

ROYAL DEVON AND EXETER NHS FOUNDATION TRUST

ANNUAL ACCOUNTS

YEAR ENDED 31 MARCH 2009

INDEX

	Page
STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES	2
STATEMENT ON INTERNAL CONTROL	3
INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF GOVERNORS	7
FOREWORD TO THE ACCOUNTS	9
INCOME AND EXPENDITURE ACCOUNT	10
BALANCE SHEET	11
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	12
CASH FLOW STATEMENT	13
NOTES TO THE ACCOUNTS	14

Statement of the Chief Executive's responsibilities as the Accounting Officer of the Royal Devon and Exeter NHS Foundation Trust

The National Health Service Act 2006 ("2006 Act") states that the Chief Executive is the Accounting Officer of the Trust. The relevant responsibilities of the Accounting Officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the Accounting Officers' memorandum issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

Under the 2006 Act, Monitor has directed the Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the NHS Foundation Trust Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the NHS Foundation Trust Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable him/her to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is 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.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor's NHS Foundation Trust Accounting Officers' Memorandum.

Signed:



Angela Pedder - Chief Executive

Date: 3 June 2009

STATEMENT ON INTERNAL CONTROL 2008/09

1.0 Scope of responsibility

1.1 As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS Foundation Trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the NHS Foundation Trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

2.0 The purpose of the system of internal control

2.1 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 policies, aims and objectives of the Royal Devon & Exeter NHS Foundation Trust.
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

2.2 The system of internal control has been in place in the Royal Devon & Exeter NHS Foundation Trust for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts.

3.0 Pensions

3.1 As an employer with staff entitled to membership of the NHS Pension Scheme control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with.

4.0 Capacity to handle risk

4.1 The Governance Committee (committee of the Board of Directors) provides leadership to the risk management process. This committee deals with all types of risk, both clinical and organisational. The Risk Management Department offers advice and teaching to the Trust on all matters of risk management. Specialist functions also exist to manage various agendas. These include:

- Head of patient governance and risk manager
- Fire, infection control and radiation advisors
- Occupational health physician and health advisors
- Governance support unit providing clinical audit and research ethics advice
- Trust solicitor
- Complaints department
- Patient advice and liaison service (PALS)

4.2 Guidance and training is provided to staff through both corporate and local induction, update training, specific risk management training, policies and procedures and feedback from audits, inspections and incident reporting. Included within this is the sharing of good practice and learning from incidents.

4.3 Risk management training courses are run on a regular basis to teach the necessary skills needed to undertake risk management duties.

4.4 Policies and procedures are updated on a regular basis to offer a benchmark to the Trust on how to manage risk. Some of these policies, specifically the risk management strategy, risk assessment policy and procedure and the incident and investigation policy and procedure, also inform external stakeholders on the Trust position in these areas.

STATEMENT ON INTERNAL CONTROL 2008/09

4.5 The audit committee (non executive committee of the board of directors) reviews the establishment and maintenance of an effective system of integrated governance across the whole of the Trust's activities that supports the achievement of the Trust's objectives. Specifically, the committee reviews the adequacy of:

- all risk and control related disclosure statements together with the head of internal audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board.
- the underlying assurance processes that indicate the degree of the achievement of the corporate objectives together with the effectiveness of the management of principal risks and the appropriateness of disclosure statements.
- the policies for assuring compliance with relevant regulatory, legal and code of conduct requirements.
- the policies and procedures for all work related to fraud and corruption as required by the counter fraud and security management service.

5.0 The risk and control framework

5.1 A key element of the risk management strategy is a standard methodology in which risk is evaluated. This is via a likelihood-consequence matrix. The role and responsibilities of key players and all members of staff within the organisation are also detailed. The terms of reference of the governance committee and the governance structure is also highlighted along with the terms of reference of all committees reporting to the governance committee.

5.2 The Trust utilises a risk register in order to manage both the higher level and Trust wide risks that are faced by the organisation. Division based risk registers have also been developed to enable directorates to manage the risk assessment process.

5.3 Divisions undertake risk management activities within their own sphere of responsibility by holding regular divisional governance groups meetings.

5.4 The Board has approved an assurance framework, which covers the key priorities of the Trust. Where gaps in control or assurance have been highlighted to the Board, these have been placed on the risk register. Action plans have been put in place to address any gaps.

5.5 The assurance framework is split into a number of areas that include the regulatory, national, local and commissioner issues. These are:

- Monitor
- Healthcare standards
- Strategic directions
- National and local targets

5.6 Primary Care Trust consultations on the wider aspects of risk (for example access risk issues) are undertaken through regular monthly contract management meetings.

5.7 Planning risk issues are discussed with the local authorities via overview and scrutiny committees. The Trust also involves the media in matters relating to communication with the public. An example would be in managing the risks around infection outbreaks.

5.8 Quarterly council of governor meetings are also held to discuss all aspects of Trust business, including risks, in meeting national targets.

STATEMENT ON INTERNAL CONTROL 2008/09

5.9 Risks to information in terms of security and data confidentiality are managed via the information governance committee (chaired by the Director of Finance & Business Development) through the maintenance of a comprehensive set of policies and procedures specifically designed to provide security against loss or inappropriate disclosure of personal information. Following the annual information governance audit, an action plan was drawn up and completed. All new induction staff and existing staff attending mandatory information governance training are provided with a copy of all relevant policies on CD and sign an acceptance and agreement to undertake to read all policies contained therein. All laptops and data sticks are encrypted. All information governance incidents are reported via the information governance committee.

