Ashford and St. Peter's Hospitals NHS
NHS Trust

ANNUAL ACCOUNTS

2005/06

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

DIRECTORS' STATEMENT

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

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

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

G Douglas
Chief Executive
Ashford and St. Peter's Hospitals NHS Trust
5 July 2006

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

DIRECTORS' STATEMENT

Statement of Directors' responsibilities in respect of the Accounts

The Directors are required under the National Health Services 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 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.

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 that they have complied with the above requirements in preparing the Accounts.

By order of the Board

G Douglas
Chief Executive
Ashford and St. Peter's Hospitals NHS Trust
5 July 2006

K Mansfield
Director of Finance
Ashford and St. Peter's Hospitals NHS Trust
5 July 2006

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

DIRECTORS' STATEMENT ON INTERNAL CONTROL 2005/06

Statement of Directors' responsibility in respect of internal control

1. Scope of responsibility

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

Scrutiny by the Non Executive Directors and Auditors in the Audit Committee and by the Non Executive Directors in the Remuneration Committee provides assurance of internal control including probity in the application of public funds and in the conduct of the organisation's responsibilities. Minutes and reports from these Committees are reviewed in the Board meetings in public.

The Governance Advisory Committee together with the Clinical Governance (and Non Clinical Risk) Committee provide evidence of continuing work to ensure that the overall governance system, risk management system, clinical governance system, education and training needs and the information management and technological requirements that enable the organisation to work, are actively addressed.

The Trust's risk management system supports staff in continuously improving their assessments of the risks inherent in their work and workplace, to identify and implement appropriate risk treatments, and monitor their outcome.

All risks are reported to the Clinical Governance & Non Clinical Risk Committees and to the Senior Management Team. High-level risks are reported to the Governance Advisory Committee and the Board.

The processes in place by which the accountability arrangements surrounding my role include the following:

- National CEO Conference
- Monthly SHA CEO meeting
- Annual SHA CEO to CEO meeting
- Annual Performance Monitoring meeting with SHA/PCT
- Quarterly Performance Monitoring meeting with the PCT
- Joint meetings with the (PCT's)
- Regular Chief Executive to Chief Executive meetings with the PCT (and with Assistant Director of Social Services)
- Regular meetings with the Ashford and St. Peter's Hospitals Patients' Panel

<u>Working with the Local Health Economy</u>

As Accountable Officer I am committed to ensuring the integrity of the system of internal control and I am fully supported by the Board and the Executive Team in this endeavour. As noted elsewhere in this statement, I believe that our controls are robust over those matters on which we enjoy powers of management decision-making.

However, although the Trust is a vital element in the health economy, it is by no means the only decision-making body in a health service in which power has been devolved and placed in the hands of patients and their general practitioners as a matter of public policy, so as to place patients and their representatives at the centre of events.

Also, the Trust operates in a service that is free at the point of need and in which demand is governed by the occurrences of patients presenting to their general practitioners and by the subsequent patterns of referrals and treatments initiated by the general practitioners.

In this business environment the Trust does not enjoy ultimate control over costs and it is apparent that at the inception of the legislation that founded the primary care trusts it was not intended that we should. We have to respond to demand that is created outside our span of control.

Although we cannot control demand we have sought to attain a proper degree of influence over it. When establishing our risk register we recognised the issue from the outset. We have established plans for demand management and have forecast, monitored and warned of patterns and escalation.

As our Board and Executive Team have kept this key risk under continuous review as part of risk management, our executive Board members have put in place measures to influence the other decision makers in the health economy, for example by reporting fully to PCTs the costs of the treatments that we have been asked to provide and by continuously challenging vigorously and constructively our costs, both of payroll and services that we provide and also of bought-in goods and services.

Our non-executive Board members have maintained a vigilant scrutiny over the patterns of referrals and treatments requested from us by the PCTs and have provided helpful advice and support to the executive. We monitor leading indicators of demand and although these are imprecise in money terms they are compelling in their implications; the acute hospitals have suffered winter pressures for far longer again this year than has been the case in the previous years, with heavy pressures on beds well beyond the end of March rather than to mid-February.

We are working with the other decision-makers in the health economy to improve the quality and speed of the reporting patterns and so of the reporting of costs of demand and are vitally dependent in this on their co-operation, as demand manifests first in surgeries and other clinical settings that are not managed by us.

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.

In accordance with DoH Gateway Approval Number 6317 dated 7 April 2006 re the 2005/06 Statement of Internal Control (SIC) Disclosures, I can report with regard to those core financial and operational systems operated by the Trust that:

- the system of internal control has been in place in Ashford and St. Peter's Hospitals NHS Trust for the year ended 31 March 2006.

but with respect to the Assurance Framework I report that

- although the systems of internal control have been in place in Ashford and St. Peter's Hospitals NHS Trust for the year ended 31 March 2006, the Board have not yet approved the formal Assurance Framework document. This will be remedied by 30 June 2006.

