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## Guy's and St Thomas' NHS Foundation Trust

These accounts, for the nine month period ending March 31 2005, have been prepared by the Guy's and St Thomas' NHS Foundation Trust in accordance with paragraphs 24 and 25 of Schedule 1 to the Health and Social Care (Community Health and Standards) Act 2003.

## Statement of the Accounting Officer's responsibilities

The Health and Social Care (Community Health and Standards) Act 2003 (the Act) designates the Chief Executive of Guy's and St Thomas' NHS Foundation Trust as the Accounting Officer for the organisation. The relevant responsibilities of the Accounting Officer are set out in the Act and in the Accounting Officer's Memorandum issued by Monitor. The essence of the Accounting Officer's role is a responsibility for:

- the propriety and regularity of the public finances for which he is answerable;
- the keeping of proper accounts;
- prudent and economical administration;
- the avoidance of waste and extravagance; and
- the efficient and effective use of all the resources in their charge.

The Accounting Officer's duties include the signing of the NHS Foundation Trust's accounts. By virtue of this duty, the Accounting Officer has the further duty of being responsible to Parliament for the content of these accounts.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in the Accounting Officer Memorandum.



**Sir Jonathan Michael**

Chief Executive and Accounting Officer     June 30 2005

## Statement of Directors' responsibilities in respect of the accounts

Schedule 1, sections 24 and 25 of the Health and Social Care (Community Health and Standards) Act 2003 gives Monitor, the Independent Regulator of NHS Foundation Trusts, with the approval of Treasury, the authority to require that each NHS Foundation Trust prepares a set of accounts for the period from Authorisation until March 31 2005.

Guy's and St Thomas' NHS Foundation Trust was authorised on July 1 2004 and these accounts cover the period from this date until March 31 2005.

These accounts are prepared on an accruals basis and give a true and fair view of the Foundation Trust's gains and losses, cash flows and financial position at the end of the financial year.

In preparing these accounts, the Directors are required to:

- select suitable accounting policies, as described on pages 56 to 59, and then apply them consistently;
- make judgements 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;
- prepare accounts on the going concern basis unless it is inappropriate to presume that the Trust will continue in business.

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 requirement outlined in the above mentioned direction of Monitor. The Directors 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 that they have complied with the above requirements in preparing the accounts.

By order of the Board.



**Sir Jonathan Michael**

Chief Executive

June 30 2005



**Janice Stephens**

Chief Accountant

June 30 2005

Signed in the absence of Martin Shaw, Director of Finance

## Statement on internal control 2004/05

### 1. Scope of responsibility

As Accounting Officer and Chief Executive of this Trust, 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 responsible as set out in the NHS Foundation Trust Accounting Officer Memorandum.

The Guy's and St Thomas' NHS Foundation Trust (The Trust) has a range of mechanisms in place to facilitate effective working with key partners. The Trust is a member of the Lambeth Health and Social Care Partnership Board, the Southwark Partnership Board and the Lambeth and Southwark Chief Executives Group. The Trust also meets regularly on a bi-lateral basis with our key health partners: Lambeth and Southwark PCTs, the South London and Maudsley NHS Trust and King's College Hospital NHS Trust, as well as with King's College London, our principal academic partner. Members of our Members' Council include patients and staff as well as representatives of all our key partners.

The Trust has been subject to Monitor's (the independent regulator for Foundation Trusts) interim monitoring framework since July 1 2004 when it was granted Foundation Trust status. For the 2005/06 financial year the Trust will be subject to Monitor's Compliance Framework which requires an Annual Report, an Annual Plan and quarterly monitoring reports.

### 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 referred to in this statement has been in place since July 1 2004 when the organisation was granted Foundation Trust status up to the year ended March 31 2005 and the date of approval of the annual report and accounts.

### 3. Capacity to handle risk

The Trust has in place a Risk Management Policy and Strategy which makes it clear that while I have overall responsibility for risk management, responsibility for specific risk management areas has been delegated to the Trust Management Executive. Risk management is a core component of the job descriptions of senior management.

A range of risk management training is provided to staff and there are policies in place to describe their roles and responsibilities in relation to the identification and management of risk. All relevant policies are available on the intranet.

The Trust learns from good practice through a range of mechanisms including clinical supervision and reflective practice, individual and peer reviews, performance management, continuing professional development programmes, clinical audit and application of evidence based practice.

### 4. The risk and control framework

The Risk Management Policy and Strategy sets out the key responsibilities for managing risk within the organisation, including the way in which the risk is identified, evaluated and controlled.

A traditional risk assessment matrix is used to ensure a consistent approach is taken to assessing and responding to risks and incidents. All staff are responsible for responding to incidents, hazards, complaints and near misses in accordance with the appropriate policy. Risk groups are responsible for developing and maintaining local risk registers and overseeing the management of adverse incidents. Management teams are responsible for reviewing risk action plans and ensuring they are implemented through business planning and other established routes. The Assurance and Risk and Audit and Financial Performance sub-committees of the Board are responsible for monitoring and reviewing risk processes.