6.0 Review of economy, efficiency and effectiveness of the use of resources

6.1 Internally, overall performance is monitored at the monthly meetings of the Board of Directors. Operational management and the coordination of Trust services is delivered by the Trust Executive, which comprises the executive directors and clinical directors. Performance of individual clinical and support divisions is monitored informally on a monthly basis and formally on a quarterly basis via the quarterly review process.

6.2 I can confirm that the Trust complies with the cost allocation of and charging requirements set out in H M Treasury and Office of Public Sector Information guidance.

7.0 Review of effectiveness

7.1 As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the NHS Foundation Trust who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

7.2 There are a number of further areas of work that have been included in my review of the effectiveness of the system of internal control. These include:

Annual health check evidence gathering and subsequent review of all core healthcare standards by internal audit; NHS Litigation Authority review of maternity services; performance monitoring by the board of strategic directions and operational milestones to achieve internal and external targets; national patient and staff survey results; health & safety action plan.

7.3 Key stakeholders have advised me on achievement of both national and locally agreed targets. These stakeholders include:

The board of directors - Executive and non-executive strategic management of all Trust objectives;

The audit committee - Reviews the effectiveness of the systems of integrated governance;

The governance committee - Provides leadership on the risk management process;

Internal audit - Provides independent assurance on issues examined and agreed on the annual audit plan;

External audit - Provides external independent assurance on the financial framework, internal audit function and risk management function of the Trust;

Council of Governors - Provides a statement on achievement of core healthcare standards;

Overview and scrutiny committee - Provides a statement on achievement of selected core healthcare standards;

Local Safeguarding Children's Board - Provides a statement on achievement of selected core healthcare standards.

STATEMENT ON INTERNAL CONTROL 2008/09

- 7.4 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, the audit committee and governance committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.
- 7.5 My review of the effectiveness of the system of internal control has been presented and approved by the Board. The Board and the Audit and Governance Committees have been kept informed of progress against action plans throughout the year. The assurance framework includes plans to address any gaps in control or assurance in order to ensure that continuous improvement of the system is in place.
- 7.6 Internal audit has examined the assurance framework for the Trust and has agreed that it is satisfactory. The Board will review the process on a quarterly basis and regular reports are given to the Audit and Governance Committees. The Trust position against the core healthcare standards has been reported to the Board and the Care Quality Commission via the Annual Declaration.
- 7.7 No significant internal control issues (i.e. issues where the risk could not be effectively controlled) have been identified in respect of 2008/09.

Signed:



Angela Pedder - Chief Executive

Date: 3 June 2009

Independent Auditors' Report to the Board of Governors of the Royal Devon and Exeter NHS Foundation Trust

We have audited the financial statements of the Royal Devon and Exeter NHS Foundation Trust for the year ended 31 March 2009 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. The financial reporting framework that has been applied in their preparation is the NHS Foundation Trust Financial Reporting Manual issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Accounting Officer Responsibilities Statement (set out on page 2) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with relevant statute, the Audit Code for NHS Foundation Trusts issued by Monitor and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Board of Governors of the Royal Devon and Exeter NHS Foundation Trust in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

The maintenance and integrity of the Royal Devon and Exeter NHS Foundation Trust website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the NHS Foundation Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the NHS Foundation Trust; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

give a true and fair view, in accordance with the NHS Foundation Trust Financial Reporting Manual, of the state of the NHS Foundation Trust's affairs as at 31 March 2009 and of its income and expenditure and cash flows for the year then ended 31 March 2009; and

have been properly prepared in accordance with the NHS Foundation Trust Financial Reporting Manual.

Opinion on other matters prescribed by the Audit Code for NHS Foundation Trusts

In our opinion

the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the NHS Foundation Trust Financial Reporting Manual; and

the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Board of Governors of the Royal Devon and Exeter NHS Foundation Trust

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Audit Code for NHS Foundation Trusts requires us to report to you if, in our opinion:

adequate accounting records have not been kept, or returns adequate for our audit have not been received from locations not visited by us; or

the financial statements are not in agreement with the accounting records and returns; or

we have not received all the information and explanations we require for our audit; or

the Statement on Internal Control does not meet the disclosure requirements set out in the NHS Foundation Trust Financial Reporting Manual or is misleading or inconsistent with information of which we are aware from our audit; or

we have not been able to satisfy ourselves that the NHS Foundation Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of Chapter 5 of Part 2 to the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by Monitor.

A handwritten signature in black ink that reads "Richard Bacon". The signature is written in a cursive style and is underlined with a single horizontal stroke.

Richard Bacon (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

3 June 2009

FOREWORD TO THE ACCOUNTS

These accounts for the year ended 31 March 2009 have been prepared by the Royal Devon and Exeter NHS Foundation Trust in accordance with paragraphs 24 and 25 of Schedule 7 to the National Health Service Act 2006 in the form which Monitor has, with the approval of the Treasury, directed.

The Royal Devon and Exeter NHS Foundation Trust Annual Report and Accounts are presented to Parliament pursuant to Schedule 7, paragraph 25(4) of National Health Service Act 2006.

The Trust achieved a surplus of £7.65 million in 2008/09. The Trust no longer has a legal responsibility to break-even taking one year with another and is planning a surplus of £7 million in 2009/10. Further information relating to the Trust's performance, for the year ended 31 March 2009, is included in the Operating and Financial Review within the Annual Report.

Signed:

A handwritten signature in black ink, appearing to read 'Angela Pedder', written in a cursive style.

