Operating expenses include:

	2006/07 £000	2005/06 £000
Hire of plant and machinery	0	0
Other operating lease rentals	478	463
TOTAL	<u>478</u>	<u>463</u>

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

Operating leases which expire:	Land and buildings		Other leases	
	2006/07 £000	2005/06 £000	2006/07 £000	2005/06 £000
Within 1 year	0	0	0	0
Between 1 and 5 years	0	0	82	70
After 5 years	191	191	205	148
TOTAL	<u>191</u>	<u>191</u>	<u>287</u>	<u>218</u>

5.3 Salary and Pension entitlements of senior managers

A) Remuneration

Name and Title	2006-07			2005-06		
	Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind Rounded to the nearest £100	Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind Rounded to the nearest £100
Mark Goldman (Chief Executive) (a)	185-190			185-190		
Becky Fenton (Chief Finance Officer and Managing Director) (b)	150-155			120-125		
Fay Baillie (Acting Nursing Director Effective from 09.10.06) (c)	35-40			0		
Dame Jill Ellison (Nursing Director) (d)	80-85			90-95		
Mandy Coalter (HR & OD Director Effective from 24.07.06) (e)	65-70			0		
Anne Gynane (Acting HR Director to 23.07.06) (f)	20-25			75-80		
Rowland Hopkinson (Deputy Chief Executive and Medical Director)	40-45	175-180		40-45	165-170	
Hugh Rayner (Medical Director)	40-45	135-140		40-45	135-140	
Ian Cunliffe (Acting Medical Director Surgery)	40-45	90-95		0		
Clive Wilkinson (Chairman)	45-50			35-40		
Bernard Spittle (Vice Chairman)	10-15			5-10		
Alaba Okuyiga (Non Executive Director)	10-15			5-10		
John Perry (Non Executive Director)	10-15			5-10		
Anna East (Non Executive Director)	10-15			5-10		
Richard Samuda (Non Executive Director)	10-15			0		
Denise Friend (Non Executive Director resigned 8 May 2006)	0-5			5-10		
Paul Hensel (Non Executive Director)	10-15			5-10		

Other remuneration reflects salary paid to Medical Directors for their posts as Clinical Directors.

- (a) Half of 2006/7 salary recharged to Good Hope Hospital NHS Trust
- (b) 20% of 2006/7 salary recharged to Good Hope Hospital NHS Trust
- (c) Employee of the Trust covering sick leave
- (d) On sick leave
- (e) New employee to the Trust
- (f) Stepped down when new employee took over the post

B) Pension Benefits

Name and title	Real increase in pension at age 60 (bands of £2500) £000	Real increase in lump sum at age 60 (bands of £2500) £000	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31 March 2007 (bands of £5000) £000	Cash Equivalent Transfer Value at 31 March 2007 £000	Cash Equivalent Transfer Value at 31 March 2006 £000	Real Increase in Cash Equivalent Transfer Value £000	Employers Contribution to Stakeholder Pension To nearest £100
Mark Goldman (Chief Executive)	0-2.5	2.5-5.0	75.0-80.0	225.0-230.0	1,335	1,249	39	0
Becky Fenton (Chief Finance Officer and Managing Director)	0-2.5	2.5-5.0	10.0-15.0	40.0-45.0	154	130	14	0
Dame Jill Ellison (Nursing Director, sick since 30.06.06)	0	0	30.0-35.0	100.0-105.0	553	530	7	0
Fay Baillie (Acting Nursing Director, since 30.06.06)	2.5-5.0	10.0-12.5	20.0-25.0	70.0-75.0	346	228	79	0
Mandy Coalter (HR Director since 24.07.06)	0-2.5	0-2.5	0-5.0	0-5.0	5	0	4	0
Anne Gynane (Acting HR Director to 23.07.06)	0-2.5	0-2.5	0-5.0	10.0-145.0	41	39	1	
Ian Cunliffe (Acting Medical Director Surgery)	10.0-12.5	35.0-37.5	30.0-35.0	100.0-105.0	445	274	115	0
Rowland Hopkinson (Deputy Chief Executive and Medical Director)	0-2.5	0-2.5	90.0-95.0	275.0-280.0	N/A	1,669	0	0
Hugh Rayner (Medical Director)	0-2.5	2.5-5.0	45.0-50.0	145.0-150.0	768	705	32	0

