

Data entered below will be used throughout the workbook:

Trust name:	Worcestershire Acute Hospitals NHS Trust
This year	2007/08
Last year	2006/07
This year ended	31 March 2008
Last year ended	31 March 2007
This year beginning	1 April 2007

## **Foreword to the Accounts**

These accounts for the year ended 31<sup>st</sup> March 2008 have been prepared by Worcestershire Acute Hospitals NHS Trust under Section 98(2) of the National Health Services 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.

It should be noted that some of the Annual Accounts comparative figures for 2006/07 have been restated. This is as a result of a change in NHS specific guidance which removed the ability to capitalise expenditure on Digital Hearing Aids. In 2007/08, the Trust has changed its treatment of expenditure on Digital Hearing Aids from inclusion within capital costs to revenue, and has reflected this in the Annual Accounts. However the Trust is also required to reflect the charge of this expenditure to its Income and Expenditure account for cumulative expenditure to the 31<sup>st</sup> March 2007. Thus the restated financial position for 2006/07 shown in the 2007/08 accounts shows a deficit of £1.006m compared with the surplus of £0.053m actually achieved.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED  
31 March 2008**

	NOTE	2007/08 £000	2006/07 As restated £000
<b>Income from activities</b>	3	<b>273,031</b>	242,838
<b>Other operating income</b>	4	<b>20,828</b>	20,963
<b>Operating expenses</b>	5	<b><u>(281,651)</u></b>	<b><u>(258,921)</u></b>
<b>OPERATING SURPLUS/(DEFICIT)</b>		<b>12,208</b>	4,880
Cost of fundamental reorganisation/restructuring		<b>0</b>	0
Profit/(loss) on disposal of fixed assets	8	<b><u>(812)</u></b>	<b><u>(60)</u></b>
<b>SURPLUS/(DEFICIT) BEFORE INTEREST</b>		<b>11,396</b>	4,820
Interest receivable		<b>1,007</b>	449
Interest payable	9	<b><u>(1,269)</u></b>	0
Other finance costs - unwinding of discount	16	<b><u>(58)</u></b>	<b><u>(55)</u></b>
<b>SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR</b>		<b>11,076</b>	5,214
Public Dividend Capital dividends payable		<b><u>(5,883)</u></b>	<b><u>(6,220)</u></b>
<b>RETAINED SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b><u><u>5,193</u></u></b>	<b><u><u>(1,006)</u></u></b>

The notes on pages 1 to 32 form part of these accounts.  
All income and expenditure is derived from continuing operations.

**BALANCE SHEET AS AT  
31 March 2008**

	NOTE	31 March 2008 £000	31 March 2007 As restated £000
<b>FIXED ASSETS</b>			
Intangible assets	10	674	715
Tangible assets	11	176,316	171,189
Investments	14.1	0	0
		<b>176,990</b>	<b>171,904</b>
<b>CURRENT ASSETS</b>			
Stocks and work in progress	12	3,726	3,740
Debtors	13	35,778	28,483
Investments	14.2	0	0
Cash at bank and in hand	18.3	5,602	141
		<b>45,106</b>	<b>32,364</b>
<b>CREDITORS:</b> Amounts falling due within one year	15	<b>(31,033)</b>	<b>(24,879)</b>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<b>14,073</b>	<b>7,485</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>191,063</b>	<b>179,389</b>
<b>CREDITORS:</b> Amounts falling due after more than one year	15	<b>(15,000)</b>	<b>(20,000)</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	16	<b>(3,842)</b>	<b>(4,124)</b>
<b>TOTAL ASSETS EMPLOYED</b>		<b>172,221</b>	<b>155,265</b>
<b>FINANCED BY:</b>			
<b>TAXPAYERS' EQUITY</b>			
Public dividend capital	22	145,860	145,860
Revaluation reserve	17	43,218	34,351
Donated asset reserve	17	1,281	1,442
Government grant reserve	17	335	391
Other reserves	17	(861)	(861)
Income and expenditure reserve	17	(17,612)	(25,918)
<b>TOTAL TAXPAYERS' EQUITY</b>		<b>172,221</b>	<b>155,265</b>

The financial statements on pages 1 to 32 were approved by the Board on [date] and signed on its behalf by:

Signed: .....(Chief Executive)

Date: .....

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED  
31 March 2008**

	<b>2007/08</b>	2006/07
	<b>£000</b>	As restated £000
Surplus/(deficit) for the financial year before dividend payments	<b>11,076</b>	5,214
Fixed asset impairment losses	<b>0</b>	<b>(2,956)</b>
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	<b>12,079</b>	11,172
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	<b>186</b>	45
Defined benefit scheme actuarial gains/(losses)		
Additions/(reductions) in "other reserves"	<u><b>0</b></u>	<u>0</u>
<b>Total recognised gains and losses for the financial year</b>	<b>23,341</b>	13,475
Prior period adjustment	<b>(1,059)</b>	0
<b>Total gains and losses recognised in the financial year</b>	<u><u><b>22,282</b></u></u>	<u><u>13,475</u></u>