The Trust has a Board Assurance Framework (BAF) which sets out the principal risks to delivery of key priorities and objectives. The risks to achieving these priorities and objectives have been identified and there are actions underway accordingly. The Executive Director with delegated responsibility and accountability for managing and monitoring each individual risk is clearly identified. The BAF identifies the assurances available to the Board in relation to the achievement of the Trust's key priorities and objectives, the principal risks to these objectives and the effectiveness of the operation of key controls. The Board has required the development and implementation of action plans for gaps in control and assurance that the BAF identifies as requiring action. The types of gaps in control include existing capacity, training, policies, procedures and systems. The gaps in assurance include reporting mechanisms, comprehensiveness and data collection methods.

Mechanisms and processes in place for working with partners are used to explore potential risk which may impact upon other organisations and public stakeholders.

### 5. Review of effectiveness

As Accounting 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 assurances from other sources which include external audit and accreditation and patient/staff surveys.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Assurance and Risk sub-committee of the Trust Board of Directors. A plan to ensure continuous improvement of the system is in place.

The Trust Board of Directors has reviewed the Board Assurance Framework twice during 2004/05. It has also reviewed its Board sub-committee structure to enhance lines of reporting and accountability. The Trust Management Executive and the Assurance and sub-committee have provided the Board of Directors with reports on risk management, performance management and clinical governance.

The Audit and Financial Performance sub-committee has provided the Board of Directors with an independent and objective review of financial and corporate governance, and internal financial control within the Trust. The sub-committee has received reports from external and internal audit. Internal audit have reviewed and reported upon control, governance and risk management processes, based on an audit plan approved by the sub-committee. The work included identifying and evaluating controls and testing their effectiveness, in accordance with NHS Internal Audit Standards. Where scope for improvement was found, recommendations were made and appropriate action plans agreed with management.



**Sir Jonathan Michael**

Chief Executive

June 30 2005

# Independent Auditor's report

## to the Board of Governors of Guy's and St Thomas' NHS Foundation Trust

I have audited the financial statements on pages 46 to 74 which have been prepared in accordance with the accounting policies relevant to NHS Foundation Trusts as set out on pages 56 to 59.

This report is made solely to the Board of Governors of Guy's and St Thomas' NHS Foundation Trust as a body in accordance with paragraph 24(5) of Schedule 1 of the Health and Social Care (Community Health and Standards) Act 2003. My work was undertaken so that I might state to the Board of Governors those matters I am required to state to it in an auditor's report and for no other purpose. In those circumstances, to the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Foundation Trust as a body, for my audit work, for the audit report or for the opinions I form.

### Respective responsibilities of Directors and auditor

As described on page 47 the Directors are responsible for the preparation of the financial statements in accordance with directions issued by the Independent Regulator. My responsibilities, as independent auditor, are established by statute and the Audit Code for NHS Foundation Trusts issued by the Independent Regulator and my profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Trust and its income and expenditure for the period, in accordance with the accounting policies directed by the Independent Regulator as being relevant to NHS Foundation Trusts.

I review the Directors' statement on internal control. I report if it does not meet requirements of the NHS Foundation Trust Manual for Accounts 2004/05 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. My review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

I read the information contained in the Annual Report and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

### Basis of audit opinion

I conducted my audit in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and the Audit Code for NHS Foundation Trusts issued by the Independent Regulator, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of Guy's and St Thomas' NHS Foundation Trust as at March 31 2005 and of its income and expenditure for the period then ended in accordance with the accounting policies directed by the Independent Regulator as being relevant to NHS Foundation Trusts.

### Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Health and Social Care (Community Health and Standards) Act 2003 and the Audit Code for NHS Foundation Trusts issued by the Independent Regulator.



**Sue Exton**

District Auditor June 30 2005

1st Floor, Millbank Tower,  
Officer of the Audit Commission  
Millbank, London SW1P 4HQ

# Income and expenditure account

for the nine month period ended March 31 2005

	NOTE	£000
Income from activities	3	327,739
Other operating income	4	128,106
Operating expenses	5-7	<u>(443,740)</u>
<b>OPERATING SURPLUS</b>		<b>12,105</b>
Exceptional item		(1,881)
(Loss) on disposal of fixed assets	8	<u>(226)</u>
<b>SURPLUS BEFORE INTEREST</b>		<b>9,998</b>
Interest receivable		1,060
Interest payable	9	(1)
Other finance costs – unwinding of discount		<u>(350)</u>
<b>SURPLUS FOR THE FINANCIAL YEAR</b>		<b>10,707</b>
Public Dividend Capital dividends payable		<u>(11,315)</u>
<b>RETAINED (DEFICIT) FOR THE YEAR</b>		<b><u>(608)</u></b>

The notes on pages 59 to 74 form part of these accounts.

All income and expenditure is derived from continuing operations.

## EXCEPTIONAL ITEM

The exceptional item of £1.9 million relates to a loss on revaluation, which is as a result of a revaluation of Trust assets. This is a non-cash adjustment and so the Trust's overall financial position is consistent with delivering a surplus of £1.3 million for nine months. (Refer to next page for further detail).