I would state however, that significant in-roads were made in managing the risks faced by the Trust over the 12-month period ending 31 March 2006 despite the absence of an overarching Assurance Framework document. All the component parts were in place together with a workable structure bringing risk and assurance together at the Governance Advisory Committee. The evidence for my conclusion is based upon the following:

- The establishment of a Business Continuity Group
- The completion of the mapping of the three national governance standards (Controls Assurance/Standards for Better Health/Risk Management Standards)
- The on-going reviews of the Risk Register with operational staff and general management
- Active consideration of any non-clinical and clinical grade 3 and grade 4 incidents
- Review of financial claims made on the Trust
- The outcomes of the deliberations of the following:
  -Decontamination Committee
  -Fire Group
  -Medical Devices Working Group
  -Security and Zero Tolerance Group
  -Health and Safety Committee
  -Safety Alert Broadcasting System Group (SABS)
  -Information Governance Steering Group
  -Records Management Committee
  -Radiation Protection Committee

3. Capacity to handle risk

The Trust's Risk Management Strategy has been approved by the Trust Board and distributed throughout the Trust. The strategy delegates the responsibility for risk management to the following:

- The Director of Nursing/Deputy Chief Executive is the Trust lead for governance

- There is also Executive and Non-Executive Director involvement in the Board sub Committee - Risk and Incident Advisory Board (until November 2005), as well as the Audit and Clinical Governance Committees

- Governance Advisory Committee

Internal audit have also been involved as observers on the Non-Clinical Risk Committee and have advised the Trust on 'best practice risk models' including those associated with the future development of the Assurance Framework.

All staff are obliged to attend Induction training, which covers risk management, incident reporting and complaints. There is ongoing training for risk management, annual fire updates etc. Specific further training is given to appropriate staff for manual handling, and there is ongoing support from the Clinical Risk Team and the Risk Manager, Health and Safety, Security and Fire Managers. We have a grading system of 1-4 for incident reporting. Incidents of level 3 and 4 have a specific investigation and action plans, which includes learning points and a dissemination strategy.

Day to day responsibility for risk management has been delegated to Executive Directors and their respective General Managers.

4. The risk and control framework

The Trust has an integrated approach to clinical and non-clinical risk management.

The Deputy Director of Nursing and Quality co-ordinates the various strands including:

- Clinical Risk
- Clinical Audit and effectiveness
- Clinical Governance Development Plan
- Links with the non-clinical Risk Manager and her team
- Operational risks which are still managed using the Controls Assurance Standards
- Standards for Better Health
- Risk Management Standards

The Director of Finance has delegated responsibility for financial risk management, the Standing Financial Instructions and is the lead for counter fraud. The Director of Finance is responsible for liaising with Internal and External Audit.

The Trust has an excellent record in being one of the first Trusts achieving Level 2 CSNT. In addition the Trust has now gained level 2 status for maternity services when we were evaluated in February 2006. We also have RPST level 1 and these, together with the Standards for Better Health ensure risk management is being embedded within the culture of the organisation. We have a grading system of 1-4 for incident reporting. Incidents of level 3 and 4 have a specific investigation and action plan, which includes learning points and a dissemination strategy.

However, despite the above I recognise that although all the risk identification, assessment and evaluation work has been completed during the year including that associated with the Standards for Better Health that this information has not been formally presented to the Board in a concise document known as the Trust's Assurance Framework. This gap in assurance will be addressed by 30 June 2006.

The Trust has an annual plan, which is monitored during the year by the various risk committees, the Executive Team; Management Board and the Trust Board. Directorates also have detailed reporting pro-formas, which feed the internal Balanced Scorecard approach to Performance Management used for each Directorate within the Trust.

The Trust previously enjoyed a good relationship with the CHC's. Positive steps are being taken jointly with the PCT, and separately to ensure the relationship with the new scrutiny committees is built on trust and openness. The Trust also has a Patient Forum, a Patient and Public Partnership Strategy and a Patients Panel.

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 principal ones of which include:

- The Board have agreed objectives and key indicators
- Targets are defined in the business plan
- Endorsed risk management processes are in place
- Internal audit are involved as observers on our key non-clinical risk review committee
- The Annual review of the business plan
- The use of the Risk Register as an operational management tool

- The establishment in December 2005 of a Governance Advisory Committee

The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the controls reviewed as part of the internal audit work.

Executive Directors within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. Notwithstanding my previous comments of the lack of a formal Assurance Framework document, the management review processes adopted by the various sub-committees concerned with risk management throughout the Trust provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. I must emphasise that the control processes are in place it is just the formal Assurance Framework document that needs to be formally approved by the Board.

My review is also informed by:

- External Audit Annual letter
- Internal Audit reports
- Clinical Audit reports
- CHI follow up
- SHA follow up of CHI recommendations
- CNST
- RPST

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, Audit Committee, Finance Committee, Risk and Incident Advisory Board Clinical Governance Committee. Control weaknesses that are identified continue to be addressed to ensure continuous improvement of the system is in place.

In addition, future internal audit reviews of the Assurance Framework will be approved by the Audit Committee in accordance with the national NHS Audit Committee Handbook best practice guide.