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

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2004-05 the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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

6. Staff Costs and Numbers

6.1 Staff costs	Total £000	Permanently Employed £000	Other £000	2005/06 £000
Salaries and wages	160,714	153,466	7,248	147,779
Social Security costs	12,471	12,471	0	11,340
Employer contributions to NHSPA	16,649	16,649	0	15,183
	189,834	182,586	7,248	174,302

6.2 Average number of persons employed	Total Number	Permanently Employed Number	Other Number	2005/06 Number
Medical and dental	571	571	0	537
Administration and estates	1,266	1,266	0	1,182
Healthcare assistants and other support staff	672	672	0	638
Nursing, midwifery and health visiting staff	1,804	1,804	0	1,662
Scientific, therapeutic and technical staff	757	757	0	707
Bank and Agency staff	146	0	146	168
Other	188	188	0	118
Total	5,404	5,258	146	5,012

6.3 Employee benefits

There were no employee benefits.

6.4 Management costs

	2006/07 £000	2005/06 £000
Management costs	11,284	11,100
Income	303,682	281,049
Percentage (%)	3.72	3.95

Management costs are defined as those on the management costs website at www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSManagementCosts/fs/en..

6.5 Retirements due to ill-health

During 2006/07 there were 10 (2005/06 5) early retirements from the trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £376,368 (2005/06 £218,000). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.



7. Better Payment Practice Code

7.1 Better Payment Practice Code - measure of compliance

	2006/07 Number	2006/07 Value £000	2005/06 Number	2005/06 Value £000
Total bills paid in the year	96,501	84,955	98,911	76,663
Total bills paid within target	85,602	74,469	89,734	67,050
Percentage of bills paid within target	89%	88%	91%	87%

The Better Payment Practice Code requires the Trust to aim to pay all valid non-NHS invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later. The Trust has a target of 90%.

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

There was a loss on disposal of fixed assets of £106,000 in 2006/07 (2005/06 £75,000), all of which was on non-protected assets.

9. Interest Payable and Receivable

There was no interest payable in 2006/07 or in 2005/06.

The interest receivable arose from interest earned in the main current account or surplus placed on the National Loans Account for periods not exceeding three months.

10. Intangible Fixed Assets

	Software Licences £000	Total £000
Gross cost at 1 April 2006	1,283	1,283
Additions purchased	1,069	1,069
Additions donated	6	0
Gross cost at 31 March 2007	2,358	2,352
Amortisation at 1 April 2006	397	397
Provided during the year	97	97
Amortisation at 31 March 2007	494	494
Net book value		
- Purchased at 1 April 2006	886	886
- Donated at 1 April 2006	0	0
- Total at 1 April 2006	886	886
- Purchased at 31 March 2007	1,859	1,859
- Donated at 31 March 2007	5	5
- Total at 31 March 2007	1,864	1,864

11. Tangible Fixed Assets

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

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account*	Plant and Machinery	Transport Equipment	Information Technology	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2006 (as restated)	51,330	155,036	2,333	1,864	50,681	584	17,811	6,329	285,968
Additions purchased	0	2,053	0	2,762	5,082	0	835	141	10,873
Additions donated	0	52	0	0	126	0	0	0	178
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(1,136)	0	0	0	(1,136)
At 31 March 2007	51,330	157,141	2,333	4,626	54,753	584	18,646	6,470	295,883
Depreciation at 1 April 2006 (as restated)	0	8,022	337	0	36,138	475	14,416	5,108	64,496
Provided during the year	0	8,172	237	0	2,693	17	1,209	291	12,619
Impairments	0	0	0	0	0	0	0	0	0
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(1,010)	0	0	0	(1,010)
Depreciation at 31 March 2007	0	16,194	574	0	37,821	492	15,625	5,399	76,105
Net book value									
- Purchased at 1 April 2006	51,330	146,053	1,996	1,864	12,546	109	3,395	1,210	218,503
- Donated at 1 April 2006 (as restated)	0	961	0	0	1,997	0	0	11	2,969
Total at 1 April 2006 (as restated)	51,330	147,014	1,996	1,864	14,543	109	3,395	1,221	221,472
- Purchased at 31 March 2007	51,330	139,829	1,759	4,626	14,809	92	3,021	1,060	216,526
- Donated at 31 March 2007	0	1,118	0	0	2,123	0	0	11	3,252
Total at 31 March 2007	51,330	140,947	1,759	4,626	16,932	92	3,021	1,071	219,778

In the year the asset lives have been reviewed and £2,024,084 (2005/06 £3,155,000) has been charged as accelerated depreciation. The Trust will continue to review its asset lives and adjust where necessary on an ongoing basis.