**CASH FLOW STATEMENT FOR THE YEAR ENDED**  
**31 March 2008**

	NOTE	2007/08 £000	2006/07 As restated £000
<b>OPERATING ACTIVITIES</b>			
<b>Net cash inflow/(outflow) from operating activities</b>	18.1	<b>26,080</b>	11,622
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:</b>			
Interest received		1,007	449
Interest paid		(1,269)	0
Interest element of finance leases		0	0
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>		<b>(262)</b>	449
<b>CAPITAL EXPENDITURE</b>			
(Payments) to acquire tangible fixed assets		(9,341)	(9,695)
Receipts from sale of tangible fixed assets		0	0
(Payments) to acquire intangible assets		(133)	(464)
Receipts from sale of intangible assets		0	0
(Payments to acquire)/receipts from sale of fixed asset investments		0	0
<b>Net cash inflow/(outflow) from capital expenditure</b>		<b>(9,474)</b>	(10,159)
<b>DIVIDENDS PAID</b>			
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<b>10,461</b>	(4,308)
<b>MANAGEMENT OF LIQUID RESOURCES</b>			
(Purchase) of investments with DH		0	0
(Purchase) of other current asset investments		0	0
Sale of investments with DH		0	0
Sale of other current asset investments		0	0
<b>Net cash inflow/(outflow) from management of liquid resources</b>		<b>0</b>	0
<b>Net cash inflow/(outflow) before financing</b>		<b>10,461</b>	(4,308)
<b>FINANCING</b>			
Public dividend capital received		0	4,334
Public dividend capital repaid (not previously accrued)		0	(25,000)
Loans received from DH		0	25,000
Other loans received		0	0
Loans repaid to DH		(5,000)	0
Other loans repaid		0	0
Other capital receipts		0	0
Capital element of finance lease rental payments		0	0
Cash transferred (to)/from other NHS bodies*		0	0
<b>Net cash inflow/(outflow) from financing</b>		<b>(5,000)</b>	4,334
<b>Increase/(decrease) in cash</b>		<b>5,461</b>	26

## NOTES TO THE ACCOUNTS

### 1 ACCOUNTING POLICIES

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts which shall be agreed with HM Treasury. The accounting policies contained in that manual follow UK generally accepted accounting practice and HM Treasury's Government Financial Reporting 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 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 which is to be delivered in the following financial year, that income is deferred.

From 2006-07 NHS Trust were required to assess the impact of Partially completed spells, i.e. the recognition of income received for patients that were still receiving treatment at the balance sheet date. Worcestershire Acute Hospitals analysed the number of in patients at 31st March and costed the patient episode in total. An estimation of 50% was used to quantify the value of income that related to 2006-07. It was considered that the value was immaterial and was therefore not accrued.

#### **1.4 Pooled Budgets**

The Trust has no pooled budgets.

#### **1.5 Intangible fixed assets**

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

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

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

#### **1.6 Tangible fixed assets**

##### **Capitalisation**

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

- 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.

The Trust has changed its Accounting Policy regarding the capitalisation of Digital Hearing Aids. Following the withdrawal of the NHS Capital Accounting Manual during 2007/08, the Trust is required to apply FRS15 (Fixed Assets) which does not include detailed guidance on the capitalisation of these specific items. As a result of this change the Trust has shown a Prior Year Adjustment to the 2006-07 accounts to reflect the impact of bearing the cost of these purchases in Revenue Expenditure, therefore the 2006-07 comparator figures have been amended on the Balance Sheet to reflect the change.

##### **Valuation**

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

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

Professional valuations are carried out by the District Valuers of the Revenue and Customs Government Department (HMRC). 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 NHS Trust's estate.

Operational equipment other than IT equipment, which is considered to have nil inflation, is valued at net current replacement cost through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.

### **Depreciation, amortisation and impairments**

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land and assets surplus to requirements.

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Trust, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term.

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

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

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

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

### **1.7 Donated fixed assets**

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the Donated Asset Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the Income and Expenditure account. Similarly, any impairment on donated assets charged to the Income and Expenditure Account is matched by a transfer from the Donated Asset Reserve. On sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

### **1.8 Government Grants**

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. 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 revaluations are also taken to the Government grant reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government grant reserve to the Income and Expenditure account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Reserve.

### **1.9 Private Finance Initiative (PFI) transactions**

The NHS follows HM Treasury's Technical Note 1 (Revised) "How to Account for PFI transactions" which provides practical guidance for the application of the Application Note F to FRS 5 and the guidance 'Land and Buildings in PFI schemes Version 2'.

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

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

### **1.10 Stocks and work-in-progress**

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

### **1.11 Research and development**

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

- 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. NHS Trusts are unable to disclose the total amount of research and development expenditure charged in the income and expenditure account because some research and development activity cannot be separated from patient care activity. Fixed assets acquired for use in research and development are amortised over the life of the associated project.

### **1.12 Provisions**

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

#### **Clinical negligence costs**

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

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

#### **Non-clinical risk pooling**

The Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the Trust pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses as and when they become due.

### **1.13 Pension costs**

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at [www.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk). 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. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

### 1.14 Pension Costs

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

#### a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

#### b) FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

#### Scheme provisions as at 31 March 2008

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

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final 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 member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

#### Scheme Provisions from 1st April 2008

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website [www.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk)

### 1.14 Liquid resources

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

### 1.15 Value Added Tax

Most of the activities of the Trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### **1.16 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 28 to the accounts.

### **1.18 Leases**

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

### **1.19 Public Dividend Capital (PDC) and PDC Dividend**

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

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. 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 Losses and Special Payments**

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

Losses and Special Payments are charged to the relevant functional headings in the Income and Expenditure Account on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### **1.21 Other Reserves**

The Other Reserve of (£861,000) represents an error that arose when the Worcestershire Acute Hospitals NHS Trust was formed from its three predecessor Acute Trusts. The financial instrument used to disclose Fixed Asset balances to the Department of Health at the point of Trust merger was overstated by this value and the Department issued guidance that a reserve be established to 'carry' the difference between the actual Asset values and the PDC issued. The reserve will remain with the Trust until such time that the Trust changes as an entity, i.e. through merger or dissolution.

## 2. Segmental Analysis

Worcestershire Acute Hospitals NHS Trust has no segmented activity for 2007/08.

