Sheffield Teaching Hospitals NHS
NHS Foundation Trust

ANNUAL REPORT AND ACCOUNTS 2006 - 2007

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The artwork in this annual report and accounts has been inspired by the work of local artist Don Cameron (pictured above, centre).

'A Leaf in Life' was installed in the new Renal Outpatients Building at the Northern General Hospital in May 2006 and is based on conversations the artist had with patients about how they feel when they attend the hospital for treatment.

Welcome

In 2004, Sheffield Teaching Hospitals became one of the first NHS Foundation Trusts. Now in its third year, the Foundation Trust has succeeded in providing high quality, value for money services at all of its five hospitals; the Northern General, Royal Hallamshire, Charles Clifford, Weston Park and Jessop Wing hospitals.

Sheffield Teaching Hospitals employs nearly 12,000 staff in a wide range of occupations and professions. Each year, more than 175,000 operations and day case procedures are performed and over 825,000 outpatient appointments are provided across the hospitals.

Among the Trust's main priorities are ensuring financial stability, investing more in patient care and setting appropriate health targets that help us to meet the needs of the local, regional and national populations that we serve.

A strong commitment to teaching and research with close links to the Universities of Sheffield and Sheffield Hallam has established the Trust as a national and international centre of excellence; new treatments and services pioneered in Sheffield have changed the face of medicine across the world.

Presented to Parliament pursuant to Schedule 1, paragraph 25(4) of the Health and Social Care (Community Health and Standards) Act 2003.

Clockwise:
Charles Clifford Dental Hospital
Jessop Wing
Northern General Hospital
Royal Hallamshire Hospital
Weston Park Hospital

Chairman's foreword

In last year's annual report we pledged to maintain and further improve our excellent standards of health care whilst becoming more productive and efficient and maintaining our excellent financial track record.

I am pleased to announce that all of these aims were achieved, largely due to the determination of staff in ensuring patient services were delivered more efficiently and to the same high standards that patients of Sheffield Teaching Hospitals have come to expect.

We succeeded in meeting our key targets for cancer; over 7000 suspected cancer patients who were referred by their GP for urgent diagnosis were seen within two weeks and 100% of those found to have cancer started their treatment within 31 days of the date agreed by them for treatment. We also ensured that no patients waited more than 13 weeks for diagnostic tests such as X-rays and MRI scans.

Overall our achievements were confirmed in the first Annual Health Check; a comprehensive new system managed by the Healthcare Commission which measures the financial and clinical performance of healthcare organisations. The Trust received high ratings for the quality of care provided and was also rated one of the top 3% of trusts in the country for the way finances and resources are managed.

We were also successful in becoming one of the best performing trusts in the country in the challenge to reduce MRSA infections. In 2006/07, the Trust further reduced the number of MRSA bacteraemia infections by 24%; an overall reduction of 42% since 2005. It is the second year running that the Trust has far exceeded the target set by the government. We succeeded in maintaining our good record for cases of *Clostridium difficile* infection; we recognise, however, that the control of these types of infections is an ongoing challenge and we will not become complacent. New initiatives are being put in place on a regular basis and, as I write this, the Trust is finalising plans to introduce new technologies that will help us to improve further infection control.

All our staff have worked exceedingly hard this year to help us attain national and international recognition for the services we provide to patients. Special acknowledgement must be given to Consultant Geriatrician Jane Liddle and her team who were named Hospital Doctor "Parkinson's Disease Team of the Year", affirming the Trust's commitment to ensuring older people receive care that is tailored to their needs, delivered with dignity and focuses on the importance of providing quality end of life care.

Recognition should also be given to; Specialist Nurse Jill Dean who was named Nurse of the Year by the Stoma Care Forum; Professor Solomon Tesfaye who became the lead for the NeuroDiab international research group; Dr Marios Hadjivassliou and his team whose specialist Ataxia clinic was named a national Centre of Excellence; and Mr John Getty who became the President of the British Orthopaedic Association. The community midwifery team were named Sheffield's Best Carers and the GU medicine team were short-listed for a Nursing Times award for their dedication to improving access to sexual health services.

I would also like to make special mention of the neurosurgery team who became the first in the country to introduce a state of the art Sonowand scanner bought with proceeds from the Neurocare 'Brainwave Appeal.' The scanner is already significantly improving outcomes for patients with brain tumours and another scanner will be introduced over the next year or so to further improve our world-leading neurosurgery service.

Many other teams and individuals have experienced similar successes as those I have mentioned here and I would like to congratulate each and every one of them and thank them for their continued commitment to pushing forward the boundaries of healthcare in Sheffield.

There have been some changes at the Trust this year; Chief Executive Andrew Cash took up a secondment to the Department of Health in July as Director General for Provider Development. Medical Director Chris Welsh became Acting Chief Executive at a very challenging time for the Trust but has successfully carried forward our culture of greater efficiency and improved patient care across the organisation, which has helped us to meet our financial commitments whilst further improving the standard of patient care we provide.

This year we have also said goodbye to one of our Non-Executive Directors. John Stoddart retired in July after five years with the Trust. Prior to this he was also a Non-Executive Director at the Northern General Hospital. I would like to take this opportunity to thank John for his contribution to the Trust's development over the years and wish him well for the future. I am very pleased that Chris Suddes has joined the team as Non-

Executive Director. Chris was previously one of the Trust's first Foundation Trust Governors. He has a background in business management and I am sure he will prove to be a valuable member of our Board.

The Governors' Council goes from strength to strength; using their breadth of experience and expertise the 37 members of the Council have helped us to form the Trust's corporate strategy. The Governors also sit on various Boards and Committees which are responsible for informing the Trust's direction and further improving patient care. These include the Essence of Care Group, Clinical Audit Committee, and Patient and Public Involvement Strategy. Their input into these work-streams is valued by all involved in delivering our services.

The merger of the four Sheffield Primary Care Trusts (PCTs) has been a significant event in 2006 and we are already working closely with the new Sheffield PCT to ensure the changes have a positive impact on the way healthcare is provided across the city. Our next major challenge is the introduction of a new '18 week patient pathway', which states that by December 2008 all patients should start their hospital treatment within 18 weeks of their GP referral. This requires a considerable amount of work for a Teaching Trust such as Sheffield Teaching Hospitals and collaboration between our individual departments and with colleagues in primary care but we are prepared for the significant challenge that lies ahead.

Finally, can I say once again, thank you to our staff, governors and everyone who has contributed to the Trust's success over the past year. Let us look forward to even better patient care in 2007/08 and beyond.

David Stone OBE
Chairman

Chief Executive's foreword

During 2006/07, the Trust experienced a number of significant changes to the way it operates; not least the introduction of a three year programme of change that focuses on improving efficiency and ensuring that the services provided by the Trust are value for money for the tax payer.

Staff members have taken the lead in instilling this culture of change within the organisation. Many new initiatives have been developed and implemented by frontline staff; the very people that know first hand how to maintain excellent patient care.

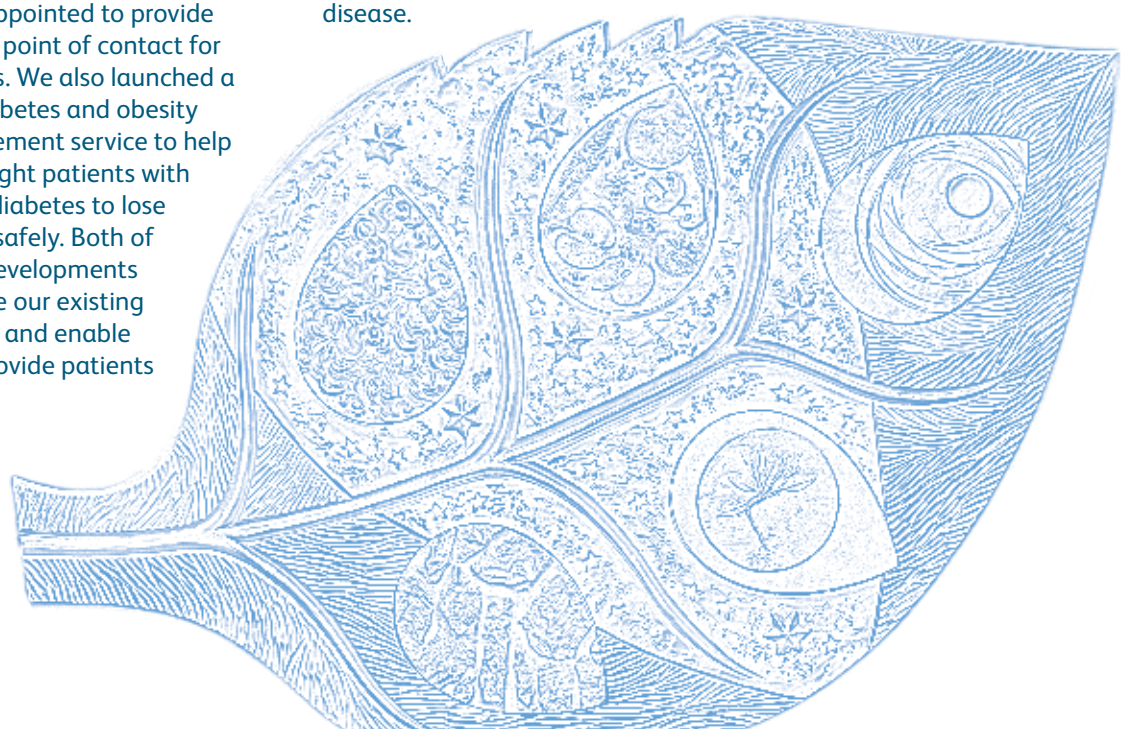
We firmly believe that what is right for our patients is right for the Trust and consideration of the patient experience has been at the core of all changes implemented over the year. We have developed sexual health services to provide a 'one stop shop' system, allowing patients to receive all of the information and advice they need in a single visit. New day case procedures have been introduced to enable patients to return home the same day as their operation instead of staying overnight in hospital. Greater emphasis has been given to reducing the length of time people stay in hospital; closer working relationships with community agencies have helped us to discharge patients more quickly. All of these achievements and more have helped us to improve service delivery whilst meeting our financial target to reduce costs by £30 million over the year.

We have also enhanced patient care by introducing new services and making improvements to existing systems to ensure that Sheffield patients receive the best hospital care in the country. Work to improve the care pathway for patients with Deep Vein Thrombosis was undertaken and a new specialist nurse appointed to provide a single point of contact for patients. We also launched a new diabetes and obesity management service to help overweight patients with type 2 diabetes to lose weight safely. Both of these developments enhance our existing services and enable us to provide patients with more choice about their treatment and care.

Some notable achievements were made in the field of research and development this year.

Dr Andrew Hopper published a significant piece of research in the British Medical Journal which presents a 100% effective method of diagnosis for patients with coeliac disease.

The Metabolic Bone Centre played a significant part in an international study which has found a new and effective treatment for reducing bone fractures in post-menopausal women. The outcomes of both of these studies will undoubtedly change the way patients are treated in Sheffield and nationally.



Our commitment to research in conjunction with the Universities of Sheffield and Sheffield Hallam was further demonstrated with the opening of a new clinical research facility which will help us to become a leading centre for research and development of new medicines and treatments. We also opened a cardiology research facility at the Northern General Hospital, which supports the excellent international studies already being undertaken by our cardiologists.

At the time of writing this, the Trust had achieved all of the targets, which form the assessment criteria for the Annual Health Check. As explained in the Chairman's foreword, our infection prevention and control is still among the best in the country and we have again reduced incidences of MRSA bacteraemia among patients. Other targets, including our aim to provide all diagnostic tests such as blood tests, diagnostic endoscopies and ultrasound within 13 weeks and for all outpatients to have their first appointment within 11 weeks have also been met this year.

We did, however, struggle to meet some of the key milestones; whilst more than 97% of patients were treated within 20 weeks of being listed for surgery we recognise that further work is needed to enable us to achieve our ultimate goal of treating all patients within 18 weeks of their GP referral.

Again, the Government's target to admit or treat and discharge 98% of accident and emergency patients within four hours of the attendance to the department has been a significant challenge. Despite seeing nearly 120,000 patients over the year - 3000 more than expected - the emergency services team rose to the challenge and helped the Trust to successfully meet this requirement.

The Trust is facing many more challenges over the coming year. We will need to make a further £30million saving if we are to remain financially stable and maintain our excellent track record. This will be a difficult task but we have plans in place to help us achieve this target whilst maintaining high standards of patient care.