Angela Pedder - Chief Executive

Date: 3 June 2009

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 MARCH 2009**

	Note	2008/09 £000	2007/08 £000
Income from activities	3	254,997	234,370
Other operating income	5	57,840	54,735
Operating expenses	6-7	(296,966)	(273,018)
OPERATING SURPLUS		15,871	16,087
Loss on disposal of fixed assets	11	(99)	(47)
SURPLUS BEFORE NET FINANCING COSTS		15,772	16,040
Finance income		1,867	2,382
Finance costs	8	(1,189)	(1,262)
SURPLUS FOR THE FINANCIAL YEAR		16,450	17,160
Public dividend capital dividends payable	9	(8,800)	(8,777)
RECORDED SURPLUS FOR THE YEAR		7,650	8,383

The notes on pages 14 to 34 form part of these accounts.

All activities are classed as continuing.

**BALANCE SHEET AS AT
31 MARCH 2009**

	Note	31 March 2009 £000	31 March 2008 £000
FIXED ASSETS			
Intangible assets	13	829	643
Tangible assets	14	<u>267,148</u>	<u>293,091</u>
		<u>267,977</u>	<u>293,734</u>
CURRENT ASSETS			
Stocks and work in progress	15	4,691	4,079
Debtors	16	14,385	13,808
Cash at bank and in hand		<u>38,359</u>	<u>31,598</u>
		57,435	49,485
CREDITORS: Amounts falling due within one year	17	<u>(26,870)</u>	<u>(27,840)</u>
NET CURRENT ASSETS		30,565	21,645
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>298,542</u>	<u>315,379</u>
CREDITORS: Amounts falling due after more than one year	17	(23,074)	(24,589)
PROVISIONS FOR LIABILITIES AND CHARGES	18	(417)	(460)
TOTAL ASSETS EMPLOYED		<u>275,051</u>	<u>290,330</u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital		149,319	149,319
Revaluation reserve	20	86,857	113,469
Donated asset reserve	20	4,808	5,140
Income and expenditure reserve	20	34,067	22,402
TOTAL TAXPAYERS EQUITY		<u>275,051</u>	<u>290,330</u>

The notes on pages 14 to 34 form part of these accounts.

The Annual Accounts were formally approved by the Board and were signed on its behalf by:



Angela Pedder - Chief Executive

Date: 3 June 2009

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 MARCH 2009**

	2008/09	2007/08
	£000	£000
Surplus for the financial year before dividend payments	16,450	17,160
Fixed asset impairment losses	(21,724)	-
Unrealised (deficit) / surplus on fixed asset revaluations / indexation	(1,013)	25,935
Increases in the donated asset reserve due to receipt of donated assets	222	2,471
Reductions in the donated asset reserve due to the depreciation, impairment and disposal of donated assets	(414)	(367)
Total recognised gains and losses since last annual report	<u>(6,479)</u>	<u>45,199</u>

**CASH FLOW STATEMENT FOR THE YEAR ENDED
31 MARCH 2009**

	NOTE	2008/09 £000	2007/08 £000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	21.1	26,432	37,139
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		1,867	2,382
Interest paid		<u>(1,189)</u>	<u>(1,262)</u>
Net cash inflow from returns on investments and servicing of finance		678	1,120
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(10,147)	(15,229)
Receipts from sale of tangible fixed assets		9	-
Payments to dispose of tangible fixed assets		-	(8)
Payments to acquire intangible assets		<u>(363)</u>	<u>(324)</u>
Net cash outflow from capital expenditure		(10,501)	(15,561)
DIVIDENDS PAID		(8,800)	(8,777)
Net cash inflow before financing		<u>7,809</u>	<u>13,921</u>
FINANCING			
Public Dividend Capital received		-	2,787
Foundation Trust Financing Facility loans repaid		(1,270)	(1,271)
Other capital receipts		<u>222</u>	<u>364</u>
Net cash inflow from financing		(1,048)	1,880
Increase in cash		<u>6,761</u>	<u>15,801</u>

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Monitor has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the NHS Foundation Trust Financial Reporting Manual which has been agreed with HM Treasury. Consequently, the financial statements have been prepared in accordance with the 2008/09 NHS Foundation Trust Financial Reporting Manual issued by Monitor. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of tangible fixed assets at their value to the business by reference to their current costs. NHS foundation trusts, in compliance with HM Treasury's Financial Reporting Manual, are not required to comply with the FRS 3 requirements to report "earnings per share" or historical profits and losses.

1.2 Income Recognition

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

1.3 Expenditure

Expenditure is accounted for by applying the accruals convention.

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 amortised over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

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
- form a group of assets which individually have a cost of more than £250, collectively have a cost of at least £5,000, 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 or refurbishment of a ward or unit, irrespective of their individual or collective cost.

Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The costs arising from financing the construction of the fixed asset are not capitalised but are charged to the income and expenditure account in the year to which they relate.

All land and buildings are revalued using professional valuations in accordance with FRS15 every five years. A three yearly interim valuation is also carried out. The interim valuation has been accounted for in the year ended 31 March 2009 accounts.

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual.

The valuations are carried out primarily on the basis of modern equivalent cost for specialised operational property and existing use value for non-specialised operational property. The value of land for existing use purposes is assessed at existing use value. For non-operational properties including surplus land, the valuations are carried out at open market value.

Additional alternative open market value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

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

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

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

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

1.5 Tangible fixed assets (continued)

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 Trust's professional valuers. Leaseholds are depreciated over the primary lease term.