6. Update on Actions to address Issues raised in SIC 2004/05

I can report that as there were no significant control issues highlighted in the SIC submission for 2004/05 there is therefore no update report necessary for the 2005/06 SIC.

7. Significant Control Issues

Significant Control Issues that have been identified during the year included the following:

- An Assurance Framework document was not in place and embedded on the 31 March 2006

- The Trust reported a deficit of £7.6m after receiving £5m of planned support from the SHA, for the financial year ended 31 March 2006. This was as a result of an anticipated asset sale not being delivered within the financial year. Further options on the assets of the Trust are being pursued and it is expected that the asset(s) sale will be delivered within the financial year 2006/2007.

By order of the Board.

G Douglas
Chief Executive
Ashford and St. Peter's Hospitals NHS Trust
5 July 2006

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

INDEPENDENT AUDITORS' REPORT TO DIRECTORS OF THE BOARD

We have audited the financial statements of Ashford and St. Peter's Hospitals NHS Trust for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes (excluding the anticipated financial year of recovery in Note 21.1 on page 34). These financial statements have been prepared under the accounting policies relevant to the National Health Service set out therein.

This report is made solely to the Board of Ashford and St. Peter's Hospitals NHS Trust, as a body, in accordance with Section 2 of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Board of Ashford and St. Peter's Hospitals NHS Trust, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Ashford and St. Peter's Hospitals NHS Trust and the Board of Ashford and St. Peter's Hospitals NHS Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and the Auditors

The Directors responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited (details of senior manager's remuneration and pensions) 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.

We review whether the directors' statement of internal control reflects compliance with the Department of Health's requirements 'The Statement on Internal Control 2003/2004' issued on 15 September 2003 and further guidance issued on 7 April 2006. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and 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.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements 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 our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2006 and of its income and expenditure for the year 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.

KPMG LLP
Chartered Accountants
London
7 July 2006

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

INDEPENDENT AUDITORS' REPORT TO DIRECTORS OF THE BOARD

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

Directors' responsibilities

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

Auditor's responsibilities

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

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for NHS bodies specified by the Audit Commission and published in July 2005, in all significant respects, Ashford & St Peter's Hospitals NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006 except for the failure to:

- put in place arrangements to manage and improve value for money
- put in place a medium term financial strategy, budgets and a capital programme that were soundly based and designed to deliver its strategic priorities; and
- put in place arrangements for managing performance against budgets.

Certificate

We certify that we 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.

KPMG LLP
Chartered Accountants
London
7 July 2006

FOREWORD TO THE ACCOUNTS

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

These Accounts for the year ended 31 March 2006 have been prepared by the Ashford and St. Peter's 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.

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED
31 MARCH 2006

	Note	2005/06 £'000	2004/05 £'000
Income from activities	2	151,552	147,411
Other operating income	3	17,459	16,219
Operating expenses	4,5,6	(171,836)	(159,325)
OPERATING SURPLUS/(DEFICIT)		(2,825)	4,305
Profit on disposal of fixed assets	7	159	233
SURPLUS/(DEFICIT) BEFORE INTEREST		(2,666)	4,538
Interest receivable		238	175
Interest payable	8	(3)	(3)
Other finance costs – change in discount rate on provisions	14	(20)	-
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR		(2,451)	4,710
Public dividend capital dividends payable		(5,109)	(4,649)
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR	21.1	(7,560)	61

NOTE TO THE INCOME AND EXPENDITURE ACCOUNT	**£'000**	**£'000**
Retained surplus/(deficit) for the year	(7,560)	61
Financial support included in retained surplus/(deficit) for the year – NHS Bank	-	(13,000)
Financial support included in retained surplus/(deficit) for the year – Internally Generated	(5,000)	-
Retained (deficit)/ surplus for the year excluding financial support	(12,560)	(12,939)

Financial support is income provided wholly to assist in managing the Trust's financial position. Internally generated financial support is financial support received from within the local health economy, consisting of the area of responsibility of Surrey & Sussex Strategic Health Authority

The notes on pages 16 to 39 form part of these accounts.

All income and expenditure is derived from continuing operations.

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

BALANCE SHEET
AS AT
31 MARCH 2006

	Note	31/3/06		31/3/05
		£'000	£'000	£'000
FIXED ASSETS				
Intangible assets	9		2,781	139
Tangible assets	10		170,515	165,655
TOTAL FIXED ASSETS			173,296	165,794
CURRENT ASSETS				
Stocks and work-in-progress	11	2,293		2,404
Debtors	12	19,771		11,030
Cash at bank and in hand		400		408
TOTAL CURRENT ASSETS			22,464	13,842
CREDITORS: Amounts falling due within one year	13		(18,463)	(21,619)
NET CURRENT ASSETS/(LIABILITIES)			4,001	(7,777)
TOTAL ASSETS LESS CURRENT LIABILITIES			177,297	158,017
CREDITORS: Amounts falling due after more than one year	13		-	-
PROVISION FOR LIABILITIES AND CHARGES	14		(1,228)	(1,598)
TOTAL ASSETS EMPLOYED			176,069	156,419
FINANCED BY:				
TAXPAYERS' EQUITY				
Public dividend capital			114,290	87,195
Revaluation reserve	15		71,768	72,874
Donated asset reserve	15		807	688
Income and expenditure reserve	15		(10,796)	(4,338)
TOTAL TAXPAYERS' EQUITY			176,069	156,419