Nevertheless, Sheffield Teaching Hospitals is a forward-thinking and innovative trust and I know that our staff will endeavour to meet these challenges head on with vigour and determination.

Chris Welsh
Acting Chief Executive

Celebrating Foundation Trust status

Sheffield Teaching Hospitals has been a very successful NHS Foundation Trust for over two years now; continuously achieving financial balance and making positive progress towards improving services for patients.

Part of our success has been the introduction of Foundation Trust Governors; ordinary members of the public who live in the local area or have received treatment at the hospitals and are committed to helping ensure that the Trust is accountable to the people it serves.

The Governors' Council is made up of 37 Governors and oversees and advises on the strategic direction of the Trust. The Council holds the Board of Directors to account and seeks to ensure the continued success of the Trust through effective management, partnership working and maintaining NHS values and principles.

The Governors' Council meets formally as a full Council four times a year and these meetings are attended by the Executive Directors. This enables the sharing of information, progress reports and specialist knowledge to support the functions of the Governors' Council. It also enables members of the Governors' Council to be involved in early discussions regarding strategic business plans. Individual members of the Governors' Council input into specific projects where their particular expertise or perspectives are valuable.

Each Governor is expected to take reasonable steps to maintain a dialogue with their Membership Constituencies and/or sponsoring organisation wherever possible. This is to enable them to canvass views on significant strategic issues and report back on decisions made.

The Governors' Council appoints the Trust's Non-Executive Directors, including the Chair, via an Appointments Committee supported by an independent assessor. The Council also determines the remuneration of the Chair and Non-Executive Directors via a Remuneration Committee advised by the Director of Human Resources.

The Governors' Council approves the appointment or removal of the Trust's auditor following a recommendation from a nominated sub-group of the Board of Directors.

The Trust's nominations function is currently discharged via the Governors' Council Remuneration Committee and Appointments Committee.

Work is currently in progress to merge the committees to form a single Nominations Committee. A joint meeting of the two Committees agreed to recommend acceptance of the proposal to establish a Nominations Committee and the recommendation will be taken to the Governors' Council for approval in 2007/08.

Public Governor Richard Chapman on a tour of the Medical Records department.

Governors' Council

All public and patient governors are elected for a three year term of office and all governors representing partner organisations are nominated by their employer for a negotiable term of office.

For a meeting of the Governors' Council to be considered quorate at least one third of Governors are required to be present at each quarterly meeting and each constituency must be represented by at least one member. Attendance for meetings held in the financial year 2006/07 has varied between 62% and 72% and each meeting has been attended by at least one representative of each constituency.

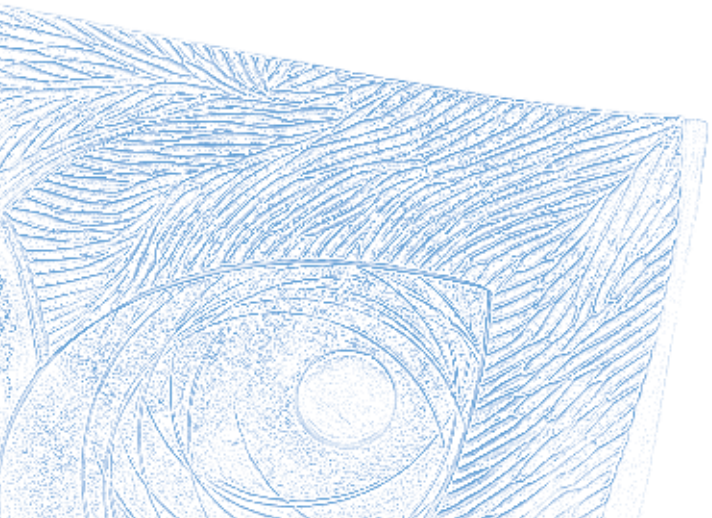
The Board of Directors is also invited to attend the Governors' Council meetings to enable them to identify with patients and members of the public and gain a greater understanding of their views of the Foundation Trust.

Each Governors' Council meeting held during the year was attended by between seven and ten members of the Board of Directors.

The full Governors' Council as at the end of March 2007 is as follows:

Constituency	Elected Governors	Expiration of Term of Office
Patient	Diana Chadwick	1st July 2008
	Susan Coldwell	9th June 2009
	Heather Gordon	1st June 2008
	John Holden	9th June 2009
	Kenneth Murta	1st July 2008
	Clare Rawding	9th June 2009
	Helen Wilde	1st July 2007
Public - Sheffield North	Kaye Meegan	16th October 2009
	Sharon Tabberer	1st July 2008
	Margaret Whiteley	1st July 2007
Public - Sheffield South West	Sylvia Bennett	1st July 2007
	Philip Seager	1st July 2007
	Susan Wilson	9th June 2009
Public - Sheffield West	Martin Colclough	1st July 2008
	James Smith	1st July 2008
	Beryl Wilson	9th June 2009
Public - Sheffield South East	Richard Chapman	1st July 2007
	Elaine Hill	9th June 2009
	John Hulse	9th June 2009
Staff - Medical & Dental	Mike Collins	9th June 2009
Staff - Nursing & Midwifery	Rose Bollands	9th June 2009
Staff - Allied Health Professionals, Scientists & Technicians	Stephen Westby	9th June 2009
Staff - Managerial, Administrative & Clerical	Mark Hattersley	9th June 2009
Staff - Ancillary, Works & Maintenance	Dave Weston	9th June 2009

Organisation	Partner Governors
Sheffield Primary Care Trust	Jeremy Wight Vacant
Sheffield City Council	Bob Kerslake Jan Wilson
NHS Yorkshire And The Humber SHA	Jayne Jack
University Of Sheffield	Bob Boucher
Sheffield Hallam University	Diana Green
Sheffield College	John Taylor
South Yorkshire Police	Jon House
Sheffield Care Trust	Martin Rosling
Sheffield First Partnership	Vacant
Voluntary Action Sheffield	Tim Plant
Other Primary Care Trust (Non-Sheffield)	Jayne Brown



Foundation Trust Membership

Over 18,500 people are now members of the Foundation Trust. Members of the Foundation Trust are entitled to receive a free copy of the quarterly newspaper 'GoodHealth' which provides health information and general advice from doctors and nurses at the hospitals who are national experts in their field.

The Trust also runs a series of exclusive Members' Events, including lectures and discussions on hot topics such as MRSA and infection control, diabetes and forensic science. An ongoing strategy for the recruitment of members for the coming year will focus on encouraging more patients and younger people to join the Trust. This will ensure that membership is more representative of the communities served by the hospitals.

Membership of the Foundation Trust is completely free of charge. To become a member, please contact Jane Pellegrina, Membership Manager on 0114 2714322

At the end of March 2007, membership of the Foundation Trust stood at:

Public Constituency

2,512 members

Patient Constituency

3,433 members

Staff Constituency

12,649 members

Total membership

18,594 members

Performance review

The table below provides a summary of the Trust's activity in 2006/07 in comparison with the previous year. The increase in activity for outpatients has helped us meet our targets to drive down waiting times meaning no patient waited over 11 weeks for an outpatient appointment by the end of March 2007.

	Target 2006/07	Actual Activity 2006/07	Actual Activity 2005/06
Inpatient and day case episodes	176,483	175,566	174,932
Outpatient attendances	820,679	827,466	797,295

During 2006/07 our total inpatient waiting list decreased significantly. This was achieved through a combination of a number of different initiatives that have enabled the Trust to become more efficient.

	Target	Actual List as at 31st March 2007	Actual List as at 31st March 2006
Total inpatient waiting list	9,727	10,103	11,414
Inpatients waiting over 20 weeks	0	106	742
Outpatients waiting over 11 weeks	0	0	192

Infection Control

This year the Trust has exceeded the Government's target to reduce cases of MRSA bacteraemia by 20%. Overall, 60 cases of MRSA bacteraemia were recorded during the year, representing a 24% reduction for 2006/07 and an overall 42% reduction since 2005.

Accident and Emergency

The Trust achieved its target of assessing and admitting, treating or discharging 98% of patients within four hours of their attendance to the accident and emergency department.

This was achieved despite significant increases in the number of patients attending the department meaning that 3000 more patients than expected were seen during the year.

Investing in buildings and equipment

At Sheffield Teaching Hospitals we firmly believe that having the best equipment and most appropriate hospital settings are vital to ensuring a high quality patient experience.

Through significant investment in key areas the Trust has seen many new developments, which will dramatically improve patient care, come to fruition during 2006/07.

Cardiology Research Facility

The Cardiology Research Facility was opened in September 2006 as part of the development of the Chesterman Wing. The facility is divided into four rooms and boasts an impressive area for sample analysis with sophisticated equipment such as special freezers and analysers for research on blood clotting.

The Cardiology Research Facility was developed with input from patients past and present to ensure that it provides a friendly and welcoming atmosphere for people taking part in this important research. The research conducted within the facility plays a vital role in international efforts to improve the effectiveness of treatments for heart disease.

Clinical Research Facility

A £252,000 Clinical Research Facility was officially opened at the Royal Hallamshire Hospital in 2007. It is a joint venture between the Trust and the University of Sheffield and provides a dedicated unit for investigators undertaking all types of clinical research involving adult patients and healthy volunteers.

Clinical research is vitally important in the development of new treatments and medicines before they are used more widely in patients. The Facility is fully equipped in a similar way to a normal ward setting with a nurse's station, piped oxygen and resuscitation facilities; the capability to monitor patients to High Dependency Unit (HDU) standards and the capacity to cope with overnight stays or straightforward clinic appointments.

Critical Care Development

In 2006 we also began a new £21.3 million project to expand critical care facilities at the Northern General Hospital. A brand new two-storey building constructed to the latest requirements will house the hospital's general intensive care and post-operative surgical units, providing a maximum of 36 beds for patients requiring extra care.

The funding for the project has been secured from two sources: a £3m contribution from the South Yorkshire Strategic Capital Programme and £18.3m through the Foundation Trust Financing Facility. The unit is one of the first schemes in the country to get funding from the Financing Facility.

How the Critical Care Unit will look.

Post-Operative Surgical Unit

Following on from the success of the first Post-Operative Surgical Unit (POSU), which opened at the Northern General Hospital in 2005, another POSU with 14 dedicated critical care beds was introduced at the Royal Hallamshire Hospital. This new special ward area helps us to reduce the number of planned

operations cancelled at short notice by ensuring that patients that need high dependency care have a dedicated area for recovery after their operation.

Renal Unit

The £9 million expansion of renal services was completed and a brand new, dedicated outpatients building was officially opened by local football managers Neil Warnock and Brian Laws. The new building brings together all outpatient services into a clean, comfortable environment for the hundreds of renal patients who regularly visit the hospitals for treatment.

Therapy Services

The Northern General Hospital's physiotherapy and occupational therapy services were brought together in a brand new building with state-of-the-art gymnasium facilities, modern waiting areas and assessment rooms. The development has improved patient dignity and privacy by providing much improved changing room facilities and has enabled staff to provide a very high standard of care in the most up to date surroundings.

Ward refurbishment M2

Ward M2 at the Royal Hallamshire Hospital was given a £2.2 million make-over to enhance the patient experience, reduce energy consumption and improve the flow of patients through the ward. The refurbishment programme included replacing old bathrooms with modern, clean designs and decorating the bed bays to make the ward a more pleasant environment for patients. Particular emphasis has been given to cleanliness and the estates design team worked together with ward staff and infection control nurses to design the ward with infection control very much in mind.

In recent years the Trust has spent millions of pounds on new buildings and departments. Now that most of the larger projects are nearing completion the Trust has agreed a series of ward refurbishments for the coming four years which will upgrade existing wards and departments to bring them more in line with newer areas of the hospitals and ensure all patients receive their treatment in a modern, clean environment.

Caring for the Environment

The Trust has a duty to ensure its impact on the environment is minimised and much work has been carried out to meet this commitment. The Estates Department has campaigned to ensure staff members make the most effective use of energy across the Trust to reduce carbon emissions. The Earthcare and Energy Campaign is being refreshed and re-launched in 2007 to further improve awareness among staff of the effective use of resources.

Capital expenditure

The total capital expenditure for the year was £32.1m.

The key focus of expenditure was to purchase new and replacement medical equipment, support information technology advances and new service developments associated with the Trust's service development plans and statutory compliance and infrastructure improvements. The 2006/07 capital expenditure is analysed as shown in the table on the right.