The Trust has made a prior period adjustment (ppa) to tangible fixed assets. The Trust was previously disclosing a building held under an operating lease as a donated fixed asset. This treatment was incorrect and prior year comparatives have been adjusted. There is no net effect on the Trust's Income and Expenditure position or on its Cash Flow Statement. The impact of the ppa is to reduce buildings (donated) by £3,855,000 with a corresponding reduction in the donated asset reserve (see note 17 and 33).

In 2006/07 the Trust has performed a physical asset verification exercise which identified some disposals and assets that required accelerated depreciation. This exercise was still in progress at 31 March 2007 and any remaining adjustments identified before its completion will be processed in 2007/08.

Of the totals at 31 March 2007, £51,330,000 (2005/06 £51,330,000) related to land valued at open market value and £140,947,000 (2005/06 £147,014,000) related to buildings valued at open market value and £1,759,000 (2005/06 £1,996,000) related to dwellings valued at open market value.

There are no fixed assets held under finance leases.

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

	31 March 2007	31 March 2006
	£000	As restated £000
Freehold	192,190	198,494
Long leasehold	1,846	1,846
Short leasehold	0	0
TOTAL	194,036	200,340
	£000	£000
Protected assets	104,015	103,230
Non-protected assets	90,021	97,110
TOTAL	194,036	200,340

12. Stocks and Work in Progress

	31 March 2007	31 March 2006
	£000	£000
Raw materials and consumables	3,977	4,158
Work-in-progress	0	0
Finished goods	0	0
TOTAL	3,977	4,158

13. Debtors

	31 March 2007	31 March 2006
	£000	£000
Amounts falling due within one year:		
NHS debtors	14,059	11,372
Provision for irrecoverable debts	(5,543)	(4,951)
Other prepayments and accrued income	4,029	4,394
Other debtors	2,720	3,974
Sub Total	15,265	14,789
Amounts falling due after more than one year:		
Provision for irrecoverable debts	(323)	(192)
Other debtors	771	1,165
Sub Total	448	973
TOTAL	15,713	15,762

NHS Debtors include £0 prepaid pension contributions at 31 March 2007 and at 31 March 2006.

14. Investments

	NLA Investments £000	Total £000
Cost at 1 April 2006	11,500	11,500
Additions	254,000	254,000
Disposals	(245,500)	(245,500)
Cost at 31 March 2007	20,000	20,000

The investments held of £20,000,000 are deposits made on the National Loans Account (NLA) to earn additional interest on short term cash surpluses. These funds are held over a number of periods, none exceeding three months.

15. Creditors

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

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
NHS creditors	6,746	2,910
Non - NHS trade creditors - revenue - other	407	720
Non - NHS trade creditors - capital	2,275	1,550
Tax and social security costs	160	123
Other creditors	97	629
Accruals and deferred income	18,280	16,436
Sub Total	27,965	22,368
Amounts falling due after more than one year:		
NHS creditors	0	0
Sub Total	0	0
TOTAL	27,965	22,368

NHS creditors include;

£0 for payments due in future years under arrangements to buy out the liability for 0 early retirements over 5 years; and
£0 outstanding pensions contributions at 31 March 2007 and at 31 March 2006.

Accruals and deferred income includes £2,292,776 (2005/06 £1,653,000) of government grants.



15.2 Finance Lease Commitments

The Trust does not have any commitments under finance leases.

16. Provisions for Liabilities and Charges

	Pensions relating to other staff £000	Legal claims £000	Agenda for Change £000	Other £000	Total £000
At 1 April 2006	645	157	1,670	0	2,472
Change in the discount rate	0	0	0	0	0
Arising during the year	0	91	310	669	1,070
Utilised during the year	(45)	(94)	(1,233)	0	(1,372)
Reversed unused	0	(18)	(437)	0	(455)
Unwinding of discount	14	0	0	0	14
At 31 March 2007	<u>614</u>	<u>136</u>	<u>310</u>	<u>669</u>	<u>1,729</u>

Expected timing of cashflows:

Within one year	45	136	310	669	1,160
Between one and five years	180	0	0	0	180
After five years	389	0	0	0	389
	<u>614</u>	<u>136</u>	<u>310</u>	<u>669</u>	<u>1,729</u>

£11,946,148 is included in the provisions of the NHS Litigation Authority at 31/3/2007 in respect of clinical negligence liabilities of the Trust (£9,024,427 at 31 March 2006).

