

Annual Accounts 2006/07 (10 months to 31 March 2007)


Foreword to the Accounts

The Newcastle upon Tyne Hospitals NHS Foundation Trust

The accounts for the period ended 31 March 2007 are set out on the following pages and comprise the Income & Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains & Losses, the Cashflow Statement and the Notes to the Accounts.

The accounts have been prepared by The Newcastle upon Tyne Hospitals NHS Foundation Trust in accordance with Schedule 1, Paragraphs 24 and 25, of the Health and Social Care (Community Health and Standards) Act 2003, in the form which Monitor, the independent regulator of NHS Foundation Trusts has, with the approval of HM Treasury, directed.

The accounts cover the 10 months ended 31 March 2007, the Trust's first period of account since achieving Foundation Trust status as from 1 June 2006.



L R Fenwick
Chief Executive

7 June 2007

Independent Auditor's Report to the Board of Governors of NHS Foundation Trust to the Board of Governors of The Newcastle upon Tyne Hospitals NHS Foundation Trust

I have audited the financial statements of The Newcastle upon Tyne Hospitals NHS Foundation Trust for the year ended 31 March 2007 under the National Health Service Act 2006, which 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 under the accounting policies set out within them.

This report is made solely to the Board of Governors of The Newcastle upon Tyne Hospitals NHS Foundation Trust as a body in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006. My work was undertaken so that I might state to the Board of Governors those matters I am required to state to it in an auditor's report and for no other purpose. In those circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Foundation Trust as a body, for my audit work, for the audit report or for the opinions I form.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer's responsibilities for preparing the financial statements in accordance with directions made by the Independent Regulator are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with statute, the Audit Code for NHS Foundation Trusts and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Independent Regulator as being relevant to NHS Foundation Trusts.

I review whether the Accounting Officer's statement on internal control reflects compliance with the requirements of the Independent Regulator contained in the NHS Foundation Trust Financial Reporting Manual 2006/07. I report if it does not meet the requirements specified by the Independent Regulator or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's statement on internal control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chair's Statement, the Chief Executive's Statement, Background Information, Operating and Financial Review, the sections on the board of governors, the board of directors, membership and public interest disclosures and the un-audited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or

material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by the Independent Regulator, which requires compliance with International Standards on Auditing (United Kingdom 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. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of The Newcastle upon Tyne Hospitals NHS Foundation Trust as at 31 March 2007 and of its income and expenditure for the year then ended in accordance with the accounting policies adopted by the Trust.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by the Independent Regulator.



David Jennings
Engagement Lead

(Officer of the Audit Commission)
Nickalls House, MetroCentre, Gateshead NE11 9NH

11 June 2007

Income & Expenditure Account for the period ended 31 March 2007

		2006/07 (10 months)
	NOTE	£000
Income from activities	3	408,698
Other operating income	4	89,838
Operating expenses	5-7	<u>(491,926)</u>
OPERATING SURPLUS		6,610
(Loss) on disposal of fixed assets	8	<u>(13)</u>
SURPLUS BEFORE INTEREST		6,597
Interest receivable		1,432
Other finance costs - unwinding of discount	16	<u>(128)</u>
SURPLUS BEFORE AND AFTER TAXATION		7,901
Public Dividend Capital dividends payable		(9,723)
RETAINED DEFICIT FOR THE PERIOD		<u><u>(1,822)</u></u>

The notes on pages 190 to 218 form part of these accounts.

All income and expenditure is derived from continuing operations.

The Trust made a retained surplus of £6.1m, prior to an adjustment for impairment of £7.9m included within operating expenses. Prior to Foundation Trust status, this impairment would have been matched by income from the Department of Health.

Balance Sheet

as at 31 March 2007

	NOTE	31 March 2007 £000	Restated 1 June 2006 £000
FIXED ASSETS			
Intangible assets	9	583	544
Tangible assets	10	<u>372,299</u>	<u>378,743</u>
		372,882	379,287
CURRENT ASSETS			
Stocks and work in progress	11	11,753	12,007
Debtors	12	34,575	40,606
Investments	13	8,029	0
Cash at bank and in hand	18.3	<u>9,665</u>	<u>5,381</u>
		64,022	57,994
CREDITORS: Amounts falling due within one year	14	(40,147)	(43,094)
NET CURRENT ASSETS		<u>23,875</u>	<u>14,900</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		396,757	394,187
PROVISIONS FOR LIABILITIES AND CHARGES	16	(9,989)	(10,139)
TOTAL ASSETS EMPLOYED		<u>386,768</u>	<u>384,048</u>
FINANCED BY TAXPAYERS' EQUITY:			
Public dividend capital	17.2	206,484	203,451
Revaluation reserve	17.3	121,113	126,822
Donated asset reserve	17.3	19,235	17,862
Income and expenditure reserve	17.3	39,936	35,913
TOTAL TAXPAYERS' EQUITY		<u>386,768</u>	<u>384,048</u>

The financial statements on pages 184 to 218 were approved by the Board on 7 June 2007 and signed by:



L R Fenwick
Chief Executive

7 June 2007

Statement of Total Recognised Gains & Losses for the period ended 31 March 2007

		2006/07 (10 months)
	NOTE	£000
Surplus for the financial period before dividend payments		7,901
Unrealised surplus on fixed assets and on current asset investment revaluations	17.3	140
Increase in the donated asset reserve due to receipt of donated assets	17.3	3,100
Reductions in the donated asset reserve due to depreciation, impairment, and/or disposal of donated assets	17.3	(1,731)
Total recognised gains and losses for the financial period		<u>9,410</u>
Prior period adjustments	17.3	8,603
Total recognised gains and losses for the financial period		<u><u>18,013</u></u>

Cash Flow Statement for the period ended 31 March 2007

	NOTE	2006/07 (10 months) £000
OPERATING ACTIVITIES:		
Net cash inflow from operating activities	18.1	35,791
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:		
Interest received		<u>1,392</u>
Net cash inflow from returns on investments and servicing of finance		1,392
CAPITAL EXPENDITURE:		
(Payments) to acquire tangible fixed assets		(16,261)
Receipts from sale of tangible fixed assets		<u>25</u>
Net cash (outflow) from capital expenditure		(16,236)
DIVIDENDS PAID		
		(11,667)
Net cash inflow before management of liquid resources and financing		<u>9,280</u>
MANAGEMENT OF LIQUID RESOURCES:		
(Purchase) of current asset investments	13	(392,029)
Sale of current asset investments	13	<u>384,000</u>
Net cash (outflow) from management of liquid resources		<u>(8,029)</u>
Net cash inflow before financing		<u>1,251</u>
FINANCING:		
New public dividend capital received	17.2	3,033
Public dividend capital repaid		0
Other capital receipts		0
Net cash inflow from financing		<u>3,033</u>
Increase in cash		<u><u>4,284</u></u>

Notes to the Accounts

1. Accounting Policies and Other Information

Monitor has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the NHS Foundation Trust Financial Reporting Manual (FT FReM) which shall 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 NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. The financial statements have been prepared on a going concern basis.