## 3. Income from Activities

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Strategic Health Authorities	<b>2,476</b>	305
NHS Trusts	<b>3,298</b>	3,085
Primary Care Trusts*	<b>249,017</b>	224,593
Foundation Trusts	<b>2,474</b>	1,781
Local Authorities	<b>135</b>	259
Department of Health	<b>13,439</b>	11,267
NHS Other	<b>0</b>	0
Non NHS:		
- Private patients	<b>416</b>	422
- Overseas patients (non-reciprocal)	<b>0</b>	0
- Injury cost recovery **	<b>1,114</b>	1,022
- Other	<b>662</b>	104
	<b><u>273,031</u></b>	<b><u>242,838</u></b>

\* Includes £6,131,005 to offset fixed asset impairments charged to operating expenses.

\*\* Injury cost recovery income is subject to a provision for doubtful debts of 7.8% to reflect expected rates of collection

## 4. Other Operating Income

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Patient transport services	<b>0</b>	0
Education, training and research	<b>8,163</b>	7,052
Charitable and other contributions to expenditure	<b>350</b>	238
Transfers from donated asset reserve	<b>435</b>	210
Transfers from government grant reserve	<b>67</b>	65
Non-patient care services to other bodies	<b>7,364</b>	8,975
Income Generation	<b>1,273</b>	1,283
Other income	<b>3,176</b>	3,140
	<b><u>20,828</u></b>	<b><u>20,963</u></b>

## 5. Operating Expenses

### 5.1 Operating Expenses comprise:

	<b>2007/08</b>	2006/07
	<b>£000</b>	As restated £000
Services from other NHS Trusts	178	271
Services from PCTs	203	551
Services from other NHS bodies	0	49
Services from Foundation Trusts	0	38
Purchase of healthcare from non NHS bodies	233	358
Directors' costs	720	718
Staff costs	162,834	154,740
Supplies and services - clinical	44,662	37,629
Supplies and services - general	4,589	4,182
Consultancy services	47	237
Establishment	4,006	4,009
Transport	1,109	1,277
Premises	13,419	10,019
Bad debts	745	108
Depreciation	9,633	9,663
Amortisation	179	86
Fixed asset impairments and reversals	6,131	0
Audit fees	215	224
Other auditor's remuneration	0	1
Clinical negligence	3,502	3,554
Redundancy costs	870	1,566
Other *	28,376	29,641
	<b><u>281,651</u></b>	<b><u>258,921</u></b>

\* Other Expenditure includes PFI related expenditure £23,069,325 (£23,184,953 in 2006/07) and Amortisation

**5.2 Operating leases**

**5.2/1 Operating expenses include:**

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Hire of plant and machinery	<b>0</b>	0
Other operating lease rentals	<b>331</b>	285
	<u><b>331</b></u>	<u>285</u>

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

	<b>Land and buildings</b>		<b>Other leases</b>	
	<b>2007/08</b>	2006/07	<b>2007/08</b>	2006/07
	<b>£000</b>	£000	<b>£000</b>	£000
Operating leases which expire:				
Within 1 year	<b>0</b>	298	<b>41</b>	0
Between 1 and 5 years	<b>0</b>	0	<b>131</b>	0
After 5 years	<b>308</b>	0	<b>0</b>	0
	<u><b>308</b></u>	<u>298</u>	<u><b>172</b></u>	<u>0</u>

## 6. Staff costs and numbers

### 6.1 Staff costs

	Total	2007/08 Permanently Employed	Other	2006/07
	£000	£000	£000	£000
Salaries and wages	137,940	129,443	8,497	130,117
Social Security costs	10,116	10,116	0	10,125
Employer contributions to NHS Pension Scheme	15,440	15,440	0	15,145
Other pension costs	0	0	0	0
	<b>163,496</b>	<b>154,999</b>	<b>8,497</b>	<b>155,387</b>

### 6.2 Average number of persons employed

	Total	2007/08 Permanently Employed	Other	2006/07
	Number	Number	Number	Number
Medical and dental	562	539	23	524
Ambulance staff	0	0	0	0
Administration and estates	919	909	10	946
Healthcare assistants and other support staff	668	668	0	694
Nursing, midwifery and health visiting staff	1,561	1,482	79	1,592
Nursing, midwifery and health visiting learners	0	0	0	0
Scientific, therapeutic and technical staff	683	683	0	658
Social care staff	0	0	0	0
Other	0	0	0	8
Total	<b>4,393</b>	<b>4,281</b>	<b>112</b>	<b>4,422</b>

### 6.3 Employee benefits

There were no Employee Benefits for the year 2007/08

#### 6.4 Management costs

	2007/08 £000	2006/07 £000
Management costs	8,060	8,769
Income	292,530	263,801

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..)

#### 6.5 Retirements due to ill-health

During 2007/08 there were 9 (2006/07, 14) early retirements from the NHS Trust on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £643,236.41 (2006/07 £522,735.11). The cost of these ill-health retirements will be borne by the NHS Business Services Authority -Pensions Division.

### 7. Better Payment Practice Code

#### 7.1 Better Payment Practice Code - measure of compliance

	2007/08	
	Number	£000
Total Non-NHS trade invoices paid in the year	72,756	96,598
Total Non NHS trade invoices paid within target	55,826	83,281
Percentage of Non-NHS trade invoices paid within target	77%	86%
Total NHS trade invoices paid in the year	5,856	25,531
Total NHS trade invoices paid within target	3,977	19,047
Percentage of NHS trade invoices paid within target	68%	75%

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

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

	2007/08 £000	2006/07 £000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legis	0	0

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

Profit/(loss) on the disposal of fixed assets is made up as follows:

	2007/08 £000	2006/07 £000
Profit on disposal of fixed asset investments	0	0
(Loss) on disposal of fixed asset investments	0	0
Profit on disposal of intangible fixed assets	0	0
(Loss) on disposal of intangible fixed assets	0	0
Profit on disposal of land and buildings	0	0
(Loss) on disposal of land and buildings	0	0
Profits on disposal of plant and equipment	0	0
(Loss) on disposal of plant and equipment	(812)	(60)
	<u>(812)</u>	<u>(60)</u>