£3,144,458 is included in the provisions of the NHS Litigation Authority at 31/3/2007 in respect of the existing liabilities scheme of the Trust (£3,343,963 at 31 March 2006).

17. Movements on Reserves

Movements on reserves in the year comprised the following:

	Revaluation Reserve	Donated Asset Reserve	Income and Expenditure Reserve	Total
	£000	£000	£000	£000
At 1 April 2006 as previously stated	91,646	6,366	6,220	104,232
Opening Balance Adjustments	0	(3,855)	0	(3,855)
At 1 April 2006 as restated	91,646	2,511	6,220	100,377
Transfer from the income and expenditure account	0	0	8,069	8,069
Surplus on other revaluations/indexation of fixed assets	0	0	0	0
Receipt of donated assets	0	178	0	178
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated assets	0	(606)	0	(606)
Other	(21)	4	0	(17)
At 31 March 2007	<u>91,625</u>	<u>2,087</u>	<u>14,289</u>	<u>108,001</u>

For details of the prior period adjustment see note 33 and note 11.1 on fixed assets.

18. Movement in Taxpayers Equity

	2006/07 £'000
At 1 April 2006 as previously stated	233,077
Opening Balance Adjustments	(3,855)
At 1 April 2006 as restated	229,222
Surplus/ (deficit) for the financial year	15,548
Public Dividend capital dividends	(7,479)
New public dividend capital received	1,855
Additions/ (reductions) in donated asset reserve	(424)
Additions/ (reductions) in other reserves	(21)
Taxpayers equity at 31 March 2007	<u>238,701</u>

For details of the prior period adjustment see note 33 and note 11.1 on fixed assets.



19. Notes to the Cash Flow Statement

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

	2006/07 £000	2005/06 £000
Total operating surplus (deficit)	13,621	12,041
Depreciation and amortisation charge	12,716	13,779
Fixed asset impairments and reversals	0	0
Transfer from donated asset reserve	(606)	(741)
(Increase)/decrease in stocks	181	185
(Increase)/decrease in debtors	49	(4,222)
Increase/(decrease) in creditors	4,872	2,925
Increase/(decrease) in provisions	(743)	95
Net cash inflow/(outflow) from operating activities before restructuring costs	<u>30,090</u>	<u>24,062</u>
Payments in respect of fundamental reorganisation/restructuring	0	0
Net cash inflow from operating activities	<u><u>30,090</u></u>	<u><u>24,062</u></u>

19.2 Reconciliation of net cash flow to movement in net funds

	2006/07 £000	2005/06 £000
Increase/(decrease) in cash in the period	6,779	271
Cash at start of year for new FTS	0	13
Cash inflow from new debt	0	0
Cash outflow from debt repaid and finance lease capital payments	0	0
Cash (inflow)/outflow from (decrease)/increase in liquid resources	8,500	11,500
Change in net funds resulting from cashflows	<u>15,279</u>	<u>11,784</u>
Non - cash changes	0	0
Net funds at 1 April 2006	11,784	0
Net funds at 31 March 2007	<u><u>27,063</u></u>	<u><u>11,784</u></u>

19.3 Analysis of changes in net funds

	Cash £000	Investments £000
At 1 April 2006	284	11,500
Changes in year	6,779	8,500
At 31 March 2007	<u><u>7,063</u></u>	<u><u>20,000</u></u>

20. Capital Commitments

Commitments under capital expenditure contracts at the balance sheet date were £3,744,000 (2005/06 £2,219,000)

21. Post Balance Sheet Events

Following a public consultation and approval by the Secretary of State for Health, Good Hope Hospital NHS Trust (GHH) was dissolved on 8 April 2007 and merged with the Heart of England NHS Foundation Trust (HEFT). It is expected that this combination will be accounted for under merger accounting rules from financial year 2007 / 2008 onwards.

