

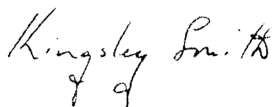


A Statement from the Chairman & the Chief Executive

The trading period of two months in the lead up to being licensed as an NHS Foundation Trust on 1st June 2006 served to build upon the long standing and proven strengths of one of the most successful NHS Trusts.

The Board of Directors and with the unequivocal support of the Members Council in shadow form, provided evidence to enable the Independent Regulator of NHS Foundation Trusts (Monitor) to undertake a most rigorous and fresh assessment in relation to fitness for purpose following the decision of the Trust to self defer the process in 2005. The crucial issue was the uncertainty surrounding the impact and longer term financial viability of the *Transforming Newcastle Hospitals* investment programme, which has been addressed. We aim for a much greater outreach into community settings and this is what we believe those we serve wish of us.

As a Foundation Trust now we face the challenge of sustaining a vigorous commitment to pursue the aim of building a better, more effective and accessible health service.



Kingsley W Smith
Acting Chairman



L R Fenwick
Chief Executive

On behalf of the Board of Directors

July 2007

This Report and Accounts of The Newcastle upon Tyne Hospitals NHS Trust has been submitted to the Secretary of State for Health in accordance with section 98(2) of the National Health Service Act 1977 (as amended by the National Health Service and Community Care Act 1990) and Schedule 2(7) of the National Health Service and Community Care Act 1990.

The Newcastle upon Tyne Hospitals NHS Trust was established on 1st April 1998 following the dissolution and merger of The Royal Victoria Infirmary and Associated Hospitals NHS Trust and The Freeman Group of Hospitals NHS Trust. NHS Foundation status was awarded to the organisation on 1st June 2006. This Report & Accounts relates to the period 1st April 2006 to 31st May 2006.

Operating and Financial Performance Review

The Accounts presented on pages 11 to 51 reflect the finances of the Trust for the two month period prior to its inception as a Foundation Trust on 1st June 2006, i.e. from 1st April to 31st May 2006. The Trust met or exceeded all of the required financial obligations as specified by the Department of Health and it is worth noting also met all of the requirements of Monitor, the Independent Regulator of NHS Foundation Trusts for the subsequent period. Details of the performance as a Foundation Trust may be found in a separate report.

It is important to view performance in the context of the forthcoming impact of the Transforming Newcastle Hospitals (TNH) investment programme, a £304 million PFI funded capital and service improvement investment. The Trust is committed to building up sufficient funds to ensure that there will be no adverse effect on financial stability as the value of the Unitary Payment due (or annual rent) for the TNH builds up over the next few years.

The period was challenging in terms of continuing to reinforce the climate of tight cost control and prudence in budget management. Despite the scale of the challenge, during this two month period the organisation made progress towards a planned financial surplus as a Foundation Trust of £6.1 million (before the impact of asset impairments¹). This surplus was in line with the Foundation Trust Financial Plan for 2006/07.

Overall, it was a successful trading year, with growth in activity exceeding planned expectations. The activity associated with this growth reflects the service organisation and planning to effectively deliver the national 18 week waiting time targets.

In addition to delivering record level of activity, the Trust began to invest what became a total of £1.7 million for the full year in local specialist service developments, including Adult Cystic Fibrosis; Specialist Haematology; Genetics; Palliative Care; and Head & Neck Services. The Trust also began to extend the provision of the drug 'Herceptin', a development which was also underwritten by the Primary Care Organisations.

The level of private patient income earned in the 2 month period was £0.73 million.

In relation to expenditure, the Trust was exposed to a number of cost pressures for the full year, including the two-month

period, most significantly the cost consequence of extra ordinary 'Waiting List Initiative' payments and continued pressure relating to pay modernisation, as well as changes in clinical practices and related technology.

To balance the expenditure position, a full year cost efficiency programme of £13.3 million was required, with £12.7 million (95%) of this delivered recurrently, with the greatest proportion found in the ten month period operating as a Foundation Trust. This is a significant improvement on previous financial years and is a credit to how clinical directors, service managers and their teams have tackled this challenge, supported by a series of finance workshops and improvements in process and communication. Further contributions towards financial balance came from a pro-active and diligent approach to income recovery from all sources, slippage in expenditure on certain developments and a number of non-recurrent income benefits.

The Trust was successful in attracting external capital investment which allowed for an expansion in the planned 2007/08 capital programme from £16.4 million to £23.5 million. In year i.e. 2006/07, spending on capital equipment and buildings amounted to £20.5 million (£0.8 million in the two month period) against the funding available, with the balance being taken up in the subsequent year.

Looking ahead to 2007/08, the Trust must build upon the initial platform of success as a Foundation Trust. The most important priority is to prepare the Trust for the financial consequences of the TNH investment programme. In this respect a 'headroom plan' comprising a co-ordinated programme to achieve cost base reduction, efficiency and productivity improvements in the short to medium term, to deliver recurring balance and contribute towards the enhanced cost of TNH from 2009/10 onwards has been produced. The headroom plan includes a balanced portfolio of departmental trading centre proposals, in terms of strategic versus immediate savings and also in respect of corporate plans. The overall savings plan required for 2007/08 totals £14.4 million.

Recent years have seen a number of significant national policy changes that are intended to effect a major change in how and where health services are delivered. Whilst it is still too early to say with some measure of certainty as to how these will translate at a local level they have the cumulative affect

¹ Impairments are a non-recurrent charge in respect of the value of property (land and buildings) that has been written off as a consequence of either demolition and/or disposal. The impairments specifically related to the demolition of certain buildings as preparatory work for the TNH project.

of introducing some new risks that need to be considered in future business investment planning. Specifically Practice Based Commissioning; Patient Choice; contestability; potential changes to tariff (the price list that determines how Trusts are remunerated for the activity they undertake) and achieving and maintaining 18 week referral to treatment maximum waiting time targets will all impact in some way on future activity and income. Recent changes could lead to financial losses in how NHS sponsored Research & Development is assessed and funded with the prospect of a similar set of circumstance prevailing in the short term in relation to educational and training revenue streams.

In summary we are in a period of significant change with the added financial and operational challenge of ensuring that we achieve without exception waiting time and quality standards as well as creating the essential financial headroom as described to ensure that the TNH investment programme delivers as a beneficial asset for the health economy.

The Trust remains confident that it can rise to these challenges and sustain a policy of confidence and commitment in improving the quality and quantum of the services it offers whilst remaining financially viable and hence a successful going concern.

Corporate Social Responsibility

As a major employee in the region, the Trust is very conscious of its social, economic and environmental responsibilities. In these respects, the Trust had in place policies on equal opportunities and in relation to disabled employees. The Trust promotes a "green transport" travel plan for staff, aimed at reducing journeys to work by car and increasing use of public transport. The combined heat and power plant in the Trust's energy centres is certified as sufficiently efficient to not incur the Climate Change Levy. There are significant controls on waste management, including proper segregation of domestic and clinical waste, in compliance with applicable legislation.