## 9. Interest Payable

	2007/08 £000	2006/07 £000
Finance leases	0	0
Late payment of commercial debt	0	0
Loans	1,269	0
Other	0	0
	<u>1,269</u>	<u>0</u>

## 10. Intangible Fixed Assets

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2007	430	0	0	371	801
Indexation				0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Revaluation	0	0	0	0	0
Additions purchased	47	0	0	91	138
Additions donated	0	0	0	0	0
Additions government granted	0	0	0	0	0
Disposals	0	0	0	0	0
<b>Gross cost at 31 March 2008</b>	<u>477</u>	<u>0</u>	<u>0</u>	<u>462</u>	<u>939</u>
Amortisation at 1 April 2007	33	0	0	53	86
Indexation				0	0
Impairments	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Revaluation	0	0	0	0	0
Charged during the year	50	0	0	129	179
Disposals	0	0	0	0	0
<b>Amortisation at 31 March 2008</b>	<u>83</u>	<u>0</u>	<u>0</u>	<u>182</u>	<u>265</u>
<b>Net book value</b>					
- Purchased at 1 April 2007	397	0	0	318	715
- Donated at 1 April 2007	0	0	0	0	0
- Government granted at 1 April 2007	0	0	0	0	0
<b>- Total at 1 April 2007</b>	<u>397</u>	<u>0</u>	<u>0</u>	<u>318</u>	<u>715</u>
- Purchased at 31 March 2008	394	0	0	280	674
- Donated at 31 March 2008	0	0	0	0	0
- Government granted at 31 March 2008	0	0	0	0	0
<b>- Total at 31 March 2008</b>	<u>394</u>	<u>0</u>	<u>0</u>	<u>280</u>	<u>674</u>

## 11. Tangible Fixed Assets

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

	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction and payments on account* £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Cost or valuation at 1 April 2007 - As restated	38,403	108,054	1,357	6,961	37,835	175	17,017	0	209,802
Additions purchased	0	202	0	5,064	1,842	29	2,303	0	9,440
Additions donated	0	0	0	0	185	0	1	0	186
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	1,954	17	(1,971)	0	0	0	0	0
Indexation	2,078	9,739	119	581	931	6	0	0	13,454
Revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(8,002)	0	0	0	(8,002)
<b>Cost or Valuation at 31 March 2008</b>	<u>40,481</u>	<u>119,949</u>	<u>1,493</u>	<u>10,635</u>	<u>32,791</u>	<u>210</u>	<u>19,321</u>	<u>0</u>	<u>224,880</u>
Depreciation at 1 April 2007 - As restated					26,385	127	12,101	0	38,613
Charged during the year	0	4,842	45	0	3,133	12	1,601	0	9,633
Impairments	513	5,618	0	0	0	0	0	0	6,131
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Indexation	0	739	6	0	625	5	0	0	1,375
Revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(7,188)	0	0	0	(7,188)
<b>Depreciation at 31 March 2008</b>	<u>513</u>	<u>11,199</u>	<u>51</u>	<u>0</u>	<u>22,955</u>	<u>144</u>	<u>13,702</u>	<u>0</u>	<u>48,564</u>
<b>Net book value</b>									
- Purchased at 1 April 2007	38,403	107,181	1,357	6,961	10,505	48	4,901	0	169,356
- Donated at 1 April 2007	0	873	0	0	554	0	15	0	1,442
- Government granted at 1 April 2007	0	0	0	0	391	0	0	0	391
<b>- Total at 1 April 2007</b>	<u>38,403</u>	<u>108,054</u>	<u>1,357</u>	<u>6,961</u>	<u>11,450</u>	<u>48</u>	<u>4,916</u>	<u>0</u>	<u>171,189</u>
- Purchased at 31 March 2008	39,968	107,845	1,442	10,635	9,135	66	5,609	0	174,700
- Donated at 31 March 2008	0	905	0	0	366	0	10	0	1,281
- Government granted at 31 March 2008	0	0	0	0	335	0	0	0	335
<b>- Total at 31 March 2008</b>	<u>39,968</u>	<u>108,750</u>	<u>1,442</u>	<u>10,635</u>	<u>9,836</u>	<u>66</u>	<u>5,619</u>	<u>0</u>	<u>176,316</u>

\*Residual interests of off balance sheet PFI schemes are included within the Fixed Asset note under Assets under Construction, totalling £8,664,274. This represents the build up of value to 31.3.08 in the Trusts Accounts for the Worcestershire Royal Hospital Building which will revert to a Trust Asset at the end of the PFI Contract in 2032.

The Trust held no assets under finance leases or hire purchase contracts at the balance sheet date.

The Trust owns Land at the Alexandra Hospital that is leased for nil consideration to Polka Crest for the operation of an incinerator. The land is deemed as non operational and is therefore excluded from the values above. The latest valuation for this land was £300,000. The Worcestershire Mental Health Partnership NHS Trust also occupy 1.6 Hectares of land at the Alexandra Hospital for nil consideration. The value of this land is £1,755,506 and is included in the values above.

**11.1 Tangible Fixed Assets (contd)**

Of the totals at 31 March 2008, the Trust had no Land, Buildings or Dwellings valued at open market value.