Total capital income available to the Trust for the year was £36.6m, including £5.1m from donations and other contributions towards capital expenditure. The capital income is analysed as shown in the table below.

	£000
Resources available from the Department of Health/ Internally Generated	31,486
Sheffield University investment (largely in respect of Basic Sciences Project)	3,426
Other Donations/Contributions	1,668
Total Income	36,580

	£000	£000
Medical Equipment	**3,802**	
Operating Tables		783
Multi-slice CT Scanner (RHH)		729
Haemodialysis Machines		400
Endoscopy Research Equipment		205
Other		1,685
Statutory Compliance	**2,787**	
Upgrade of RHH Ward M2		2,058
RHH Emergency Lighting		247
Other Firecode Works		82
Other (eg Disability Discrimination, Infection Control, Legionella etc)		400
Information Technology	**2,501**	
Radiology Information System		741
Upgrade NGH Computer Room Environments		209
Other		1,551
Infrastructure	**6,934**	
Basic Sciences Project		3,417
Expansion of NGH Electrical Capacity and Infrastructure		1,794
Replacement Boiler		396
Other		1,327
Service Development	**16,036**	
NGH Critical Care Expansion		4,423
RHH Post Operative Surgical Unit		3,173
Renal Facilities Expansion		2,469
WPH Site Redevelopment		1,714
NGH Cardiology Capacity Expansion		966
Genito-Urinary Medicine Expansion, Phase 1		776
Charles Clifford Dental School Expansion		434
Office Accommodation		332
Clinical Decisions Unit, A&E		271
Other smaller schemes		1,478
Total Expenditure	**32,060**	

The year at a glance

The Trust has experienced many achievements over the last 12 months. Much of this work goes on behind the scenes and is the result of the dedication and hard work of front-line staff.

During the year…

April

The Spinal Injuries and Neuro Rehab Unit hosted a special Easter camp for children to raise awareness of disability and the importance of keeping active. Members of the Sheffield Steelers Wheelchair Basketball Team were on hand to encourage disabled and able-bodied children to join together and learn a range of new and exciting sports such as golf, cricket, rounders, bowls, wheelchair basketball and archery.


April

The Trust teamed up with the University of Sheffield Centre for Stem Cell Biology to open a new facility for stem cell research at the Jessop Wing. The ultra-clean laboratory facilities are used to develop stem cells from donated embryos for clinical purposes and could help lead to new treatments for conditions including juvenile diabetes, Alzheimer's disease, Parkinson's disease, congenital or retinal blindness and myocardial infarction (heart attack).

May

A national survey of inpatients found that overall patients at Sheffield Teaching Hospitals were very pleased with the care they received. Improved access to pain relief and reduced waiting times for operations were hailed as two of the major improvements.

The Trust, along with Sheffield's primary care trusts and other health agencies, was praised for the care given to people with Hepatitis C. Sheffield was among only a dozen areas across the country that had been found to have implemented the national Hepatitis C action plan "exceptionally well" by the All Party Parliamentary Group on Hepatology.

June

Lord Mayor of Sheffield Councillor Mrs Jackie Drayton officially opened the Clinical Immunology and Allergy Unit at the Northern General Hospital. The unit provides a specialist immunology and allergy service for the people of Sheffield and the North Trent region and offers comprehensive specialist investigation of all forms of common and rare allergies.

July

An innovative community-based clinic was introduced in conjunction with the Sheffield South West PCT to provide convenient care for patients with Chronic Obstructive Pulmonary Disease (COPD). The new service has enabled some patients to be looked after by a dedicated multi-disciplinary team in the community.


June


May

August

Professor Ron Purkiss, Clinical Director of Medication Management and Pharmacy was presented with a prestigious Guild of Healthcare Pharmacists solid gold medal for 'outstanding contributions to pharmacy' in recognition of his dedication to developing hospital pharmacy services. He has worked in the field of pharmacy for over 37 years and has spent the last 22 years at the Northern General Hospital.

September

Two nurses and a hospital volunteer were presented with the British Medical Association Patient Information Award for their leaflet entitled 'Welcome to the Eye Department', which aims to reduce anxiety and improve the hospital experience for patients with learning disabilities.

October

World IBF Light Heavyweight Champion Clinton Woods visited the Northern General Hospital to officially unveil two state of the art scanners which are enabling radiographers to undertake much more complex and accurate diagnostic tests.

November

Consultant Endoscopist Paul Hurlstone was presented with a national award for 'best emerging medical researcher' by the BUPA Foundation. Paul and his team have pioneered groundbreaking surgical techniques that allow for the very early detection and treatment of bowel cancer.

December

A series of refurbishments that will improve the environment for patients and staff in the accident and emergency department got underway in December. The £1.5 million facelift includes a dedicated clinical decisions unit to provide a more appropriate area for the management of patients with chest pain and suspected deep vein thrombosis (DVT).

January

STH became a smoke-free trust on 1st January 2007.

This means that smoking is no longer allowed in any of the hospitals or surrounding grounds managed by the Trust.

February

The Royal Hallamshire Hospital received official accreditation as a centre of excellence for the diagnosis and management of the rare condition ataxia by leading charity Ataxia UK. The hospital's Ataxia Clinic was set up 12 years ago and now manages the ongoing care of more than 400 patients.

March

Figures released by the Health Protection Agency show that Sheffield Teaching Hospitals is one of the best trusts in the country for infection prevention and control. From April to September 2006 cases of MRSA had reduced by 40% making the Trust the second most improved in the country.

Service delivery

In 2006/07 we focused on treating patients with urgent conditions such as heart disease and cancer quickly, whilst also making improvements for elderly people and those with life-long conditions.

Quality of life is an important aspect of care for people with life-long conditions and we recognise that these patients must be able to access integrated services that provide the most appropriate, expert care for their needs.

At Sheffield Teaching Hospitals such consideration is given to all patients. However, particular recognition was received by the Parkinson's disease team this year who were praised by judges of the National Hospital Doctor Awards for the introduction of various initiatives to improve cross-city care for people with the condition.

Geriatrician Dr Jane Liddle and her team, who are based at the Northern General Hospital, provide one of the country's leading services for the treatment and care of patients with the condition.

They were recognised for their achievements in improving access to Parkinson's disease services and ensuring care is fully integrated into other older people's services to improve continuity of care. The development of specific referral guidelines for GPs has ensured that patients are now referred to the most appropriate geriatrician or neurologist with an interest in Parkinson's disease.

Parkinson's disease is a progressive condition which is caused by the loss of nerve cells in part of the brain called the substantia nigra. These cells produce dopamine, a chemical that allows messages to be sent between different parts of the brain to co-ordinate movement. Parkinson's affects this co-ordination of movement making it more difficult for people with the condition to walk, talk or write things down.

Steve Ford, Chief Executive of the Parkinson's Disease Society: "Dr Jane Liddle and her team were worthy winners of the Hospital Doctor Award's 'Parkinson's Disease Team of the Year'. Outpatient and inpatient services have been developed so that people with Parkinson's in the Sheffield area can now benefit from integrated services in hospital and in the community. Parkinson's is a difficult condition to manage effectively, so we're delighted that the Sheffield team is so committed to improving the quality of life of people living with the condition."

Quality of life is an important aspect of care for people with life-long conditions and we recognise that these patients must be able to access integrated services that provide the most appropriate, expert care for their needs.

Dr Jane Liddle and colleagues

National Service Framework for Older People

The National Service Framework for Older People is a comprehensive strategy to ensure that the NHS provides fair, high quality, integrated health and social care services for older people. It addresses a wide range of issues including dignity in care, complex and urgent needs, and the provision of services for people with needs relating to stroke, falls and bone health, and mental health.

The Trust has a well-established multidisciplinary group, which leads and oversees the implementation of the National Service Framework across the Trust, promotes collaborations and integrated working, and links with city-wide groups and partnership bodies. The group includes representatives from the Patients' Council, the Sheffield Primary Care Trust and Age Concern.

Clinical service improvements

We continued to develop specialised services including treatments for cancer, kidney disease, heart disease and neurological disease.

The Trust is a world-leading centre for the diagnosis and management of a number of uncommon illnesses including ataxia, a rare condition which affects co-ordination and impairs movement and is the common symptom/sign of a group of neurological disorders known as "cerebellar ataxias".

The Royal Hallamshire Hospital is one of only a few in the country to provide a comprehensive service for the diagnosis and treatment of ataxia and in February 2007 was officially named the UK's third centre of excellence by the national charity Ataxia UK.

Over 400 patients with ataxia have been assessed by the service since it began 12 years ago, with the majority remaining under the care of the team until the present day. As part of the accreditation the Trust was awarded nearly £87,000 over three years to fund an ataxia specialist nurse to further improve support for these existing patients and to ensure that the service can continue to offer a high standard of care and follow-up support to new patients with ataxia.

Consultant Neurologist Dr Marios Hadjivassiliou leads the ataxia team, which places a strong emphasis on the importance of research into cerebellar ataxias. He says, "We are delighted to be named a centre of excellence for the care of patients with ataxia and we are committed to raising the profile of ataxia so that more research can be undertaken into the condition to help us improve care for future patients."

Chair of Ataxia UK Pit Rink said, "The Sheffield Ataxia Centre will ensure that people with ataxia receive the best possible quality of care and a co-ordinated service combining diagnosis, treatment, support and research into these little known conditions. Our plan is to open a UK network of Accredited Ataxia Centres of Excellence with consistently excellent services and it is of great credit to Sheffield that the Royal Hallamshire Hospital is one of the very first."

Dr Hadjivassiliou with patient Darran Winfield-Stanesby

Look Good, Feel Good

The Look Good, Feel Good Suite in the Chemotherapy Unit at Weston Park Hospital was developed using funds from the hospital's Cancer Appeal.

The Suite helps patients who have experienced hair loss due to chemotherapy treatment by providing a dedicated area where they can go to try on a selection of wigs, scarves and hair pieces. Patients can also choose from facial and body massages which help to relax the mind, boost morale and create a sense of personal well-being.

Managing Trust business

We increased the value of everything we did through concentrating on reducing unnecessary steps such as waiting for a test, waiting for an appointment, waiting for an operation and waiting to go home.

Waiting times for MRI (Magnetic Resonance Imaging) scans have been dramatically reduced at the Trust and since the end of March all patients needing a routine scan wait no longer than 13 weeks for their scan.

In previous years patients at the hospital had experienced long waits for MRI scans and at one time over 4500 patients were on the waiting list. Due to high demand the Trust held contracts with other NHS hospitals and outside agencies; they performed a proportion of the MRI imaging work in order to try and reduce the waiting times for Sheffield patients but this was an expensive system and some patients were still waiting more than two years for their MRI appointment.

The Trust felt that the waiting times patients were experiencing were unacceptable and subsequently set about re-designing the way it manages its' business to reduce waiting times and the high costs associated with sending thousands of patients to other organisations for their MRI scans. By purchasing more scanners and bringing the imaging service back in-house, the Trust has succeeded in reducing the cost of medical imaging and dramatically improving the patient experience by bringing services closer to home and significantly reducing waiting times.