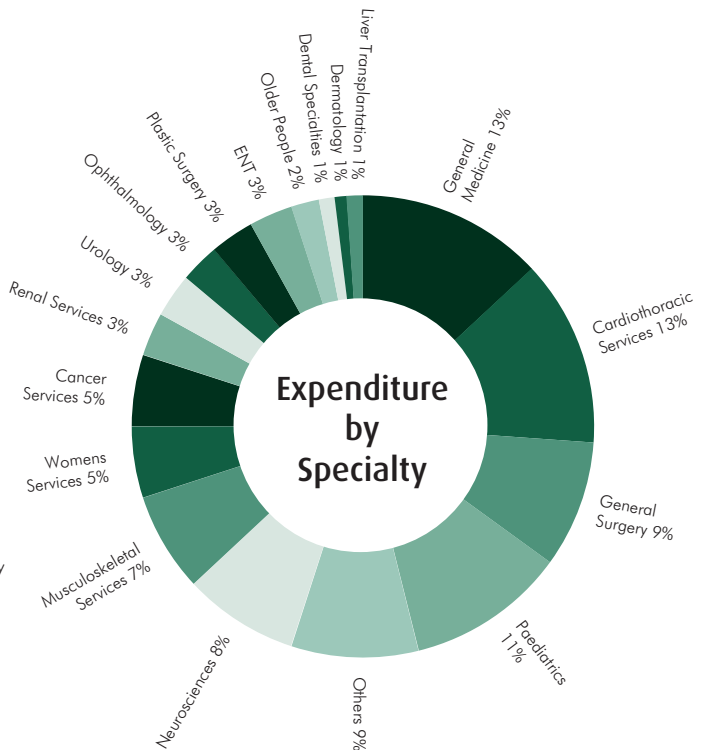
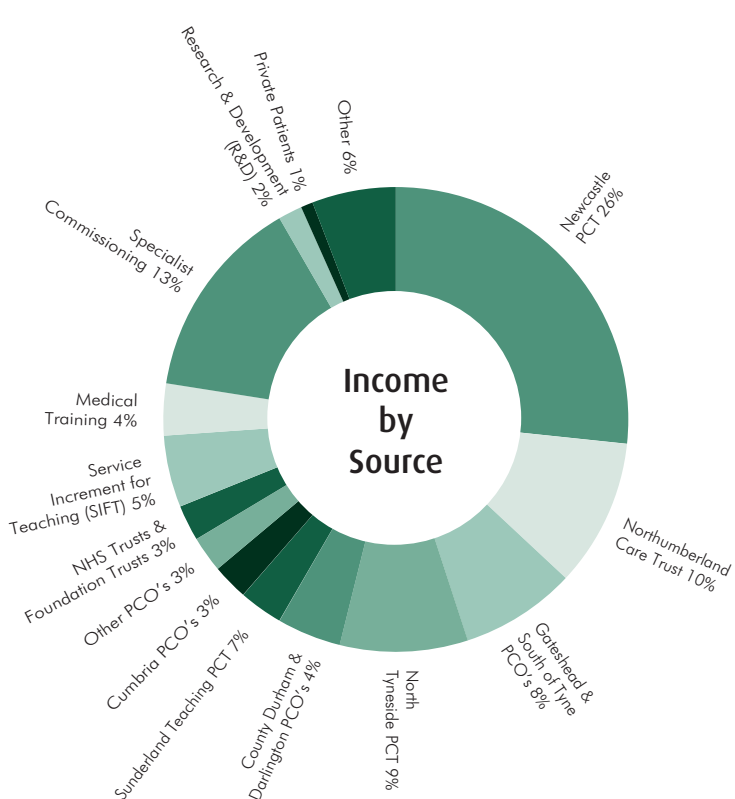
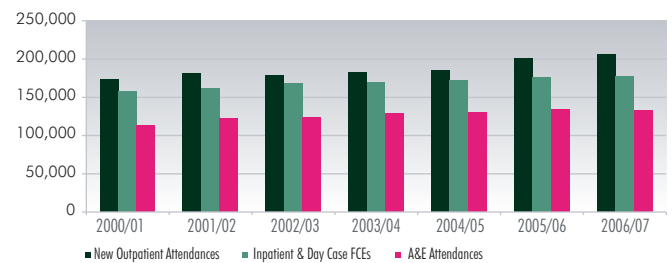
The Trust engages with the local population through bodies such as its Community Advisory Panel and the Patient and Public Involvement Committee. In the build-up to licensing as an NHS Foundation Trust from 1st June 2006, the Trust also developed its Membership base.

With regard to emergency preparedness, the Trust has a well-developed major incident plan, fully compliant with the requirements of "NHS Emergency Planning Guidance 2005", developed in conjunction with partner agencies and tested through both "desk top" and "live" exercises.

Inpatient & Day Case Waiting Lists 2001-2007



Patient Activity April 2000 - March 2007



Statement of Directors' Responsibilities in respect of the Accounts

The Directors are required under the National Health Service Act 1977 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure of the Trust for that period. In preparing those accounts, the Directors are required to:

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

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

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

By order of the Board



L R Fenwick
Chief Executive

10 August 2006



R B Steven
Finance Director

10 August 2006

Statement on Internal Control

1 April 2006 - 31 May 2006

1. Scope of responsibility

The Board is accountable for internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum. This Statement on Internal Control (SIC) covers the period 1st April 2006 to 31st May 2006, after which the Trust became an NHS Foundation Trust and then became subject to the requirements of the regulatory regime of Monitor, the independent regulator of NHS Foundation Trusts.

The roles and responsibilities of the Executive Directors have been developed to cover all aspects of risk. These arrangements are reflected in their job descriptions. Performance is monitored through the Individual Development Review process and additionally corporate performance is scrutinised as a matter of routine by the Performance Management Group.

The Trust works with the Northumberland, Tyne and Wear Strategic Health Authority (SHA) and partner organisations such as the North of Tyne Commissioning Consortium (albeit a non-statutory body) to agree objectives and targets. These are monitored through the Performance Assessment Framework.

As Accountable Officer I delegate particular aspects of my role to the Executive Directors. These arrangements are reflected in job descriptions and performance review mechanisms.

The Trust works with the SHA and partner organisations to ensure national and local objectives are delivered. The Trust performance against the delivery of these targets is monitored through the Performance Assessment Framework.

The Chief Executive role is directly accountable to the Trust Board, has overall responsibility and accountability for all aspects of the Risk Management Policy and delegates this responsibility to senior managers of the Trust as detailed in the Risk Management Strategy. The Medical Director had delegated executive responsibility for Risk Management and was responsible for ensuring that the Risk Management strategy, structure and systems were in place and were working effectively.

The risks are shared with and informed by the partner organisations via the joint planning and governance arrangements with respective commissioners, as well as the SHA and a substantial range of external agencies and regulatory bodies.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

The system of internal control has been in place in The Newcastle upon Tyne Hospitals NHS Trust for the period commencing 1st April 2006, and up to the date of approval of the Annual Report and Accounts for April and May 2006.

3. Capacity to handle risk

As Accountable Officer and Chief Executive I have overall responsibility for Risk Management and actively promote good practice across the organisation.

Specific responsibilities are delegated to members of the Management Executive Team as follows:

- The Medical Director has responsibility for the implementation and further development of the Risk Management strategy, including implementation and monitoring of the Standards for Better Health.
- In that context, the Medical Director has responsibility for the implementation and continuing development of the clinical aspects of the Risk Management strategy for the Trust, as an integral part of Clinical Governance.
- The Finance Director has responsibility for the management of risk in relation to finance issues.
- The Trust Secretary has responsibility for non-clinical governance matters.
- The Operational Services Manager has responsibility for the implementation and further development of Risk Management in relation to fire, security and related operational and organisational issues.

- The Personnel Manager has responsibility for the implementation and further development of the Health and Safety strategy for the Trust.
- In recognition of the potential scope and scale of the risks attached to the Transforming the Newcastle Hospitals project, a specific Project Board Chaired by a Non-Executive Director oversees the construction works, including tight control of any variations and receives regular updates of the project risk register. The Project Board reports key issues to the Trust Board regularly.
- In addition to these Management Executive responsibilities the Clinical Governance and Risk Manager was accountable to the Medical Director for supporting the overall co-ordination and integration of Risk Management activity. This included the organisation of the Risk Management Group, responsible for overseeing and co-ordinating activities within the various Risk Management working groups.

Overall decisions in relation to prioritisation of corporate risk issues and resource allocation are taken by the Trust Board, with delegation of decisions relating to specific risks to sub-committees and panels or Management Executive as appropriate. This decision making process is underpinned by information and advice from the Risk Management Group, via regular reports on the Trust Risk Register and an annual review of progress against the Risk Management Strategy. The approach to business risks was supported by the work of the Finance and Contracting Committee, which reports monthly to the Trust Board and which has a specific role in relation to assessment of the financial and corporate risks arising from business cases for specific developments and from the annual business plan.

It is recognised that effective Risk Management requires commitment and active involvement of all employees. It is therefore vital that the Risk Management process is communicated and embedded throughout the organisation. In addition to the corporate responsibilities outlined above, Directorate Managers, Clinical Directors and Department Heads are responsible for ensuring effective Risk Management in accordance with Trust strategy and policy within their own specialist areas. This includes primary responsibility for identification, investigation and follow up of all risk issues, as defined in job descriptions and personal objectives. A key element of this approach is the maintenance of a robust risk register. Where initial assessment indicates a high level of risk and /or where the level of risk warrants reporting to an external body, the Directorate Manager, Clinical Director or Department Head is responsible for bringing the issue to the attention of the Clinical Governance and Risk Manager or appropriate Board Director, in order to agree decisions about subsequent management of the risk.

Individual employees have personal responsibility for participating in Risk Management processes in order to identify and address adverse events or potential risks to patients, colleagues or the

Trust. This includes responsibility for:

- Maintaining awareness of relevant Trust policies and procedures and for ensuring that their practice complies with the policies laid down and with the requirements of the appropriate professional body.
- Reporting of any incidents, accidents or near misses encountered during the course of their work, as defined in the Operational Policy for Incident, Accident and Near Miss reporting.
- A range of specific responsibilities in relation to key risk issues, as defined in other Trust policies, including the Health and Safety Policy and Complaints Procedure.