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

	Land	Buildings, excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 March 2008	0	0	0	0	0	0	0	0	0
At 31 March 2007	0	0	0	0	0	0	0	0	0

**The total amount of depreciation charged to the income and expenditure in respect of assets held under finance leases and hire purchase contracts:**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Depreciation 31 March 2008	0	0	0	0	0	0	0	0	0
Depreciation 31 March 2007	0	0	0	0	0	0	0	0	0

**11.2 The net book value of land, buildings and dwellings at 31 March 2008 comprises:**

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000
Freehold	150,160	147,814
Long leasehold	0	0
Short leasehold	0	0
<b>TOTAL</b>	<b><u>150,160</u></b>	<b><u>147,814</u></b>

**12. Stocks and Work in Progress**

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000
Raw materials and consumables	3,726	3,740
Work-in-progress	0	0
Finished goods	0	0
<b>TOTAL</b>	<b><u>3,726</u></b>	<b><u>3,740</u></b>

**13. Debtors**

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000

**Amounts falling due within one year:**

NHS debtors	14,225	7,635
Provision for irrecoverable debts	(434)	(569)
Other prepayments and accrued income	1,105	1,403
Other debtors	5,652	5,091
<b>Sub Total</b>	<b><u>20,548</u></b>	<b><u>13,560</u></b>

**Amounts falling due after more than one year:**

NHS debtors	0	0
Provision for irrecoverable debts	0	0
Other prepayments and accrued income **	14,289	14,104
Other debtors	941	819
<b>Sub Total</b>	<b><u>15,230</u></b>	<b><u>14,923</u></b>
<b>TOTAL</b>	<b><u>35,778</u></b>	<b><u>28,483</u></b>

\*\* Other prepayments and accrued income reflect (in part) the creation of the three deferred assets arising from the PFI scheme - Land £3,430,633 , Equipment £3,761,341, and Buildings £6,282,266. The valuation of these assets is at Net Book Value.

**14. Investments**

**14.1 Fixed Asset Investments**

The Trust held no Fixed Asset Investments at 31st March 2008.

**14.2 Current Asset Investments**

The Trust held no Current Asset Investments at 31st March 2008.

## 15. Creditors

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

	31 March 2008 £000	31 March 2007 As Restated £000
<b>Amounts falling due within one year:</b>		
Bank overdrafts	0	0
Current instalments due on loans	5,000	5,000
Interest payable	0	0
Payments received on account	2	99
NHS creditors	3,835	4,503
Non - NHS trade creditors - revenue *	7,413	4,808
Non - NHS trade creditors - capital	1,804	1,702
Tax	27	19
Social security costs	22	24
Obligations under finance leases and hire purchase contracts	0	0
Other creditors *	633	2,171
Accruals and deferred income	12,297	6,553
<b>Sub Total</b>	<b>31,033</b>	<b>24,879</b>
<b>Amounts falling due after more than one year:</b>		
Long - term loans	15,000	20,000
Obligations under finance leases and hire purchase contracts	0	0
NHS creditors	0	0
Other	0	0
<b>Sub Total</b>	<b>15,000</b>	<b>20,000</b>
<b>TOTAL</b>	<b>46,033</b>	<b>44,879</b>

Other creditors include:

- £25,405 outstanding pensions contributions at 31 March 2008 (31 March 2007 £1,829,458).

\* The 2006-07 values have been adjusted due to a misclassification in the 2006-07 accounts. The values have changed by £4,233,000, reducing Other Creditors and increasing Non NHS Trade Creditors. This value represents Invoice based accruals included within Other Creditors in error.

**15.2 Loans [and other long-term financial liabilities] \***

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000
Amounts falling due:		
In one year or less	<b>5,000</b>	5,000
Between one and two years	<b>5,000</b>	5,000
Between two and five years	<b>10,000</b>	15,000
Over 5 years	<b>0</b>	0
<b>TOTAL</b>	<b><u>20,000</u></b>	<u>25,000</u>

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000
Wholly repayable within five years	<b>20,000</b>	25,000
Wholly repayable after five years, not by instalments	<b>0</b>	0
Wholly or partially repayable after five years, by instalments	<b>0</b>	0
<b>TOTAL</b>	<b><u>20,000</u></b>	<u>25,000</u>

Total repayable after five years by instalments

\* The Loan value of £20,000,000 is a Working Capital Loan taken from the Department of Health in 2006-07

**15.3 Finance lease obligations**

	<b>31 March 2008</b>	31 March 2007
	<b>£000</b>	£000
Payable:		
Within one year	<b>0</b>	0
Between one and five years	<b>0</b>	0
After five years	<b>0</b>	0
	<b><u>0</u></b>	<u>0</u>
Less finance charges allocated to future periods	<b>0</b>	0
	<b><u>0</u></b>	<u>0</u>

**15.4 Finance Lease Commitments**

The Trust had no Finance Lease Commitments at 31st March 2008.

**16. Provisions for liabilities and charges**

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Restructurings £000	Other £000	<b>Total £000</b>
At 1 April 2007	0	1,054	1,868	0	1,202	<b>4,124</b>
Arising during the year	0	0	189	0	1,044	<b>1,233</b>
Utilised during the year	0	(83)	(223)	0	(923)	<b>(1,229)</b>
Reversed unused	0	(47)	(18)	0	(279)	<b>(344)</b>
Unwinding of discount	0	20	38	0	0	<b>58</b>
<b>At 31 March 2008</b>	<b>0</b>	<b>944</b>	<b>1,854</b>	<b>0</b>	<b>1,044</b>	<b>3,842</b>

**Expected timing of cashflows:**

Within one year	0	82	205	0	1,044	<b>1,331</b>
Between one and five years	0	407	463	0	0	<b>870</b>
After five years	0	455	1,186	0	0	<b>1,641</b>

The provision for pensions relating to other staff includes a degree of uncertainty in respect of timings and amounts, due to the uncertainty over life expectancy. Future liability is calculated using actuarial values.

The provision for other legal claims relates to Injury benefit payments to former employees, third party liability and property expense claims. The Trust's legal advisors have assessed each claim and a provision has been made, based upon the expected outcome of the claim, the related probability and the expected settlement date.