1.1 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 FRS 3 requirements to report "earnings per share" or historical profits and losses.

1.2 Acquisitions and discontinued operations

Activities are considered to be 'discontinued' where they meet all of 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 are approved;
- b. if a termination, the former activities have ceased permanently;
- c. the sale or termination has a material effect on the nature and focus of the 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 Trust's continuing operations; and
- d. the assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Activities are considered to be 'acquired' whether or not they are acquired from outside the public sector.

1.3 Income recognition

Income is accounted for applying the accruals convention and is shown gross except where an administrative arrangement exists whereby the associated income is netted off with the corresponding expenditure, in accordance with the FT FReM. The main source of income for the trust is under contracts 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 Trust changed the form of its contracts with NHS commissioners to follow the Department of Health's Payment by Results methodology in 2005/06, prior to it becoming a Foundation Trust. To manage the financial impact of this change on the Trust and its commissioners, the Trust was only able to retain 25% of the gain under PbR and the remaining £4.6m was paid back to the Department of Health during the 10 month accounting period as part of national clawback rules.

Since becoming a Foundation Trust, the Trust has amended its accounting policy on income recognition where the provision of a healthcare service has commenced before the year end. For these partially completed patient spells, the income relating to the income activity is accrued. The accrued income is calculated based on the number of days of incomplete spells accrued at the actual tariff where known, or an estimate thereof where unknown. The change in accounting policy has resulted in a prior period adjustment in the opening Foundation Trust balance sheet and an income deferral in the current accounting period. The change in accounting treatment is in accordance with FRS 5.

1.4 Expenditure

Expenditure is accounted for applying the accruals convention and is shown gross except where an administrative arrangement exists whereby the associated income is netted off with the corresponding expenditure, in accordance with the FT FReM.

1.5 Intangible fixed assets

Intangible assets are capitalised when they are capable of being used in the 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 and are amortised over the shorter of the term of the licence and their useful economic lives.

1.6 Tangible fixed assets

Capitalisation

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

- a. individually have a cost of at least £5,000; or
- b. form a group of assets which 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
- c. form part of the initial setting-up cost of a new building, or refurbishment of a ward or unit, irrespective of their individual or collective cost.

Prior to becoming a Foundation Trust, expenditure on digital hearing aids was treated as capital expenditure, in accordance with NHS accounting rules. As a Foundation Trust, digital hearing aids should no longer be included within fixed assets and depreciation has therefore been accelerated to write down the value to zero at 31 March 2007.

Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost, 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. Any costs arising from financing the construction of the fixed asset are not capitalised but are charged to the income and expenditure account in the year to which they relate.

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.

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) *Appraisal and Valuation Manual*. The last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005. The revaluation undertaken at that date 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 are valued by professional valuers as part of the five or three-yearly valuation or when they are brought into use.

Residual interests in off-balance sheet private finance Initiative properties are included in assets under construction within tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in the fair value of the residual as estimated at the start of the contract and at the balance sheet date.

Operational equipment other than IT equipment, which is considered to have nil inflation, 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 assessed by the 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. Asset lives fall into the following ranges:

- Plant & machinery - 2 to 15 years
- Transport equipment - 7 years
- Information Technology - 5 years
- Furniture & fittings - 5 to 15 years

Fixed asset impairments 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 the particular asset.

1.7 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.

1.8 Government grants

Government grants are grants from Government bodies other than income from primary care trusts or NHS trusts for the provision of services. Grants from the Department of Health 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.

Prior to becoming a Foundation Trust, the Trust accounted for Government grants within Reserves, in accordance with NHS accounting rules. This change in accounting policy has necessitated a prior period adjustment in the opening Foundation Trust Balance Sheet.

1.9 Private Finance Initiative (PFI) transactions

The Trust follows HM Treasury's Technical Note 1 (Revised) "How to Account for PFI Transactions", which provides definitive guidance for the application of 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 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 a 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.

If the balance of risks and rewards of ownership of a PFI were borne by the Trust, it would be recognised as a fixed asset along with the liability to pay for it, which would be accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge. The Trust had no such PFI schemes during the period.

1.10 Current asset investments

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.

1.11 Stocks and work-in-progress

Stocks and work in progress are valued at the lower of cost and net realisable value.

1.12 Cash at bank and in hand

Cash and bank balances are recorded at the current values of these balances in the Trust's cash book. These balances exclude monies held in the Trust's bank account belonging to patients (see 'third party assets' below). 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 to which they relate.

1.13 Research and development

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

- a. there is a clearly defined project;
- b. the related expenditure is separately identifiable;
- c. 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;
- d. 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. 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, NHS foundation trusts disclose the total amount of research and development expenditure charged in the Income and Expenditure account separately. However, where research and development activity cannot be separated from patient care activity it cannot be identified and is therefore not separately disclosed.

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

1.14 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 significant, the estimated risk-adjusted cash flows are discounted using HM 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 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.

1.15 Contingent liabilities

Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed in note 21 unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- a. 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 Trust's control; or
- b. Present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise, or for which the amount of the obligation cannot be measured with sufficient reliability.

1.16 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 Trust to identify its share of the underlying scheme assets and liabilities. Therefore the Scheme is accounted for as a defined contribution scheme under FRS 17.

Employer's 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.