The Risk Management strategy strongly emphasises the need for a knowledgeable workforce, which is actively engaged in the Risk Management process. Delivery of the strategy is therefore underpinned by a wide range of education and training initiatives for staff at all levels.

Training delivered by the Training Department and other key staff is informed by Risk Management priorities identified through the systems outlined and via an annual training needs analysis.

These initiatives include:

- Mandatory sessions on Trust induction programmes for all new staff and formal departmental induction programmes in all areas that address key risk issues, including Health and Safety.
- Presentations and workshops on various aspects of Risk Management within the clinical governance lecture programme and a wide range of sessions facilitated by the Training Department and Clinical Governance and Risk Department on specific issues. This includes training in relation to controls assurance issues, risk assessment processes, incident and complaint management, and key national developments, including use of Root Cause Analysis techniques, as advocated by the National Patient Safety Agency.
- Access to external education and training wherever appropriate, such as those facilitated by the National Patient Safety Agency, NHS Litigation Authority and Department of Health.
- The provision of information via the Trust Risk Management intranet site, in order to ensure ready access for all employees.

Wherever possible, opportunities are taken to learn lessons from adverse events and near misses. Trust communication forums and education sessions are used extensively to share information on lessons learned with employees at all levels.

The focus on Risk Management training over recent years is paying clear dividends, with greater risk awareness amongst Trust employees and a more active involvement at all levels in efforts to identify and reduce risk.

4. The risk and control framework

The Newcastle upon Tyne Hospitals NHS Trust recognises the strategic role of Risk Management in underpinning the organisation's reputation and performance. Implementation of the Risk Management strategy is key to delivery of organisational objectives in relation to governance and controls assurance. In addition, the embedding of effective Risk Management systems and the development of a positive learning environment support improvement of services and delivery of Trust priorities in all areas.

The key elements of the Trust Risk Management strategy are as follows:

- A clear framework of accountability and delegated responsibility for management of risk
- An integrated Risk Management strategy outlining the overall purpose and processes, and an associated annual plan detailing specific action.
- A clearly defined committee structure, which supports robust and timely decision-making in relation to key organisational risks.
- Intranet based governance and Risk Management policies and procedures.
- Robust systems for identification, analysis, prioritisation and action in relation to risks affecting all areas of Trust activity.
- Risk Management processes integrated and embedded into the day to day activities of the organisation.
- A Clinical Governance and Risk Department, to facilitate risk control processes, and also to support the development of capacity within the Directorate and Department teams.
- A tailored training programme to address key risk issues arising both internally and as a result of national initiatives.
- Rigorous communication processes to ensure that information about key risks and lessons learned are effectively disseminated at all levels. Regular communication meetings such as the monthly Trust-wide Communications Forum, are supplemented by weekly bulletins and an extensive Intranet information service.
- External communication with key stakeholders and the general public via established partnership forums, the Members Council, the Annual General Meeting and Trust web-site.

Decision making about Risk Management priorities within the Risk Management Group will be informed by a range of information, including:

- Prioritised risk register information
- Reports from incidents, complaints and claims systems
- Issues highlighted in structured Directorate and Department risk reviews and ad hoc feedback.
- Minutes and regular reports from the Risk Management sub-groups and other working groups

- Issues highlighted by the Complaints and Incidents Panel
- Feedback from stakeholders via the Newcastle Health Partnership, Joint Advisory Group for Physical and Sensory Disability, Trust Community Advisory Panel, Equality and Diversity Group, Members Council, Patient & Public Involvement Forum, the PALS service and other patient representative groups.

Priorities identified by the group are included in the Risk Register and fed into Trust Board in order to support decision making on prioritisation and allocation of resources. The Risk Management Group also communicates directly with the Trust Board and Clinical Governance and Quality Committee in relation to specific areas of risk.

The Trust is also required to make decisions regarding acceptable or unacceptable levels of risk in relation to specific risk issues. This decision making will reflect the financial capacity of the Trust, the need to maintain service provision, and assessment of potential harm to patients, employees or the general public, together with the Trust's obligations in relation to external regulations, standards or targets.

Decision-making is supported and informed by an increasing use of objective risk assessment processes within the different management functions of the Trust. These tools include a standardised risk assessment matrix based on the Australia/New Zealand Risk Management Standard model, the Assurance Framework and corporate Risk Register. The core Risk Management tools are available for use by all staff via the Trust Intranet.

The tools are designed to enable the Trust to adopt a systematic approach to:

- Identifying key risks in all aspects of Trust activity
- Ensuring that executive accountability for all key issues is clear
- Linking and monitoring risk issues in relation to NHS policy targets
- Prioritising risks in relation to their likelihood of occurrence and the magnitude of their impact
- Identifying that appropriate management arrangements are in place to address risks
- Ensuring that all key topics highlighted are subject to the appropriate level of Board scrutiny
- Informing resource allocation decisions
- Ensuring that appropriate external assurance is in place in relation to the management of all high risk areas.

The Assurance Framework provides a high level analysis of risks in relation to the Trust's key objectives across all areas of activity. Risks are identified which might affect the organisation's

ability to achieve its objectives. For each risk, the framework provides an assessment of the controls in place to ensure that the risks are managed effectively and the processes and specific evidence, which give the Board the necessary assurance that the Risk Management and control measures are effective. Gaps in control or assurance processes are identified, in order to ensure that these can be suitably addressed.

Overall, the organisation has a high level of confidence with regard to management of the key risk issues. Analysis of key risks to the Trust within the Assurance Framework has identified no gaps in control or assurance processes in relation to the Trust's corporate objectives.

5. Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by the programme of reviews undertaken by Internal and External Auditors; Monitoring of actions related to previous Controls Assurance assessments; the Clinical Audit programme; Healthcare Commission and Strategic Health Authority monitoring of Clinical Governance development; Risk Management assessments by the Clinical Negligence Scheme for Trusts; external benchmarking processes; and a range of inspections by professional bodies and agencies.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and its sub-committees, including the Audit Committee, Risk Management Group and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The effectiveness of the system of internal control has been maintained and reviewed by the Board via its sub-committees and individual management responsibilities at Director and Senior Manager level. I am satisfied that this SIC describes a system and approach which remained robust for the period from 1st April 2006 to 31st May 2006 and supports preparation of the annual accounts on a going concern basis.

Regular reports have been received from sub-committees or individual officers in relation to all of the key risks. Annual Reports have been received by the Board panels relating to all important areas of activity, and ad hoc reports in-year wherever these were required.

Clinical governance and processes to ensure quality of patient

care are overseen by the Clinical Governance and Quality Committee, under the leadership of the Medical Director. Minutes of this Committee were received by the Board, together with ad hoc reports on specific issues as necessary. An annual report summarises the most significant issues in this area.

The Medical Director had delegated lead responsibility for Risk Management across the Trust. Practical support and co-ordination was provided by the Clinical Governance and Risk Department. Individual Directors and Senior Managers are empowered to assess and manage risks within their own areas of responsibility, linking in closely with the wider Trust processes. Significant support was provided via training, advice and guidance documentation, to enable senior personnel to effectively fulfil this function.

An analysis of controls and assurances in relation to key organisational risks has been undertaken via the Assurance Framework. Underpinning this, the Trust Risk Register has been further developed, to provide a detailed assessment of specific risks in all departments and key functions. The Risk Management Group scrutinised these processes and advised the Board in relation to the most significant risk and control issues arising from the Assurance Framework and Risk Register. Regular reports from the Risk Management Group have highlighted emerging and developing risks.

In addition to the above processes, the Complaints and Incidents Panel maintained an overview of the management of complaints, incidents and litigation and continued to monitor actions initiated in response to specific risks highlighted.

The Risk Management Group was responsible for implementation and further development of the Risk Management strategy and for ensuring that systems are in place to identify and address key risks. This role was complemented by that of the Audit Committee, being responsible, via the Internal Audit Department, for verifying that the system of internal control was effective in managing risks in the manner approved by the Board.

In order to support further development, the Trust has taken full advantage of opportunities wherever possible, to benchmark performance against national and international best practice. This included participation in both formal external assessments (including the Annual Health Check and Clinical Negligence Scheme for Trusts) and informal processes, including those facilitated by the Department of Health, Strategic Health Authority, National Patient Safety Agency, Healthcare Commission, and National Audit Office.

No significant internal control issues have been identified as a result of these processes, and the benchmarking and external assessment processes continued to highlight the Trust as a high performing and effectively managed NHS organisation.