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

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

Useful lives are determined on a case by case basis. The typical life for the following assets are:

	Years
Freehold buildings	13 - 60
Freehold dwellings	36 - 52
Plant and machinery	5 - 15
Transport equipment	7 - 10
Information technology	5
Furniture & fittings	10
Software licences	5

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 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 sale of donated assets, the value of the net book value 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 income from primary care trusts or NHS trusts for the provision of services. Grants from the Department of Health are accounted for as government grants as are grants from the Big Lottery Fund. Where the government grant is used to fund revenue expenditure it is taken to the income and expenditure account to match the expenditure. Where the grant is used to fund capital expenditure the grant is held as deferred income and released to the income and expenditure account over the life of the asset on a basis consistent with the depreciation charge for that asset.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

1.8 Private Finance Initiative (PFI) transactions

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

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

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. Work-in-progress comprises goods in intermediate stages of production.

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; and
- adequate resources exist, or are reasonably expected to be available to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible the Trust will disclose the total amount of research and development expenditure charged in the income and expenditure account separately. However, where research and development activity cannot be separated from patient care activity it cannot be identified and is therefore not separately disclosed.

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

1.11 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 significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rate of 2.2% in real terms.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

1.11 Provisions (Continued)

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 18.

Non-clinical risk pooling

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

1.12 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 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 under FRS17. Employers pension cost contributions are charged to operating expenses as and when they become due.

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

The scheme is subject to a full actuarial valuation every four years by the Government Actuary. The latest published valuation relates to the period 1 April 1999 to 31 March 2004 which was published in December 2007 and is available on the Pensions Agency website. The notional deficit of the scheme was £3.3 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1999 to 31 March 2004. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis.

Employer contributions rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation, it was recommended that employer contribution rates should continue at 14% pensionable pay. From 1 April 2008, employees' contributions are paid on a tiered scale from 5% to 8.5% of their pensionable pay.

1.13 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.

1.14 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.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES (CONTINUED)

1.15 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them. However, they are disclosed in a separate note to the accounts in accordance with the requirements of the HM Treasury Financial Reporting Manual, see note 28.

1.16 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.

1.17 Public Dividend Capital

Public Dividend Capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities i.e. the net assets of a public benefit corporation.

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 average relevant assets of the Trust. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant 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, see note 9.

1.18 Financial instruments

Financial instruments are carried on the balance sheet at their fair value or amortised cost (book value). The fair value is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, generally accepted estimation and valuation techniques based upon market conditions at the balance sheet date are used instead, including the discounted cash flow method.

Financial assets and financial liabilities which arise from contracts for the purchase of non-financial items (such as goods or services), which are entered into in accordance with the Trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made.

All other financial assets and financial liabilities are recognised when the Trust becomes a party to the contractual provisions of the instrument.

All financial assets are de-recognised when the rights to receive cashflows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

At the balance sheet date, the Trust assesses whether any financial assets are impaired. Where financial assets are impaired, impairment losses are recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cashflows of the asset.

Provisions for bad debts is calculated based upon individual / collective outstanding balances which are considered unlikely to be recoverable.

NOTES TO THE ACCOUNTS

2. Segmental analysis

All income and activities are for the provision of health and health related services in the UK.

3. Income from activities

	2008/09	2007/08
	£000	£000
Elective income	70,801	66,740
Non-elective income	85,081	76,630
Outpatient income	44,524	39,042
Other types of activity income	45,209	43,634
A & E income	8,030	6,821
Private patient income	1,297	1,458
Other non-protected clinical income	55	45
	<u>254,997</u>	<u>234,370</u>
Income from mandatory services	253,645	232,867
Income from non-mandatory services	1,352	1,503
	<u>254,997</u>	<u>234,370</u>

NHS Injury Scheme income is subject to a provision for doubtful debts of 8.7% to reflect expected rates of collection.

4. Private patient income

	2008/09	Base year 2002/03
	£000	£000
Private patient income	1,297	1,806
Total patient related income	<u>254,997</u>	<u>145,349</u>
Proportion (as a percentage)	<u>0.5%</u>	<u>1.2%</u>

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

5. Other Operating Income

	2008/09	2007/08
	£000	£000
Research and development	8,539	3,692
Education and training	18,898	21,532
Transfers from donated asset reserve	414	367
Transfers from deferred income - government grant	255	247
Non-patient care services to other bodies	23,260	24,029
Other	6,474	4,868
	<u>57,840</u>	<u>54,735</u>

Included within "Non-patient care services to other bodies" are drug sales, laundry services, financial services, IT services and estates services totalling £12.4 million (2007/08 - £14.2 million).

Included within "Other income" above is catering income of £2 million, (2007/08 - £1.9 million), merit awards of £1.1 million (2007/08 - £0.9 million) and car parking income of £1.1 million (2007/08 - £1 million).

NOTES TO THE ACCOUNTS

6. Operating expenses

6.1/1 Operating expenses comprise:

	2008/09	2007/08
	£000	£000
Services from other NHS foundation trusts	722	306
Services from NHS trusts	2,164	1,756
Services from other NHS bodies	2,457	1,693
Directors' costs	1,035	1,139
Staff costs	174,023	158,019
Drug costs	23,328	23,165
Supplies and services (excluding drug costs)		
- clinical	35,608	35,949
- general	4,069	3,996
Establishment	3,407	3,193
Research and development	7,709	3,154
Transport	418	371
Premises	13,219	11,657
Bad debts	90	112
Depreciation and amortisation	13,542	11,724
Fixed asset impairment	858	-
Audit fees	62	58
Other auditors' remuneration	102	165
Clinical negligence	2,167	2,442
Other	11,986	14,119
	<u>296,966</u>	<u>273,018</u>

The total employer's pension contributions are disclosed in note 7.1.