The financial statements on pages 12 to 39 were approved by the Board on 5 July 2006 and signed on its behalf by:

G Douglas
Chief Executive
Ashford and St. Peter's Hospitals NHS Trust
5 July 2006

ASHFORD AND ST. PETER'S HOSPITALS NHS TRUST

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2006

	2005/06 £'000	2004/05 £'000
Surplus/(deficit) for the financial year before dividend payments	(2,451)	4,710
Fixed asset impairment losses	(4,347)	-
Unrealised surplus on fixed asset revaluations / indexation	4,357	15,561
Increases in the donated asset reserve due to receipt of donated assets	279	69
Total recognised gains and losses for the financial year	(2,162)	20,340
Prior period adjustment	-	-
Total gains and losses recognised in the financial year	(2,162)	20,340

ASHFORD & ST. PETER'S HOSPITALS NHS TRUST

CASH FLOW STATEMENT
FOR THE YEAR ENDED
31 MARCH 2006

	Note	2005/06		2004/05
		£'000	£'000	£'000
OPERATING ACTIVITIES				
Net cash inflow/(outflow) from operating activities	16.1		(8,076)	3,349
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		237		181
Interest paid		(3)		(3)
Net cash inflow/(outflow) from returns on investments and servicing of finance			234	178
CAPITAL EXPENDITURE				
Payments to acquire tangible fixed assets		(13,875)		(6,941)
Receipts from sale of tangible fixed assets		1,701		471
Payments to acquire intangible assets		(1,978)		-
Net cash (outflow) from capital expenditure			(14,152)	(6,470)
DIVIDENDS PAID			(5,109)	(4,649)
Net cash (outflow) before management of liquid resources and financing			(27,103)	(7,592)
MANAGEMENT OF LIQUID RESOURCES				
Purchase/sale of investments		-		-
Net cash inflow / (outflow) from management of liquid resources			-	-
Net cash (outflow) before financing			(27,103)	(7,592)
FINANCING				
New public dividend capital received		27,095		7,592
Net cash inflow from financing			27,095	7,592
(Decrease)/increase in cash			(8)	-

NOTES TO THE ACCOUNTS
31 MARCH 2006

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 Trusts Manual for Accounts which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2005/06 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with the items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

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

1.4 Intangible fixed assets

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

Intangible fixed assets held for operational use are valued at historical cost and are 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.

1.5 Tangible fixed assets

Capitalisation

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

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

Expenditure on digital hearing aids in the year ended 31 March 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.

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 intervening years by the use of indices. The buildings index is based on the All in Tender Price Index published by the Building Costs Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

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

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

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

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 Trusts 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.

1.6 Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets.

Gains and losses on revaluation 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 the sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

1.7 Government grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed. Gains and losses on revaluation are also taken to the Government Grant Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government Grant Reserve to the Income and Expenditure account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure account is matched by a transfer from the Reserve.

1.8 Private Finance Initiative (PFI) transactions

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

1.9 Stocks and work-in progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks.

Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.10 Research and development

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

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

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

1.11 Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms. This is a change from the rate of 3.5% applied in 2004/05 and earlier. The effect of the change is to increase the carrying value of the provisions and this is shown in the Income and Expenditure account and at Note 14.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA, which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at Note 14.

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 2005/06 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 NHSLA and in return receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims, are charged to operating expenses as and when they become due.

1.12 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the Trust to identify its share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme 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 schemes 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 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 Stationary 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 pay 5%) of their pensionable pay.

NHS bodies are directed by the Secretary of State to charge employers pension costs 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 three 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 year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the members 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 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.

1.13 Liquid resources

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

1.14 Valued 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 costs of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.15 Foreign Exchange

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

1.16 Third Party Assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 24 to the accounts.

1.17 Leases

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

1.18 Public Dividend Capital (PDC) and PDC Dividend

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

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

1.19 Losses and Special Payments

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

Losses and Special Payments are charged to the relevant functional headings, including losses which would have been made good through insurance cover had the Trust not been bearing its own risks (with insurance premiums then being included as normal revenue expenditure).

2. Income from Activities

		2005/06	2004/05
		£'000	£'000
Strategic Health Authorities		-	1,740
Primary Care Trusts		143,505	143,147
Local Authorities		7	6
Department of Health		5,470	-
Non- NHS	- private patients	1,449	1,552
	- Overseas patients (non reciprocal)	117	90
	- Road Traffic Act	714	574
	- other	290	302
		151,552	147,411

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

3. Other operating income

	2005/06	2004/05
	£'000	£'000
Education, training and research	6,423	6,798
Transfer from the donated asset reserve	174	191
Non-patient care services to other bodies	4,254	4,077
Income generation	3,886	3,406
Other income	2,722	1,747
	17,459	16,219

Other income includes income from the Department of Health for transitional funding of £2,900,000, and the repayment of £1,690,000 to Surrey & Sussex Strategic Health Authority in respect of brokerage.