L R Fenwick
Chief Executive

8 August 2006

Part-year Accounts 2006/07 (2 months to 31 May 2006)

During this period, the Trust received services from the following:

Banking -	HSBC Bank plc
External Audit -	The Audit Commission
Legal Services -	Samuel Phillips Law Firm (representation at Inquests and ad hoc legal advice)
	Ward Hadaway Solicitors (clinical negligence claims, employer's liability and public liability claims, and Freedom of Information requests)
	Dickinson Dees LLP (property)

Foreword to the Accounts

The Newcastle upon Tyne Hospitals NHS Trust

These accounts for the period ended 31 May 2006 have been prepared by the Newcastle upon Tyne Hospitals NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form which the Secretary of State has, with the approval of the Treasury, directed.

The accounts cover the 2 months to 31 May 2006, as the Trust became a Foundation Trust with effect from 1 June 2006.

Independent auditor's report to the Directors of the Board of The Newcastle upon Tyne Hospitals NHS Trust

Opinion of the financial statements

I have audited the financial statements of The Newcastle upon Tyne Hospitals NHS Trust for the two months ended 31 May 2006 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out within them.

This report is made solely to the board of The Newcastle upon Tyne Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Directors and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

I review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, 'The Statement on Internal Control 2003/04' issued on 15 September 2003 and further guidance on 7 April 2006 and 2 April 2007. I report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the directors' Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

Opinion


In my opinion:

The financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 May 2006 and of its income and expenditure for the two months then ended: and

The part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.



David Jennings
District Auditor

Nickalls House, Metrocentre, Gateshead, Tyne and Wear
NE11 9NH

22 June 2007

Note to the Income and Expenditure Account for the period ended 31 May 2006

Retained surplus for the period

Financial support included in retained surplus for the period - NHS Bank

Financial support included in retained surplus for the period - Internally Generated

Retained (deficit) / surplus for the period excluding financial support

2006/07 (2 months)	2005/06 (Full Year)
£000	£000
1	234
0	0
0	3,000
<u>1</u>	<u>(2,766)</u>

In 2005/06 the Trust received a planned, non-recurrent, non-repayable revenue contribution to ameliorate the financial consequences of delayed Foundation Trust status. There is no similar contribution for the 2 months to 31 May 2006.

Balance Sheet

as at 31 May 2006

	NOTE	31 May 2006 £000	31 March 2006 £000
FIXED ASSETS			
Intangible assets	10	544	567
Tangible assets	11	<u>378,743</u>	<u>356,974</u>
		379,287	357,541
CURRENT ASSETS			
Stocks and work in progress	12	12,007	11,644
Debtors	13	31,983	29,492
Cash at bank and in hand	18.3	<u>5,381</u>	<u>1,639</u>
		49,371	42,775
CREDITORS: Amounts falling due within one year	15	(43,074)	(39,939)
NET CURRENT ASSETS		<u>6,297</u>	<u>2,836</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		385,584	360,377
CREDITORS: Amounts falling due after more than one year	15	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	16	(10,139)	(9,526)
TOTAL ASSETS EMPLOYED		<u>375,445</u>	<u>350,851</u>
FINANCED BY TAXPAYERS' EQUITY:			
Public dividend capital	22	203,451	203,451
Revaluation reserve	17	126,822	105,446
Donated asset reserve	17	17,862	16,888
Government grant reserve	17	20	0
Other reserves	17	0	0
Income and expenditure reserve	17	27,290	25,066
TOTAL TAXPAYERS' EQUITY		<u>375,445</u>	<u>350,851</u>

The financial statements on pages 11 to 48 were approved by the Board on 8 August 2006 and signed by:



L R Fenwick
Chief Executive

8 August 2006

Statement of Total Recognised Gains & Losses for the period ended 31 May 2006

	2006/07 (2 months)	2005/06 (Full Year)
NOTE	£000	£000
Surplus for the financial period before dividend payments	1,946	12,653
Fixed asset impairment losses	0	0
Unrealised surplus on fixed asset revaluations/indexation*	17 24,679	9,244
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	17 244	637
Additions/(reductions) in "other reserves"	0	0
Total recognised gains and losses for the financial period	26,869	22,534
Prior period adjustment	0	0
Total gains and losses recognised in the financial period	26,869	22,534

* Indexation on fixed assets takes place on 1 April each year. The resulting increase in unrealised surplus on fixed asset revaluations/indexation, above, is due to an increase of 8.3% in the buildings index, as laid down by the Department of Health, using information provided by the Valuation Office.

Cash Flow Statement

for the period ended 31 May 2006

	2006/07 (2 months)	2005/06 (Full Year)
NOTE	£000	£000
OPERATING ACTIVITIES		
Net cash inflow from operating activities	18.1 5,827	35,824
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	220	1,253
Interest paid	0	0
Interest element of finance leases	0	0
Net cash inflow from returns on investments and servicing of finance	220	1,253
CAPITAL EXPENDITURE		
(Payments) to acquire tangible fixed assets	(2,884)	(22,113)
Receipts from sale of tangible fixed assets	335	16,487
(Payments) to acquire intangible assets	0	(446)
Receipts from sale of intangible assets	0	0
Net cash (outflow) from capital expenditure	(2,549)	(6,072)
DIVIDENDS PAID		
	0	(12,419)
Net cash inflow before management of liquid resources and financing	3,498	18,586
MANAGEMENT OF LIQUID RESOURCES		
(Purchase) of current asset investments	0	0
Sale of current asset investments	0	0
Net cash inflow/(outflow) from management of liquid resources	0	0
Net cash inflow before financing	3,498	18,586
FINANCING		
Public dividend capital received	0	0
Public dividend capital repaid (not previously accrued)	0	(19,125)
Public dividend capital repaid (accrued in prior period)	0	0
Loans received	0	0
Loans repaid	0	0
Other capital receipts	244	636
Capital element of finance lease rental payments	0	0
Cash transferred (to)/from other NHS bodies	0	0
Net cash inflow / (outflow) from financing	244	(18,489)
Increase in cash	3,742	97

Notes to the Accounts

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts which shall be agreed with HM Treasury. The following financial statements have been prepared for the 2 months ended 31 May 2006 and, due to the timing of preparation, the 2006/07 NHS Trusts Manual for Accounts has not yet been issued. Consequently, the financial statements have been prepared in accordance with the 2005/06 NHS Trusts Manual for Accounts issued by the Department of Health, taking account of any recent accounting guidance. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Resource Accounting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. 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 fixed assets at their value to the business, by reference to their current costs. NHS Trusts are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

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

1.4 Pooled Budgets

The Trust has not entered into any pooled budgets with Local Authorities.

1.5 Intangible fixed assets

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

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis, except capitalised Research and Development which is revalued using an appropriate index figure. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

1.6 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. 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 equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

Expenditure on digital hearing aids has been treated as capital expenditure, in accordance with the amendment to the Capital Accounting Manual issued in July 2003, regardless of the cost of the individual hearing aids.

Valuation

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

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

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

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Assets in the course of construction are valued at current cost using the indexes as for land and buildings, as above. These assets include any existing land or buildings under the control of a contractor.

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

Operational equipment other than IT equipment, which is considered to have nil inflation, is valued at net current replacement cost through annual uplift by the change in the value of the GDP deflator. 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 District Valuer. Leaseholds are depreciated over the primary lease term.

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

Impairment losses resulting from short-term changes in price that are considered to be recoverable in the longer term are taken in full to the revaluation reserve. These include impairments resulting from the revaluation of fixed assets from their cost to their value in existing use when they become operational. This may lead to a negative revaluation reserve in certain instances.

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

Where, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure account, offsetting income may be paid by the Trust's main commissioner using funding provided by the NHS Bank.

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 funds from NHS bodies or funds awarded by Parliamentary Vote. Where there are government grants, the reserve is maintained at a level equal to the net book value of the assets which it has financed.

Gains and losses on revaluations are also taken to the Government Grant Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government Grant Reserve to the Income and Expenditure account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure account is matched by a transfer from the Reserve.

1.9 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 the Application Note F to FRS 5 and the guidance 'Land and Buildings in PFI schemes Version 2'.

PFI schemes are schemes under which the PFI operator receives an annual payment from the Trust for the services provided by the PFI operator.

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

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.

1.10 Stocks and work-in-progress

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

1.11 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. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. NHS Trusts are unable to disclose the total amount of research and development expenditure charged in the Income and Expenditure account because some research and development activity cannot be separated from patient care activity.

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

1.12 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. This was a change from the rate of 3.5% in 2004/05 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure account and at note 16.

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.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2006/07 (2 months) relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

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.

1.13 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 Trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period.

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 NHS Pensions Agency website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of 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.

NHS bodies are directed by the Secretary of State to charge employer's pension cost contributions to operating expenses as and when they become due.

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 up to 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.