In addition to the amount provided for within the Trust's accounts, details of contingent liabilities and assets relating to these claims are given in Note 21.

The 'Other' Provision is for potential Agenda for Change and Redundancy payments, which, as at the Balance sheet date remain uncertain.

£17,492,877 is included in the provisions of the NHS Litigation Authority at 31 March 2008 in respect of clinical negligence liabilities of the NHS Trust (31 March 2007 £14,610,047).

**17. Movements on Reserves**

Movements on reserves in the year comprised the following:

	Revaluation Reserve £000	Donated Asset Reserve £000	Government Grant Reserve £000	Other Reserves £000	Income and Expenditure Reserve £000	Total £000
At 1 April 2007 as previously stated	34,351	1,442	391	(861)	(24,859)	10,464
Prior Period Adjustments	0	0	0	0	(1,059)	(1,059)
At 1 April 2007 as restated	34,351	1,442	391	(861)	(25,918)	9,405
Transfer from the income and expenditure account					5,193	5,193
Fixed asset impairments	0	0	0			0
Surplus/(deficit) on other revaluations/indexation of fixed/current assets	11,980	88	11			12,079
Transfer of realised profits/(losses) to the income and expenditure reserve	0	0	0		0	0
Receipt of donated/government granted assets		186	0			186
Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets		(435)	(67)			(502)
Other transfers between reserves	(3,113)	0	0	0	3,113	0
Other movements on reserves [specify]				0		0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 March 2008	<u>43,218</u>	<u>1,281</u>	<u>335</u>	<u>(861)</u>	<u>(17,612)</u>	<u>26,361</u>

The Prior period adjustment relates to the change in Accounting Policy regarding the Capitalisation of Digital Hearing aids. Following the withdrawal of the NHS Capital Accounting Manual, the Trust is required to apply FRS15 (Fixed Assets) which does not include detailed guidance on the capitalisation of these specific items. Therefore the prior year entries have been made to reflect the consistency of accounting treatment through charging the expenditure to the I&E account in previous years.

\*\* The movement between the Revaluation Reserve and Income and Expenditure Reserve is represented by :-

a) £1,244,062 for excess depreciation from 1.4.07 to 31.3.08. In accordance with the FRS5:-

(3.39) UK GAAP is clear that all the depreciation chargeable on revalued assets must pass through the revenue statement, i.e. I&E account. This means that the extra depreciation incurred because an asset has been indexed or revalued upwards is included in the depreciation charge for the year

(3.40) NHS Bodies should, however, release an amount from the revaluation reserve to the General Fund/I&E reserve in respect of this excess depreciation over historic cost. This transfer avoids the anomaly of the revaluation reserve remaining in perpetuity after an asset has become fully depreciated. It is also justified as it recognises a 'realised profit' in Companies Act terms

b) £1,846,815 for the balance on the Revaluation Reserve which refers to Fixed Assets that the Trust has Impaired in 2007-08.

c) £23,309 for the balance on the Revaluation Reserve which refers to Fixed Assets that the Trust has Disposed of in 2007-08.

**18. Notes to the Cash Flow Statement**

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

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Total operating surplus/(deficit)	<b>12,208</b>	4,880
Depreciation and amortisation charge	<b>9,812</b>	9,749
Fixed asset impairments and reversals	<b>6,131</b>	0
Transfer from donated asset reserve	<b>(435)</b>	(210)
Transfer from the government grant reserve	<b>(67)</b>	(65)
(Increase)/decrease in stocks	<b>14</b>	(18)
(Increase)/decrease in debtors	<b>(7,295)</b>	7,362
Increase/(decrease) in creditors	<b>6,052</b>	(11,014)
Increase/(decrease) in provisions	<b>(340)</b>	938
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities before restructuring costs	<b>26,080</b>	11,622
Payments in respect of fundamental reorganisation/restructuring	<b>0</b>	0
	<hr/>	<hr/>
<b>Net cash inflow from operating activities</b>	<b>26,080</b>	11,622
	<hr/> <hr/>	<hr/> <hr/>

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

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Increase/(decrease) in cash in the period	<b>5,461</b>	26
Cash (inflow) from new debt	<b>0</b>	(25,000)
Cash outflow from debt repaid and finance lease capital payments	<b>5,000</b>	0
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<b>0</b>	0
	<hr/>	<hr/>
Change in net debt resulting from cash flows	<b>10,461</b>	(24,974)
Non - cash changes in debt	<b>0</b>	0
Net debt at 1 April 2007	<b>(24,859)</b>	115
	<hr/>	<hr/>
<b>Net debt at 31 March 2008</b>	<b>(14,398)</b>	(24,859)
	<hr/> <hr/>	<hr/> <hr/>

**18.3 Analysis of changes in net debt**

	At 1 April 2007	Cash Transferred (to)/from other NHS bodies	Other cash changes in year	Non-cash changes in year	At 31 March 2008
	£000	£000	£000	£000	£000
OPG cash at bank	49	0	5,419		<b>5,468</b>
Commercial cash at bank and in hand	92	0	42		<b>134</b>
Bank overdraft	0	0	0		<b>0</b>
Loan from DH due within one year	(5,000)	0	0	0	<b>(5,000)</b>
Other debt due within one year	0	0	0	0	<b>0</b>
Loan from DH due after one year	(20,000)	0	5,000	0	<b>(15,000)</b>
Other debt due after one year	0	0	0	0	<b>0</b>
Finance leases	0	0	0	0	<b>0</b>
Current asset investments	0	0	0	0	<b>0</b>
	<b>(24,859)</b>	<b>0</b>	<b>10,461</b>	<b>0</b>	<b>(14,398)</b>

**19. Capital Commitments**

Commitments under capital expenditure contracts at 31 March 2008 were £3,205,136 (31 March 2007 £1,048,558)

**20. Post Balance Sheet Events**

There are no Post Balance Sheet Events having a material effect on the accounts.