4. Operating expenses

4.1 Operating expenses comprise:

	2005/06 £'000	2004/05 £'000
Services from other NHS Trusts	2,276	2,740
Services from other NHS bodies	773	853
Services from Foundation Trusts	145	60
Purchase of healthcare from non NHS bodes	2,124	780
Directors' costs	991	918
Staff costs	112,386	104,972
Supplies and services – clinical	27,944	25,643
Supplies and services – general	5,627	5,351
Establishment	1,906	2,011
Transport	298	307
Premises	5,254	4,197
Bad debts	72	66
Depreciation and amortisation	6,982	6,750
Fixed asset impairments	27	-
Audit fees	106	111
Other auditors remuneration	79	61
Clinical negligence	2,634	2,225
Other	2,212	2,280
	171,836	159,325

4.2 Operating Leases

4.2.1 Operating expenses include:

	2005/06 £'000	2004/05 £'000
Hire of plant and machinery	-	-
Other operating lease rentals	613	650
	613	650

4.2.2 Annual commitments under non-cancellable operating leases are:

	Land and buildings		Other leases	
	2005/06 £'000	2004/05 £'000	2005/06 £'000	2004/05 £'000
Operating leases which expire:				
Within 1 year	-	-	52	114
Between 1 and 5 years	-	-	460	508
After 5 years	-	-	-	-
	-	-	512	622

5. Staff costs and numbers

5.1 Staff costs

	Permanently Employed	Other	2005/06	2004/05
	£'000	£'000	£'000	£'000
Salaries and wages	83,271	13,945	97,216	89,894
Social security costs	6,935	159	7,094	7,314
Employer contributions to NHS Pensions Agency	8,895	119	9,014	8,627
Other pension costs	-	-	-	-
	99,101	14,223	113,324	105,835

5.2 Average number of persons employed:

	Permanently Employed	Other	2005/06	2004/05
	Number	Number	Number	Number
Medical and dental	362	38	400	367
Administration and estates	714	27	741	711
Healthcare assistants and other support staff	299	-	299	187
Nursing, midwifery and health visiting staff	816	231	1,047	1,027
Nursing, midwifery and health visiting learners	25	-	25	25
Scientific, therapeutic and technical staff	439	44	483	423
Other	-	-	-	174
	2,655	340	2,995	2,914

5.3 Employee benefits

There were no staff benefit schemes in the year which require separate disclosure.

5.4 Management costs

	2005/06	2004/05
	£'000	£'000
Management costs	7,249	6,320
Income	165,330	159,761

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

5.5 Retirements due to ill-health

During 2005/06 there were 3 (2004/05 – 5) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £172,000 (2004/05 - £78,000). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.

6. Better Payment Practice Code

6.1 Better Payment Practice Code - measure of compliance

	Number	£'000
Total non-NHS trade invoices paid in the year	54,080	62,567
Total non-NHS trade invoices paid within target	12,554	26,005
Percentage of non-NHS trade invoices paid within target	23.21%	41.56%
Total NHS trade invoices paid in the year	2,948	22,747
Total NHS trade invoices paid within target	231	3,963
Percentage of NHS trade invoices paid within target	7.84%	17.42%

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.

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

There are no amounts included within Interest Payable (Note 8) arising from claims made under this legislation, nor any compensation paid to cover debt recovery costs under this legislation.

7. Profit/(loss) on disposal of fixed assets

	2005/06	**2004/05**
	£'000	£'000
Profit on disposal of land and buildings	269	254
Loss on disposal of land and buildings	(99)	-
Profit on disposal of plant and equipment	1	-
Loss on disposal of plant and equipment	(12)	(21)
	159	233

8. Interest payable

	2005/06	**2004/05**
	£'000	£'000
Other	3	3

9. Intangible fixed assets

	Software Licences	Total
	£'000	£'000
Gross cost at 1 April 2005	182	182
Indexation	-	-
Reclassifications	88	88
Additions purchased	2,612	2,612
Gross cost at 31 March 2006	2,882	2,882
Amortisation at 1 April 2005	43	43
Indexation	-	-
Charged during the year	58	58
Amortisation at 31 March 2006	101	101
Net book value		
- Purchased at 1 April 2005	139	139
- Donated at 1 April 2005	-	-
Total at 1 April 2005	139	139
- Purchased at 31 March 2006	2,781	2,781
- Donated at 31 March 2006	-	-
Total at 31 March 2006	2,781	2,781