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The Scheme is also subject to a full valuation by the Government Actuary to assess the Scheme's assets and liabilities to allow a review of the employers contribution rates. This valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations, the Government Actuary provides an update of the Scheme liabilities. 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 Business Services Authority - Pensions Division website at www.nhs.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion from the 1999 valuation was that the Scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employers' contributions are set at 14% of pensionable pay from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the Scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The Scheme is a "final salary" Scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the Scheme. The full amount of the liability for the additional costs is charged to the 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.

1.17 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.

1.18 Corporation tax

Foundation Trusts are exempt from corporation tax on their principal health care income under section 519A Income and Corporation Taxes Act 1988. In determining whether other income may be taxable, a three-stage test must be employed which asks whether the activity is an authorised activity related to the provision of core healthcare, whether the activity is actually or potentially in competition with the private sector, and whether the annual profits of the activity are in excess of £50k per trading activity. The Trust has applied these three tests to its income and has determined that it does not have any corporation tax liability in the current period.

1.19 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.

1.20 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. However, they are disclosed in a separate note to the accounts in accordance with the requirements of the HM Treasury *Financial Reporting Manual*.

1.21 Leases

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

1.22 Public Dividend Capital (PDC) and PDC Dividend

Public Dividend Capital (PDC) is a type of public sector equity finance.

A charge, reflecting the forecast cost of capital utilised by the 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 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. Note 22 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.

1.23 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 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). However, note 27 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.24 Financial instruments

The Trust has the following financial assets and liabilities:

- assets: investments, long-term debtors and accrued income, short-term debtors and accrued income; and
- liabilities: long-term provisions arising from contractual arrangements, short-term creditors, short-term provisions arising from contractual arrangements.

For these financial instruments, the policies related to them are already covered in the accounting policies above.

2. Segmental Analysis

The Trust has no segmental analysis to report.

3. Income from Activities

3.1 Activity income analysed by activity type

	2006/07 (10 months) £000
Elective income	103,540
Non elective income	98,350
Outpatient income	46,020
Other activity income *	156,123
A & E income	5,640
Payment by Results clawback (i.e, repayment)	(4,640)
Private patient income	3,665
	<u>408,698</u>

The Trust's Terms of Authorisation set out the mandatory goods and services that the Trust is required to provide. All of the income from activities shown above, excluding private patient income, is derived from the provision of mandatory services.

* Other activity income consists primarily of income received outside of Payment by Results, e.g, specialised services and locally commissioned services.

3.2 Private patient income

	2006/07 (10 months) £000	2002/03 (Base Year) £000
Private patient income	3,665	4,033
Total patient related income	408,698	334,065
Proportion (as percentage)	0.9%	1.2%

Section 15 of the Health and Social Care (Community Health and Standards) Act 2003 states that the proportion of total income of the Trust in any financial year derived from private patient income should not exceed that same percentage whilst the Trust was an NHS Trust in 2002/03, i.e, 1.2%. The Trust has met this requirement.

3.3 Activity income analysed by source

	2006/07 (10 months) £000
NHS Foundation Trusts	15
NHS Trusts	1,542
Primary Care Trusts	368,561
Local Authorities	505
Department of Health	28,779
NHS Other	1,176
Non NHS (incl non-English NHS):	
- Private Patients	3,665
- Overseas patients (non-reciprocal)	221
- Road Traffic Act *	1,085
- Other **	3,149
	<u>408,698</u>

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

** Non-NHS other income relates primarily to healthcare activity income from Scottish, Welsh and Irish Health Trusts.

4. Other Operating Income

Research and development	
Education and training	
Transfers from donated asset reserve in respect of depreciation, impairment and disposal of donated assets	
Non-patient care services to other bodies	
Other income *	

2006/07
(10 months)

£000

8,325

51,751

1,731

22,736

5,295

89,838

* Other income includes car park, catering and nursery income.

5. Operating Expenses

5.1 Operating expenses comprise:

Services from NHS Foundation Trusts	
Services from NHS Trusts	
Services from other NHS bodies	
Purchase of healthcare from non-NHS bodies	
Executive directors' costs	
Non-Executive directors' costs	
Staff costs	
Drugs costs	
Supplies and services - clinical (excluding drugs costs)	
Supplies and services - general	
Establishment	
Research and development (non-NHS only)	
Transport	
Premises	
Bad debts	
Depreciation and amortisation	
Fixed asset impairments	
Audit fees - statutory audit	
Other auditor's remuneration - other services	
Clinical negligence	
Other	

2006/07
(10 months)

£000

2,998

6,625

3,603

605

655

123

293,911

47,512

59,619

4,600

4,987

1,569

1,129

22,762

1,112

21,471

7,949

124

14

3,798

6,760

491,926

5.2 Operating leases

5.2/1 Operating expenses include:

Hire of plant and machinery	
Other operating lease rentals	

2006/07
(10 months)

£000

0

1,096

1,096

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

	Land and buildings		Other leases	
	31 March 2007 £000	1 June 2006 £000	31 March 2007 £000	1 June 2006 £000
Operating leases which expire:				
Within 1 year	155	120	0	0
Between 1 and 5 years	323	249	897	944
After 5 years	0	79	0	0
	<u>478</u>	<u>448</u>	<u>897</u>	<u>944</u>

5.3 Salary and Pension entitlements of senior managers

a) Remuneration

Name and Title	2006-07 (10 months ended 31 March 2007)		
	Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind (rounded to nearest £100)
Chairman Sir Miles Irving (to 30-Sep-06)	15 - 20		
Chairman Mr M Ballinger (from 1-Oct-06 to 25-Feb-07)	20 - 25		
Acting Chairman Mr K W Smith (from 26-Feb-07 to 31-Mar-07)	5 - 10		
Chief Executive Mr L R Fenwick	175 - 180		
Finance Director Mr R B Steven	125 - 130		4,700
Business & Development Director Mr R M Barker (to 30-Sep-06)	35 - 40		
Acting Business & Development Director Ms J Walters (from 1-Oct-06)	40 - 45		
Nursing & Patient Services Director Mrs M Hornett	100 - 105		
Medical Director Dr T J Walls	105 - 110	55-60	
Non Executive Director Professor P H Baylis	5 - 10		
Non Executive Director Mrs L V J Conlon	5 - 10		
Non Executive Director Mrs P Dodds	5 - 10		
Non Executive Director Mr R S Middleton (to 30-Sep-06)	0 - 5		
Non Executive Director Mrs H A Parker	5 - 10		
Non Executive Director Councillor D L Wood	5 - 10		
Non Executive Director Councillor David Faulkner (from 1-Sep-06)	5 - 10		
Non Executive Director Prof O F W James (from 1-Jul-06)	5 - 10		
Non Executive Director Mr K W Smith (from 1-Oct-06)	0 - 5		

Sir Miles Irving retired from the post of Chairman on 30th September 2006 and was replaced by Mr M Ballinger on 1st October 2006. Mr Ballinger retired with effect from 26th February 2007 due to ill health, and Mr K Smith, a Non-Executive Director, has taken over as Acting Chairman from that date.