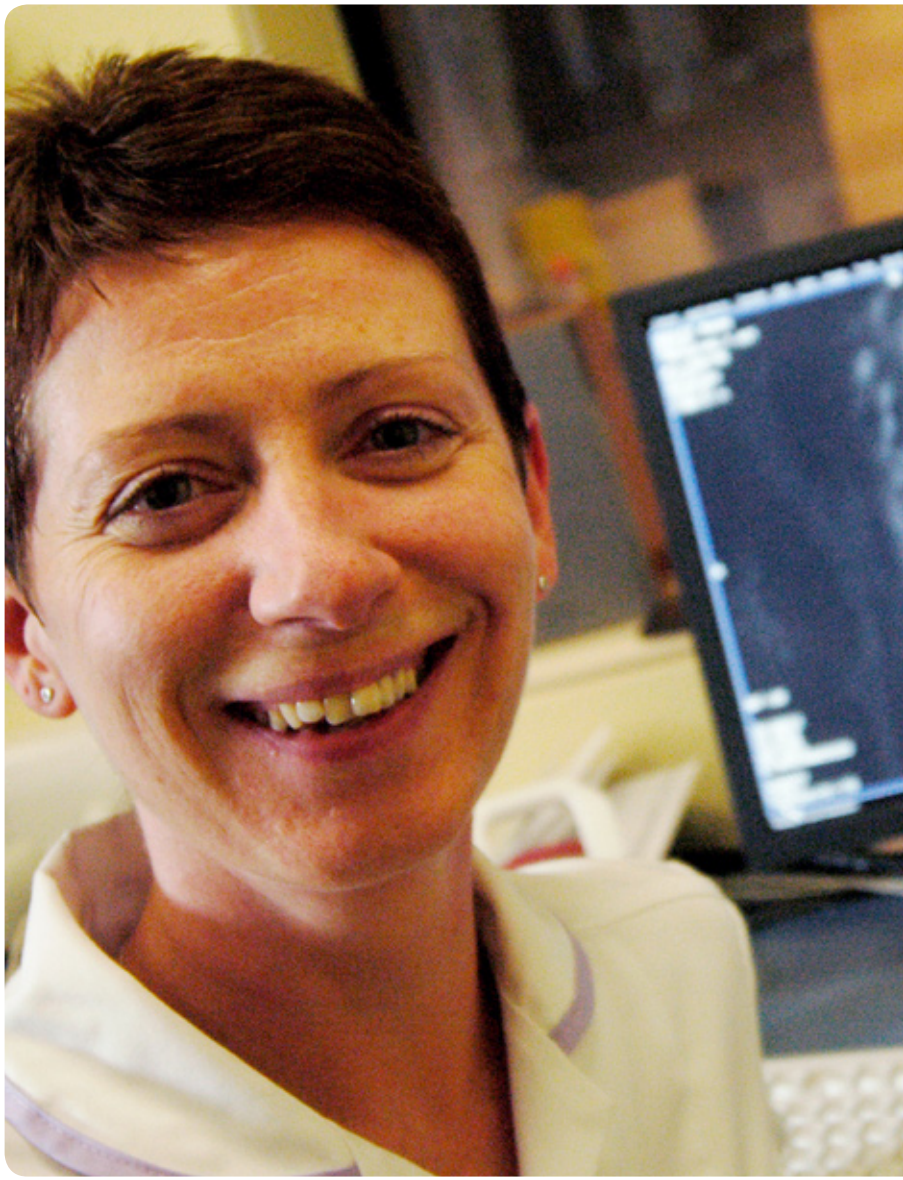
The re-organisation of the service was so successful that at the end of 2006/07 fewer than 1100 patients were waiting for an MRI scan and all patients requiring a scan waited just 13 weeks for their appointment. Next year patients will wait a maximum of six weeks.

Dental School Expansion

The Dental School based at the Charles Clifford Dental Hospital is undergoing an expansion and improvement of existing buildings to enable the Trust and University of Sheffield to almost double the number of dental students by 2010.

The £8.8 million re-development is already underway and will include a new wing built onto the side of the existing building, an enlargement of the dental practice unit and an £800,000 improvement of the clinical skills facility.

Clinical Imaging Assistant Ann Sweeting in the MRI suite



Staff

We attracted staff of the highest calibre and offered quality training and development opportunities for all. This included a new leadership development programme which aims to further nurture our leaders of the future.

Strong leadership is vital for ensuring an effective and efficient workforce, which is ultimately responsible for providing patients with care that is of a high standard and constantly evolves to incorporate new and better ways of working.

Stacey Hunter recently completed the Trust's Leadership and Management Development programme. As a Team Leader within the Children and Young Person's Social Care Directorate, Stacey supervises the work of three people who provide administrative support. The team are involved in looking after children who are to be put in foster care and placed for adoption as well as children who are on the "at-risk" register.

Stacey was interested in progressing her career and moving into management.

She says, "The Leadership Programme has made me aware of how to assert myself and made me not take things at face value. I am now aware of how I perceive people and how others may perceive and respond to me. I've been able to look at managers in a different light and I am now able to better understand the decisions they have made. It gave me an insight into how I would like to see myself and be seen as a future manager at this Trust."

Staff members who attend the Leadership and Management Development programme benefit from meeting colleagues from other areas of the Trust. Each staff member has similar experiences or completely different examples of leadership that they can bring to the group as examples of good or bad practice.

Themes on the programme such as Managing Difficult Situations and Motivation are particularly helpful in improving participants' self-awareness and awareness of others. Stacey says, "The launch of this programme is a really positive step by the Trust. It encourages and enables staff to undertake training to progress their careers. I believe I have gained knowledge and skills through this programme, which are of great importance to me at this stage of my career." With the framework programmes as a sound basis, Stacey is now looking at undertaking a management qualification.

Stacey (left) with Janis Parker and Valerie Kirkby

Improving Working Lives

In June 2006 the Trust was awarded Improving Working Lives (IWL) Practice Plus status. A validation team made up of staff with particular expertise in aspects of the IWL standards from across the NHS interviewed some 600 staff members during a validation visit to the Trust to look at the improvements which had been made since the Trust achieved Practice status in November 2002.

The validation team were impressed with the Trust's commitment to equality and diversity issues, particularly the development of training programmes for individuals from disadvantaged backgrounds. They also commended the Trust on the amount of training and development available for staff and the range and variety of flexible working patterns being used both to help staff to strike a balance between work and home life and to improve patient care.

In December 2006 the Trust published its first Disability Equality Scheme and associated action plan which were developed in conjunction with disabled employees and service users. The scheme and action plan can both be found online at www.sth.nhs.uk

Hospital environment

We continued to build new facilities so that we can expand and improve services. These included the expansion of critical care and renal services plus improvements to the A&E department.

We also opened the Sir Robert Hadfield Wing; a brand new £30 million development that has revolutionised the patient experience. The new building, which houses six medical wards at the Northern General Hospital, was undertaken through the new Private Finance Initiative (PFI) system, enabling the Trust to 'lease' the building over a 30 year period of time rather than bear the immediate costs of construction. This has ensured that we can continue to provide the highest quality care and service in the most up-to-date surroundings.

The Sir Robert Hadfield Wing has been built to the highest specification, incorporating the latest innovation and making use of natural daylight to improve the patient experience and reduce environmental impact. The facility replaces the old Vickers Corridor, which cares for predominately older patients on Victorian-style 'Nightingale' wards.

Six wards provide 168 beds in a mixture of single rooms and three-bedded bays, each with en-suite bathroom facilities designed to improve dignity and privacy for older patients. Specially designed 'Assessment for Daily Living' rooms enable occupational therapists and physiotherapists to assess patients' abilities in simulated 'home' environments such as the kitchen or bathroom to ensure that any support and assistance they will require to live at home can be organised before leaving hospital. Special 'barrier nursing' rooms provide dedicated accommodation for patients with infections such as MRSA and *Clostridium difficile* which will help further reduce the spread of infections to other patients.

Matron Glenis Wasteney was involved in the development of the new building. She said, "This state-of-the-art accommodation provides excellent facilities for both patients and staff. The light and spacious wards ensure that our patients are cared for in an environment where their privacy and dignity can be maintained - something which was very difficult to maintain in the old Vickers Corridor accommodation. Staff now also benefit from rest rooms, excellent changing facilities and well-equipped resource areas."

Arts for Hospitals

The Arts Team aims to work with patients, staff and the community to provide a range of appropriate visual and performing arts that enhance the care and service that the Trust provides.

The Team manages a picture lending service, history project and garden galleries as well as lending their knowledge and expertise to the development of new wards and departments. Recently the Arts Team were responsible for purchasing over 100 pieces of unique artwork for the Sir Robert Hadfield Wing and have secured a grant from the Arts Council for England, which will pay towards a unique piece of artwork for the main entrance to the building.

Health informatics

We improved the electronic ordering and reporting of results from diagnostic tests and the sharing of this information to reduce unnecessary repeat tests.

Digital Revolution

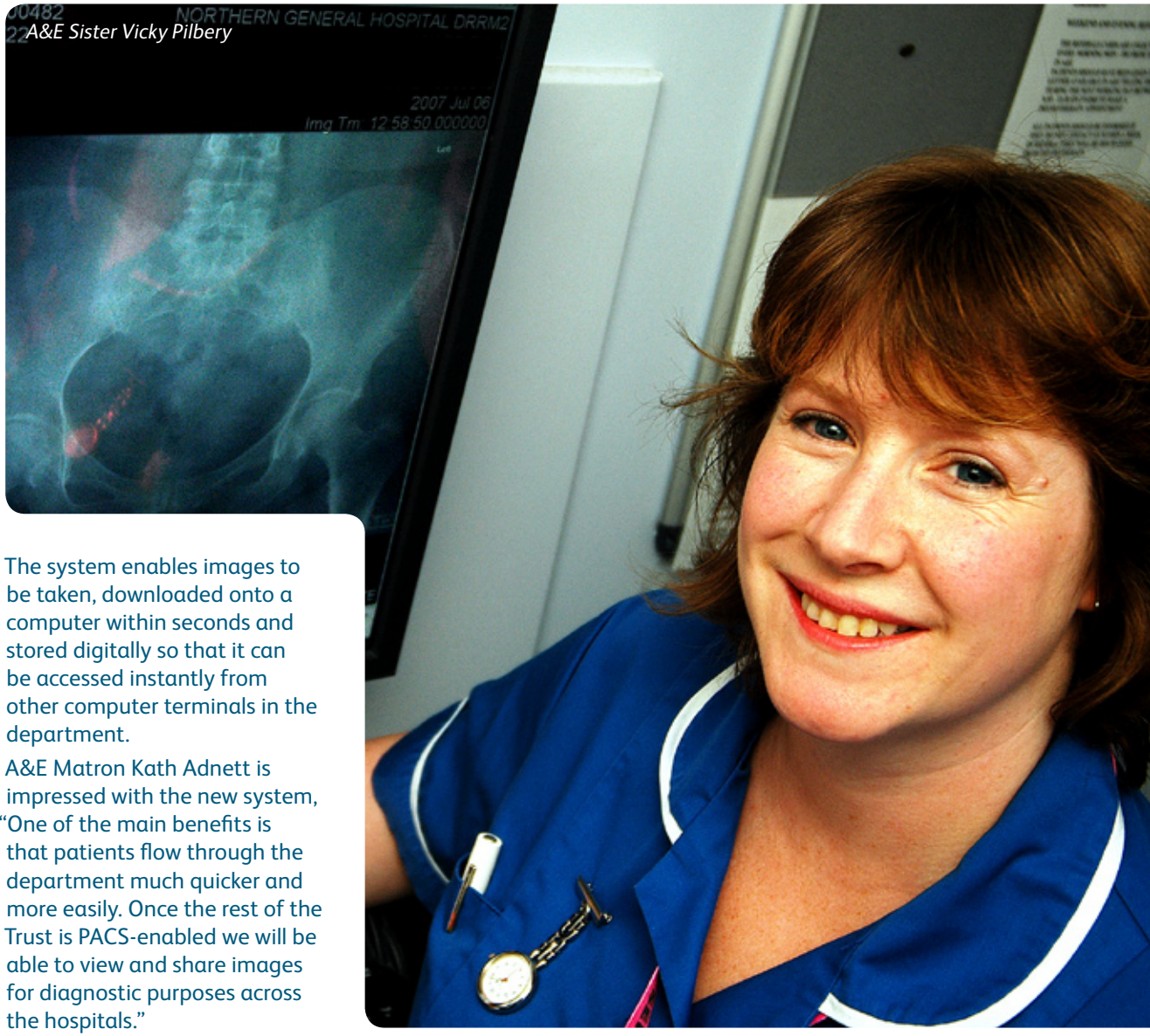
The Trust is in the process of introducing a major new Picture Archiving and Communication System (PACS) which will revolutionise the way diagnostic images are stored and accessed by clinical staff.

The multi-million pound system will enable all images to be stored on a giant computer system so that doctors, nurses and other clinical staff can instantly access a patient's X-rays, MRI scans or other images from computer terminals across the hospitals. Using the latest computer technology images will be viewed as a digital file, which enables staff to zoom in and take a closer look at areas of concern. It also means that images can be shared with other hospitals across the country at the press of a button.

The PACS will be in use across the Trust by January 2008.

The Northern General Hospital's accident and emergency department is one of the busiest department's of its kind in the country and last year saw more than 120,000 people. Many of the people attending the department require some form of imaging such as an X-ray or CT scan to enable an accurate diagnosis. Previously, patients would be required to wait in the department until the films had been processed and sent back to their assessing doctor.

Staff in the department now have access to a new, smaller version of the Picture Archiving and Communications System (PACS) called Fusion.



A&E Sister Vicky Pilbery

The system enables images to be taken, downloaded onto a computer within seconds and stored digitally so that it can be accessed instantly from other computer terminals in the department.