**21. Contingencies**

	2007/08 £000	2006/07 £000
Contingent liabilities *	(30)	(72)
Amounts recoverable against contingent liabilities	0	0
<b>Net value of contingent liabilities</b>	<b>(30)</b>	<b>(72)</b>
Contingent Assets	0	0

\* The Trusts contingent liabilities include claims brought by employees and third parties totalling £29,760. The Provisions for these claims are included within Note 16 under 'Legal Claims'

**22. Movement in Public Dividend Capital**

	2007/08 £000	2006/07 £000
Public Dividend Capital as at 1 April 2007	145,860	166,526
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	0	4,334
Public Dividend Capital repaid in year	0	(25,000)
Public Dividend Capital written off	0	0
Public Dividend Capital issued as originating capital on new establi:	0	0
Public Dividend Capital transferred to Foundation Trust	0	0
Other movements in Public Dividend Capital in year	0	0
<b>Public Dividend Capital as at 31 March 2008</b>	<b>145,860</b>	<b>145,860</b>

## 23. Financial Performance Targets

### 23.1 Breakeven Performance

The trust's breakeven performance for 2007/08 is as follows:

	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000
Turnover	190,844	227,004	246,068	263,801	293,859
Retained surplus/(deficit) for the year	(12,801)	2	(4,952)	53	5,193
Adjustment for:					
- Timing/non-cash impacting distortions					
- Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements]	315	0	0	0	0
- 2004/05 Prior Period Adjustment (relating to 1997/98 to 2003/04)	(1,720)	0	0	0	0
- 2005/06 Prior Period Adjustment (relating to 1997/98 to 2004/05)	0	(1,392)	0	0	0
- 2006/07 Prior Period Adjustment (relating to 1997/98 to 2005/06)	0	0	0	0	0
2007/08 Prior Period Adjustment (relating to 197/98 to 2006/07)	0	0	0	(1,059)	0
- Other agreed adjustments	0	0	0	0	0
Break-even in-year position	(14,206)	(1,390)	(4,952)	(1,006)	5,193
Break-even cumulative position	(25,532)	(26,922)	(31,874)	(32,880)	(27,687)
The Trust's recovery plan, approved by the SHA aims to achieve break-even in 2011/12. This should be the date of the financial year end e.g. 2010.					2012
If anticipated financial year of recovery is more than two years state the period agreed with SHA					4
Materiality test (I.e. is it equal to or less than 0.5%):					
- Break-even in-year position as a percentage of turnover	-7.44%	-0.61%	-2.01%	-0.38%	1.77%
- Break-even cumulative position as a percentage of turnover	(13.38%)	(11.86%)	(12.95%)	(12.46%)	(9.42%)

### 23.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £5,833,000 bears to the average relevant net assets of £156,588,000, that is 3.8%. This figure is within the materiality range of 3.0% to 4.0%

### 23.3 External financing

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

	£000	2007/08 £000	2006/07 £000
External financing limit		(6,962)	4,334
Cash flow financing	(10,461)		4,308
Finance leases taken out in the year	0		0
Other capital receipts	0		0
External financing requirement		<u>(10,461)</u>	<u>4,308</u>
<b>Undershoot/(overshoot)</b>		<u><u>3,499</u></u>	<u><u>26</u></u>

### 23.4 Capital Resource Limit

The Trust is given a capital resource limit which it is not permitted to overspend

	2007/08 £000	2006/07 As restated £000
Gross capital expenditure	9,764	11,307
Less: book value of assets disposed of	(814)	(60)
Plus: loss on disposal of donated assets	224	0
Less: capital grants	0	0
Less: donations towards the acquisition of fixed assets	(186)	(45)
Charge against the capital resource limit	<u>8,988</u>	<u>11,202</u>
Capital resource limit	<u>11,962</u>	<u>12,050</u>
<b>(Over)/Underspend against the capital resource limit</b>	<u><u>2,974</u></u>	<u><u>848</u></u>

**24. Related Party Transactions**

Worcestershire Acute Hospitals NHS Trust is a body corporate established by order of the Secretary of State for Health.

During the year one of the Board Members or members of the key management staff or parties related to him has undertaken material transactions with Worcestershire Acute Hospitals NHS Trust.

	Payments to Related Party	Receipts from Related Party	Amounts owed to Related Party	Amounts due from Related Party
	£	£	£	£
Mr. Michael O'Riordan - Chairman of the Trust and: Chairman of the Healthcare Purchasing Consortium effective from 11/07/06. Trustee of Charles Hastings Education Centre				
<b>Transactions with Healthcare Purchasing Consortium</b>				
Payments - Managed Purchasing Service	264,907	0	0	0
Payments - Supplies Senior Staffing Costs	65,034	0	0	0
Payments - Support Costs relating to Workmate System	43,398	0	0	0
<b>Transactions with Charles Hastings Education Centre</b>	<b>258,549</b>	<b>0</b>	<b>400</b>	<b>0</b>

The Department of Health is regarded as a related party. During the year Worcestershire Acute 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:

Worcestershire PCT  
Worcestershire Mental Health Partnership NHS Trust  
the NHS Litigation Authority;  
the NHS Supplies Authority;

In addition, the Trust has had a significant number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with Worcestershire County Council, Worcester City Council, Redditch Borough Council and Wyre Forest District Council in respect of business rates and the provision of public mortuary services.

The Trust has also received revenue and capital payments from a number of charitable funds amounting to £559,079 (£283,952 in 2006/07), certain of the Trustees for which are also members of the NHS Trust Board. The the Summary Financial Statements of the Funds Held on Trust are included in this annual report and accounts. A separate Trustees Report and Accounts will also be published by the Trust.