Mr R B Steven's benefit in kind relates to a lease car commitment which was transferred from North Glasgow University Hospitals Division when Mr Steven took up appointment at this Trust.

Mr R M Barker resigned from the Trust with effect from 30th September 2006. Ms J Walters has taken over as Acting Business & Development Director until the post is substantively filled.

The remuneration for Dr T J Walls is split between the proportion which relates to his position as Medical Director and the proportion which relates to clinical duties.

Mr R S Middleton retired as a Non-Executive Director with effect from 30th September 2006. Cllr D Faulkner, Prof O W F James and Mr K W Smith were all appointed as non-executive directors during the financial period. Mr K W Smith has subsequently taken over as Acting Chairman, as noted above.

5.3 Salary and Pension entitlements of senior managers (continued)

b) Pension Benefits

Name and title	Real increase in pension lump sum at aged 60*	Lump sum at age 60 related to accrued pension at 31 March 2007*	Cash Equivalent Transfer Value at 31 March 2007*	Cash Equivalent Transfer Value at 1 June 2006*	Real increase in Cash Equivalent Transfer Value in the period*
	(bands of £2500)	(bands of £2500)			
	£000	£000	£000	£000	£000
Chief Executive Mr L R Fenwick	22.5-25	302.5-305	2,060	1,826	132
Finance Director Mr R B Steven	42.5-45	50-52.5	269	32	166
Business & Development Director Mr R M Barker (to 30-Sep-06)	5-7.5	Note 1	Note 1	452	21
Acting Business & Development Director Ms J Walters (from 1-Oct-06)	7.5-10	80-82.5	352	Note 2	30
Nursing & Patient Services Director Mrs M Hornett	5-7.5	80-52.5	382	338	24
Medical Director Mr T J Walls	40-42.5	207.5-210	1,172	890	182

* The financial information disclosed in the table above is derived from information provided to the Trust from the NHS Pensions Agency. Whilst the Trust accepts responsibility for the values shown, the Trust is reliant upon NHS Pensions Agency for the accuracy of the information provided to the Trust and has no way of auditing these figures. The figures are therefore shown in good faith as an accurate reflection of the Directors' pension information.

1. Mr R M Barker resigned from the Trust with effect from 30th September 2006 and consequently there are no disclosures in respect of pension balances as at 31st May 2006. The real increase in pension lump sum and CETV are calculated from the date of commencement, 1st October 2006.
2. Ms J Walters commenced as Acting Business & Development Director with effect from 1st October 2006 and consequently there are no disclosures in respect of pension balances as at 31st May 2006. The real increase in pension lump sum and CETV are calculated from the date of commencement, 1st October 2006.

Non-Executive Directors do not receive pensionable remuneration and therefore there are no entries in respect of pensions for such Directors.

Mr R B Steven was previously a member of the Scottish NHS Pension Scheme and a transfer has been made during the period into the English NHS Scheme.

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 other pension details include the value of any pension benefits in another scheme or arrangement which the individual had 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.

6. Staff Costs and Numbers

6.1 Staff costs

	2006/07 (10 months)	2006/07 (10 months)	2006/07 (10 months)
	Total	Permanently Employed	Other
	£000	£000	£000
Salaries and wages	219,146	219,146	0
Social Security Costs	18,414	18,414	0
Employer contributions to NHSPA	26,628	26,628	0
Other pension costs	121	121	0
Agency / contract staff	30,257	0	30,257
	<u>294,566</u>	<u>264,309</u>	<u>30,257</u>

6.2 Average number of persons employed

	2006/07 (10 months)	2006/07 (10 months)	2006/07 (10 months)
	Total	Permanently Employed	Other
	Number	Number	Number
Medical and dental	1,236	905	331
Administration and estates	1,604	1,604	0
Healthcare assistants and other support staff	1,648	1,648	0
Nursing, midwifery and health visiting staff	3,101	3,101	0
Nursing, midwifery and health visiting learners	43	43	0
Scientific, therapeutic and technical staff	1,839	1,825	14
Social care staff	11	0	11
Bank and agency staff	283	0	283
	<u>9,765</u>	<u>9,126</u>	<u>639</u>

6.3 Employee benefits

Employee benefits are defined as non-pay benefits which are not attributable to individual employees, e.g. group membership of a club, or employee entertainment. The Trust makes no such payments.

6.4 Retirements due to ill-health

During the 10 months to 31 March 2007 there were 22 early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £708k. 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

Total Non-NHS trade invoices paid in the period

Total Non-NHS trade invoices paid within target

Percentage of Non-NHS trade invoices paid within target

Total NHS trade invoices paid in the period

Total NHS trade invoices paid within target

Percentage of NHS trade invoices paid within target

	2006/07 (10 months)	2006/07 (10 months)
	Number	Value £000
Total Non-NHS trade invoices paid in the period	136,402	150,206
Total Non-NHS trade invoices paid within target	123,017	132,328
Percentage of Non-NHS trade invoices paid within target	90%	88%
Total NHS trade invoices paid in the period	3,735	60,397
Total NHS trade invoices paid within target	2,907	55,508
Percentage of NHS trade invoices paid within target	78%	92%

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

No payments were made under this legislation during the financial period.