This will have a significant impact on the results and financial position of the existing Heart of England NHS Foundation Trust. GHH operating income for 2006 / 2007 totalled £133.8m. Total assets employed at 31 March 2007 were £106.1m. GHH delivered a small surplus of £1.7m in 2006/07.

HEFT will take over the Public Dividend Capital (PDC) of GHH which at 8 April 2007 stood at £84.5m. HEFT will also take over all the assets and liabilities of GHH.

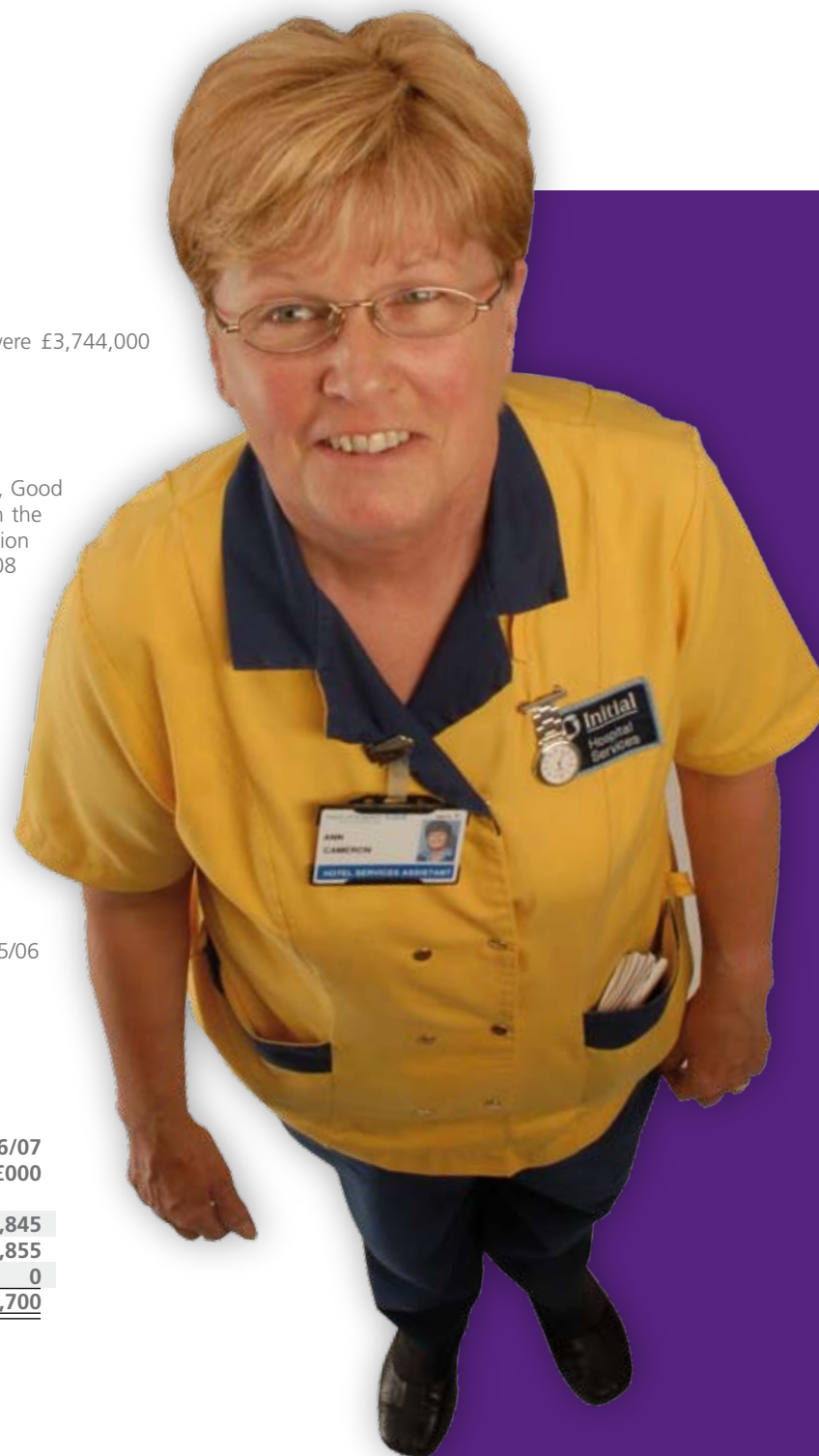
22. Contingencies

The NHS litigation authority has identified a contingent liability of £75,000 (2005/06 £84,850) relating to LTPS claims.