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10. Tangible fixed assets

10.1 Tangible fixed assets :

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation at 1 April 2005	33,706	120,130	1,067	2,110	20,865	44	4,051	2,073	184,046
Additions									
- purchased	-	1,265	-	11,162	615	-	104	6	13,152
- donated	-	-	-	-	240	-	-	39	279
Impairments	(43)	(4,219)	(85)	-	-	-	-	-	(4,347)
Reclassifications	-	10,223	-	(10,704)	87	-	152	154	(88)
Indexation	1,686	2,204	19	38	441	1	-	44	4,433
Other in year revaluation	-	253	-	-	-	-	-	-	253
Disposals	(475)	(74)	(1,001)	-	(441)	(22)	-	-	(2,013)
At 31 March 2006	34,874	129,782	-	2,606	21,807	23	4,307	2,316	195,715
Depreciation at 1 April 2005	-	-	-	-	14,056	44	2,817	1,474	18,391
Charged during the year	-	4,755	24	-	1,635	-	366	144	6,924
Impairments	-	27	-	-	-	-	-	-	27
Indexation	-	-	-	-	297	1	-	31	329
Disposals	-	(4)	(24)	-	(421)	(22)	-	-	(471)
Depreciation at 31 March 2006	-	4,778	-	-	15,567	23	3,183	1,649	25,200
Net book value									
- Purchased at 1 April 2005	33,706	119,927	1,067	2,110	6,331	-	1,227	599	164,967
- Donated at 1 April 2005	-	203	-	-	478	-	7	-	688
Total at 1 April 2005	33,706	120,130	1,067	2,110	6,809	-	1,234	599	165,655
- Purchased at 31 March 2006	34,874	124,803	-	2,606	5,677	-	1,120	628	169,708
- Donated at 31 March 2006	-	201	-	-	563	-	4	39	807
Total at 31 March 2006	34,874	125,004	-	2,606	6,240	-	1,124	667	170,515

Of the totals at 31 March 2006 £2,251,000 related to land valued at open market value and £nil related to buildings and dwellings valued at open market value.

10.2 The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date are as follows:

	31/3/06 £'000	31/3/05 £'000
Information technology	-	-

The total amount of depreciation charged in the Income and Expenditure account in respect of assets held under finance leases and hire purchase contracts was £nil (2004/05 - £nil).

10.3 The net book value of land, buildings and dwellings at the balance sheet date comprises:

	31/3/06 £'000	31/3/05 £'000
Freehold	159,374	154,387
Long leasehold	504	516
Short leasehold	-	-
	159,878	154,903

11. Stocks and work-in-progress

	31/3/06 £'000	31/3/05 £'000
Raw materials and consumables	1,379	1,366
Finished goods	914	1,038
	2,293	2,404

12. Debtors

	31/3/06 £'000	31/3/05 £'000
Amounts falling due within one year:		
NHS debtors	14,903	7,377
Provision for irrecoverable debts	(204)	(139)
Other prepayments and accrued income	3,008	2,347
Other debtors	2,064	1,445
	19,771	11,030
Amounts falling due after more than one year:		
NHS debtors	-	-
Total debtors	19,771	11,030

There are no prepaid pension contributions or prepayments from the buyout of early retirements at 31 March 2006 (31 March 2005 - £nil).

13. Creditors

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

	31/3/06	31/3/05
	£'000	£'000
Amounts falling due within one year:		
NHS creditors	7,147	6,699
Non-NHS trade creditors – revenue	3,742	4,721
Non-NHS trade creditors – capital	940	1,029
Tax and social security costs	2,364	4,738
Other creditors	1,349	1,464
Accruals and deferred income	2,921	2,968
	18,463	21,619
Amounts falling due after more than one year:		
NHS Creditors	-	-
	-	-
Total creditors	18,463	21,619

Other creditors include £nil for payments due in future years under arrangements to buy out liabilities for early retirements over five years and £1,145,000 for outstanding pensions contributions at 31 March 2006 (31 March 2005 - £1,100,000).

13.2 Loans

The Trust had no loans during the year.

13.3 Finance lease obligations

The Trust has no finance lease obligations at 31 March 2006 (31 March 2005 - £nil).

13.4 Finance lease commitments

The Trust has not entered into any finance lease whereby the asset will be made available for use and rental payments commence in 2005/06.

14. Provisions for liabilities and charges

	Pensions relating to other staff	Legal claims	Other	Total 31/3/06	Total 31/3/05
	£'000	£'000	£'000	£'000	£'000
At 1 April 2005	649	45	904	1,598	1,532
Change in discount rate	-	-	20	20	-
Arising during the year	-	34	144	178	798
Utilised during the year	(63)	(13)	(480)	(556)	(728)
Reversed unused	-	(12)	-	(12)	(4)
Unwinding of discount	-	-	-	-	-
At 31 March 2006	586	54	588	1,228	1,598
Expected timing of cashflows:					
Within 1 year	63	54	425	542	865
Between1-5 years	250	-	42	292	282
After 5 years	273	-	121	394	451

Clinical negligence provisions

Included in the provisions of the NHS Litigation Authority at 31 March 2006 is £12,974,000 in respect of clinical negligence liabilities of the Trust (31 March 2005 - £9,036,000).

Legal claim provisions

These provisions relate to claims under the Liabilities to Third Parties Scheme and Property Expenses Scheme, and are calculated based on information provided by the NHS Litigation Authority. The amounts involved and the timing of the payments represents their best estimate of the outcome of each claim against the Trust.

In addition to these provisions, contingent liabilities in respect of the claims are given in note 19.