## Note to the Income and Expenditure Account for the nine month period ended March 31 2005

	£000
Retained (deficit) for the year	(608)
Financial support included in retained (deficit) for the year – NHS Bank	–
Financial support included in retained (deficit) for the year – internally generated	–
<b>Retained (deficit) for the year excluding financial support</b>	<b>(608)</b>

### Exceptional item

This note sets out the underlying surplus of Guy's and St Thomas' NHS Foundation Trust after removing the impact of the impairment charge to the Income and Expenditure Account.

The impairment that has been charged to the Income and Expenditure Account relates to six building assets that were devalued by the District Valuer. The devaluation charge for an asset can only be charged to the revaluation reserve until the credit balance in respect of that asset in the revaluation reserve is used up, after which it needs to be recognised in the Income and Expenditure Account.

This impairment charge follows the accounting treatment required in the NHS Foundation Trust Manual for Accounts which is in line with Financial Reporting Standard 11: Impairment of Fixed Assets and Goodwill. Previously, under NHS Trust accounting rules this charge would have been made to the revaluation reserve and would not have any impact on the Income and Expenditure Account. The impairment charge, and the resultant change in the reported Income and Expenditure Account, is the result of following FRS 11 and professional valuation rules, rather than the operational decisions of the Board of the NHS Foundation Trust. The adjustment does not have a cash impact on the year.

This issue has been treated as an exceptional item as it has arisen from a change in accounting practice of the new Foundation Trust regime and because it has had the effect of turning a surplus for the period into a deficit.

	£000
Result for the year	(608)
Impairment charged to the Income and Expenditure Account	1,881
<b>Underlying surplus</b>	<b>1,273</b>

# Balance sheet

as at March 31 2005

	NOTE	£000	£000
<b>FIXED ASSETS</b>			
Intangible assets	10	995	
Tangible assets	11	<u>697,817</u>	
			698,812
<b>CURRENT ASSETS</b>			
Stocks and work in progress	12	9,545	
Debtors: Amounts falling due:			
within one year	13	60,278	
after one year	13	1,042	
Cash at bank and in hand	18.3	<u>18,478</u>	
			89,343
<b>CREDITORS:</b>			
Amounts falling due within one year	14		<u>(81,311)</u>
<b>NET CURRENT ASSETS</b>			8,032
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>706,844</u>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	15		<u>(9,311)</u>
<b>TOTAL ASSETS EMPLOYED</b>			<u>697,533</u>
<b>FINANCED BY:</b>			
<b>TAXPAYERS' EQUITY</b>			
Public Dividend Capital	22		283,982
Revaluation reserve	17		198,004
Donated asset reserve	17		220,568
Government grant reserve	17		643
Other reserves	17		743
Income and expenditure reserve	17		(6,407)
<b>TOTAL TAXPAYERS EQUITY</b>			<u>697,533</u>

Sir Jonathan Michael

Chief Executive

June 30 2005

# Statement of total recognised gains and losses

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for the nine month period ended March 31 2005

	£000
Surplus for the financial year before dividend payments	10,707
Fixed asset impairment losses	–
Unrealised surplus on fixed asset revaluations/indexation	40,446
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	9,748
Reductions in the donated asset and government grant reserve due to the depreciation, impairment and disposal of donated and government grant financed assets	(4,315)
<b>Total gains and losses recognised in the financial year</b>	<b>56,586</b>

# Cash flow statement

for the nine month period ended March 31 2005

	NOTE	£000	£000
<b>OPERATING ACTIVITIES</b>			
Net cash inflow from operating activities	18.1		47,240
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:</b>			
Interest received		1,009	
<b>Net cash inflow from returns on investments and servicing of finance</b>			1,009
<b>CAPITAL EXPENDITURE</b>			
(Payments) to acquire tangible fixed assets		(26,183)	
Receipts from sale of tangible fixed assets		9	
(Payments) to acquire intangible assets		(442)	
<b>Net cash (outflow) from capital expenditure</b>			(26,616)
<b>DIVIDEND PAID</b>			(15,087)
<b>Net cash inflow before management of liquid resources and financing</b>			6,546
<b>FINANCING</b>			
Public Dividend Capital received		6,000	
Other capital receipts		2,752	
<b>Net cash inflow from financing</b>			8,752
<b>Increase in cash</b>			15,298

## NOTES TO THE ACCOUNTS

### 1. Accounting policies

Monitor has directed that the financial statements of NHS Foundation Trusts shall meet the accounting requirements of the NHS Foundation Trusts' Manual for Accounts which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2004/05 NHS Foundation Trusts' Manual for Accounts issued by Monitor. 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. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. NHS Foundation Trusts, in compliance with the Resource Accounting Manual, are not required to comply with the FRS 3 requirements to report 'earnings per share' or historical profits and losses.