Included within "Other expenditure" above is £6.2 million (2007/08 - £8.8 million) being the Trust's share of Peninsular Medical School expenditure, training and education costs of £1 million (2007/08 - £0.7 million), patients' travel costs of £1.1 million (2007/08 - £0.9 million).

6.1/2 Auditors' liability

The Board of Governors appointed PricewaterhouseCoopers LLP (PwC) as external auditors for the financial year ending 31 March 2009. The engagement letter signed on 27 January 2009, states that the liability of PwC, its members, partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed £1 million in the aggregate in respect of all services (2007/08 - £1 million).

6.2 Operating leases

6.2/1 Operating expenses include:

	2008/09	2007/08
	£000	£000
Hire of plant and machinery	1,084	2,614
Other operating lease rentals	232	204
	<u>1,316</u>	<u>2,818</u>

6.2/2 Annual commitments under non - cancellable operating leases are:

	Land and buildings		Other leases	
	2008/09	2007/08	2008/09	2007/08
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	198	-	33	16
Between 1 and 5 years	30	190	442	380
After 5 years	16	16	435	434
	<u>244</u>	<u>206</u>	<u>910</u>	<u>830</u>

NOTES TO THE ACCOUNTS

7. Staff costs and numbers

7.1 Staff costs	2008/09 £000	2007/08 £000
Salaries and wages	144,519	131,095
Social security costs	10,954	10,102
Employer contributions to NHSPA	17,662	16,045
Agency and contract staff	4,653	3,747
	<u>177,788</u>	<u>160,989</u>

7.2 Average number of persons employed

	Total Number	Senior Managers Number	Others Number	Staff on inward secondment Number	Agency, temporary and contract staff Number	2007/08 Number
Medical and dental	542	1	536	5	-	513
Administration and estates	1,127	6	1,110	11	-	1,042
Healthcare assistants & other support staff	513	-	513	-	-	510
Nursing, midwifery & health visiting staff	1,761	-	1,744	17	-	1,587
Scientific, therapeutic and technical staff	664	-	661	3	-	630
Bank and agency staff	189	-	-	-	189	198
Total	<u>4,796</u>	<u>7</u>	<u>4,564</u>	<u>36</u>	<u>189</u>	<u>4,480</u>

7.3 Employee benefits

There were no employee benefits during the year.

7.4 Retirements due to ill-health

During 2008/09 there were 4 (2007/08 - 4) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £291,000 (2007/08 - £127,000). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.

NOTES TO THE ACCOUNTS

8. Finance costs

	2008/09 £000	2007/08 £000
Interest payable	<u>(1,189)</u>	<u>(1,262)</u>

9. Public Dividend Capital dividend

	2008/09 £000	2007/08 £000
Actual Public Dividend Capital dividend incurred during the year	<u>8,800</u>	<u>8,777</u>
	%	%
The actual dividend rate is	3.47%	3.55%
The forecast dividend rate was	3.50%	3.50%
Difference between actual and forecast rate	<u>(0.03%)</u>	<u>0.05%</u>

The actual dividend rate is the dividend paid figure divided by the simple average of opening and closing net assets expressed as a percentage.

Opening and closing net assets excludes donated assets and cash held in paymaster accounts.

10. Public Sector Payment Policy

10.1 Better Payment Practice Code - measure of compliance

	Number	£000
Total non-NHS trade invoices paid in the year	98,009	101,220
Total non-NHS trade invoices paid within target	82,588	79,877
Percentage of non-NHS trade invoices paid within target	84.27%	78.91%
Total NHS trade invoices paid in the year	2,580	20,836
Total NHS trade invoices paid within target	1,639	13,768
Percentage of NHS trade invoices paid within target	63.53%	66.08%

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

NOTES TO THE ACCOUNTS

11. Loss on disposal of fixed assets

2008/09 £000	2007/08 £000
<u>(99)</u>	<u>(47)</u>

12. Losses and special payments

	Number	Value £000
Losses	163	155
Special payments	<u>83</u>	<u>40</u>
Total losses and special payments	<u>246</u>	<u>195</u>

The above payments are the cash payments made in the year and are not calculated on an accruals basis.

13. Intangible fixed assets

	Software licences £000
Gross cost at 1 April 2008	1,298
Additions - purchased	337
Additions - donated	26
Disposals	<u>(31)</u>
Gross cost at 31 March 2009	<u>1,630</u>
Accumulated amortisation at 1 April 2008	655
Provided during the year	177
Eliminated on disposals	<u>(31)</u>
Accumulated amortisation at 31 March 2009	<u>801</u>
Net book value	
- Purchased at 1 April 2008	610
- Donated at 1 April 2008	<u>33</u>
- Total at 1 April 2008	<u>643</u>
- Purchased at 31 March 2009	783
- Donated at 31 March 2009	<u>46</u>
- Total at 31 March 2009	<u>829</u>