Other provisions

Other provisions at 31 March 2006 include a provision of £414,000 in respect of amounts due to employees under Agenda for Change.

Also included is a provision for one injury benefit case of £174,000 as notified to the Trust by the NHS Pensions Agency.

15. Movements on reserves

Movements on reserves in the year comprised the following:

	Revaluation reserve	Donated asset reserve	Income and expenditure reserve	Total
	£'000	£'000	£'000	£'000
At 1 April 2005	72,874	688	(4,338)	69,224
Transfer from the income and expenditure account	-	-	(7,560)	(7,560)
Fixed asset impairments	(4,347)	-	-	(4,347)
Surplus on other revaluations/ indexation of fixed assets	4,343	14	-	4,357
Transfer of realised profits to the income and expenditure reserve	(885)	-	885	-
Receipt of donated assets	-	279	-	279
Transfers to the income and expenditure account for depreciation of donated assets	-	(174)	-	(174)
Other transfers between reserves	(217)	-	217	-
At 31 March 2006	71,768	807	(10,796)	61,779

16. Notes to the cash flow statement

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

	2005/06	2004/05
	£'000	£'000
Total operating surplus/(deficit)	(2,825)	4,305
Depreciation and amortisation charge	6,982	6,750
Fixed Asset impairments and reversals	27	-
Transfer from donated asset reserve	(174)	(191)
(Increase)/decrease in stocks	111	(819)
(Increase)/decrease in debtors	(8,740)	(1,825)
Increase/(decrease) in creditors	(3,067)	(4,937)
Increase/(decrease) in provisions	(390)	66
Net cash inflow/(outflow) from operating activities	(8,076)	3,349

16.2 Reconciliation of net cash flow to movement in net debt

	31/3/06		31/3/05
	£'000	£'000	£'000
Increase/(decrease) in cash in the period	(8)		-
Cash outflow from debt repaid and finance lease capital payments	-		-
Change in net debt resulting from cash flows		(8)	-
Non-cash changes in debt		-	-
Net debt at 1 April 2005		408	408
Net debt at 31 March 2006		400	408

16.3 Analysis of changes in net debt:

	31/3/06	Cash Changes in year	1/4/05
	£'000	£'000	£'000
OPG cash at bank	298	22	276
Commercial cash at bank and in hand	102	(30)	132
	400	(8)	408

17. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £779,000 (2004/05 - £444,000).

18. Post balance sheet events

There were no post balance sheet events having a material effect on the accounts.

19. Contingent assets/(liabilities)

Other

Other Contingent Liabilities for non-clinical negligence incidents total £31,000 (2004/05- £27,000).

20. Movements in Public Dividend Capital

	2005/06	2004/05
	£'000	£'000
Public Dividend Capital as at 1 April 2005	87,195	79,603
New public dividend capital (cash receipt)	27,095	7,592
Public Dividend Capital as at 31 March 2006	114,290	87,195

21. Financial performance targets

21.1 Breakeven performance

The Trust's breakeven performance for 2005/06 is as follows:

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Turnover	96,942	104,086	111,223	125,647	139,664	151,095	163,630	169,011
Retained surplus/(deficit) for the year	1,725	(1,613)	(4,846)	(1,409)	(1,328)	5	61	(7,560)
Breakeven in year position	1,725	(1,613)	(4,846)	(1,409)	(1,328)	5	61	(7,560)
Breakeven cumulative position	1,725	112	(4,734)	(6,143)	(7,471)	(7,466)	(7,405)	(14,965)
Anticipated financial year of recovery								2008/09
Materiality test:								
Breakeven in-year position	1.78%	(1.55)%	(4.36%)	(1.12%)	(0.95%)	0.00%	0.04%	(4.47%)
Breakeven cumulative position	1.78%	0.11%	(4.26%)	(4.89%)	(5.35%)	(4.94%)	(4.53%)	(8.85%)

The Trust was granted an extension from three to five years to achieve its cumulative breakeven duty. This was due to be met by 31 March 2005 however was not and the Trust failed this duty.

Based on past performance, the Trust is only able to plan to breakeven on an annual basis. The Trust received planned support in the financial year of £5,000,000 from the Surrey & Sussex Strategic Health Authority.

The Trust faces a significant challenge in achieving financial balance and meeting service delivery targets for the year ending 31 March 2007. The Trust has developed a Turnaround Plan which is in the process of being approved and which is required to achieve financial balance in 2006/07.

21.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £5,109,000 bears to the average relevant net assets of £165,210,000,that is 3.09%. This rate falls within the permitted tolerance of +/- 0.5%.

21.3 External financing

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

	2005/06		2004/05
	£'000	£'000	£'000
External financing limit set by the Department of Health		27,095	7,592
Cash flow financing	27,103		7,592
External financing requirement		27,103	7,592
Undershoot / (overshoot)		(8)	-

21.4 Capital resource limit

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

	2005/06	2004/05
	£'000	£'000
Gross capital expenditure	16,043	6,384
Less: book value of assets disposed of	(1,542)	(238)
Plus: loss on disposal of donated assets	-	6
Less: donations towards the acquisition of fixed assets	(279)	-
Charge against the CRL	14,222	6,152
Capital resource limit	18,419	6,343
Underspend against the CRL	4,197	191

22. Related party transactions

Ashford and St. Peter's Hospitals NHS Trust is a body corporate established by order of the Secretary of State for Health.