#### 1.2 Acquisitions and discontinued operations

Activities are considered to be 'discontinued' where they meet all of the following conditions:

- a) The sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- b) If a termination, the former activities have ceased permanently.
- c) The sale or termination has a material effect on the nature and focus of the reporting NHS Foundation Trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the NHS Foundation Trust's continuing operations.
- d) The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

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

#### 1.3 Income recognition

Income is accounted for applying the accruals convention. The main source of income for the Trust is under contracts from commissioners in respect of healthcare services. Income

is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

#### 1.4 Pooled budgets

The Trust has entered into a pooled budget with the London Borough of Lambeth. Under the arrangement funds are pooled under S31 of the Health Act 1999. The NHS Foundation Trust accounts for its own share of the pooled budget's income and expenditure and assets and liabilities as the pooled budget is not an entity in its own right.

#### 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. 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

##### i. Capitalisation

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

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

Expenditure on digital hearing aids in the year ended March 31 2004 (but not in earlier years) was treated as capital expenditure, in accordance with the amendment to the Capital Accounting Manual issued in July 2003, giving rise to an increase in fixed assets regardless of the cost of the individual hearing aids. Subsequent purchases of digital hearing aids are capitalised only when the total value is greater than £5,000. Where small numbers of appliances are purchased the costs are expensed as incurred.

##### ii. Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are



measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years. A three year interim revaluation is also carried out.

Professional valuations are carried out by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual 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 April 1 2005 and were applied on the March 31 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 impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. If the balance on the revaluation reserve is less than the impairment the difference is taken to the Income and Expenditure Account.

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

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.

### **iii. 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.

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

## **1.7 Investments**

Investments in subsidiary undertakings, associates and joint ventures are treated as fixed asset investments and valued at cost less any amounts written off.

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 cash flow statement.

## **1.8 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.

## **1.9 Government grants**

Government grants are grants from Government bodies other than income from Primary Care Trusts or NHS Trusts for the provision of services. Grants from the Department of Health, including those for achieving three star status, are accounted for as Government grants. Where the Government grant is used to fund revenue expenditure it is taken to the income and expenditure account to match that expenditure. Where the grant is used to fund capital expenditure the grant is taken to the Government Grant Reserve and released to the Income and Expenditure Account over the life of the asset on a basis consistent with the depreciation charge for that asset.

## **1.10 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 note to FRS 5.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the Trust has contributed land and buildings, a prepayment for their fair value is recognised and amortised over the life of the

PFI contract by charge to the Income and Expenditure Account. Where, at the end of the PFI contract, a property reverts to the Trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

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

### 1.11 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.

### 1.12 Research and development

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

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

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. The NHS Foundation Trust is 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.

### 1.13 Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of

money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5 per cent in real terms.

#### i. Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS Foundation 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 NHS Foundation Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the NHS Foundation Trust is disclosed at note 15.

#### ii. 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 the liability arises.

### 1.14 Pension costs

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

The Scheme is subject to a full valuation every four years by the Government Actuary. The last published valuation relates to the period April 1 1994 to March 31 1999. The valuation as at March 31 2003 has not yet been published. 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. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period April 1 1994 to March 31 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis.

Employers' pension cost contributions are charged to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation on which contributions rates were rebased (March 31 1999) employer contribution rates from 2003/04 were set at 14 per cent of pensionable pay. Employees pay contributions of 6 per cent (manual staff 5 per cent) of their pensionable pay.

The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three 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 September 30 in the previous calendar year. On death, a pension of 50 per cent 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 year pensionable pay for death in service, and up to five times their annual pension for death after retirement, is payable.

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 employees can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the Income and Expenditure Account at the time the Trust commits itself to the retirement, regardless of the method of payment.

### 1.15 Value Added Tax

Most of the activities of the NHS Foundation 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 tax is recoverable, the amounts are stated net of VAT.

### 1.16 Foreign exchange

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

### 1.17 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 26 to the accounts.

### 1.18 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS Foundation Trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the

finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

### 1.19 Dividend

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 per cent) on the forecast average carrying amount of all assets less liabilities, except for assets in the course of construction, donated assets and cash with the Office of the Paymaster General. A note to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

### 1.20 Other reserves

The Other Reserves balance of £743,000 was created by a technical accounting adjustment when the original NHS Trust was created in 1993.

## 2. Segmental analysis

The Trust has not reported the results of the different segments of its activities separately. It is the opinion of the Directors that this would be seriously prejudicial to the interests of both the Trust and its related parties.

## 3. Income from activities

### 3.1 Income from activities

	£000
Strategic Health Authorities	2
NHS Trusts	236
Primary Care Trusts	308,203
Local Authorities	150
Department of Health	9,964
Non NHS:	
– Private patients	7,692
– Overseas patients (non-reciprocal)	656
– Road Traffic Act	537
– Other	299
	<b>327,739</b>

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

### 3.2 Private patient income

	9 months 2004/05 £000	2002/03 £000
Private patient income	7,692	9,591
Total patient related income	327,739	333,962
Proportion as a percentage	2.35%	2.87%

Section 15 of the 2003 Act requires that the proportion of private patient income to the total patient related income of NHS Foundation Trusts should not exceed its proportion whilst the body was an NHS Trust in 2002/03.