Additional pension liabilities arising from early retirement are not funded by the Scheme except where the retirement is due to ill-health. For early retirements 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 NHS 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.

1.14 Liquid resources

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

1.15 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.

1.16 Third Party Assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in note 28 to the accounts.

1.17 Leases

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

1.18 Public Dividend Capital (PDC) and PDC Dividend

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

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. Note 23.2 to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

1.19 Losses and special payments

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

Losses and special payments are charged to the relevant functional headings in the Income and Expenditure account on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, note 30 is compiled directly from the losses and compensations register which is prepared on a cash basis.

2. Segmental Analysis

The Trust has no segmental reporting.

3. Income from Activities

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Strategic Health Authorities	0	0
NHS Trusts	299	1,900
Primary Care Trusts*	70,808	424,248
Foundation Trusts	40	34
Local Authorities	90	490
Department of Health	5,424	16,658
NHS Other	96	1,023
Non NHS:		
- Private Patients	682	4,071
- Overseas patients (non-reciprocal)	6	162
- Road Traffic Act **	155	1,195
- Other	652	4,882
	<u>78,252</u>	<u>454,663</u>

* 2005/06 income included £2,020k to offset fixed asset impairments charged to operating expenses.

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

4. Other Operating Income

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Patient transport services	0	0
Education, training and research	10,998	68,453
Charitable and other contributions to expenditure	0	0
Transfers from donated asset reserve	330	1,748
Transfers from government grant reserve	0	0
Non-patient care services to other bodies	4,620	26,227
Income generation *	803	5,803
Other income	601	1,584
	<u>17,352</u>	<u>103,815</u>

* Relates to income from non-patient care income-generation activities, i.e, activities that are designed to create surplus income for the Trust.

5. Operating Expenses

5.1 Operating expenses comprise:

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Services from other NHS Trusts	1,679	9,422
Services from other NHS bodies	537	3,816
Services from Foundation Trusts	371	2,130
Purchase of healthcare from non NHS bodies	51	281
Directors' costs	189	813
Staff costs	58,136	336,753
Supplies and services - clinical	20,562	120,348
Supplies and services - general	875	5,680
Establishment	957	6,009
Transport	161	1,138
Premises	4,310	26,690
Bad debts	46	354
Depreciation and amortisation	3,604	18,657
Fixed asset impairments and reversals	0	2,244
Audit fees	29	294
Other auditor's remuneration	0	0
Clinical negligence	760	4,567
Other	1,540	7,504
	<u>93,807</u>	<u>546,700</u>

5.2 Operating leases

5.2/1 Operating expenses include:

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Hire of plant and machinery	0	0
Other operating lease rentals	248	1,699
	<u>248</u>	<u>1,699</u>

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

Operating leases which expire:

Within 1 year

Between 1 and 5 years

After 5 years

Land and buildings		Other leases	
31 May 2006	31 March 2006	31 May 2006	31 March 2006
£000	£000	£000	£000
120	144	0	0
249	343	944	944
79	142	0	0
<u>448</u>	<u>629</u>	<u>944</u>	<u>944</u>

6. Staff costs and numbers

6.1 Staff costs

Salaries and wages

Social Security Costs

Employer contributions to NHSPA

Other pension costs

2006/07 (2 months)	2006/07 (2 months)	2006/07 (2 months)	2005/06 (Full Year)
Total	Permanently Employed	Other	Total
£000	£000	£000	£000
49,649	44,042	5,607	287,898
3,544	3,544	0	20,162
5,122	5,122	0	29,307
0	0	0	140
<u>58,315</u>	<u>52,708</u>	<u>5,607</u>	<u>337,507</u>

6.2 Average number of persons employed

	2006/07 (2 months)	2006/07 (2 months)	2006/07 (2 months)	2005/06 (Full Year)
	Total	Permanently Employed	Other	Total
	Number	Number	Number	Number
Medical and dental	1,229	887	342	1,227
Ambulance staff	0	0	0	0
Administration and estates	1,728	1,707	21	1,724
Healthcare assistants and other support staff	1,722	1,582	140	1,724
Nursing, midwifery and health visiting staff	3,313	3,070	243	3,306
Nursing, midwifery and health visiting learners	54	54	0	51
Scientific, therapeutic and technical staff	1,809	1,789	20	1,805
Social care staff	16	0	16	16
Other	0	0	0	0
	9,871	9,089	782	9,853

6.3 Employee benefits

Employee benefits are defined as non-pay benefits which are not attributable to individual employees. The Trust makes no payment for group benefits.

6.4 Management costs

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Management costs	2,667	15,032
Income	92,852	540,485
Management costs as a % of income	2.87%	2.78%

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 the 2 months to May 2006 there were 4 early retirements from the Trust (2005/06 full year, 23), agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £221k (2005/06 full year, £1,323k). 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 (2 months)	2006/07 (2 months)
	Number	£000
Total Non-NHS trade invoices paid in the period	25,139	29,060
Total Non-NHS trade invoices paid within target	23,535	26,254
Percentage of Non-NHS trade invoices paid within target	94%	90%
Total NHS trade invoices paid in the period	771	10,947
Total NHS trade invoices paid within target	640	10,154
Percentage of NHS trade invoices paid within target	83%	93%

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

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	0	0

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

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

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Profit on disposal of fixed asset investments	0	0
Loss on disposal of fixed asset investments	0	0
Profit on disposal of intangible fixed assets	0	0
Loss on disposal of intangible fixed assets	0	0
Profit on disposal of land and buildings	0	0
Loss on disposal of land and buildings	(32)	(119)
Profits on disposal of plant and equipment	0	0
Loss on disposal of plant and equipment	0	0
	<u>(32)</u>	<u>(119)</u>

9. Interest Payable

Finance leases
Other

2006/07 (2 months)	2005/06 (Full Year)
£000	£000
0	0
0	0
<u>0</u>	<u>0</u>

10. Intangible Fixed Assets

	Software Licences	Licenses and trademarks	Patents	Development Expenditure	Total
	£000	£000	£000	£000	£000
Gross cost at 1 April 2006	728	0	0	0	728
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluation	0	0	0	0	0
Additions purchased	0	0	0	0	0
Additions donated	0	0	0	0	0
Additions government granted	0	0	0	0	0
Disposals	0	0	0	0	0
Gross cost at 31 May 2006	728	0	0	0	728
Amortisation at 1 April 2006	161	0	0	0	161
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluation	0	0	0	0	0
Charged during the period	23	0	0	0	23
Disposals	0	0	0	0	0
Amortisation at 31 May 2006	184	0	0	0	184
Net book value					
- Purchased at 1 April 2006	567	0	0	0	567
- Donated at 1 April 2006	0	0	0	0	0
- Government Granted at 1 April 2006	0	0	0	0	0
Total at 1 April 2006	567	0	0	0	567
- Purchased at 31 May 2006	544	0	0	0	544
- Donated at 31 May 2006	0	0	0	0	0
- Government Granted at 31 May 2006	0	0	0	0	0
Total at 31 May 2006	544	0	0	0	544

11. Tangible Fixed Assets

11.1 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 April 2006	74,116	237,677	1,140
Additions purchased	0	346	0
Additions donated	0	0	0
Additions government granted	0	0	0
Impairments	0	0	0
Reclassifications	0	660	0
Indexation	4,235	19,272	92
Other in year revaluation	0	(200)	0
Disposals	0	(32)	0
Cost or Valuation at 31 May 2006	<u>78,351</u>	<u>257,723</u>	<u>1,232</u>
Depreciation at 1 April 2006	0	0	0
Charged during the period	0	2,000	6
Impairments	0	0	0
Reversal of Impairments	0	0	0
Reclassifications	0	0	0
Indexation	0	0	0
Other in year revaluation	0	0	0
Disposals	0	0	0
Depreciation at 31 May 2006	<u>0</u>	<u>2,000</u>	<u>6</u>
Net book value			
- Purchased at 1 April 2006	74,116	226,090	1,140
- Donated at 1 April 2006	0	11,587	0
- Government Granted at 1 April 2006	0	0	0
Total at 1 April 2006	<u>74,116</u>	<u>237,677</u>	<u>1,140</u>
- Purchased at 31 May 2006	78,351	243,284	1,226
- Donated at 31 May 2006	0	12,439	0
- Government Granted at 31 May 2006	0	0	0
Total at 31 May 2006	<u><u>78,351</u></u>	<u><u>255,723</u></u>	<u><u>1,226</u></u>

Assets under construction & payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & Fittings	Total
£000	£000	£000	£000	£000	£000
5,970	99,439	391	8,401	772	427,906
42	383	18	5	0	794
0	162	0	62	0	224
0	20	0	0	0	20
0	0	0	0	0	0
(2,140)	1,335	0	145	0	0
283	2,739	10	0	22	26,653
0	0	0	0	0	(200)
(335)	0	0	0	0	(367)
3,820	104,078	419	8,613	794	455,030
0	63,573	293	6,497	569	70,932
0	1,395	5	165	10	3,581
0	0	0	0	0	0
0	0	0	0	0	0
0	(109)	0	109	0	0
0	1,750	8	0	16	1,774
0	0	0	0	0	0
0	0	0	0	0	0
0	66,609	306	6,771	595	76,287
5,962	30,835	88	1,675	179	340,085
8	5,031	10	229	24	16,889
0	0	0	0	0	0
5,970	35,866	98	1,904	203	356,974
3,812	32,339	104	1,569	176	360,861
8	5,110	9	273	23	17,862
0	20	0	0	0	20
3,820	37,469	113	1,842	199	378,743

11.1 Tangible Fixed Assets (continued)

Of the closing balance at 31 May 2006, £8,467k related to land valued at open market value, £683k related to buildings valued at open market value and £1,226k related to dwellings valued at open market value.