There are no other contingencies having a material effect on the accounts.

23. Movement in Public Dividend Capital

	2006/07 £000
Public Dividend Capital as at 1 April 2006	128,845
New Public Dividend Capital received	1,855
Public Dividend Capital repaid in year	0
Public Dividend Capital as at 31 March 2007	<u>130,700</u>



24. Related Party Transactions

During the year none of the Board members, governors, key management or parties related to them have undertaken any material transactions with the Trust.

The Trust makes an annual £191,000 lease payment to Heartlands Education Centre Limited (HECL). This is a commercial rent.

HECL was incorporated on 25 October 1994 as a company limited by guarantee. The principal activity of the company is to operate the Education Centre at Birmingham Heartlands Hospital. The original education centre came into use in September 1995 and an extension (the new facility) came into use in October 2002.

The directors of HECL who served in the year ended March 2007 were;

Dr Craig Skinner – Chairman
Dr Philip Bright
Dr David Burkitt
Mrs Beccy Fenton
Mr Roger Hatfield
Mr Bernard Spittle
Mr David Twist.

Beccy Fenton is the Deputy Chief Executive (from 1 April 2007), the Chief Finance Officer and Managing Director of the Trust and Bernard Spittle is a Non-Executive of the Trust. Dr Phillip Bright and Dr David Burkitt work as consultants at the Trust.

The table across shows the key financial results of HECL. HECL is not considered to be a subsidiary of the Trust under FRS2 and accordingly these results are not consolidated into the Trust's accounts:

£'000	31/3/07	31/3/06
Turnover	403	427
Retained profit/ (loss) for the year	-74	7
Fixed assets	2,606	2,815
Net asset	-160	-86

There is a lease from HECL to the Trust at a commercial rate for the use of the areas of the new facility that the Trust occupies, including the Clinical Skills and Medical Illustration departments, which amounts to approximately 50% of the floor space. This lease is for a period of 22 years expiring on 4 January 2025.

When the lease expires in 2025 ownership of the building will revert to the Trust for zero consideration. Using the District Valuation provided to the Trust as at 31 March 2005, the Trust holds a residual interest of £186,217 in the building at 31 March 2007.

For the year ended 31 March 2007 HECL transferred £173,720 (2006 £148,258) under deed of covenant to Heartlands Education and Development Foundation, registered charity number 1000894. The Chairman of the Charity is Mr D Winterbottom who has no relationship with HECL or the Trust. There are three Trustees who work at the Trust (Dr Ellis, Dr Wallis and Mr Pearman) and one Trustee who is a retired GP (Dr Thorpe). This charity is not linked to the Charitable Funds of the Trust.

25. Private Finance Transactions

In August 2005 a PFI contract between the Trust and BHE (Heartlands) Ltd commenced in which BHE (Heartlands) Ltd provide a new main entrance and retail facility at the Heartlands Hospital Site. This 25 year contract is being treated as off balance sheet by the Trust, as approved by the Audit Commission following a review of the contract based on Treasury Taskforce Technical Note 1 "How to account for PFI transactions" which interprets FRS 5 "Reporting the substance of transactions" issued by the Accounting Standards Board.

The unitary payment of £46,000 per annum charge made by the operator is included in the income and expenditure account on an accruals basis. There is a payment mechanism that allows for deductions to be made to the unitary payment where the quality standards set out in the contract are not met. The total charge made in 2006/07 was £46,000 (2005/06 £28,531).

On expiry of the contract the property will revert to the ownership of the Trust for no payment.

26. Pooled Budgets

The Trust has no pooled budgets.

27. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that the Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, the Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The 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.

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

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 also largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. The Trust is not, therefore, exposed to significant liquidity risks.