A&E Matron Kath Adnett is impressed with the new system, "One of the main benefits is that patients flow through the department much quicker and more easily. Once the rest of the Trust is PACS-enabled we will be able to view and share images for diagnostic purposes across the hospitals."

Patient experience

We involved patients and the public in the running of the hospitals by recruiting directorate lay representatives.

Lay representatives are invaluable members of the hospital workforce and provide a breadth of experience and knowledge that is important in helping the Trust take its services forward.

Former heart patient Derwent Levick has been a lay representative in the ophthalmology department for over a year and since then has co-ordinated a significant piece of work to help the department ensure that it meets the changing needs of patients with conditions affecting the eyes.

For one morning each week Derwent cycles to the Royal Hallamshire Hospital from his home in Walkley to undertake a "customer relations" project which has already involved contacting over 100 patients to find out about their experiences of the cataract service. Derwent says, "My interest in the hospitals really stemmed from my heart operation for which I am very thankful. I wanted to show my appreciation by giving something back to the hospitals. There is a real sense of pleasure to be had from helping patients and the local community."

Derwent works independently from the department to ensure that patients feel they can give honest comments and suggestions; he is responsible for mailing out and collating questionnaires, making follow-up calls and generally listening to patient's views of every stage of their journey through the department. This is then fed back to the department to enable them to make improvements to patient care.

Matron for Ophthalmology, Joy Barnes says, "Derwent has only been with the department for a relatively short period of time but he has already made a huge difference. He is very enthusiastic and conscientious and he has become a very valued member of the multi-disciplinary team. It has been most beneficial having someone on board who is as passionate about patient care and getting it right for the patient as the rest of the team in the ophthalmology department."

There are currently 18 lay representatives in different roles across the Trust. Lay representatives work in a voluntary capacity for an initial period of twelve months, although this is often extended after review.

Improving the environment

The Muslim Working Group is made up of staff, local community leaders and volunteers and has been involved in the development of a dedicated area for Muslim prayer at the Royal Hallamshire Hospital. The group advises the estates department and provides recommendations for the development of the prayer area to meet the needs of Muslims and to ensure the Trust meets the best practice guidelines of the NHS.

Academic excellence

We were involved in world class research, education and teaching which will benefit patients now and in the future. We continued to maintain an environment where innovation and creativity are encouraged to flourish for the benefit of patients across Sheffield, nationally and internationally.

Staff from the departments of gastroenterology and diabetic medicine are at the forefront of research into the link between diabetes and another auto-immune disease known as coeliac disease, which causes a person to have intolerance to gluten (a protein found in wheat, barley and rye) and significantly increases the risk of gastrointestinal cancers.

In the largest study of its kind ever undertaken in the UK, researchers from the Royal Hallamshire Hospital and the University of Sheffield have screened over 1000 patients to find the incidence of coeliac disease among people with type 1 diabetes.

The results have indicated that over 3% of people with diabetes could be affected compared to just 1% of the local Sheffield population. This offers an important insight into the prevalence of the disease and could influence the routine screening of diabetic patients for other conditions in the future.

The next phase of the project is now underway to discover whether the patients that were found to have both type 1 diabetes and coeliac disease could benefit from following a strict gluten-free diet, which is already known to reduce symptoms associated with coeliac disease.

Research Fellow Dr John Leeds is leading the study, "We will be looking at the extent of nerve damage - a common yet painful and debilitating side-effect of diabetes – among patients before they adopt the diet and again after a year to see whether the diet can help to halt nerve damage over time. Importantly, we will also assess the patients' quality of life to see whether they feel their overall well-being is improved by changes to diet and lifestyle, regardless of the clinical outcomes of the research."

The findings of the research project, which ends in June 2008, could pave the way for other major research studies and influence the management and treatment of patients with diabetes and coeliac disease across the world.

International Recognition

Sheffield is an internationally renowned centre for research into diabetic neuropathy (nerve damage) and the Trust has published many significant papers on the subject which have influenced the treatment of the condition worldwide.

In recognition of this, the Trust's lead for diabetic neuropathy was this year appointed as the Chairman of the prestigious Neurodiab group; the largest diabetic neuropathy study group in the world. Professor Solomon Tesfaye was asked to take the lead role in recognising and sharing important findings among colleagues across the globe with the aim of finding better ways of managing and treating patients with the condition.

Gastroenterologist Dr David Sanders has also been appointed as the Chairman for the Small Bowel and Nutrition section of the British Society of Gastroenterology as well as being Associate Medical Advisor for Coeliac UK as a result of his research into coeliac disease.

Research Fellow Dr John Leeds

Governance and healthcare standards

We are ensuring that the Trust has systems and processes in place to identify and deal with risks to patient safety and well-being. Through audit and review we are able to make sure we continue to provide high standards of quality care.

The Trust is committed to ensuring high quality patient care and has a track record of success in terms of governance, meeting national targets and standards as demonstrated by the ratings awarded in September 2006 by the Healthcare Commission during its Annual Health Check.

The Annual Health Check is a new system of assessment for NHS organisations and replaces the old system of 'star ratings'. One aspect where the Trust performed particularly well in the latest Annual Health Check was in medicines management. The Trust is one of only a few hospitals in the country to run a medicines safety committee which ensures that the benefits and potential risks of unlicensed drugs and drugs licensed to treat some illnesses but not others are fully considered before being used on patients. The Trust also performed well in other areas:

- Introducing effective safety practices to prevent prescribing or administration errors related to patients with allergy to certain medicines
- Providing training opportunities for pharmacy staff to ensure they are able to maintain current competencies and learn new skills to reflect changing roles
- Fully informing patients of the medicines they are being given, the reasons for being given the drugs and their side-effects.

The Trust also scored highly in the patient focus category for "making progress towards self-administration in hospitals". Many patients who are used to administering their own medicines at home can find it stressful and disempowering to have their medication managed by staff while they are in hospital. Through supporting patients to self-administer some medicines in hospital, the Trust aims to empower patients and improve their confidence in self-administering in preparation for their discharge from hospital.

Professor Ron Purkiss, Clinical Director of Medication Management and Pharmacy, said, "We are very pleased with the results of the study which demonstrate the commitment to high quality patient care delivered by the pharmacy team. Key to this success is the very close working relationships between the different professions which enables us to ensure that patients receive the optimal drug therapy for their condition in a safe and timely manner."

Standard prescription chart

Minimising risks to patients and learning from mistakes and "near misses" is a Trust priority. Another important aspect of work carried out this year looked at incidents and near misses involving medicines. As a result of a thorough review, STH also took the lead to introduce a standard prescription chart for all inpatients across the South Yorkshire region. This will make it easier and safer for prescribing doctors who work between the hospitals within the region and will ensure that patients at STH do not miss doses of medication when they are transferred between hospital sites.

Foundation status and community involvement

In 2006/07 we expanded the young people's volunteer project with the aim of engaging hard to reach communities such as those who are long term unemployed or disabled and black and minority ethnic groups.

The young people's volunteer project has gone from strength to strength this year and around 150 young people are now volunteering across the Trust. Volunteering offers many opportunities to people of all ages; it can improve social and team-working skills, increase confidence and help young people to kick start their career in healthcare.

Nineteen year old Hope Kibuuka joined the Trust in October 2006 as a volunteer Welcomer at the Royal Hallamshire Hospital to help her achieve her long term ambition of becoming a nurse. She says, "My aim is to train to be a nurse so I joined the hospital to help me learn more about health care while I am doing my studies. I like volunteering here because it feels good to work as a team and you get experience of working with all sorts of people".

Hope is currently undertaking a health and social care course at Hillsborough College. She has recently been offered a part time position as a domestic at the Trust and has vowed to continue in her role as a volunteer in her spare time.

"I am originally from Uganda so working as a volunteer and talking to people everyday is really helping me to improve my English language skills which will help me to get a job in nursing in the future."

As a Welcomer, Hope is responsible for providing a signposting service, which generally entails escorting patients to the right departments so that they arrive on time for their appointment and helping visitors to find their way to the wards.

Young Peoples' Volunteer Co-ordinator Alan Smith explains, "We have around 700 volunteers across the Trust and they all work extremely hard to support the hospitals. The Welcomers provide an invaluable service to patients, visitors and staff.

By directing and escorting people to their intended destination it means that clinics are able to see the patients on time and visitors can find the correct ward when visiting their relatives."

Volunteers at the Trust now have access to a much more comprehensive training programme which includes fire safety, moving and handling training and health and safety training.

Investing in Volunteers

The Trust has also been working towards 'Investing in Volunteers' status, the UK quality standard for all organisations which involve volunteers in their work. The Standard enables organisations to comprehensively review their volunteer management and publicly demonstrate their commitment to volunteering; ensuring that volunteers' are valued and their skills utilised.

The Trust has passed all of the assessments and once officially approved will be the largest and one of the first organisations in Sheffield to receive the Investing in Volunteers accreditation.

Learning from our patients

The Trust has in place a comprehensive, easy to access complaints system which enables patients, their families or carers to tell us about their experiences and provide comments and suggestions.

The feedback we receive is then used to make important improvements to the services we provide. This year, the Trust received 649 complaints of which 88% were resolved within our target of 20 working days. Fifty requests for independent review were received this year from the Healthcare Commission, but none progressed to full independent review.

From these complaints, a number of improvements have been made to ensure future patients receive the highest quality of care. Some of these changes include:

- The introduction of personal stereos for patients having surgery performed under spinal or epidural anaesthesia, which will provide a more soothing sensory environment
- New guidelines on the correct management of babies with a tongue-tie. This will include information about the established referral pathway for these babies
- The introduction of an information pack which gives clear information and nutritional advice to nurses caring for renal patients on the vascular wards.

The Trust also receives a great many compliments from patients that have undergone a wide variety of treatment.

A lot of the patients at Sheffield Teaching Hospitals are under the Trust's care for many years and continue to be satisfied with their care. Here are just a few comments which have been posted on the national Patient Opinion website:

"I was very happy with all the amenities at Northern General. Doctors, nurses, food staff, plus cleaners, I was very impressed with them all. They were all very friendly and helpful. The food was also good."

Patient on Chesterman Ward, Northern General Hospital

"The staff could not have been better. No complaints of any kind. Could not have been in better hands, I don't think I would still be here if it hadn't been for the staff."

Patient on Osborn ward, Spinal Injuries Unit, Northern General Hospital

"I recently had major surgery at the Hallamshire - admitted via GP referral to emergency admissions and then to Ward K2 where I stayed for 10 days. From admission, through differential diagnosis, to pre-op, post-op and discharge I was extremely impressed with care at the Hallamshire. In particular the nursing and support care was highly impressive."

Patient on K2, Royal Hallamshire Hospital

"My father has spent the last five weeks in ward N1 at the Hallamshire and I would like to thank all the nurses and doctors who looked after him who were absolutely brilliant."

Relative of patient treated on N1, Royal Hallamshire Hospital

Annual Accounts 2006/07

In consideration of the organisation's performance against Monitor's risk ratings, provision for risk built into the financial plan and good performance management processes, the Trust Board of Sheffield Teaching Hospitals NHS Foundation Trust considers the Trust a going concern for 2007/08. The following annual accounts have been prepared on the basis that the Sheffield Teaching Hospitals NHS Foundation Trust will continue to operate in business for the foreseeable future.

The accounts have been prepared in accordance with the relevant accounting rules, which are set out in the Accounting Standards Board's Financial Reporting Standards (FRSs) as interpreted by the NHS Foundation Trust Financial Reporting Manual.

Finance Director's review

Since its creation on 1st April 2001, the Trust has maintained financial balance in every accounting period, initially as an NHS Trust and since 1st July 2004 as an NHS Foundation Trust.

Whilst the Income and Expenditure (I&E) Account surplus in 2006/07 of £2.97m is the largest achieved by the Trust, it still represents just 0.46% of turnover for the year which is the equivalent of just under 1.7 days worth of expenditure. The surplus will be used for future investment with £2m having already been committed to commence a Ward Refurbishment Programme in 2007/08.

The Trust's income grew significantly again in 2006/07 as shown in the table below.

However, in real terms, taking account of inflation and national cost pressures, the overall growth is fairly minimal.

Total capital investment for the year amounted to £32.1m. Detailed information is provided elsewhere in the Annual Report but planning and operational pressures again caused slippage with an underspend of £4.5m.