Assets held under finance leases and hire purchase contracts:

The Trust has no assets held under finance leases or hire purchase contracts.

11.2 The net book value of land, buildings and dwellings at 31 May 2006 comprises:

	31 May 2006 £000	31 March 2006 £000
Freehold	335,300	312,933
Long leasehold	0	0
Short leasehold	0	0
TOTAL	<u><u>335,300</u></u>	<u><u>312,933</u></u>

12. Stocks and Work in Progress

Raw materials and consumables

Work-in-progress

Finished goods

TOTAL

31 May 2006	31 March 2006
£000	£000
12,007	11,644
0	0
0	0
<u>12,007</u>	<u>11,644</u>

13. Debtors

Amounts falling due within one year:

NHS debtors

Provision for irrecoverable debts

Other prepayments and accrued income

Other debtors

Sub Total

31 May 2006	31 March 2006
£000	£000
18,842	17,771
(649)	(648)
2,517	1,692
9,818	9,572
<u>30,528</u>	<u>28,387</u>

Amounts falling due after more than one year:

NHS debtors

Provision for irrecoverable debts

Other prepayments and accrued income

Other debtors

Sub Total**TOTAL**

1,114	1,105
0	0
341	0
0	0
<u>1,455</u>	<u>1,105</u>
<u>31,983</u>	<u>29,492</u>

14. Investments

The Trust has no investments.

15. Creditors

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

Amounts falling due within one year:

	31 May 2006 £000	31 March 2006 £000
Bank overdrafts	0	0
Current instalments due on loans	0	0
Interest payable	0	0
Payments received on account	4,908	4,865
NHS creditors	3,680	1,682
Non-NHS trade creditors - revenue	498	2,360
Non-NHS trade creditors - capital	843	2,688
Tax and social security costs	3,070	5,774
Obligations under finance leases and hire purchase contracts	0	0
Other creditors	11,545	10,686
Accruals and deferred income	18,530	11,884
Sub Total	<u>43,074</u>	<u>39,939</u>

Amounts falling due after more than one year:

Long-term loans	0	0
Obligations under finance leases and hire purchase contracts	0	0
NHS creditors	0	0
Other	0	0
Sub Total	<u>0</u>	<u>0</u>
TOTAL	<u><u>43,074</u></u>	<u><u>39,939</u></u>

15.2 Loans and other long-term financial liabilities

The Trust has no loans or other long-term financial liabilities.

15.3 Finance lease obligations

The Trust has not entered into any finance lease obligations during the period.

15.4 Finance Lease Commitments

The Trust had no finance lease commitments at the balance sheet date.

16. Provisions for liabilities and charges

	Pensions relating to former directors	Pensions relating to other staff	Legal claims	Other	Total
	£000	£000	£000	£000	£000
At 1 April 2006	0	2,060	4,146	3,320	9,526
Change in discount rate	0	0	0	0	0
Arising during the period	0	0	287	383	670
Utilised during the period	0	0	(16)	(51)	(67)
Reversed unused	0	0	(24)	0	(24)
Unwinding of discount	0	13	21	0	34
At 31 May 2006	0	2,073	4,414	3,652	10,139

Pensions - The provision is based upon estimates received from the NHS Pensions Agency.

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

Other - Relates to Agenda for Change provision, estimated on the basis of staff already assimilated to those not yet assimilated. The provision is expected to be paid during 2006/07.

Of the total provision of £10.1m, £3.1m is recoverable from Primary Care Trusts.

Excluded from note 16 is a sum of £26.1m (31 March 2006 £24.3m), included within the provisions of the NHS Litigation Authority in respect of clinical negligence liabilities of the Trust.

17. Movements on Reserves

Movements on reserves in the period comprised the following:

	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Other Reserves	Income and Expenditure Reserve	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2006 as previously stated	105,446	16,888	0	0	25,066	147,400
Prior Period Adjustments	0	0	0	0	0	0
At 1 April 2006 as restated	105,446	16,888	0	0	25,066	147,400
Transfer from the Income and Expenditure account	0	0	0	0	1	1
Fixed asset impairments	0	0	0	0	0	0
Surplus on other revaluations/ indexation of fixed assets	23,599	1,080	0	0	0	24,679
Transfer of realised profits/(losses) to the Income and Expenditure reserve	60	0	0	0	(60)	0
Receipt of donated/government granted assets	0	224	20	0	0	244
Transfers to the Income and Expenditure account for depreciation, impairment, and disposal of donated/government granted assets	0	(330)	0	0	0	(330)
Other transfers between reserves	(2,283)	0	0	0	2,283	0
Other movements on reserves	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 May 2006	126,822	17,862	20	0	27,290	171,994

18. Notes to the Cash Flow Statement

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

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Total operating surplus	1,797	11,778
Depreciation and amortisation charge	3,604	18,657
Fixed asset impairments and reversals	0	2,244
Transfer from donated asset reserve	(330)	(1,748)
Transfer from the government grant reserve	0	0
(Increase) in stocks	(363)	(322)
(Increase) / decrease in debtors	(2,495)	3,361
Increase in creditors	3,035	279
Increase in provisions	579	1,575
	<hr/>	<hr/>
Net cash inflow from operating activities before restructuring costs	5,827	35,824
Payments in respect of fundamental reorganisation/restructuring	0	0
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>5,827</u>	<u>35,824</u>

18.2 Reconciliation of net cash flow to movement in net debt

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Increase in cash in the period	3,742	97
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	0	0
	<hr/>	<hr/>
Change in net debt resulting from cashflows	3,742	97
Non - cash changes in debt	0	0
Net debt at 1 April 2006	1,639	1,542
	<hr/>	<hr/>
Net debt at 31 May 2006	<u>5,381</u>	<u>1,639</u>

18.3 Analysis of changes in net debt

	At 1 April 2006	Cash Transferred (to)/from other NHS bodies	Other cash changes in period	Non-cash changes in period	At 31 May 2006
	£000	£000	£000	£000	£000
OPG cash at bank	7,609	0	(2,023)	0	5,586
Commercial cash at bank and in hand	(5,970)	0	5,765	0	(205)
Bank overdraft	0	0	0	0	0
Debt due within one year	0	0	0	0	0
Debt due after one year	0	0	0	0	0
Finance leases	0	0	0	0	0
Current asset investments	0	0	0	0	0
	<u>1,639</u>	<u>0</u>	<u>3,742</u>	<u>0</u>	<u>5,381</u>

The Trust's cashbook reflects an overall year end balance of £5,381k. The OPG account shows a balance of £5,586k and the Commercial bank account is overdrawn by (£205k) representing a cash book balance for cheques raised but not yet presented. The Trust is required to transfer funds to the Commercial account as these cheques are presented.

19. Capital Commitments

Commitments under capital expenditure contracts at 31 May 2006 were £3,266k (31 March 2006 £2,985k).

20. Post Balance Sheet Events

The Trust has been successful in achieving Foundation Trust status, with effect from 1st June 2006. From this date the Trust will be known as The Newcastle upon Tyne Hospitals NHS Foundation Trust.

21. Contingencies

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Contingent liabilities (gross value)	(4,642)	(4,506)
Amounts recoverable against contingent liabilities	0	0
Net value of contingent liabilities	<u>(4,642)</u>	<u>(4,506)</u>

The potential liability for employer's liability, public liability and other legal claims is based upon the potential risk to the Trust, as assessed by respective insurers and advisers. The liability (multiplied by the risk factor) is treated as a provision in Note 16, Provisions for Liabilities and Charges. The balance (being the total, less the risk factor) is reflected as a contingent liability, above.