NOTES TO THE ACCOUNTS

14. Tangible fixed assets

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

	Freehold land	Freehold buildings excluding dwellings	Freehold 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 2008	55,565	204,091	3,730	9,580	43,266	1,019	9,799	1,211	328,261
Additions - purchased	-	33	-	9,574	1,012	50	255	5	10,929
Additions - donated	-	30	-	17	117	32	-	-	196
Reclassifications	-	4,617	-	(7,834)	2,503	56	647	11	-
Impairment	(13,710)	(8,602)	(270)	-	-	-	-	-	(22,582)
Revaluation	-	(9,525)	(85)	107	1,131	27	-	32	(8,313)
Disposals	-	-	-	(55)	(5,519)	(75)	(83)	-	(5,732)
At 31 March 2009	41,855	190,644	3,375	11,389	42,510	1,109	10,618	1,259	302,759
Accumulated depreciation at 1 April 2008	-	3	-	-	28,587	782	5,190	608	35,170
Provided during the year	-	7,992	89	-	3,742	106	1,314	122	13,365
Revaluation	-	(7,995)	(89)	-	747	21	-	16	(7,300)
Eliminated on disposals	-	-	-	-	(5,466)	(75)	(83)	-	(5,624)
Accumulated depreciation at 31 March 2009	-	-	-	-	27,610	834	6,421	746	35,611
Net book value									
- Purchased at 1 April 2008	55,565	201,564	3,730	8,159	13,719	230	4,453	564	287,984
- Donated at 1 April 2008	-	2,524	-	1,421	960	7	156	39	5,107
Total at 1 April 2008	55,565	204,088	3,730	9,580	14,679	237	4,609	603	293,091
- Purchased at 31 March 2009	41,855	187,122	3,375	11,298	13,916	245	4,093	482	262,386
- Donated at 31 March 2009	-	3,522	-	91	984	30	104	31	4,762
Total at 31 March 2009	41,855	190,644	3,375	11,389	14,900	275	4,197	513	267,148

14.2 Analysis of tangible fixed assets

Net book value

Protected assets at 31 March 2009	37,060	178,827	-	-	-	-	-	-	215,887
Unprotected assets at 31 March 2009	4,795	11,817	3,375	11,389	14,900	275	4,197	513	51,261
	41,855	190,644	3,375	11,389	14,900	275	4,197	513	267,148

NOTES TO THE ACCOUNTS

14.3 Tangible fixed assets (continued)

Of the total at 31 March 2009 £3,375,000 (2008 - £3,730,000) related to dwellings valued at open market value adjusted for depreciation.

There were no assets held under Finance Leases or Hire Purchase contracts at the balance sheet date.

15. Stocks and work in progress

	31 March 2009	31 March 2008
	£000	£000
Raw materials and consumables	4,650	4,051
Work-in-progress	23	10
Finished goods	18	18
	<u>4,691</u>	<u>4,079</u>

16. Debtors

	31 March 2009	31 March 2008
	£000	£000
Amounts falling due within one year:		
NHS trade debtors	9,088	8,583
Non-NHS trade debtors	1,580	1,653
Provision for impairment of debtors	(91)	(50)
Other prepayments	1,324	1,583
Accrued income	1,060	972
Other debtors	614	448
	<u>13,575</u>	<u>13,189</u>

Amounts falling due after more than one year:

Accrued income	810	619
	<u>14,385</u>	<u>13,808</u>

Provision for impairment of debtors

At 1 April 2008	50	31
Provision for debtors impairment	65	59
Debtors written off during the year as uncollectable	(24)	(40)
At 31 March 2009	<u>91</u>	<u>50</u>

Impairments of debtors relate to certain debtors in excess of 90 days old.

NOTES TO THE ACCOUNTS

17. Creditors

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

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Current instalments due on government loan	1,270	1,270
NHS trade creditors	3,398	2,858
Non - NHS trade creditors	3,627	4,256
Non - NHS capital creditors	3,580	2,602
Tax and social security costs	3,700	3,629
Other creditors	2,417	2,162
Accruals	7,241	7,515
Deferred income	1,637	3,548
	<u>26,870</u>	<u>27,840</u>
Amounts falling due after more than one year:		
Government long term loan	22,754	24,024
Deferred income	320	565
	<u>23,074</u>	<u>24,589</u>
Total creditors	<u>49,944</u>	<u>52,429</u>

Other creditors include;

£2,295,000 outstanding pensions contributions as at 31 March 2009 (£2,054,000 at 31 March 2008).

17.2 Loans

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within: -		
In one year or less by instalments	1,270	1,270
Between one and two years by instalments	1,270	1,271
Between two and five years by instalments	3,811	3,811
Over five years by instalments	17,673	18,942
	<u>24,024</u>	<u>25,294</u>

Two loans are repayable to the Secretary of State for Health.

The first loan of £17 million, was entered into in the year ended 31 March 2006, although only £12 million was drawn at the year end 31 March 2006. It is a repayable over a 20 year period, ending 30 March 2026, by equal quarterly instalments. The interest rate of the loan is fixed at 4.55% per annum.

The second loan of £10 million, was entered into in the year ended 31 March 2007, and is repayable over a 25 year period, ending 30 March 2032, by equal quarterly instalments. The interest rate of the loan is fixed at 5.05% per annum.

NOTES TO THE ACCOUNTS

18. Provisions for liabilities and charges

	Pensions relating to other staff	Legal claims	Other	Total
	£000	£000	£000	£000
At 1 April 2008	124	79	257	460
Arising during the year	7	102	4	113
Utilised during the year	(10)	(30)	(11)	(51)
Reversed unused	-	(22)	(91)	(113)
Unwinding of discount	3	-	5	8
At 31 March 2009	124	129	164	417

Expected timing of cashflows:

Within 1 year	147
1 - 5 years	68
Over 5 years	202
	417

Legal claims relates to employee and public liability claims.

The "Other" category relates to £164,000 of injury benefit claims against the Trust.

Contingent Liabilities relating to legal claims are shown in note 23.