	£M	% Increase over 2005/06
Income from Patient Service Activities	535.0	5.9
Total Income	646.5	5.7

Cash balances amounted to £37.6m at 31st March 2007. Of this, £24.6m can be attributed to Agenda for Change pay assimilation costs, capital programme slippage and other provisions which are expected to result in payments in 2007/08. Whilst the balance of £13.0m is a significant sum, it represents just seven days worth of expenditure for the Trust. As an autonomous entity it would be imprudent to operate with a lower level of cash balances. Overall the Trust had net assets of £439.4m at 31st March 2007 and net current assets of £28.5m. The latter will deteriorate significantly in 2007/08 due to the Agenda for Change, capital expenditure and other provisions referred to above.

During the 2006/07 financial year, the Trust secured approval for an £18.3m loan to fund the new Critical Care Facility at the Northern General Hospital. However, none of the loan was utilised in 2006/07. The Trust was compliant at all times with its Prudential Borrowing Limit as set by Monitor, the foundation trust regulator. On Monitor's financial risk rating of one to five, where one represents very high risk and five reflects extremely low risk, the Trust was assessed as a four at both the 2006/07 plan and outturn stages.

Whilst the 2006/07 outturn position was a very satisfactory one, there were many key issues to highlight including the following:

- The general NHS challenge of moving away from the deficit position in 2005/06
- The impact of the Sheffield PCT(s) addressing underlying financial difficulties and beginning to pay off historic debts
- Income constraints from the very low tariff uplift and a top-slice on education and training contract values
- The need for the Trust to deliver unprecedented levels (£32m) of productivity and efficiency savings
- Underlying deficits in General Surgery and Orthopaedics which both improved by around £1m over 2005/06 levels but which, at £1.6m and £2.3m respectively, remained significant
- A major pressure from energy price increases
- A reduction in staff in post of 258 WTEs over the year and a £4m reduction (34%) in bank and agency expenditure, despite an increase in activity and services provided
- Slippage on the opening of the Sir Robert Hadfield Wing which released funding on a non-recurrent basis
- The continued reliance on non-recurrent PbR transitional funding amounting to £20.5m.

Operational Issues

As detailed elsewhere in the Annual Report, the Trust had a very successful year in delivering national service targets and developing the quality of services. The margins between success and failure remain very fine and the Trust will continue to be challenged to deliver all of the requirements and expectations placed upon it in terms of:

Finance - Maintaining financial stability and the ability to invest whilst making major improvements in productivity and efficiency.

Access - Ensuring short waiting times for inpatient, outpatient, diagnostic, cancer, accident and emergency, GUM and other services.

Quality - Providing high quality patient care, environment and patient experience in all areas.

Teaching - Maintaining high standards of teaching and education at both undergraduate and postgraduate levels in many professional disciplines.

Research - Developing the Trust's Research Strategy and ensuring high quality research leading to improved patient care.

Looking Ahead

There are many positives for the Trust to contemplate moving forwards into 2007/08 and beyond. The Trust continues to provide a wide range of high quality secondary and tertiary services from good facilities and is a key provider of services for the people of Sheffield and the North Trent region. It also has many talented and committed members of staff who will be fundamental to addressing the challenges ahead. The Trust can also look forward to some key developments in 2007/08 including:

- The construction and opening of the new Northern General Hospital Critical Care Facility
- Improved and expanded Haematology and GUM facilities at the Royal Hallamshire Hospital
- Completion of schemes to refurbish and reconfigure large parts of Weston Park Hospital and the Northern General Hospital Accident and Emergency department
- Commencement of a scheme to expand and upgrade the Charles Clifford Dental Hospital
- Implementation of the Picture Archiving and Communication System (PACS)
- The commencement of a programme to refurbish wards and other clinical accommodation across the Trust

These and many other smaller schemes will continue to improve the Trust's facilities and services for the benefit of patients, although there remain key issues to be addressed in areas such as car parking capacity and laboratory reconfiguration.

In addition, access times will continue to improve in many areas, particularly as the Trust continues to progress towards the 18 week patient journey target. Investment from our commissioners and the efforts of our staff will also continue to improve services.

However, the Trust continues to face many risks and challenges in the future, particularly relating to maintaining financial stability whilst delivering key patient services, teaching and research and development requirements. The key financial risks are as follows:

- 2007/08 and 2008/09 represent the second and third years of the Trust's programme to deliver £90m of productivity and efficiency savings over a three year period. Whilst the first £30m or so has been delivered in 2006/07, the cumulative nature of the requirement will make delivery in the next two years much more difficult.
- Having faced the pressure of expansion to deliver waiting time targets over several years the Trust faces uncertainty over future income levels due to ongoing "demand management" initiatives, the policy aim to move activity out of hospitals, potential competition from a range of NHS and private hospitals and potentially a reduced activity requirement in many elective areas once the 18 week patient journey target is achieved in December 2008.
- The current inadequacy of national tariffs in fully reflecting the complex treatments undertaken in teaching hospitals, and the inequity of the current Market Forces Factor applied to tariffs at local hospital level.

- An expected less favourable NHS funding settlement from 2008/09 which may well impact on funding provided to the Trust for inflation, cost pressures and service developments.
- The complete loss of PbR transitional funding by 2008/09.
- The loss of £7.5m of NHS research and development funding over three years from 2007/08 with no clarity on any funding and associated requirements from the revised national research and development funding arrangements.
- Uncertainty over current funding streams in respect of NHS education and training arrangements.

The Trust has every expectation that 2007/08 will be another very challenging year. However, the potential combination of factors for 2008/09 gives even greater cause for concern. The Trust will continue to identify risks and take action to manage and/or mitigate them. In particular, the Trust will continue to develop its planning and performance management processes, to maximise productivity and efficiency gains through the Adding Value Programme and to influence national financial policies. This latter area will be crucial if the Trust is to have a realistic chance of delivering the service, teaching and research requirements placed upon it in a financially sustainable way. The Trust has a fantastic track record of delivery over many years and there is every reason to believe that it can continue on the same basis if the national financial and policy frameworks are supportive.

Neil Priestley
Director of Finance
May 2007

Public interest disclosure

The Board of Directors comprises the Chairman, six non-executive directors and six executive directors. Each director brings a range of different skills and experience that enables the Trust to achieve balance and completeness at Board level.

The Non-Executives (including the Chairman) are not full-time employees of the Teaching Hospitals. They are people who live or work in the area and have shown a genuine interest in helping to improve the health of local people. The Non-Executive Directors are determined by the Board to be independent in character and judgement.

The Chairman, Executive and Non-Executive Directors have declared their interests as set out below and the Board are satisfied that there are no conflicts of interest indicated by any external involvement. This disclosure is updated regularly and is available on our Internet site for public access at www.sth.nhs.uk.

The Board of Directors can be contacted by writing to: Trust Secretary, Sheffield Teaching Hospitals NHS Foundation Trust, 8 Beech Hill Road, Sheffield, S10 2SB.

Senior Independent Director

In January 2007 the Board of Directors agreed the requirement for a Senior Independent Director to act with 'independence of mind' and provide a channel by which Foundation Trust members and Governors are able to express concerns through a route other than that of the normal channels of the Chairman, Chief Executive or Finance Director. A Senior Independent Director, Mr Vic Powell, was appointed in April 2007 from the six Non-Executive Directors who currently sit on the Board.

The Chairman

David Stone OBE

Chairman

David Stone has been Chairman of the Board since the formation of Sheffield Teaching Hospitals in 2001. He was previously Chairman of Weston Park Hospital and Central Sheffield University Hospitals NHS Trusts. His professional career was in the steel industry and he has held posts in several Sheffield steel manufacturing companies including Managing Director of British Steel Engineering Steels and Stocksbridge Engineering Steels. Mr Stone was awarded the OBE in 1997.

Other Interests

- Trustee of Weston Park Cancer Care Appeal
- Trustee of Freshgate Foundation
- Trustee of Sheffield Botanical Gardens Trust
- Guardian, Sheffield Assay Office
- Honorary Consul, Republic of Finland
- Chairman, Cutlers Hall Preservation Trust

The Executive Directors

Andrew Cash OBE

Chief Executive

(Seconded to Department of Health from 30th June 2006)

Andrew Cash was a graduate entrant to the NHS on the national management training scheme. He has been an NHS chief executive for 18 years and has worked at regional and national level. Mr Cash was seconded to the Department of Health as Director General for Provider Development in July.

Other Interests

- Visiting Professor to the University of York's Centre for Leadership and Development, Department of Health Studies
- Non-Executive Director, Medilink (Yorkshire & The Humber) Ltd
- Chair, Foundation Trust Network (hosted by the NHS Confederation)
- Professor (Visiting Chair) at the University of Sheffield Leadership Centre

Professor Chris Welsh
Medical Director

(Acting Chief Executive from 1st July 2006)

Professor Chris Welsh trained as a Vascular Surgeon and was appointed to a consultant post at the Northern General Hospital in 1984. Before becoming Medical Director in 2001, Professor Welsh held the post of Regional Postgraduate Dean for the NHS Trent Region for six years. He was seconded to the post of Acting Chief Executive in July 2006.

Other Interests

- In Private Medical Practice based at Claremont Hospital
- Tutor Medical Leadership Programme – NHS Leadership Centre and Keele University, Centre for Health Planning and Management
- Part owner and Director of C. L. Welsh and Company Ltd

Hilary Scholefield
Chief Nurse

Hilary Scholefield joined the Trust in March 2006 as Chief Nurse. Hilary began her nursing career at the Northern General Hospital, where she undertook her training and worked as Staff Nurse and then Sister in both the cardiothoracic and critical care areas. Before her appointment as Chief Nurse, Mrs Scholefield held the post of Chief Nurse at the University Hospitals Coventry and Warwickshire NHS Trust. She chairs the National Association of UK University Hospitals Nurse Directors' Group.

Other Interests:

- Associate Fellow, Warwick University
- Nurse Advisor to Engaging Quality, part of the Health Foundation
- Member, Secretary of State's Sounding Board
- Member, SDO Programme Board

Chris Linacre
Director of Service Development

(Appointed Deputy Chief Executive from 1st July 2006)

Chris Linacre joined the NHS in 1971 and has worked in hospital management and specialist personnel management wholly within Sheffield since that time. He has held posts as Director of Organisational Development at the Royal Hallamshire Hospital and General Manager of Lodge Moor and King Edward Hospitals prior to becoming Director of Corporate Strategy for the former Central Sheffield University Hospitals NHS Trust when it was formed in 1992.

Other Interests:

- Non Executive Director of Medipex Ltd
- Non Executive Director of Aperio Diagnostics Ltd (a company partly owned by the Trust)

Neil Priestley
Director of Finance

Neil Priestley previously held the post of Head of Finance at the NHS Executive Trent Regional Office. He had been seconded to the Northern General Hospital prior to the Trust merger where he was acting as Director of Finance before being appointed to the post of Director of Finance upon the merger of the trusts in 2001. Mr Priestley is a Fellow of the Chartered Association of Certified Accountants.

Other Interests: N/A

John Watts
Director of Human Resources

John Watts has a 30 year career in NHS personnel and executive management and has held senior posts in NHS organisations around the country. Prior to joining the team at Sheffield Teaching Hospitals, Mr Watts was Director of Human Resources at the Northern General Hospital.

Other Interests: N/A

Dr Graham Davies
Deputy Medical Director

(Acting Medical Director from 1st July 2006)

Graham Davies has been a Deputy Medical Director at the Trust since its formation in 2001 and he held a similar post at the Northern General prior to the merger. Dr Davies was appointed as a Consultant Cardiothoracic Anaesthetist in 1981 and in addition has worked in the chronic pain service and palliative care. Dr Davies took on the role of Acting Medical Director in July 2006.

Other Interests: N/A

Directors in Attendance of the Board of Directors Meetings

The following employees attend the Board of Directors meetings but do not sit on the Trust Executive Group.

John Simpson

Director of Estates Management
(until 30th March 2007)

John Simpson has held a number of Estates Management posts in both the public and private sector. He was the Director of Estates Management at the Northern General Hospital prior to the merger in 2001. He was subsequently appointed as the Director of Estates Management for the Sheffield Teaching Hospitals NHS Trust.

Mr Simpson left the Trust in March 2007 to take up the post of Director of Estates and Facilities Management at the recently merged Nottingham Universities Hospitals NHS Trust. He is a Chartered Engineer and a member of the Chartered Institute of Building Services Engineers.