8. (Loss) on Disposal of Fixed Assets

The loss on disposal of fixed assets is made up as follows:

Loss on disposal of plant and equipment

2006/07 (10 months)
£000
(13)
<u>(13)</u>

9. Intangible Fixed Assets

Gross cost at 1 June 2006
 Reclassifications *
 Additions purchased
Gross cost at 31 March 2007

Amortisation at 1 June 2006
 Provided during the period
Amortisation at 31 March 2007

Net book value

- Purchased at 1 June 2006
 - Donated at 1 June 2006
- Total at 1 June 2006

- Purchased at 31 March 2007
 - Donated at 31 March 2007
- Total at 31 March 2007

Software Licences	Total
£000	£000
728	728
25	25
132	132
<u>885</u>	<u>885</u>
184	184
118	118
<u>302</u>	<u>302</u>
544	544
0	0
<u>544</u>	<u>544</u>
583	583
0	0
<u>583</u>	<u>583</u>

* The reclassification of £25k relates to software licences purchased prior to the Trust becoming a Foundation Trust and installed in the current financial period, effecting a transfer of the asset out of Assets under Construction and into Intangible Fixed Assets. An equal and opposite reclassification is shown within the Tangible Fixed Assets Note on pages 202 and 203.

10. Tangible Fixed Assets

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

	Land	Buildings excluding dwellings	Dwellings
	£000	£000	£000
Cost or valuation at 1 June 2006 **	78,351	268,774	1,264
Additions purchased	0	5,661	0
Additions donated	0	2,187	0
Impairments	0	(7,949)	0
Reclassifications *	0	1,180	0
Other revaluations	334	(153)	0
Disposals	0	0	0
Cost or Valuation at 31 March 2007	<u>78,685</u>	<u>269,700</u>	<u>1,264</u>
Depreciation at 1 June 2006 **	0	13,051	38
Provided during the period	0	9,604	27
Disposals	0	0	0
Depreciation at 31 March 2007	<u>0</u>	<u>22,655</u>	<u>65</u>
Net book value			
- Purchased at 1 June 2006	78,351	243,284	1,226
- Donated at 1 June 2006	0	12,439	0
Total at 1 June 2006	<u>78,351</u>	<u>255,723</u>	<u>1,226</u>
- Purchased at 31 March 2007	78,685	232,807	1,199
- Donated at 31 March 2007	0	14,238	0
Total at 31 March 2007	<u>78,685</u>	<u>247,045</u>	<u>1,199</u>

* The reclassification of £25k relates to software licences purchased prior to the Trust becoming a Foundation Trust and installed in the current financial period, effecting a transfer of the asset out of Assets under Construction and into Intangible Fixed Assets. An equal and opposite reclassification is shown within the Intangible Fixed Assets Note on page 201.

** NHS Foundation Trust reporting guidelines state that fixed assets should reflect both the gross cost (or valuation) and gross accumulated depreciation brought forward, as well as carried forward, in each financial year. The balances brought forward in respect of buildings and dwellings at 1 June 2006 have therefore been restated to reflect this change in accounting treatment. The change has no impact on the net book value carried forward as at 31 March 2007.

Assets under construction & payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & Fittings	Total
£000	£000	£000	£000	£000	£000
3,820	104,078	419	8,613	794	466,113
5,573	7,836	10	555	44	19,679
316	480	0	118	0	3,101
0	0	0	0	0	(7,949)
(2,574)	1,165	12	192	0	(25)
(44)	3	0	0	0	140
0	(4,244)	(19)	(86)	0	(4,349)
7,091	109,318	422	9,392	838	476,710
0	66,609	306	6,771	595	87,370
0	10,901	11	762	48	21,353
0	(4,207)	(19)	(86)	0	(4,312)
0	73,303	298	7,447	643	104,411
3,812	32,339	104	1,569	176	360,861
8	5,130	9	273	23	17,882
3,820	37,469	113	1,842	199	378,743
6,775	31,587	117	1,696	179	353,045
316	4,428	7	249	16	19,254
7,091	36,015	124	1,945	195	372,299

10.2 Analysis of tangible fixed assets

Net book value

- Protected assets at 31 March 2007 *

- Unprotected assets at 31 March 2007

Total at 31 March 2007

	Land	Buildings excluding dwellings	Dwellings
	£000	£000	£000
	42,346	151,400	561
	36,339	95,645	638
	<u>78,685</u>	<u>247,045</u>	<u>1,199</u>

* Protected assets are those which are required for the provision of mandatory goods and services, as set out in the Trust's Terms of Authorisation. Assets which are protected cannot be disposed of without the approval of Monitor, the Independent Regulator of Foundation Trusts. Unprotected assets include assets which will be disposed of as part of Transforming Newcastle Hospitals.

10.3 Assets held at open market value

Of the closing balance at 31 March 2007, £8,467k related to land valued at open market value, £695k related to buildings valued at open market value and £1,199k related to dwellings valued at open market value.

10.4 Assets held under finance leases and hire purchase contracts

The Trust held no assets under finance leases or hire purchase contracts during the period.

10.5 Net book value of land, buildings and dwellings

Freehold

Total at 31 March 2007

	Protected	Unprotected	Total
	£000	£000	£000
	194,307	132,622	326,929
	<u>194,307</u>	<u>132,622</u>	<u>326,929</u>

Assets under construction & payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & Fittings	Total
£000	£000	£000	£000	£000	£000
0	0	0	0	0	194,307
7,091	36,015	124	1,945	195	177,992
<u>7,091</u>	<u>36,015</u>	<u>124</u>	<u>1,945</u>	<u>195</u>	<u>372,299</u>

11. Stocks and Work in Progress

Raw materials and consumables

31 March 2007	1 June 2006
£000	£000
11,753	12,007

12. Debtors

Amounts falling due within one year:

NHS trade debtors

Non-NHS trade debtors

Provision for irrecoverable debts

Prepayments and accrued income

Other debtors

Sub Total

Amounts falling due after more than one year:

NHS debtors

Prepayments and accrued income

Sub Total

TOTAL

31 March 2007	Restated 1 June 2006
£000	£000
13,512	12,215
4,278	3,135
(1,567)	(649)
11,043	19,136
5,888	5,314
33,154	39,151
1,095	1,114
326	341
1,421	1,455
34,575	40,606

Debtor balances at 1 June 2006 have been restated from the NHS Trust closing position at 31 May 2006:

- In accordance with FRS 5 on revenue recognition, a prior period adjustment of £8.6m has been made to brought-forward Prepayments and Accrued Income, relating to income for partially completed spells and treatment as at 31 May 2006. The balance at 31 March 2007 is £8m.
- Adjustments have also been made to better reflect the classification of non-NHS debtors and accrued income following the change to Foundation Trust status. To ensure that the opening balances are disclosed on a consistent basis with closing balances, as required by FRS 28, an adjustment has been made to transfer certain balances from NHS Debtors (£6.6m) and Other Debtors (£1.4m) into Prepayments & Accrued Income as at 1 June 2006.