During the year none of the Board Members or members of the key management staff or parties related to them has undertaken any material transactions with Ashford and St Peter's Hospitals NHS Trust.

The Department of Health is regarded as a related party. During the year Ashford and St Peter's Hospitals NHS 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:

Surrey and Sussex Strategic Health Authority
North Surrey PCT
Surrey Heath & Woking PCT
Guildford and Waverley PCT
Hounslow PCT
Ealing PCT
Reading PCT
East Elmbridge & Mid Surrey PCT
Richmond & Twickenham PCT
Adur, Arun & Worthing PCT
Bracknell Forest PCT
Surrey and Borders NHS Trust
Royal Surrey County Hospital NHS Trust
Surrey & Sussex Healthcare NHS Trust
West Middlesex University Hospital NHS Trust
Kent and Medway SHA
NHS Logistics Authority
NHS Blood Authority/NHS Blood and Transport
NHS Professionals
NHS Pensions Agency
NHS Litigation 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 H M Revenue and Customs and Surrey County Council.

The Trust has also received revenue and capital payments from the Ashford and St. Peter's Hospitals Charitable Fund. The Board members of the Trust are also Trustees of this charity. The audited annual report and accounts of the Charity are available to the public on request.

23. 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.

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 limit. The Trust is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

None 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:

23.1 Financial Assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate: Weighted ave interest rate	Fixed rate: Weighted ave period for which fixed	Non-interest bearing: Weighted average term
	£000	£000	£000	£000	%	Years	Years
At 31 March 2006							
Sterling	400	400	-	-	-	-	-
Other	-	-	-	-	-	-	-
Gross financial assets	400	400	-	-			
At 31 March 2005 (prior year)							
Sterling	408	408	-	-	-	-	-
Other	-	-	-	-	-	-	-
Gross financial assets	408	408	-	-			

23.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate: Weighted ave interest rate	Fixed rate: Weighted ave period for which fixed	Non-interest bearing: Weighted average term
	£000	£000	£000	£000	%	Years	Years
At 31 March 2006							
Sterling	115,518	-	1,228	114,290	2.2	2	-
Other	-	-	-	-	-	-	-
Gross financial liabilities	115,518	-	1,228	114,290			
At 31 March 2005 (prior year)							
Sterling	88,793	-	1,598	87,195	3.5	2	-
Other	-	-	-	-	-	-	-
Gross financial liabilities	88,793	-	1,598	87,195			

Note: The public dividend capital is of unlimited term.

Foreign currency risk

The Trust has negligible foreign currency income and expenditure.

23.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the Trust's financial assets and liabilities as at 31 March 2006.

	Book Value	Fair Value	Basis of fair valuation
	£000s	£000s	
Financial assets			
Cash	400	400	
Debtors over 1 year:			
Agreements with commissioners to cover creditors and provisions	-	-	a
Total	400	400	
Financial liabilities			
Overdraft	-	-	
Creditors over 1 year:			
- Early retirements	-	-	b
Provisions under contract	(1,228)	(1,228)	c
Loans	-	-	
Public dividend capital	(114,290)	(114,290)	d
Total	(115,518)	(115,518)	

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 d below, fair value is not significantly different from book value.

b Fair value is not significantly different from book value since interest at 9% is paid on early retirements.

c Fair value is not significantly different from book value since, in the calculation of book value, the expected cashflows have been discounted by the Treasury discount rate of 2.2% (2004/05 – 3.5%) in real terms.

d The figure here should be the full value of PDC in the balance sheet and 'book value' should equal 'fair value'.

24. Third Party Assets

The Trust held £8,000 cash at bank and in hand at 31 March 2006 (31 March 2005 - £8,000) which relates to monies held by the Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

25. 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	13,741	-	6,749	-
Balance with Local Authorities	23	-	1	-
Balances with NHS Trusts and Foundation Trusts	1,133	-	393	-
Balances with Public Corporations and Trading Funds	-	-	-	-
Balance with bodies external to government	4,874	-	11,320	-
At 31 March 2006	19,771	-	18,463	-

	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	6,248	-	11,745	-
Balance with Local Authorities	2	-	44	-
Balances with NHS Trusts and Foundation Trusts	1,362	-	841	-
Balances with Public Corporations and Trading Funds	-	-	-	-
Balance with bodies external to government	3,418	-	8,989	-
At 31 March 2005	11,030	-	21,619	-

26. Losses and Special Payments

There were 100 cases of losses and special payments (2004/05 - 147 cases) totalling £55,000 (2004/05 - £84,000) paid during 2005/06.

There were no cases where the net payment exceeded £100,000 (2004/05 – nil).

The total costs included in this note are on a cash basis and will not reconcile to the amounts in the notes to the accounts which are prepared on an accruals basis.