Contingent liabilities relate to employer's liability £104k (31 March 2006 £113k), public liability £1k (31 March 2006 £2k), and other legal claims £4,537k (31 March 2006 £4,390k).

22. Movement in Public Dividend Capital

	2006/07 (2 months) £000	2005/06 (Full Year) £000
Public Dividend Capital as at 1 April 2006	203,451	222,576
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	0	0
Public Dividend Capital repaid in period	0	(19,125)
Public Dividend Capital repayable (creditor)	0	0
Public Dividend Capital written off	0	0
Public Dividend Capital transferred to Foundation Trust	0	0
Other movements in Public Dividend Capital in period	0	0
Public Dividend Capital as at 31 May 2006	<u>203,451</u>	<u>203,451</u>

23. Financial Performance Targets

23.1 Breakeven Performance

The Trust's breakeven performance for 2006/07 (2 months) is as follows:

	1997/98	1998/99	1999/2000
	£000	£000	£000
Turnover	0	287,825	318,971
Retained surplus for the year / period	0	128	146
Adjustment for:			
- Timing/non-cash impacting distortions	0	0	0
- Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	0	0	0
- 1999/2000 Prior Period Adjustment (relating to 1997/98 and 1998/99)	0	0	0
- 2000/01 Prior Period Adjustment (relating to 1997/98 to 1999/2000)	0	0	0
- 2001/02 Prior Period Adjustment (relating to 1997/98 to 2000/01)	0	0	0
- 2002/03 Prior Period Adjustment (relating to 1997/98 to 2001/02)	0	0	0
- 2003/04 Prior Period Adjustment (relating to 1997/98 to 2002/03)	0	0	0
- 2004/05 Prior Period Adjustment (relating to 1997/98 to 2003/04)	0	0	0
- 2005/06 Prior Period Adjustment (relating to 1997/98 to 2004/05)	0	0	0
Break-even in-year position	0	128	146
Break-even cumulative position	0	128	274
Materiality test (i.e. is it equal to or less than 0.5%):			
- Break-even in-year position as a percentage of turnover	0.0%	0.0%	0.0%
- Break-even cumulative position as a percentage of turnover	0.0%	0.0%	0.1%

2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07 (2 months)
£000	£000	£000	£000	£000	£000	£000
332,014	376,227	428,092	464,516	520,902	558,478	95,604
17	53	130	63	192	234	1
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
0	0	0	0	0	0	0
17	53	130	63	192	234	1
291	344	474	537	729	963	964
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.8%

23.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is normally calculated as the percentage that dividends paid on public dividend capital bears to average relevant net assets. As this is a 2 month accounting period, the resulting percentage is misleading, as no dividends were paid in the 2 months to 31 May 2006 (although £1,945k has been accrued). A pro-rata calculation, based on agreed dividends accrued rather than paid, as a proportion of average relevant net assets of £339,175, would result in an absorption rate of 3.4%.

The variance from 3.5% is within the Department of Health's materiality range of 3.0% to 4.0%.

23.3 External financing

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

	2006/07 (2 months)	2005/06 (Full Year)
£000	£000	£000
External financing limit	(3,742)	(19,222)
Cash flow financing	(3,498)	(18,586)
Finance leases taken out in the period	0	0
Other capital receipts	(244)	(636)
External financing requirement	(3,742)	(19,222)
Undershoot / (overshoot)	<u>0</u>	<u>0</u>

23.4 Capital Resource Limit

The Trust is given a Capital Resource Limit which it is not permitted to overspend.

	2006/07 (2 months)	2005/06 (Full Year)
	£000	£000
Gross capital expenditure	1,038	21,988
Less: book value of assets disposed of	(367)	(16,606)
Plus: loss on disposal of donated assets	0	0
Less: capital grants	(20)	0
Less: donations towards the acquisition of fixed assets	(224)	(637)
Charge against the CRL	427	4,745
Capital resource limit	427	4,829
Underspend against CRL	<u>0</u>	<u>84</u>

24. Related Party Transactions

The Newcastle upon Tyne Hospitals NHS Trust is a body corporate established by order of the Secretary of State for Health.

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

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

Northumberland Tyne and Wear Strategic Health Authority	Hartlepool PCT
Newcastle PCT	Middlesborough PCT
North Tyneside PCT	North Tees PCT
Gateshead PCT	Langbaugh PCT
South Tyneside PCT	Eden Valley PCT
Northumberland Care Trust	Carlisle and district PCT
Sunderland Teaching Primary Care Trust	West Cumbria PCT
Durham and Chester le Street PCT	Selby and York PCT
Easington PCT	Craven, Harrogate and Rural PCT
Derwentside PCT	Scarborough, Whitby and Ryedale PCT
Durham Dales PCT	Hambleton and Richmondshire PCT
Darlington PCT	NHS Litigation Authority
Sedgefield PCT	NHS Logistics Authority

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with the University of Newcastle upon Tyne, in respect 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 Annual Report and Accounts. Other charitable funds were independently controlled and managed by (1) Newcastle Healthcare Charity, some of whom were members of the NHS Trust Board, and (2) a range of independent charities.

25. Private Finance Transactions

25.1 PFI schemes deemed to be off-balance sheet

Amounts included within operating expenses in respect of PFI transactions:

Royal Victoria Infirmary (RVI) Boiler House PFI scheme charges
 Transforming Newcastle Hospitals (TNH) PFI scheme gross charge
 Amortisation of RVI Boiler House PFI scheme deferred asset

2006/07 (2 months) £000	2005/06 (Full Year) £000
672	4,124
120	717
3	17
795	4,858

Charge to operating expenses

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

PFI schemes which expire:

21st to 25th years (inclusive)

35th to 40th years (inclusive)

£000	£000
1,937	1,937
846	846

RVI Boiler House PFI scheme:

Estimated capital value (£'000)

Contract Start date

Contract End date

£6,900
Oct 2002
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 became 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 Trust accounts is a figure of £14k, to take account of the residual interest for two months.

TNH PFI scheme:

Estimated capital value (£'000)

Contract start date

Contract end date

£301,500
May 2005
May 2043

The Transforming Newcastle Hospitals (formerly Newcastle Strategic Review) PFI scheme, for a major service configuration at the Freeman 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 Trust accounts is a figure of £8k, to take account of the residual interest for two months.

The capital construction costs for the TNH scheme is £295 million and this excludes VAT, rolled up interest and financing costs. The 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:

Freeman Multi-Storey Car Park	Apr-2005
Royal Victoria Infirmary Service Duct	Mar-2007
Freeman Renal Centre	May-2008
Freeman Northern Centre for Cancer Treatment	Jul-2008
Royal Victoria Infirmary Levels 1 - 3	Jan-2009
Royal Victoria Infirmary Levels 4 - 6	May-2009
Royal Victoria Infirmary Paediatric Block	Mar-2010
Royal Victoria Infirmary Clinical Support Block	Feb-2011
Royal Victoria Infirmary Refurbishments and External Works	Jul-2013

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

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

26. Pooled Budget

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

100% of the Trust's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. 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:

27.1 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
					%	Years	Years
	£000	£000	£000	£000			
At 31 May 2006							
Sterling	6,495	0	5,381	1,114	4.0%	0	0
Other	0	0	0	0	0.0%	0	0
Gross financial assets	6,495	0	5,381	1,114			
At 31 March 2006 (prior year)							
Sterling	2,744	0	1,639	1,105	4.0%	0	0
Other	0	0	0	0	0.0%	0	0
Gross financial assets	2,744	0	1,639	1,105			

27.2 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
					%	Years	Years
	£000	£000	£000	£000			
At 31 May 2006							
Sterling	(213,590)	0	(10,139)	(203,451)	2.2%	0	0
Other	0	0	0	0	0.0%	0	0
Gross financial liabilities	(213,590)	0	(10,139)	(203,451)			
At 31 March 2006 (prior year)							
Sterling	(212,977)	0	(9,526)	(203,451)	3.5%	0	0
Other	0	0	0	0	0.0%	0	0
Gross financial liabilities	(212,977)	0	(9,526)	(203,451)			

Note: The public dividend capital is of unlimited term.

Foreign Currency Risk

The Trust has no foreign currency income or expenditure.

27.3 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 May 2006.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial Assets			
Cash	5,381	5,381	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	1,114	1,114	note a
Investments	0	0	
Total	<u>6,495</u>	<u>6,495</u>	
Financial Liabilities			
Overdraft	0	0	
Creditors over 1 year:			
- Early retirements	0	0	
- Finance leases	0	0	
Provisions under contract	(10,139)	(10,139)	note b
Loans	0	0	
Public dividend capital *	(203,451)	(203,451)	note c
Total	<u>(213,590)</u>	<u>(213,590)</u>	

Notes

- a. These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with note c, below, 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 should be the full value of PDC in the balance sheet and 'book value' should equal 'fair value'.
- * This figure includes £nil which relates to short-term repayable PDC held by the Trust.