## 4. Other operating income

	£000
Education, training and research	65,945
Charitable and other contributions to expenditure	3,431
Transfers from donated asset reserve	4,298
Transfers from Government grant reserve	17
Non-patient care services to other bodies	12,778
Other income	41,637
	<b>128,106</b>

Other income includes income from commercial activities, transitional funding, facilities income, foreign currency gains (£169,619) and other direct credits.

## 5. Operating expenses

### 5.1 Operating expenses comprise:

	£000
Services from other NHS Trusts	1,100
Services from other NHS bodies	4,224
Services from NHS Foundation Trusts	10
Purchase of healthcare from non NHS bodies	1,910
Directors' costs	859
Staff costs	261,012
Supplies and services – clinical	88,191
Supplies and services – general	4,863
Establishment	5,301
Transport	3,828
Premises	19,625
Bad debts	880
Depreciation and amortisation	19,272
Audit fees	159
Other auditor's remuneration	–
Clinical negligence	3,036
Other	29,470
	<hr/>
	443,740

Other operating expenses include expenditure on commercial activities, training and legal fees.

### 5.2 Operating leases

#### 5.2.1 Operating expenses include:

	£000
Hire of plant and machinery	139
Other operating lease rentals	2,228
	<hr/>
	2,367

#### 5.2.2 Annual commitments under non-cancellable operating leases are:

	Land and buildings £000	Other leases £000
<b>Operating leases which expire:</b>		
Between 1 and 5 years	1,228	803
After 5 years	212	971
	<hr/>	<hr/>
	1,440	1,774

## 5.3 Salary and pension entitlements of senior managers

### A) Remuneration

		July 1 2004 - March 31 2005		
Name	Title	Salary £000	Other remuneration £000	Benefits in kind rounded to the nearest £100
Executive Directors				
D. Ariotti	Director of Delivery	120	–	–
E. Baker	Joint Director of Clinical Leadership and Medical Director	36	124	–
C. Geddes	Acting Director of Nursing (from July 1 2004 to September 31 2004)	14	–	–
T. Higginson	Director of Strategy and Policy	88	–	–
S. McGuire	Director of Capital, Estates and Facilities Management	93	–	–
J. Michael	Chief Executive	166	–	–
C. Miller	Acting Director of Nursing (from October 1 2004 to January 30 2005)	29	–	–
M. Shaw	Director of Finance	103	–	–
E. Sills	Joint Director of Clinical Leadership and Chief Nurse (from Jan 31 2005)	19	–	–
Non-Executive Directors				
D. Hill	Non-Executive Director	4	–	–
R. Lechler	Vice-Chairman (from November 24 2004)	2	–	–
R. Maw	Non-Executive Director (from March 9 2005)	0	–	–
P. Moberly	Chairman	17	–	–
J. Oliver	Non-Executive Director	4	–	–
K. Palmer	Non-Executive Director	4	–	–
A. Tapsell	Non-Executive Director	4	–	–
D. Williams	Vice-Chairman (until November 23 2004)	2	–	–

## B) Pension benefits

Name	Title	Real increase in pension and related lump sum at age 60	Total accrued pension and related lump sum at age 60 at March 31 2005	Cash Equivalent Transfer Value at March 31 2005	Real increase in Cash Equivalent Transfer Value
		£000	£000	£000	£000
<b>D. Ariotti</b>	Director of Delivery	**	**	**	**
<b>E. Baker</b>	Joint Director of Clinical Leadership and Medical Director	*	*	*	*
<b>C. Geddes</b>	Acting Director of Nursing (from July 1 2004 to September 31 2004)	**	**	**	**
<b>T. Higginson</b>	Director of Strategy and Policy	17	118	420	82
<b>S. McGuire</b>	Director of Capital, Estates and Facilities Management	5	63	203	21
<b>J. Michael</b>	Chief Executive	**	**	**	**
<b>C. Miller</b>	Acting Director of Nursing (from October 1 2004 to January 30 2005)	**	**	**	**
<b>M. Shaw</b>	Director of Finance	17	153	556	75
<b>E. Sills</b>	Joint Director of Clinical Leadership and Chief Nurse (from January 31 2005)	**	**	**	**

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

\* The current Joint Director of Clinical Leadership and Medical Director is recharged to the Trust from King's College Medical School, and therefore is not a member of the NHS Pension Scheme.