13. Current Asset Investments

	National Loans Fund	EU Emmissions Scheme	Total
	£000	£000	£000
Cost or valuation at 1 June 2006	0	0	0
Additions	392,000	29	392,029
Disposals	(384,000)	0	(384,000)
Cost or valuation at 31 March 2007	<u>8,000</u>	<u>29</u>	<u>8,029</u>

Deposits are held with the National Loans Fund at competitive interest rates.

14. Creditors

	31 March 2007	Restated 1 June 2006
	£000	£000
Amounts falling due within one year:		
Payments received on account	5,198	4,908
NHS trade creditors	2,131	2,437
Non-NHS trade creditors	9,261	1,341
Other taxes and social security costs	236	3,070
Other creditors	6,970	11,018
Accruals and deferred income	16,351	20,320
TOTAL	<u>40,147</u>	<u>43,094</u>

There are no amounts falling due after more than one year.

Creditor balances at 1 June 2006 have been restated from the NHS Trust closing position at 31 May 2006:

- In accordance with the requirements of the Foundation Trust Reporting Manual, a prior period adjustment of £20k has been made to brought-forward Accruals & Deferred Income, relating to a change in accounting treatment for Government Grants.
- Adjustments have also been made to better reflect the classification of accruals and other creditors following the change to Foundation Trust status. To ensure that the opening balances are disclosed on a consistent basis with closing balances, as required by FRS 28, adjustments have been made to transfer certain balances from NHS Trade Creditors (£1.2m) and Other Creditors (£0.5m) into Accruals & Deferred Income as at 1 June 2006.

15. Prudential Borrowing Limit

The Prudential Borrowing Limit (PBL) is the limit that Monitor, the Independent Regulator of Foundation Trusts, calculates that the Trust could permanently borrow and service from its resources should it require access to additional funds for investment. The PBL is made up of 2 elements:

- the maximum cumulative amount of long-term borrowing, set by reference to the 5 ratio tests set out in Monitor's Prudential Borrowing Code. The maximum sum is then capped based on Monitor's risk assessment of the Trust as described under Monitor's Compliance Framework. The financial risk rating set under the Compliance Framework determines one of the ratios and therefore can impact upon the long term borrowing limit.
- the amount of any working capital facility approved by Monitor.

Further information on the NHS Foundation Trust Prudential Borrowing Code and Compliance Framework can be found on the website of Monitor, the Independent Regulator of Foundation Trusts, at www.monitor-nhsft.gov.uk.

The Trust had a prudential borrowing limit of £179.1m in the period ended 31 March 2007, made up as follows:

	£000
Maximum cumulative long term borrowing	129,100
Approved working capital facility	50,000
	<hr/>
	<u>179,100</u>

No borrowing has been undertaken in the period.

2006/07 Financial Ratios

Minimum Dividend Cover
 Minimum Interest Cover *
 Minimum Debt Service Cover *
 Maximum Debt to Capital Ratio *
 Maximum Debt Service to Revenue *

Actual Ratios	Approved PBL Ratios
3.71	> 1 x
N/A	> 3 x
N/A	> 2 x
N/A	< 25%
N/A	< 3%

* The actual ratios have not been calculated as the Trust has not exercised its discretion to borrow against the PBL.

16. Provisions for Liabilities and Charges

	Pensions - other staff	Legal claims	Other	Total
	£000	£000	£000	£000
At 1 June 2006	2,073	4,414	3,652	10,139
Provisions created during the period	287	1,324	3,293	4,904
Provisions utilised during the period	(142)	(502)	(4,384)	(5,028)
Provisions reversed unused	(20)	(134)	0	(154)
Unwinding of discount *	124	4	0	128
At 31 March 2007	<u>2,322</u>	<u>5,106</u>	<u>2,561</u>	<u>9,989</u>
Expected timing of cashflows:				
Within one year	141	5,103	969	6,213
Between one and five years	547	3	1,592	2,142
After five years	1,634	0	0	1,634
At 31 March 2007	<u>2,322</u>	<u>5,106</u>	<u>2,561</u>	<u>9,989</u>

Pensions - provision relates to injury benefit and pre-1995 compensation pensions and is based upon estimates received from the NHS Pensions Agency.

Legal Claims - based upon professional assessments and are uncertain to the extent that they are an estimate of the likely outcome of individual cases.

Other - relates partly to the implementation of the new national pay award system, Agenda for Change, estimated on the basis of staff already assimilated to those not yet assimilated. The provision also covers building related provisions resulting from the ongoing development of the Royal Victoria Infirmary site.

Of the total provision of £9.9m, £3m is recoverable from Primary Care Trusts on the basis of previous NHS arrangements.

The Trust has an insurance arrangement through the NHS Litigation Authority in respect of clinical negligence and liabilities are covered by an annual insurance premium payment. Excluded from this note is therefore a sum of £28.9m which is included within the provisions of the NHS Litigation Authority in respect of clinical negligence liabilities of the Trust.

* Unwinding of discount relates to the inflation effect on existing provisions of their payment in the future.

17. Movement in Taxpayers' Equity, Public Dividend Capital and Reserves

17.1 Movement in taxpayers' equity

	2006/07 (10 months) £000
Taxpayers' equity at 1 June 2006 as previously stated in NHS Trust Accounts	375,445
Prior Period Adjustments*	<u>8,603</u>
Taxpayers' equity at 1 June 2006	384,048
Surplus for the financial period	7,901
Public dividend capital dividends	(9,723)
Surplus from revaluations of fixed assets and current asset investments	136
New public dividend capital received	3,033
Additions in donated asset reserve	1,373
Taxpayers' equity at 31 March 2007	<u><u>386,768</u></u>

* Prior period adjustments relate to a change in treatment of Government Grant Reserve and income relating to partially completed spells. Refer to Note 17.3 for further details.