28. Third Party Assets

The Trust held £8k cash at bank and in hand at 31 May 2006 (£8k at 31 March 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.

29. Intra-Government and Other Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government Bodies	11,283	1,114	5,543	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	2,783	0	108	0
Balances with Public Corporations and Trading Funds	1	0	298	0
Balances with bodies external to government	16,461	341	37,125	0
At 31 May 2006	<u>30,528</u>	<u>1,455</u>	<u>43,074</u>	<u>0</u>
Balances with other Central Government Bodies	15,547	1,105	6,484	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	3,383	0	738	0
Balances with Public Corporations and Trading Funds	5	0	361	0
Balances with bodies external to government	9,452	0	32,356	0
At 31 March 2006 (prior year)	<u>28,387</u>	<u>1,105</u>	<u>39,939</u>	<u>0</u>

30. Losses and Special Payments

There were 37 cases of losses and special payments (2005/06, 290 cases) totalling £69k (2005/06, £658k) paid during 2006/07 (2 months).

There were no cases that individually exceeded £250,000 in either 2006/07 (2 months) or 2005/06.

Remuneration Report

This report provides information on remuneration, terms of service and the performance and evaluation of the Chief Executive and Executive Directors.

Remuneration and Terms of Service Committee

The Trust has an established Remuneration and Terms of Service Committee. The purpose of this Committee is to determine and keep under review the pay and terms of service of Directors. The Committee meets annually.

Membership of the Committee

Membership of the Remuneration and Terms of Service Committee is made up of the Chairman (Sir Miles Irving) and two Non-Executive Directors (Councillor D L Wood and Mrs H Parker). The Chief Executive (Mr L R Fenwick) and the Personnel Manager (Mr D Levy) are also in attendance.

Date of the contracts, notice and termination periods

All Executive Directors have a substantive Contract of Employment with agreed notice periods of between 3 and 6 months.

Remuneration and performance conditions

In reviewing the annual salary of Directors, the Committee takes into consideration a number of factors including the overall performance of the organisation as an effective and efficient trading entity, the delivery of agreed corporate objectives for the year and the pattern of remuneration amongst NHS Trusts and the wider NHS.

The Medical Director's salary is in accordance with the terms and conditions of the National Health Service Consultant Contract plus a responsibility allowance payable for the duration of office.

There are no special contractual compensation issues for the early termination of Executive Director Contracts.

All Executive Directors are subject to performance review and this is undertaken by the Chairman and the Chief Executive. Director salaries have no component of performance related pay.

The remuneration for Non-Executive Directors was agreed at a meeting of the Members Council held in shadow form on 19th January 2006. The level of remuneration is paid for a minimum of two and a half days per month for Non Executive Directors.

A table showing the remuneration of Directors and Non-Executive Directors in the 2 months to 31 May 2006 is shown overleaf.

Salary and Pension entitlements of senior managers

a) Remuneration

Name and Title	2006-07 (2 months)			2005-06		
	Salary (bands of £5000)	Other Remuneration (bands of £5000)	Benefits in Kind Rounded to the nearest £100	Salary (bands of £5000)	Other Remuneration (bands of £5000)	Benefits in Kind Rounded to the nearest £100
	£000	£000		£000	£000	
Chairman Sir Miles Irving	0 - 5	0	0	20 - 25	0	0
Chief Executive Mr L R Fenwick	40 - 45	0	0	190 - 195	0	0
Finance Director Mr R B Steven	30 - 35	0	630	125 - 130	0	3,800
Business & Development Director Mr R M Barker	25 - 30	0	0	115 - 120	0	0
Nursing & Patient Services Director Mrs M Hornett (from 11-Jul-05)	20 - 25	0	0	70 - 75	0	0
Medical Director & Consultant Clinical Biochemist Dr M F Laker (<i>to 31-Mar-06</i>)	N/A	N/A	N/A	115 - 120	55 - 60	0
Medical Director Dr T J Walls (<i>from 1-Apr-06</i>)	20 - 25	10 - 15	0	N/A	N/A	N/A
Non Executive Director Professor P H Baylis	0 - 5	0	0	5 - 10	0	0
Non Executive Director Mrs L V J Conlon	0 - 5	0	0	5 - 10	0	0
Non Executive Director Mrs P Dodds	0 - 5	0	0	5 - 10	0	0
Non Executive Director Mr R S Middleton	0 - 5	0	0	5 - 10	0	0
Non Executive Director Mrs H A Parker	0 - 5	0	0	5 - 10	0	0
Non Executive Director Councillor D L Wood	0 - 5	0	0	5 - 10	0	0

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

The remuneration of Dr M F Laker was recharged from Newcastle University in 2005/06. Dr Laker retired as Medical Director with effect from 31 March 2006.

Dr T J Walls was appointed Medical Director with effect from 1 April 2006. The remuneration for Dr Walls is split between the proportion which relates to his position as Medical Director and the proportion which relates to clinical duties.

Salary and Pension entitlements of senior managers (cont.)

b) Pension Benefits

Name and Title	Real increase in pension at age 60*	Lump sum at aged 60 related to real increase in pension*	Total accrued pension at age 60 at 31 May 2006*	Lump sum at age 60 related to accrued pension at 31 May 2006*	Cash Equivalent Transfer Value at 31 May 2006*	Cash Equivalent Transfer Value at 31 March 2006*	Real increase in Cash Equivalent Transfer Value*	Employer's contribution to stakeholder pension*
	(bands of £2500) £000	(bands of £2500) £000	(bands of £5000) £000	(bands of £5000) £000	£000	£000	£000	£000
Chief Executive Mr L R Fenwick	2.5 - 5	12.5 - 15	100 - 105	270 - 275	1,826	1,727	38	0
Finance Director Mr R B Steven	0 - 2.5	2.5 - 5	0 - 5	5 - 10	32	21	8	0
Business & Development Director Mr R M Barker	0 - 2.5	0 - 2.5	30 - 35	100 - 105	452	415	18	0
Nursing & Patient Services Director Mrs M Hornett	2.5 - 5	15 - 17.5	25 - 30	75 - 80	341	269	45	0
Medical Director Dr T J Walls	0 - 2.5	7.5 - 10	50 - 55	160 - 165	890	844	17	0

* 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 the 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.

Mr R B Steven was previously a member of the Scottish NHS Pension scheme and a transfer was in progress into the English NHS Scheme.

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

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 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.

Public Interest Disclosure

The following interests have been declared by the Directors and the Board is satisfied there is no conflict of interest indicated by any of the external involvement.

Chairman and Non-Executive Directors

Chairman Sir Miles Irving	Trustee of Newcastle Healthcare Charity Governor, University of Northumbria at Newcastle Vice Chairman, The Centenary Foundation (Medicine Target Team) Member of Council, University of Newcastle upon Tyne Vice Chairman, Liverpool University Medical Faculty Fund Raising Committee Member, Strategic Advisory Committee, Life Knowledge Park, Newcastle upon Tyne Member, Cochrane Collaboration Infrastructure Committee Chairman, NHS Innovations North Steering Committee
Professor P H Baylis	Trustee of Leech Charitable Trust
Mr R S Middleton	Director, Blagdon Farming Ltd Director, Linebush Ltd Director, The Linebush III Ltd Director, The Linebush IV Ltd Director, The Linebush V Ltd Trustee (Co-opted) of Newcastle Healthcare Charity Director, Alnwick Garden Trust
Mrs P M Dodds	None
Councillor D L Wood	Councillor, City of Newcastle upon Tyne Chairman, Tyne & Wear Passenger Transport Authority (NEXUS)
Mrs L V J Conlon	Director, International Centre for Life Trust Director of International Centre for Life Property Ltd
Mrs H A Parker	Member of Sintons Limited Liability Partnership (Solicitors) Board member of Three Rivers Housing Association Ltd

Executive Directors

Mr L R Fenwick Chief Executive	Vice Chairman and Trustee, St Mary Magdalene & Holy Jesus Trust Chairman and Trustee, Freemen of the City of Newcastle upon Tyne
Mr R B Steven Finance Director	None
Mr R M Barker Business & Development Director	None
Mrs M Hornett Nursing & Patient Services Director	None
Dr T J Walls Medical Director	None



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Royal Victoria Infirmary

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The Dental Hospital

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**Northern Centre for Cancer
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