\*\* Consent to disclose withheld

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

## 6. Staff costs and numbers

### 6.1 Staff costs

	Total	Permanently employed	Other
	£000	£000	£000
Salaries and wages	203,660	203,660	–
Social Security costs	17,298	17,298	–
Employer contributions to NHSPA	20,570	20,570	–
Agency and contract staff	20,281	–	20,281
Seconded staff	14	–	14
	<b>261,823</b>	<b>241,528</b>	<b>20,295</b>

### 6.2 Average number of persons employed

	Total number	Permanently employed number	Other number
Medical and dental	1,047	1,034	13
Administration and estates	2,035	1,823	212
Healthcare assistants and other support staff	838	641	197
Nursing, midwifery and health visiting staff	2,579	2,442	137
Nursing, midwifery and health visiting learners	569	545	24
Scientific, therapeutic and technical staff	1,483	1,371	112
	<b>8,551</b>	<b>7,856</b>	<b>695</b>

### 6.3 Management costs

	£000
Management costs	15,820
Income	455,623
Management costs as a percentage	3.47%

Management costs are defined as those on the management costs website at [www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSManagementCosts/fs/en](http://www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSManagementCosts/fs/en).

### 6.4 Retirements due to ill-health

During the last nine months of 2004/05 there were eight early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £393,842. 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

	Number	£000
Total bills paid in the year	121,590	269,988
Total bills paid within target	97,672	224,337
Percentage of bills paid within target	80%	83%

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

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

	£000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	1

## 8. (Loss) on disposal of fixed assets

Loss on the disposal of fixed assets is made up as follows:	£000
Loss on disposal of plant and equipment	(226)
	<hr/>
	(226)

## 9. Interest payable

	£000
Other	1
	<hr/>
	1

## 10. Intangible fixed assets

	Software licences £000
Gross cost transferred in from NHS Trust	1,546
Additions purchased	188
Additions donated	253
<b>Gross cost at March 31 2005</b>	<b>1,987</b>
Amortisation transferred in from NHS Trust	668
Provided during the year	324
<b>Amortisation at March 31 2005</b>	<b>992</b>
<b>Net book value</b>	
– Purchased assets transferred in from NHS Trust	608
– Donated assets transferred in from NHS Trust	270
<b>– Total at July 1 2004</b>	<b>878</b>
– Purchased at March 31 2005	552
– Donated at March 31 2005	443
<b>– Total at March 31 2005</b>	<b>995</b>

# 11. Tangible fixed assets

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

	Land	Buildings excluding dwellings	Assets under construction	Plant and machinery	Transport equipment	Information Technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Gross cost transferred in from NHS Trust	70,104	493,498	58,996	114,066	124	12,424	1,377	750,589
Additions purchased	–	8,176	1,489	6,037	5	3,405	–	19,112
Additions donated	–	1,915	4,710	768	–	466	–	7,859
Additions Government granted	–	1,300	311	–	–	–	–	1,611
Reclassifications	3,404	117	(3,526)	–	–	5	–	–
Other in year revaluation	–	(68)	–	–	–	–	–	(68)
Disposals	–	–	–	(14,976)	(7)	(1,894)	–	(16,877)
National Revaluation Exercise	25,705	12,929	–	–	–	–	–	38,634
<b>At March 31 2005</b>	<b>99,213</b>	<b>517,867</b>	<b>61,980</b>	<b>105,895</b>	<b>122</b>	<b>14,406</b>	<b>1,377</b>	<b>800,860</b>
Depreciation transferred in from NHS Trust	–	–	–	90,658	103	9,169	807	100,737
Provided during the year	–	13,580	–	4,264	8	997	99	18,948
Disposals	–	–	–	(14,745)	(6)	(1,891)	–	(16,642)
<b>Depreciation at March 31 2005</b>	<b>–</b>	<b>13,580</b>	<b>–</b>	<b>80,177</b>	<b>105</b>	<b>8,275</b>	<b>906</b>	<b>103,043</b>
<b>Net book value</b>								
– Purchased assets transferred in	39,386	377,735	12,422	16,755	19	2,883	534	449,734
– Donated assets transferred in	30,718	115,100	46,574	6,653	2	372	36	199,455
– Government granted assets transferred in	–	663	–	–	–	–	–	663
<b>Total at July 1 2004</b>	<b>70,104</b>	<b>493,498</b>	<b>58,996</b>	<b>23,408</b>	<b>21</b>	<b>3,255</b>	<b>570</b>	<b>649,852</b>
– Purchased	59,113	382,321	10,429	19,289	17	5,438	442	477,049
– Donated	40,100	121,634	51,240	6,429	–	693	29	220,125
– Government granted	–	332	311	–	–	–	–	643
<b>Total at March 31 2005</b>	<b>99,213</b>	<b>504,287</b>	<b>61,980</b>	<b>25,718</b>	<b>17</b>	<b>6,131</b>	<b>471</b>	<b>697,817</b>

### 11.1 Tangible Fixed Assets (continued)

Of the totals at March 31 2005, none of the assets were valued at open market value, but in line with valuation methods set out in Note 1.5 (ii) above.