## 25. Private Finance Transactions

### 25.1 PFI schemes deemed to be off-balance sheet

	<b>2007/08</b>	2006/07
	<b>£000</b>	£000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet - gross	<b>23,069</b>	23,185
Amortisation of PFI deferred asset	<b>527</b>	493
Net charge to operating expenses	<b><u>23,596</u></b>	<u>23,678</u>

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

PFI scheme which expires;		
Within one year*	<b>0</b>	0
2nd to 5th years (inclusive)*	<b>0</b>	0
6th to 10th years (inclusive)*	<b>0</b>	0
11th to 15th years (inclusive)*	<b>0</b>	0
16th to 20th years (inclusive)*	<b>0</b>	0
21st to 25th years (inclusive)*	<b>28,914</b>	26,811
26th to 30th years (inclusive)*	<b>0</b>	0
31st to 35th years (inclusive)*	<b>0</b>	0
Etc*		
	<b>£000</b>	£000
Estimated capital value of the PFI scheme	106,000	106,000
Contract Start date:	01/04/1999	
Contract End date:	31/03/2032	

The PFI scheme in Worcester is for a new hospital to reprovide services that were delivered on three sites. As well as the construction of the new hospital, Catalyst Healthcare ( Worcester ) Ltd provide a comprehensive facilities management service including estates maintenance, hotel services and equipment procurement and maintenance. In advance of the new hospital becoming operational, the equipment element of the contract commenced on 1st July 1999.

Deferred assets are valued at £13,474,420 (net book value at date arising) and residual interest at £8,664,274  
 Payments of the annual tariff for the PFI contract are made monthly in advance.

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

There are no 'service' elements of PFI schemes deemed to be on-balance sheet as at 31st March 2008.

## 26 Pooled Budget Projects

There are no Pooled Budget Projects for the Financial Year 2007/08.

**27 Financial Instruments**

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, the NHS 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 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 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 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. Worcestershire Acute Hospitals NHS Trust is not, therefore, exposed to significant liquidity risks.

**Interest-Rate Risk**

All of the Trust's financial assets and financial liabilities carry nil or fixed rates of interest. Worcestershire Acute Hospitals NHS Trust is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities:

**27.1 Financial Assets**

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2008							
Sterling	5,602	5,602	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
<b>Gross financial assets</b>	<b>5,602</b>	<b>5,602</b>	<b>0</b>	<b>0</b>			
At 31 March 2007							
Sterling	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
<b>Gross financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			

**27.2 Financial Liabilities**

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2008							
Sterling	(21,648)	(20,000)	(1,648)	0	2.20%	0	0
Other	0	0	0	0	0.00%	0	0
<b>Gross financial liabilities</b>	<b>(21,648)</b>	<b>(20,000)</b>	<b>(1,648)</b>	<b>0</b>			
At 31 March 2007							
Sterling	(168,510)	(20,000)	(2,650)	(145,860) *	2.20%	0	0
Other	0	0	0	0	0.00%	0	0
<b>Gross financial liabilities</b>	<b>(168,510)</b>	<b>(20,000)</b>	<b>(2,650)</b>	<b>(145,860)</b>			

\* The public dividend capital shown at 31st March 2007 is of unlimited term. There is no requirement to show the equivalent figure as at 31st March 2008 as this is deemed to be under legislation, not under contract.

**Foreign Currency Risk**

The Trust has no/negligible foreign currency income or expenditure.

**27.3 Fair Values**

Set out below is a comparison, by category, of book values and fair values of the NHS Trust's financial assets and liabilities as at 31 March 2008.

	<b>Book Value</b>	<b>Fair Value</b>	<b>Basis of fair valuation</b>
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	5,602	5,602	a
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	0	0	
Investments	0	0	
<b>Total</b>	<u>5,602</u>	<u>5,602</u>	
<b>Financial liabilities</b>			
Overdraft	0	0	
Creditors over 1 year:			
- Finance leases	0	0	
Provisions under contract	(1,648)	(1,648)	a
Loans	(20,000)	(20,000)	a
<b>Total</b>	<u>(21,648)</u>	<u>(21,648)</u>	

a - Book value as disclosed in the Trusts Balance Sheet at 31st March 2008 is expected to equal Fair Value.

**28 Third Party Assets**

The Trust held £4,634 cash at bank and in hand at (£0 - at Worcestershire Acute Hospitals NHS Trust) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

**29 Intra-Government and Other Balances**

	<b>Debtors: amounts falling due within one year</b>	<b>Debtors: amounts falling due after more than one year</b>	<b>Creditors: amounts falling due within one year</b>	<b>Creditors: amounts falling due after more than one year</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balances with other Central Government Bodies	11,955	0	6,155	15,000
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	2,270	0	1,278	0
Balances with Public Corporations and Trading Funds	0	0	1,465	0
Balances with bodies external to government	6,323	15,230	22,135	0
<b>At 31 March 2008</b>	<b><u>20,548</u></b>	<b><u>15,230</u></b>	<b><u>31,033</u></b>	<b><u>15,000</u></b>
Balances with other Central Government Bodies	5,315	0	2,590	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	2,320	0	1,152	0
Balances with Public Corporations and Trading Funds	0	0	0	0
Balances with bodies external to government	5,925	14,923	21,137	20,000
<b>At 31 March 2007</b>	<b><u>13,560</u></b>	<b><u>14,923</u></b>	<b><u>24,879</u></b>	<b><u>20,000</u></b>

**30 Losses and Special Payments**

There were 45 cases of losses and special payments (2006/07: 68 cases) totalling £115,697 (2006/07: £166,785) paid during 2007/08.