Other interests

- Member of the Chartered Institute of Building Engineers (CIBSE)

Neil Riley

Trust Secretary
(from August 2006)

Neil Riley is a graduate of the Queens College, Oxford and in 1981 joined the National Health Service as a Management Trainee. He has subsequently worked in a number of NHS settings across the country and in 1995 was appointed as Chief Executive of Weston Park Hospital.

In 2002 Mr Riley was appointed to the post of Assistant Chief Executive at Sheffield Teaching Hospitals NHS Trust and, most recently, was appointed to the post of Trust Secretary for the Sheffield Teaching Hospitals NHS Foundation Trust.

Other Interests:

- Visiting Professor, Sheffield Hallam University
- Associate, PACT consultancy

The Non-Executive Directors

Ony Bright

Onyema Bright had a background in mental health nursing before becoming Project Manager for a management and professional training initiative for black and Asian people. Ms Bright is also part of the ethnic programmes team at BBC Radio Sheffield where she presents a weekly show. She was formerly a Non-Executive Director at Central Sheffield University Hospitals NHS Trust.

Other Interests

N/A

John Donnelly

John Donnelly was a Chief Superintendent with South Yorkshire Police and Commander for the district that covers the Trust's hospitals. He joined the Police as a cadet in 1966 and, in time, headed up the Force's Research & Development, Community Relations, and Police Traffic Departments. Mr Donnelly's term of office as non-executive director was extended in July for a further four years.

Other Interests

- Associate Investigator working for the Parliamentary & Health Service Ombudsman
- Trustee, Sheffield Hospitals Charitable Trust
- Lay Panellist, General Medical Council Fitness to Practice Panel

Vickie Ferres

Vickie Ferres is Director of Age Concern in Doncaster - a position held since 1983. A Sheffield resident, Vickie has extensive experience in working with elderly people and understanding the health and social care issues that affect them. Vickie was formerly a Non-Executive Director at the Northern General Hospital NHS Trust.

Other Interests

- Chief Executive, Age Concern (Doncaster)
- Director and Chair Disability Doncaster
- Director and Chair, South Yorkshire Centre for Integrated Living
- Director and Chair, John William Chapman Trust

Vic Powell

Victor Powell is an accountant by profession and worked for KPMG in Sheffield throughout his professional career. He was involved in the management of the North-East Region in general and the Sheffield office in particular where he was Business Unit Managing Partner for nine years until retiring.

Other Interests

- Member of Foundation Trust Finance Facility

John Stoddart CBE

(retired 30th June 2006)

Trust Vice Chairman John Stoddart has a background in higher education and was Vice Chancellor of Sheffield Hallam University until his retirement. He holds honorary degrees from both the University of Sheffield and Sheffield Hallam University. He is a Director of Sheffield Assay Office. Mr Stoddart retired from his role as Non-Executive Director in June 2006.

Other Interests

- National Extension College
- Bolton Institute
- Guardian, Sheffield Assay Office

Chris Suddes

(appointed 1st July 2006)

Chris Suddes has an MBA from the University of Sheffield and over 20 years experience in contract logistics organisations, most recently as Operations & IT director for Bibby Distribution. Chris has previously held the Non-Executive Director post at North Sheffield Primary Care

Trust. He was also one of the first Public Governors to be appointed to the Sheffield Teaching Hospitals NHS Foundation Trust in 2004. Chris was appointed as a Non-Executive Director in July 2006.

Other Interests

- Non-Executive Director, Patient Opinion
- Communications and Media Officer, British Disabled Flying Association
- Managing Director, Antipas Designworks Ltd
- Associate Director, Prism Associates business consultancy

Professor Anthony Weetman

Professor Anthony Weetman is Dean of the Medical School at the University of Sheffield and is the appointed academic representative on the Board of Directors. Professor Weetman is Professor of Medicine and an Honorary Consultant at the Trust with a special interest in thyroid disease and autoimmune endocrine disorders. He was formerly a Non-Executive Director with both Sheffield Health Authority and the Northern General Hospital NHS Trust.

Other Interests

- University Representative
- Medical Advisor and Trustee, British Thyroid Foundation
- Private Medial Practice at Thornbury Hospital

Non-Executive Directors are appointed via an open advertisement and formal interview process. This is managed on behalf of the Trust by the NHS Appointments Commission.

Terms of Office

The Non-Executive Directors' Terms of Office are for a set period and finish as follows:

1st July 2007	Vic Powell and Ony Bright
1st July 2008	David Stone
1st July 2009	Vickie Ferres and Anthony Weetman
1st July 2010	Chris Suddes
1st July 2010	John Donnelly

Committees of the Board

The Management Audit Committee (MAC) is appointed by the Board of Directors and consists of more than three Non-Executive Directors of the Foundation Trust. The meetings are normally attended by the Chief Executive, Director of Finance, the Chief Internal Auditor and a representative from the external auditor.

The MAC plays a role in internal control and management reporting, internal audit, external audit, financial reporting, special assignments and corporate governance. It meets regularly (not less than three times a year), is authorised by the Board of Directors to investigate any activity within its terms of reference and is authorised to seek any information it requires from a Trust employee in achieving this objective. Outside legal or other independent professional advice may also be sought if considered necessary by the Committee.

Meetings of the Board

The Board of Directors meets every month; four of these meetings are held in public and the remaining meetings, plus any extraordinary meetings, are held privately with only the Board of Directors, associated employees, and employees of the Trust making presentations to the Board, in attendance. Public meetings are open to staff and the general public and focus on themes which are of interest to the public including infection control and new buildings and developments.

The individual attendance by Directors is noted at each meeting and reviewed by the Chairman. Attendance may be affected by sickness or annual leave. Individual attendance for 2006/07 is as follows:

Board Member	Attendance Rate (out of 18 meetings unless otherwise stated)
Mr David Stone Chairman	**17/18**
Mr Andrew Cash Chief Executive (with effect from 30th June 2006)	**4/5** (before commencement of secondment)
Professor Chris Welsh Acting Chief Executive (with effect from 1st July 2006)	**18/18** (in current and previous post of Medical Director)
Dr Graham Davies Acting Medical Director (with effect from 1st July 2006)	**13/13** (from commencement of secondment)
Mr Chris Linacre Director of Service Development	**15/18**
Mrs Hilary Scholefield Chief Nurse	**16/18**
Mr Neil Priestley Director of Finance	**16/18**
Mr John Watts Director of Human Resources	**16/18**
Mrs Ony Bright Non-Executive Director	**12/18**
Mr John Donnelly Non-Executive Director	**18/18**
Mrs Vickie Ferres Non-Executive Director	**14/18**
Mr Vic Powell Non-Executive Director	**17/18**
Mr John Stoddart Non-Executive Director (retired July 06)	**5/5** (before retirement)
Mr Chris Suddes (appointed July 06)	**12/13** (from commencement of post)
Professor Anthony Weetman Non-Executive Director	**13/18**

Governance Code

The Board has considered the Monitor Governance Code and is compliant with the Code as evidenced in the relevant sections of the Annual Report with the exception of the following:

The Trust currently relies on the existing NHSLA provisions in respect of insurance to cover Directors' liability.

The Board does not believe that the re-appointment of Executive Directors at no more than five years is required, given the existence of robust annual appraisal arrangements for Directors.

So far as the Board of Directors is aware, all possible steps have been taken to ensure that all relevant audit information has been disclosed in full to the auditors.

Appointments

Recommendations for appointments are made by the Foundation Trust's Appointments Committee and approved by the Governors' Council.

Remuneration

Further details of remuneration are given in the remuneration report on the following pages. The accounting policies for pensions and other retirement benefits are set out in the accounts on the following page (page 35).

Remuneration report

Remuneration of Executive Directors is carried out through the Board of Directors' Remuneration Committee. Remuneration for Non-Executive Directors (including the Chairman) is also considered by the Governors' Council Remuneration Committee and approved by the Governors' Council.

Remuneration Committee

The Board of Directors' Pay and Remuneration Committee is a formally appointed Committee of the Board of Directors. Its Terms of Reference comply with the Secretary of State's "Code of Conduct and Accountability for NHS Boards".

The membership of the Committee comprises the Non-Executive Directors of the Board of Directors together with the Chairman and Chief Executive (except where matters relating to the Chief Executive are under discussion).

The Directors of Finance and Human Resources are in attendance at all meetings to advise the Committee and ensure that an appropriate record of proceedings is kept.

Remuneration of Chairman and Non-Executive Directors

The Remuneration of the Chairman and Non-Executive Directors is determined by a Remuneration Committee of the Governors' Council. The Committee comprises six Governors and the Trust's Chairman. The Chairman does not attend or participate in any meetings of the Governors' Council Remuneration Committee when matters relating to the Chairman's remuneration are discussed. The decisions of the Remuneration Committee are reported to the Governors' Council. In determining the remuneration for the Chairman and Non-Executive Directors, account is taken of the guidance provided by the Foundation Trust Network.

Remuneration of Senior Managers

In determining the Pay and Conditions of Employment for Senior Managers, the Board of Directors' Remuneration Committee takes account of National Pay Awards given to the Pay and Non-Pay Review staff groups, together with the "NHS Board Room Pay Report" findings for Executive Directors produced by Incomes Data Services Ltd.

Assessment of Performance

All Executive and Non-Executive Directors are subject to Individual Performance Review. This involves the setting and agreeing of objectives for a 12 month period running from 1st April to the following 31st March. During the year regular reviews take place to discuss progress and there is an end of year review to assess achievements and performance. The Executive Directors are assessed by the Chief Executive, following which there is a meeting between the Chairman and each of the Executive Directors to discuss their performance.

The Chairman undertakes the performance review of the Chief Executive and Non-Executive Directors.

Individual performance review is well established in the Trust and is an integral part of developing the Executive and Non-Executive Directors' Personnel Development Plans.

Performance Pay

No element of the Executive and Non-Executive Directors' Remuneration is performance-related.

Duration of Contracts

All Executive Directors have a substantive Contract of Employment with a 12 month notice provision in respect of termination. This does not affect the right of the Trust to terminate the contract without notice by reason of the conduct of the Executive Director.

The Chairman and the Non-Executive Director appointments are due for renewal as shown below.

Name	Designated	Expiry date of appointment
Mr D R Stone	Chairman	1st July 2008
Mrs O Bright	Non-Executive Director	1st July 2007
Mr J Donnelly	Non-Executive Director	1st July 2010
Ms V Ferres	Non-Executive Director	1st July 2009
Mr V G W Powell	Non-Executive Director	1st July 2007
Mr C Suddes	Non-Executive Director	1st July 2010
Professor A P Weetman	Non-Executive Director	1st July 2009

Early Termination Liability

Depending on the circumstances of the early termination the Trust would, if the termination was due to redundancy, apply redundancy terms under Section 45 of the General Whitley Council Handbook or consider severance settlements in accordance with HSG94(18) and HSG95(25). In addition, there may be an entitlement to early retirement benefits under the provisions of the NHS (Compensation for Premature Retirement) Regulations 1981 if the dismissal is on grounds of redundancy and the individual is over 50 with at least five years service in the Superannuation Scheme.

Other Information

Please refer to the notes in the 06/07 Accounts contained on pages 43 - 64 of this Annual Report in respect of the following:

- Salaries and Allowances
- Benefits in Kind
- Increases in Pension at age 60 during 06/07
- Value of the cash equivalent transfer value at the beginning of the year
- Increase in the cash equivalent transfer value during 06/07.

Signed

C L Welsh

Professor Chris Welsh
Acting Chief Executive
6th June 2007

Independent Auditor's report

Independent Auditor's Report to the Governors' Council of Sheffield Teaching Hospitals NHS Foundation Trust.

I have audited the financial statements of Sheffield Teaching Hospitals NHS Foundation Trust for the year ended 31st March 2007 under the Health and Social Care (Community Health and Standards) Act 2003, 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. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer's responsibilities for preparing the financial statements in accordance with directions made by Monitor, the Independent Regulator of NHS Foundation Trusts, are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements in accordance with statute, the Audit Code for NHS Foundation Trusts and International Standards on Auditing (UK and Ireland). I report to you my opinion as to whether the financial statements give a true and fair view in accordance with the accounting policies directed by the Independent Regulator as being relevant to NHS Foundation Trusts.