### 11.2 The net book value of land, buildings and dwellings at March 31 2005 comprises:

	Total £000	Protected £000	Unprotected £000
Freehold	603,500	590,271	13,229
	<b>603,500</b>	<b>590,271</b>	<b>13,229</b>

## 12. Stock and work in progress

	£000
Raw materials and consumables	9,545
	<b>9,545</b>

## 13. Debtors

	£000
<b>Amounts falling due within one year:</b>	
NHS debtors	14,78
Provision for irrecoverable debts	(3,678)
Other prepayments and accrued income	10,023
Other debtors	39,145
	<b>60,278</b>
<b>Amounts falling due after more than one year:</b>	
NHS debtors	430
Other debtors	612
	<b>1,042</b>
	<b>61,320</b>

## 14. Creditors

### 14.1 Creditors at the balance sheet date are made up of:

	£000
<b>Amounts falling due within one year:</b>	
Payments received on account	216
NHS creditors	8,568
Non-NHS other creditors	18,163
Tax and social security costs	11,451
Accruals and deferred income	42,913
	<hr/>
	81,311

NHS creditors include £3,511,536 outstanding pensions contributions at March 31 2005.

## 15. Provisions for liabilities and charges

	Pensions relating to other staff £000	Legal claims £000	Injury benefit £000	Total £000
Transferred from NHS Trust	9,211	319	432	9,962
Arising during the year	179	255	21	455
Utilised during the year	(533)	(30)	(16)	(579)
Reversed unused	(655)	(222)	–	(877)
Unwinding of discount	335	–	15	350
<b>At March 31 2005</b>	<hr/> <b>8,537</b>	<hr/> <b>322</b>	<hr/> <b>452</b>	<hr/> <b>9,311</b>

### Expected timing of cashflows:

Within one year	733	322	22	1,077
Between one and five years	3,310	–	95	3,405
After five years	4,494	–	335	4,829

The provision relating to other staff category consists of provisions for pre-1995 early retirements and has been calculated using information provided by the NHS Pensions Agency.

£15,560,770 is included in the provisions of the NHS Litigation Authority at March 31 2005 in respect of clinical negligence liabilities of the Foundation Trust.

## 16. Movements in taxpayers' equity

	£000
Surplus for the financial year	10,707
Public Dividend Capital dividends paid	(11,315)
Gains from revaluation of purchased fixed assets	40,446
New Public Dividend Capital	6,000
Public Dividend Capital due	1,632
Transfers from the donated asset reserve	3,839
Additions to the Government grant reserve	1,594
	<hr/>
Net addition to taxpayers' equity	52,903
Opening taxpayers' equity transferred from NHS Trust	644,630
	<hr/>
<b>Closing taxpayers' equity</b>	<b>697,533</b>

## 17. Movements on reserves

Movements on reserves in the year comprised the following:

	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Other Reserves	Income and Expenditure Reserve	Total
	£000	£000	£000	£000	£000	£000
Reserves transferred from NHS Trust	176,080	199,725	663	743	(8,931)	<b>368,280</b>
Transfer from the income and expenditure account	–	–	–	–	(608)	<b>(608)</b>
Surplus on other revaluations	25,056	17,004	(1,614)	–	–	<b>40,446</b>
Receipt of donated/Government granted assets	–	8,137	1,611	–	–	<b>9,748</b>
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated/Government granted assets	–	(4,298)	(17)	–	–	<b>(4,315)</b>
Other transfers between reserves	(3,132)	–	–	–	3,132	–
<b>At March 31 2005</b>	<b>198,004</b>	<b>220,568</b>	<b>643</b>	<b>743</b>	<b>(6,407)</b>	<b>413,551</b>

## 18. Notes to the cash flow statement

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

	£000
Total operating surplus	12,105
Depreciation and amortisation charge	19,272
Fixed asset impairments and reversals	–
Transfer from donated asset reserve	(4,298)
Transfer from the Government grant reserve	(17)
(Increase) in stocks	(1,055)
Decrease in debtors	14,223
Increase in creditors	7,662
(Decrease) in provisions	(652)
	<hr/>
Net cash inflow from operating activities before restructuring costs	47,240
Exceptional item	–
	<hr/>
<b>Net cash inflow from operating activities</b>	<b>47,240</b>

### 18.2 Reconciliation of net cash flow to movement in net debt

	£000
Increase in cash in the period	15,298
	<hr/>
Change in net debt resulting from cashflows	15,298
Non cash changes in net debt	436
Net debt transferred from NHS Trust	2,744
	<hr/>
<b>Net debt at March 31 2005</b>	<b>18,478</b>

### 18.3 Analysis of changes in net debt

	Cash transferred from NHS Trust	Cash changes in year	Non-cash changes in year	At March 31 2005
	£000	£000	£000	£000
OPG cash at bank	2,363	516	–	2,879
Commercial cash at bank and in hand	817	14,782	–	15,599
Debt due within one year	(436)	–	436	–
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>2,744</b>	<b>15,298</b>	<b>436</b>	<b>18,478</b>

## 19. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £2,416,255.

## 20. Post balance sheet events

From April 1 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5 per cent to 2.2 per cent. This change will result in an increase in our provisions of £66,748 which will be charged to the Income and Expenditure Account in 2005/06. National funding of NHS commissioners will be increased by the total estimated effect to offset this charge.