Interest-Rate Risk

The Trust is not exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities:



28.1 Financial Assets

Currency	Total	Floating rate	Fixed rate		Non-interest bearing	Weighted average interest rate	Weighted average period for which fixed	Non-interest bearing	
			Weighted average	Weighted average					Weighted average
			interest rate	period for which fixed					bearing
	£000	£000	£000	£000	%	Years	Years		
At 31 March 2007									
Sterling	27,063	0	20,000	7,063	5%	0.1	0		
Other	0	0	0	0	0%	0	0		
Gross financial assets	27,063	0	20,000	7,063					
At 31 March 2006									
Sterling	11,784	0	11,500	284	4%	0.2	0		
Other	0	0	0	0	0%	0	0		
Gross financial assets	11,784	0	11,500	284					

28.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate		Non-interest bearing	Weighted average interest rate	Weighted average period for which fixed	Non-interest bearing	
			Weighted average	Weighted average					Weighted average
			interest rate	period for which fixed					bearing
	£000	£000	£000	£000	%	Years	Years		
At 31 March 2007									
Sterling	130,700	0	0	130,700	0%	0	0		
Other	0	0	0	0	0%	0	0		
Gross financial liabilities	130,700	0	0	130,700					
At 31 March 2006									
Sterling	128,845	0	0	128,845	0%	0	0		
Other	0	0	0	0	0%	0	0		
Gross financial liabilities	128,845	0	0	128,845					

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

28.3 Fair Values

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

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	7,063	7,063	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	0	0	Note a
Investments	20,000	20,000	
Total	27,063	27,063	
Financial liabilities			
Overdraft	0	0	
Creditors over 1 year:			
- Early retirements	0	0	Note b
- Finance leases	0	0	Note c
Provisions under contract	1,729	1,729	Note d
Loans	0	0	
Public dividend capital	130,700	130,700	Note e
Total	132,429	132,429	

Notes

- a** These debtors reflect agreements with commissioners to cover creditors over one year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with notes c and e, below, fair value is not significantly different from book value.
- b** Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.
- c** To obtain fair value, cash flows have been discounted at prevailing market interest rates for finance leases for a similar term.
- d** Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.
- e** The figure here should be the full value of PDC in the balance sheet and 'book value' should equal 'fair value'.

29 Third Party Assets

The Trust held £9,000 cash at bank and in hand at 31/03/07 (£25,290 at 31 March 2006) which relates to monies held by the 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: amount falling due within one year £000	Debtors: amounts falling due after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
Balances with other central Government bodies	11,828	0	4,444	0
Balances with NHS Trusts and Foundation Trusts	2,073	0	2,302	0
Balances with bodies external to Government	158	0	0	0
At 31 March 2007	<u>14,059</u>	<u>0</u>	<u>6,746</u>	<u>0</u>
Balances with other central Government bodies	9,953	0	1,420	0
Balances with NHS Trusts and Foundation Trusts	1,336	0	1,453	0
Balances with bodies external to Government	83	0	37	0
At 31 March 2006	<u>11,372</u>	<u>0</u>	<u>2,910</u>	<u>0</u>

31 Losses and Special Payments

There were 44 (2005/06 43) cases of losses and special payments totalling £10,353 (2005/06 £67,806) approved during 2006/2007. These are the cash payments made during the year and are not calculated on an accruals basis. In addition, 235 (2005/06 379) bad or irrecoverable debts were written off totalling £1,807,514 (2005/06 £614,925) in the year as a result of a cleanse of the debtors ledger.

There were no cases in the current or prior year where the net payment exceeded £100,000.

32 Prudential Borrowing Code

The Trust is required to comply with the Prudential Borrowing Code set out by Monitor. The Trust is required to comply and remain within a prudential borrowing limit. This is made up of 2 elements:

- the maximum cumulative amount of long-term borrowing. This is set by reference to the five ratio tests set out in the 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 working capital facility approved by Monitor.

Further information in the Prudential Borrowing Code and Compliance framework can be found on the website of Monitor, the Independent Regulator of Foundation trusts.

The Trust has a prudential borrowing limit set by Monitor of £83,600,000 (2005/06 £63,350,000), including an £18,500,000 (2005/06 £18,750,000) working capital facility. The Trust has not borrowed in 2006/07 (2005/06 nil).





33 Prior Period Adjustment

The Trust has made a prior period adjustment (ppa) in respect of a building which the Trust leases from HECL on an operating lease. This was previously also disclosed in the accounts as a donated fixed asset. The effect of the ppa is to strip £3,855k out of opening fixed assets (buildings - donated) with a corresponding reduction in the donated asset reserve. See also notes 11.1 and 17.