17.2 Movement in Public Dividend Capital

	2006/07 (10 months) £000
Public Dividend Capital as at 1 June 2006	203,451
New Public Dividend Capital received	3,033
Public Dividend Capital as at 31 March 2007	<u><u>206,484</u></u>

17.3 Movements on Reserves

	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Income and Expenditure Reserve	Total
	£000	£000	£000	£000	£000
Reserves at 1 June 2006 as previously stated in NHS Trust Accounts	126,822	17,862	20	27,290	171,994
Prior Period Adjustments *	0	0	(20)	8,623	8,603
Reserves at 1 June 2006 as restated	126,822	17,862	0	35,913	180,597
Transfer from the income & expenditure account for the period	0	0	0	(1,822)	(1,822)
Surplus on revaluations of fixed assets and current asset investments	136	4	0	0	140
Transfer of realised profits / (losses) to the income & expenditure reserve	1	0	0	(1)	0
Receipt of donated assets	0	3,100	0	0	3,100
Transfers to the income & expenditure account for depreciation, impairment and disposal of donated assets	0	(1,731)	0	0	(1,731)
Other transfers between reserves	(5,846)	0	0	5,846	0
At 31 March 2007	<u>121,113</u>	<u>19,235</u>	<u>0</u>	<u>39,936</u>	<u>180,284</u>

* In accordance with the requirements of the Foundation Trust Reporting Manual, a prior period adjustment of £20k has been made to Reserves and brought-forward Accruals & Deferred Income, relating to a change in accounting treatment for Government Grants.

* In accordance with FRS 5 on revenue recognition, a prior period adjustment of £8.6m has been made to Reserves and brought-forward Prepayments and Accrued Income, relating to income for partially completed spells and treatment as at 31 May 2006.

18. Notes to the Cash Flow Statement

18.1 Reconciliation of operating surplus to net cash flow from operating activities

	2006/07 (10 months) £000
Total operating surplus	6,610
Depreciation and amortisation	21,471
Fixed asset impairments	7,949
Transfer from donated asset reserve	(1,731)
Decrease in stocks	254
Decrease in debtors	6,070
(Decrease) in creditors	(4,554)
(Decrease) in provisions	(278)
Net cash inflow from operating activities	<u>35,791</u>

18.2 Reconciliation of net cash flow to movement in net funds

	2006/07 (10 months) £000
Increase in cash in the period	4,284
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<u>8,000</u>
Change in net funds resulting from cashflows	12,284
Non-cash changes in funds	29
Net funds at 1 June 2006	5,381
Net funds at 31 March 2007	<u>17,694</u>

18.3 Analysis of changes in net funds

	At 1 June 2006	Cash changes in period	Non-cash changes in period	At 31 March 2007
	£000	£000	£000	£000
Commercial cash at bank and in hand	(205)	(310)	0	(515)
OPG cash at bank	5,586	4,594	0	<u>10,180</u>
Total cash at bank and in hand	5,381	4,284	0	9,665
Current asset investments	0	8,000	29	8,029
Total net funds	<u>5,381</u>	<u>12,284</u>	<u>29</u>	<u>17,694</u>

The negative balance on commercial cash at bank and in hand relates to payments in transit at 31 March 2007.

19. Contractual Capital Commitments

Commitments under capital expenditure contracts at 31 March 2007 were £10,054k.

20. Post Balance Sheet Events

There are no post balance sheet events having a material effect on the accounts in 2006/07.

21. Contingent Liabilities

Gross value of contingent liabilities

Amounts recoverable

Net value of contingent liabilities

2006/07 (10 months)
£000
5,228
0
<u>5,228</u>

Contingent liabilities relate to £87k employer's liability and £5,141k other legal claims.

The contingent liabilities are based upon the potential risk to the Trust assessed by respective insurers and advisers. The liability (multiplied by a risk factor) is treated as a provision within Note 16, Provisions for Liabilities and Charges. The balance (being the total, less the risk factor) is reflected as a contingent liability, above.

22. Capital Cost Absorption Rate

The percentage that dividends paid on Public Dividend Capital bears to average relevant net assets (adjusted for the 10 month accounting period) is 3.3%.

23. Related Party Transactions

The Newcastle upon Tyne Hospitals NHS Foundation Trust is a public benefit corporation authorised by the Independent Regulator for Foundation Trusts (Monitor) under Section 6 of the Health and Social Care (Community Health and Standards Act) 2003.

All NHS Foundation Trusts are independent bodies not under the direct control of the Secretary of State. The Trust has considered whether or not the working relationships it has with any Government Departments or Agencies meets the definition of a related party under FRS 8: Related Party Disclosures, and has concluded that all working relationships are at arms length and the disclosure of any transactions under FRS 8 with such parties is, therefore, not applicable, except as noted below.

The Trust has had a number of material transactions during the period with the University of Newcastle upon Tyne, acting in partnership in respect of the provision of training, teaching, research and development.

The Trust has also received revenue and capital payments from a number of charitable funds, including the Newcastle upon Tyne Hospitals NHS Charity, for which the Trust acts as Corporate Trustee.

The accounts of the Newcastle upon Tyne Hospitals NHS Charity are included in the Trust's Annual Report and Accounts. Other charitable funds were independently controlled and managed by (1) Newcastle Healthcare Charity, some of whom were members of the Trust Board of Directors, and (2) a range of independent charities.

During the period none of the Members of the Board of Directors, Board of Governors (i.e. Members Council) or members of the key management, staff, or parties related to them, have undertaken any material transactions with the Trust.

24. Private Finance Transactions

24.1 PFI schemes deemed to be off-balance sheet

Amounts included within operating expenses in respect of PFI transactions:

	2006/07 (10 months) £000
Royal Victoria Infirmary (RVI) Boiler House PFI scheme - gross costs	2,802
Transforming Newcastle Hospitals (TNH) PFI scheme - gross costs	777
Amortisation of RVI Boiler House PFI scheme deferred asset	(15)
Net charge to operating expenses	<u>3,564</u>

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

PFI schemes which expire:

21st to 25th years (inclusive) (£'000)	£1,937
35th to 40th years (inclusive) (£'000)	<u>£1,722</u>

The estimated annual payments in future years are expected to be materially different from those which the trust is committed to make during the next year. The likely financial effect of this is shown under Key Dates below.