The Litigation Authority is carrying provisions as at 31st March 2009 in relation to Existing Liabilities Scheme (ELS) of £1,138,214 (2008 - £1,337,630) and in relation to Clinical Negligence Scheme for Trusts (CNST) of £13,493,700 (2008 - £9,904,341).

NOTES TO THE ACCOUNTS

19. Prudential Borrowing Limit

	31 March 2009	31 March 2008
	£000	£000
Total long term borrowing limit set by Monitor	70,800	67,400
Working capital facility agreed by Monitor	18,000	18,000
Total Prudential Borrowing Limit	<u>88,800</u>	<u>85,400</u>
Long term borrowing 1 April 2008	25,294	26,565
Repayment in year	(1,270)	(1,271)
Long term borrowing 31 March 2009	<u>24,024</u>	<u>25,294</u>

The approved working capital facility was unused during the year.

Financial ratios	2008/09	2008/09	2007/08	2007/08
	Actual	Approved	Actual	Approved
	ratios	ratios	ratios	ratios
Maximum Debt/Capital Ratio	7%	7%	7%	8% *
Minimum Dividend Cover	3.5x	3.3x	3.3x	3.1x
Minimum Interest Cover	27.0x	25.4x	23.9x	22.5x
Minimum Debt Service Cover	13.1x	12.2x	11.9x	11.2x
Maximum Debt Service to Revenue	0.8%	0.8%	0.9%	0.9%

* The maximum debt/capital ratio is based upon the Prudential Borrowing code risk rating of 4.

The Trust is required to comply and remain within a prudential borrowing limit. This is made up of two elements: -

The maximum cumulative amount of long-term borrowing. This is set by reference to the five ratio tests set out in Monitor's Prudential Borrowing Code. The financial risk rating set under Monitor's Compliance Framework determines one of the ratios and therefore can impact on the long term borrowing limit.

The amount of working capital facility approved by Monitor.

20. 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 2008	113,469	5,140	22,402	141,011
Transfer from the Income and Expenditure account	-	-	7,650	7,650
Fixed asset impairments	(21,569)	(155)	-	(21,724)
(Deficit) / surplus on other revaluations/indexation of fixed assets	(1,028)	15	-	(1,013)
Transfer of realised profits / (losses) to the Income and Expenditure reserve	(11)	-	11	-
Receipt of donated assets	-	222	-	222
Depreciation, impairment, and disposal of donated assets	-	(414)	-	(414)
Other transfers	(4,004)	-	4,004	-
At 31 March 2009	<u>86,857</u>	<u>4,808</u>	<u>34,067</u>	<u>125,732</u>

NOTES TO THE ACCOUNTS

21. Notes to the cash flow statement

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

	2008/09	2007/08
	£000	£000
Total operating surplus	15,871	16,087
Depreciation and amortisation charge	13,542	11,724
Fixed asset impairments	858	-
Transfer from donated assets reserve	(414)	(367)
(Increase) / decrease in stocks	(612)	68
(Increase) / decrease in debtors	(577)	2,712
(Decrease) / increase in creditors	(2,193)	6,854
(Decrease) / increase in provisions	(43)	61
Net cash inflow from operating activities	<u>26,432</u>	<u>37,139</u>

21.2 Reconciliation of net cash flow to movement in net debt

	£000	£000
Increase in cash in the period	6,761	15,801
Cash outflow from debt repaid	1,270	1,271
Change in net debt resulting from cashflows	<u>8,031</u>	<u>17,072</u>
Net debt at 1 April 2008	6,304	(10,768)
Net debt at 31 March 2009	<u>14,335</u>	<u>6,304</u>

21.3 Analysis of changes in net debt

	At 31 March	Cash flows	Non-cash	At 1 April
	2009		changes	2008
	£000	£000	£000	£000
OPG cash at bank	36,810	24,707	-	12,103
Commercial cash at bank and in hand	1,549	(17,946)	-	19,495
Debt due within one year	(1,270)	-	-	(1,270)
Debt due after one year	(22,754)	1,270	-	(24,024)
	<u>14,335</u>	<u>8,031</u>	<u>-</u>	<u>6,304</u>

Cash at bank and in hand at 31 March 2009 includes £36,809,620 (2008 - £12,102,613) in accounts with the Office of HM Paymaster General.

NOTES TO THE ACCOUNTS

22. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £1,490,000 (2008 - £268,000).

23. Contingent liabilities

31 March 2009	31 March 2008
£000	£000
67	46

All contingencies relate to legal claims.

24. Movements in taxpayers' equity

	2008/09	2007/08
	£000	£000
Surplus for the financial year	16,450	17,160
Public Dividend Capital dividends	(8,800)	(8,777)
Fixed asset impairments	(21,724)	-
(Deficit) / surplus from revaluation of fixed assets	(1,013)	25,935
New Public Dividend Capital	-	2,787
Transfers from the donated asset reserve	(192)	2,104
Net addition in taxpayers' equity	(15,279)	39,209
Opening taxpayers' equity as previously stated	290,330	251,121
Closing taxpayers' equity	275,051	290,330

25. Related party transactions

The Royal Devon and Exeter NHS Foundation Trust is a body corporate established by the issue of a licence of authorisation from Monitor.

The Trust is under the common control of the Board of Directors. During the year a Board member held positions or had interests in the University of Exeter.

The Department of Health ("DoH") sets the tariff under which the Trust operates. During the year the Royal Devon and Exeter NHS Foundation Trust has had a significant number of material transactions with the DoH, and with other entities for which the DoH is regarded as the parent of those entities.