## 21. Contingencies

	£000
Contingent liability relating to those staff that are currently on local rather than national contracts and who consequently have the choice of moving on to an Agenda for Change contract during 2005/06	1,177
Contingent liability for other claims against the Trust	216
Amounts expected to be recovered from the Liabilities to Third Parties Scheme	–
Net contingent liability	<u>1,393</u>

## 22. Public Dividend Capital divided

The Foundation Trust is required to demonstrate that the Public Dividend Capital (PDC) dividend paid is in line with the forecast rate of 3.5 per cent of average relevant net assets. The equivalent rate of performance for this 9 month period is 2.63 per cent, with a materiality range of 2.25 per cent to 3.0 per cent. The dividend paid for this nine month period of account was £11,315,000 and, based on the average relevant net assets of £438,052,000, the Foundation Trust's performance was 2.58 per cent. This level of performance is within the materiality range set.

## 23. Financial performance targets

The following information relates to the Prudential Borrowing Limit (PBL) with which Guy's and St Thomas' NHS Foundation Trust is required to comply.

- A) The Foundation Trust had no long term borrowing at March 31 2005.
- B) The Dividend Cover ratio is 2.70.

## 24. Related party transactions

Guy's and St Thomas' NHS Foundation Trust is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year Guy's and St Thomas' NHS Foundation Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. The main local commissioners are Lambeth PCT, Southwark PCT and Lewisham PCT from whom the Trust received £142,131,577 for health care contracts. Additionally the Trust has transacted with a large number of other PCTs and NHS Trusts as well as the NHS Litigation Authority and NHS Logistics.

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. £22,552,556 has been received from the Ministry of Defence for health services supplied. There were also many transactions with King's College London. The Trust received £1,048,837 from the Foreign and Commonwealth Office for occupational health and other services.

The Trust has also received revenue and capital payments from a number of charitable funds, principally the Guy's and St Thomas' Charity. Keith Palmer (Non-Executive Director) acts as a Trustee for Guy's and St Thomas' Charity.

Aside from these transactions none of the other Board Members, the Foundation Trust's Governors, members of the key management staff or parties related to them have undertaken any material transactions with Guy's and St Thomas' NHS Foundation Trust.

## 25. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Foundation Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, the NHS Foundation 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 NHS Foundation Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Foundation 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 NHS Foundation 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. Guy's and St Thomas' NHS Foundation Trust is not, therefore, exposed to significant liquidity risks.

## Interest rate risk

100 per cent of the Trust's financial assets and 100 per cent of its financial liabilities carry nil or fixed rates of interest. Guy's and St Thomas' NHS Foundation 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:

## 25.1 Financial assets

Currency	Total £000	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Fixed rate	Non-interest bearing
					Weighted average interest rate %	Weighted average period for which fixed Years
At July 1 2004						
Sterling	17,630	17,172	430	28	3.5%	24
Other	1,278	1,217	–	61	0%	0
Gross financial assets	18,908	18,389	430	89		

## 25.2 Financial liabilities

Currency	Total £000	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Fixed rate	Non-interest bearing	
					Weighted average interest rate %	Weighted average period for which fixed Years	Weighted average term Years
At March 31 2005							
Sterling	293,293	–	9,311	283,982	3.5%	12	–
Other	–	–	–	–	0%	0	–
Gross financial liabilities	293,293	–	9,311	283,982			

Note: The Public Dividend Capital is of unlimited term.

## Foreign currency risk

The Trust takes measures to minimise all foreign currency risk. The Trust has no significant foreign currency risk.

## 25.3 Fair values

Set out below is a comparison, by category, of book values and fair values of the NHS Trust's financial assets and liabilities as at March 31 2005.

	Book value	Fair value	Basis of fair valuation
	£000	£000	
<b>Financial assets</b>			
Cash	18,478	18,478	
Debtors over one year:			
– Agreements with commissioners to cover creditors and provisions	430	430	Note a
	<b>18,908</b>	<b>18,908</b>	
<b>Financial liabilities</b>			
Provisions under contract	(9,311)	(9,311)	Note b
Public Dividend Capital	(283,982)	(283,982)	Note c
	<b>(293,293)</b>	<b>(293,293)</b>	

- a These debtors reflect agreements with commissioners to cover creditors over one year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with notes b and 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 3.5 per cent 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'.

## 26. Third party assets

The Trust held £15,536.89 cash at bank and in hand at March 31 2005 which relates to monies held by the NHS Foundation Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

## 27. Losses and special payments

There were 865 cases of losses and special payments totalling £494,568 approved during the nine months to March 31 2005.

Guy's and St Thomas' NHS Foundation Trust's Annual Report is produced by the communications department. The team also produces:

**South of the River** – a quarterly magazine for the local community.

**People** – a monthly magazine for Trust staff.

**In Touch** – a quarterly magazine for primary care partners.

**[www.guysandstthomas.nhs.uk](http://www.guysandstthomas.nhs.uk)** the website of the Trust.

If you have a media enquiry, require further information about our hospitals, or would like a copy of South of the River or In Touch, please contact:

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