RVI Boiler House PFI scheme:

Estimated capital value (£'000)	£6,900
Contract Start date	Oct 2002
Contract End date	Jun 2027

The RVI Boiler House PFI scheme is for the provision of energy through the RVI Boiler House. The scheme commenced on 22 December 2000, with the Trust paying the PFI contractor to run the transferred plant.

The Unitary Payment was payable from October 2002 when the scheme became fully operational. The RVI Boiler House has a residual value, calculated by the District Valuer on the basis of a Good Housekeeping Valuation for the assets, of £2,916k, and a deferred asset value of £346k. Included in the 2006/07 (10 month) accounts is a figure of £70k, to take account of the residual interest created in the 10 month period.

TNH PFI scheme:

Estimated capital value (£'000)	£301,500
Contract Start date	May 2005
Contract End date	May 2043

The Transforming Newcastle Hospitals (formerly Newcastle Strategic Review) PFI scheme, for a major service configuration at the Freeman Hospital and Royal Victoria Infirmary, reached financial close on 27 April 2005. There is no deferred asset and the residual value has been provisionally calculated by the District Valuer as £120,431k for the new buildings. Included in the 2006/07 (10 month) accounts is a figure of £41k, to take account of the residual interest created in the 10 month period.

The capital construction costs for the TNH scheme is £295 million, excluding VAT, rolled up interest and financing costs. The initial unitary payment became payable from April 2005, when the scheme became partly operational (Freeman Multi-Storey Car Park).

Non-operational PFI schemes deemed to be off-balance sheet:

The Trust does not have any non-operational PFI schemes.

Key Dates for Unitary Payment and estimated incremental commitment(*):

	Date	Financial Year	Incremental Commitment*	Cumulative Commitment*
			£000	£000
Freeman Multi-Storey Car Park	Apr-2005	2005/06	668	
Royal Victoria Infirmary Service Duct	Feb-2007	2006/07	178	846
(full year effect)		2007/08	876	1,722
Freeman Renal Centre	May-2008	2008/09		
Freeman Northern Centre for Cancer Care	Jul-2008	2008/09		
Royal Victoria Infirmary Levels 1 - 3	Jan-2009	2008/09	9,199	10,921
Royal Victoria Infirmary Levels 4 - 6	May-2009	2009/10		
Royal Victoria Infirmary Paediatric Block	Mar-2010	2009/10	11,596	22,517
(full year effect)		2010/11	855	23,372
Royal Victoria Infirmary Clinical Support Block	Jan-2012	2011/12	92	23,464
Royal Victoria Infirmary Refurbishments and External Works	Jul-2013	2012/13	1,015	24,479
		2013/14	82	24,561
		2014/15	41	24,602
			24,602	

* The above commitments are shown unindexed for purposes of direct comparison.

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

There are no PFI schemes deemed to be on Balance Sheet.

25. 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 more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Financial assets and liabilities are generated by day-to-day operational activities rather than being held in order 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.

Liquidity risk

The Trust's net operating costs are incurred under three-year service agreement contracts with local Primary Care Trusts, which are financed from resources voted annually by Parliament. The Trust receives such income month by month, based on a contracted annual level of activity, with quarterly corrections made to adjust for actual activity carried out and resultant income due.

The Trust largely finances its capital expenditure from internally generated resources. Funds have also been made available from Government, in the form of additional Public Dividend Capital, to progress specific capital schemes. In addition, the Trust can borrow from commercial sources to finance capital schemes. Such financing would be drawn down to match the spend profile of the scheme concerned and the Trust is not, therefore, exposed to significant liquidity risk in this area.

To alleviate the risk of any cash shortfall resulting from the timing of revenue or capital receipts and payments, the Trust has in place a £50m working capital facility, as required by the Trust's Terms of Authorisation. The Trust has not drawn on this facility.

Interest-Rate Risk

49% of the Trust's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The remaining 51% of the Trust's financial assets relates to cash held with the Office of the Paymaster General. The Trust is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities.

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

25.1 Financial Assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	Non-interest bearing	
					Weighted average interest rate	Weighted average period for which fixed	Weighted average term
	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling	18,789	9,665	8,000	1,124	5.03%	0.02	N/A
Gross financial assets	18,789	9,665	8,000	1,124			
At 1 June 2006							
Sterling	6,495	5,381	0	1,114	N/A	N/A	N/A
Gross financial assets	6,495	5,381	0	1,114			

25.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	Non-interest bearing	
					Weighted average interest rate	Weighted average period for which fixed	Weighted average term
	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling	(216,473)	0	(9,989)	(206,484)	2.2%	N/A	N/A
Gross financial liabilities	(216,473)	0	(9,989)	(206,484)			
At 1 June 2006							
Sterling	(213,590)	0	(10,139)	(203,451)	2.2%	N/A	N/A
Gross financial liabilities	(213,590)	0	(10,139)	(203,451)			

Note: The public dividend capital is of unlimited term.

25.3 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	9,665	9,665	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	1,095	1,095	Note a
Investments	8,029	8,029	
Total	<u>18,789</u>	<u>18,789</u>	
Financial liabilities			
Provisions under contract	(9,989)	(9,989)	Note b
Public dividend capital	(206,484)	(206,484)	Note c
Total	<u>(216,473)</u>	<u>(216,473)</u>	

Notes

a These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract. Fair value is not significantly different from book value.

b 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.

c The figure here is the full value of PDC in the balance sheet and 'book value' equals 'fair value'.

26. Third Party Assets

The Trust held £15k cash at bank and in hand at 31 March 2007 (£8k at 1 June 2006) which relates to monies held by the Trust on behalf of patients. This has been excluded from the cash at bank and in hand figure reported in the accounts.

27. Losses and Special Payments

There were 267 cases of losses and special payments totalling £670k paid during the period. There were no cases individually exceeding £100,000.

The costs included in this note are on a cash basis rather than an accruals basis.