The following entities represent a high percentage of the Trust's total income: -

	2008/09	2007/08
	£000	£000
Devon Primary Care Trust	231,365	217,413
South West Peninsula Strategic Health Authority	19,343	20,820
	250,708	238,233
	80%	82%

At the year end the total Public Dividend Capital included within taxpayer's equity was £149,319,000.

The Royal Devon and Exeter NHS Foundation Trust is the Corporate Trustee of The Royal Devon and Exeter NHS Foundation Trust General Charity ("Charity"). The Trust has received during the year £53,000 revenue income and £222,000 capital contributions from the Charity.

NOTES TO THE ACCOUNTS

26. Public Private Partnership transactions

Public Private Partnership schemes deemed to be off-balance sheet

On 24th December 2002 the Trust entered into a agreement with ABB Zantingh Ltd under the Public Private Partnership scheme for the long term supply of electricity. The contract period is for 15 years. The capital value of the assets under the scheme are £1,979,338. For 2008/09 £471,000 is included within operating lease expenditure, see note 6.2. The future commitments are disclosed below. The PFI transactions are deemed to be off-balance sheet.

26.1 Annual commitments under private finance transactions - off balance sheet

	31 March 2009	31 March 2008
	£000	£000
Commitments that expire between 6 to 10 years	<u><u>435</u></u>	<u><u>409</u></u>

The annual charge will be indexed each year. Indexation will be an increase of 2.5% or the RPI, whichever is the greater.

27. Financial instruments

A financial instrument is a contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity. FRS 25, Financial Instruments Disclosure and Presentation, 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. The financial assets and liabilities of the Trust are generated by day to day operational activities rather than being held to change the risks facing the Trust in undertaking its activities.

Credit risk

Credit risk arises when the Trust is exposed to the risk that a party is unable to meet its obligation to the Trust in respect of financial assets due.

Financial assets mainly comprise monies due from Primary Care Trusts for services rendered by the Trust in fulfilment of service agreements, and cash balances held on deposit. It is considered that financial assets due from Primary Care Trusts pose low credit risk as these entities are funded by HM Government.

Cash balances are held on deposit with the Office of the Paymaster General, and as such the credit risk on these balances is considered to be negligible. Cash balances are regularly transferred to a commercial bank, from deposit with the Office of Paymaster General, in order to make payments. Whilst lodged with the commercial bank said deposits pose a credit risk if the commercial bank were to become insolvent during the period from receipt of monies to subsequent payment of suppliers. However as payments are structured to minimise the period of credit risk exposure, the Trust considers that it has reduced the credit risk to an acceptable level.

Liquidity risk

Liquidity risk arises if the Trust were unable to meet its obligations arising from financial liabilities. The Trust's financial liabilities mainly arise from net operating costs, which are mainly incurred under legally binding annual service agreements with local Primary Care Trusts, and liabilities incurred through expenditure on capital projects.

NOTES TO THE ACCOUNTS

27. Financial instruments - continued

Liquidity risk - continued

Income from contracted activities with Primary Care Trusts is based upon a nationally set tariff, which under Payment by Results is paid to the Trust in twelve monthly instalments throughout the year; any performance in excess of agreed targets is paid in accordance with the terms of the relevant contract. Payment by instalments allows the Trust to accurately forecast cash inflows and through the preparation and review of cash flow forecasts, as well as the controls in place governing the authorisation of expenditure, ensures that the Trust maintains sufficient funds to meet obligations as they fall due.

Market risk

Market risk arises when the Trust is exposed to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

The Trust receives income denominated in £sterling. The Trust, on occasion, does enter in agreements to make payments in non-sterling denominated currencies. Non-sterling payments are principally short term liabilities and for non-significant amounts. Given this the Trust does not consider that it is exposed to any material currency risk and therefore has elected not to hedge its exposure.

Interest rate risk

The Trust does not enter into contracts where cash flows are determined by the use of a variable interest rate.

Other price risk

The Trust enters into legally binding contracts with both its customers and suppliers that stipulate the price to be paid. As such it does not consider itself exposed to material other price risk.

NOTES TO THE ACCOUNTS

27. Financial instruments - continued

27.1 Financial assets by category

	Loans and receivables £000	Total £000
Assets as per balance sheet: -		
NHS debtors (net of provision for irrecoverable debts)	9,088	9,088
Accrued income	1,870	1,870
Other debtors	1,790	1,790
Cash at bank and in hand	38,359	38,359
Total at 31 March 2009	51,107	51,107
NHS debtors (net of provision for irrecoverable debts)	8,583	8,583
Accrued income	1,591	1,591
Other debtors	1,847	1,847
Cash at bank and in hand	31,598	31,598
Total at 31 March 2008	43,619	43,619

27.2 Financial liabilities by category

	Other financial liabilities £000	Total £000
Liabilities as per balance sheet: -		
Loans	24,024	24,024
NHS creditors	3,398	3,398
Other creditors	6,044	6,044
Accruals	7,241	7,241
Capital creditors	3,580	3,580
Provisions under contracts	417	417
Total at 31 March 2009	44,704	44,704
Loans	25,294	25,294
NHS creditors	2,858	2,858
Other creditors	7,515	7,515
Accruals	6,418	6,418
Capital creditors	2,602	2,602
Provisions under contracts	460	460
Total at 31 March 2008	45,147	45,147

27.3 Fair value

For all of the financial assets and liabilities at 31 March 2009 and 1 April 2008 the fair value is equal to book value.

28. Third party assets

The Trust held £161 cash at bank and in hand at 31 March 2009 relating to monies held by the Trust on behalf of patients.