I review whether the Accounting Officer's statement on internal control reflects the compliance with the requirements of the Independent Regulator contained in the NHS Foundation Trust Financial Reporting Manual 2006/07. I report if it does not meet the requirements specified by the Independent Regulator or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's statement on internal control covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and considered whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Statement, Background Information,

Operating and Financial Review, the sections on the Governors' Council, the Board of Directors, membership and public interest disclosures and the un-audited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent mis-statements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

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

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of Sheffield Teaching Hospitals NHS Foundation Trust as at 31st March 2007 and of its income and expenditure for the year then ended in accordance with the accounting policies adopted by the Trust.

Certificate

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

JG Prentice FCCA

Officer of the Audit Commission
Littlemoor House,
Littlemoor, Eckington,
Sheffield, S21 4EF

8th June 2007

Statement of Responsibilities

The Health and Social Care (Community Health and Standards) Act 2003 ('2003 Act') states that the chief executive is the accounting officer of the NHS Foundation Trust.

The relevant responsibilities of 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 2003 Act, Monitor has directed the Sheffield Teaching Hospitals NHS Foundation 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 Sheffield Teaching Hospitals NHS Foundation 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 NHS foundation 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 NHS Foundation 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 Officer Memorandum.

Signed

C L Welsh

Professor Chris Welsh
Acting Chief Executive
6th June 2007

Foreword to the Accounts

These accounts for the year ended 31st March 2007 have been prepared by the Sheffield Teaching Hospitals NHS Foundation Trust in accordance with schedule 1 paragraphs 24 and 25 of the Health and Social Care (Community Health and Standards) Act 2003 in the form which Monitor, the Independent Regulator of NHS Foundation Trusts, has, with the approval of HM Treasury, directed.

Signed

Professor Chris Welsh
Acting Medical Director
6th June 2007

Financial statements

Income and Expenditure Account for the 12 months ended 31 March 2007

	Note	2006/07 £000	2005/06 £000
Income from activities	3	**535,332**	505,482
Other operating income	4	**111,187**	106,090
Operating expenses	5-7	**(632,961)**	(599,324)
OPERATING SURPLUS		**13,558**	**12,248**
Surplus on sale of fixed assets	8	**0**	103
SURPLUS BEFORE INTEREST		**13,558**	**12,351**
Interest receivable		**2,217**	1,078
Interest payable	9	**0**	0
Other finance costs - unwinding of discount		**(55)**	(45)
Other finance costs - change in discount rate on provisions		**0**	(253)
SURPLUS FOR THE YEAR		**15,720**	**13,131**
Public Dividend Capital dividends payable		**(12,753)**	(12,529)
RETAINED SURPLUS FOR THE YEAR		**2,967**	**602**

The notes on pages 43 to 64 form part of these accounts.
All income and expenditure is derived from continuing operations.

Professor Chris Welsh, Acting Chief Executive
6th June 2007

Balance Sheet as at 31 March 2007

	NOTE	£000	31 March 2006 (restated) £000
FIXED ASSETS			
Intangible assets	10	**764**	798
Tangible assets	11	**436,288**	434,091
Investments	12	**0**	0
		437,052	434,889
CURRENT ASSETS			
Stocks	13	**7,904**	8,097
Debtors	14	**30,880**	34,791
Investment	15	**0**	0
Cash	19.3	**37,568**	22,055
		76,352	64,943
CREDITORS: Amounts falling due within one year	16	**(47,830)**	(50,315)
NET CURRENT ASSETS		**28,522**	14,628
TOTAL ASSETS LESS CURRENT LIABILITIES		**465,574**	449,517
CREDITORS: Amounts falling due after more than one year	16	**(2,472)**	(2,888)
PROVISIONS FOR LIABILITIES AND CHARGES	17	**(23,740)**	(13,328)
TOTAL ASSETS EMPLOYED		**439,362**	433,301
FINANCED BY:			
TAXPAYERS' EQUITY			
Public Dividend Capital	18.2	**305,119**	305,119
Revaluation reserve	18.3	**82,524**	86,183
Donated asset reserve	18.3	**39,289**	37,024
Income and expenditure reserve	18.3	**12,430**	4,975
TOTAL TAXPAYERS' EQUITY		**439,362**	433,301

Professor Chris Welsh, Acting Chief Executive
6th June 2007

Statement of Total Recognised Gains and Losses for the 12 months ended 31 March 2007

	2006/07	2005/06
	£000	£000
Surplus for the year before dividend payments	**15,720**	13,131
Unrealised surplus / (loss) on fixed asset revaluations/indexation	**170**	(3,186)
Increases in the donated asset reserve due to receipt of donated assets	**5,094**	6,864
Reductions in the donated asset reserve due to depreciation, impairment, and / or disposal of donated assets	**(2,131)**	(2,459)
Other recognised gains and losses	**(39)**	0
Total recognised gains for the year	**18,814**	**14,350**
Prior Period Adjustment (note 29)	**(3,052)**	0
Total gains and losses recognised since last annual report	**15,762**	**14,350**

Cash Flow Statement for the 12 months ended 31 March 2007

	Note	2006/07	2005/06
		£000	£000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	19.1	**54,013**	39,899
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		**2,244**	1,048
Interest paid		**0**	0
Net cash inflow from returns on investments and servicing of finance		**2,244**	1,048
CAPITAL EXPENDITURE			
(Payments) to acquire tangible assets		**(32,925)**	(46,595)
Receipts from sale of Tangible Fixed Assets		**0**	149
(Payments) to acquire intangible assets		**(170)**	(144)
Net cash (outflow) from capital expenditure		**(33,095)**	(46,590)
DIVIDENDS PAID		**(12,753)**	(12,529)
Net cash inflow (outflow) before management of liquid resources and financing		**10,409**	(18,172)
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of current asset investments		**(165,000)**	(180,000)
Sale of current asset investments		**165,000**	180,000
Net cash flow from management of liquid resources		**0**	0
Net cash inflow / (outflow) before financing		**10,409**	(18,172)
FINANCING			
Public dividend capital received		**0**	24,844
Other capital receipts		**5,104**	6,426
Net cash inflow from financing		**5,104**	31,270
Increase in cash		**15,513**	13,098

Notes to the Accounts

1 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 shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2006/07 NHS Foundation Trust Financial Reporting Manual issued by Monitor, the body responsible for overseeing Foundation Trust activities. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. NHS Foundation Trusts, in compliance with 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 Acquisitions and discontinued operations

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

a. The sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved;

b. If a termination, the former activities have ceased permanently;

c. The sale or termination has a material effect on the nature and focus of the reporting trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the Trust's continuing operations;

d. The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all of these conditions are classified as continuing.

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

1.3 Income Recognition

Income is accounted for applying the accruals convention. The main source of income for the Trust is 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.

Partially completed spells for patient episodes are accounted for as required under FRS 5. An asset in the form of a debtor is therefore recognised together with the corresponding income adjustments.

The NHS Foundation Trust changed the form of its contracts with NHS commissioners to follow the Department of Health's Payment by Results methodology from 2004/05. To manage the financial impact of this change on the NHS Foundation Trust and its commissioners the Department of Health has implemented transitional gain and clawback arrangements. These are on a sliding scale, as the change is phased in over the four year period to 2008/09. Under these arrangements the Trust received income protection of £20,511,000 from the Department of Health during 2006/07 (2005-06 £16,114,000).

1.4 Expenditure

Expenditure is accounted for by applying the accruals convention.

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 of a new building, ward or unit irrespective of their individual or collective cost
- Digital hearing aids were capitalised in accordance with the direction of the Secretary of State in 2004-05 and the first quarter of 2004-05, and will be written down over five years.

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 periodically. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

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.

Professional valuations are carried out by the Valuation Office. 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 1st April 2005 and were applied on 31st 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.

Assets in the course of construction are valued at 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 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 from 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 Trust's professional valuers. Leaseholds are depreciated over the primary lease term.

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

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.

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.

The economic life of buildings is based on the assessment of the District Valuer. The economic life of equipment ranges between five and 10 years.

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 income from primary care trusts or NHS trusts for the provision of services. Grants from the Department of Health, including those for achieving three star status, are accounted for as Government grants 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 that 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 the asset.

1.9 Private Finance Initiative (PFI) transactions

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

1.10 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.

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 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 17.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1st 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 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. As a consequence it is not possible for the Trust to identify its share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as a defined contribution scheme and the cost of the Scheme is equal to the contributions payable to the Scheme for the accounting period. The total employer contribution payable in the 12 months to 31st March 07 was £37,344,418 (31st March 2006 £35,353,772).

Employer's 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 NHS pension scheme is subject to a full valuation every four years by the Government Actuary. However, the last published valuation relates to the period 1st April 1994 to 31st March 1999;

The valuation as at 31st March 2003 has not yet been published and it is not expected that it will be published before the 2006/07 NHS Foundation Trust accounts are prepared. Between valuations, the Government Actuary provides an update of the scheme liabilities which is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at www.nhspa.gov.uk.

Employer contribution rates are reviewed every four years following the scheme valuation, on advice from the actuary. At the last valuation on which contribution rates were rebased (31st March 1999) employer contribution rates from 2003-04 were set at 14% of pensionable pay. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 26 to the accounts.

1.18 Cash, Bank and Overdrafts

Cash, bank and overdraft balances are recorded at the current values of these balances in the NHS Foundation Trust's cash book. These balances exclude monies held in the NHS Foundation Trust's bank account belonging to patients (see "third party assets" above). Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases overdrafts are disclosed within creditors. Interest earned on bank accounts and interest charged on overdrafts is recorded as, respectively, "interest receivable" and "interest payable" in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

1.19 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.

1.20 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. Details are disclosed in note 28 to the accounts.

1.21 Losses and Special Payments

Losses and Special Payments are charged to the relevant functional headings on a cash 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). Details are disclosed in note 27 to the accounts.

1.22 Corporation Tax

The NHS Foundation Trust has carried out a review of Corporation Tax liability of its non-healthcare activities. At present all activities are either ancillary to patient care activity or are below the de-minimis level at which corporation tax is due.

2 Segmental Analysis

All of the Trust's activities are in the provision of healthcare, therefore no segmental analysis is required of the Trust's income and net assets under this note.

3 Income

3.1 Income from Activities

	2006/07	2005/06
	£000	£000
Elective income	**119,569**	121,901
Non-elective income	**139,313**	155,292
Outpatient income	**83,020**	81,250
Other types of activity income	**160,633**	117,860
A&E income	**9,098**	9,804
PbR transitional relief	**20,511**	16,114
Private patient income	**3,188**	3,261
TOTAL	**535,332**	505,482

In previous years the profile of healthcare income has been based on apportionments derived from reference cost analysis.

During 2006/07 the Trust, in association with its main healthcare commissioners, has reviewed the profile of services provided through it's main commissioning contracts. This has resulted in a more accurate definition of the source of income from activities for 2006/07, but the figures are not directly comparable with those for the previous year.

3.2 Private patient income

	2006/07	Base year (2002-03)
	£000	£000
Private patient income	**3,188**	2,774
Total patient related income	**535,332**	367,782
Proportion (as percentage)	**0.60%**	0.75%

Section 15 of the 2003 Act requires that the Trust's proportion of private patient income in relation to its total patient-related income does not exceed that same percentage whilst the Trust was an NHS Trust in 2002/03. This requirement has been met.

3.3 Income from Activities

	2006/07	2005/06
	£000	£000
Primary Care Trusts	**485,620**	473,468
Local Authorities	**201**	216
Department of Health	**43,213**	25,533
NHS Other	**1,253**	1,096
Non-NHS: Private patients	**2,417**	2,319
Non-NHS: Overseas patients (non-reciprocal)	**771**	942
Road Traffic Act	**1,784**	1,840
Non-NHS: Other	**73**	68
TOTAL	**535,332**	505,482

4 Other Operating Income

	2006/07	2005/06 (restated)
	£000	£000
Research and Development	**8,001**	7,764
Education and Training	**52,690**	52,044
Transfers from the donated asset reserve in respect of depreciation, impairment, and disposal of donated assets	**2,131**	2,112
Non-patient care services to other bodies	**36,550**	33,487
Other	**11,815**	10,683
TOTAL	**111,187**	106,090

5 Operating Expenses

5.1 Operating expenses comprise:

	2006/07	2005/06
	£000	£000
Services from other NHS Foundation Trusts	**3,770**	2,417
Services from other NHS Trusts	**6,667**	6,016
Services from other NHS bodies	**5,593**	5,266
Purchase of healthcare from non NHS bodies	**4,186**	5,029
Directors' costs	**1,142**	1,209
Staff costs	**415,450**	396,021
Drugs costs	**55,868**	50,294
Supplies and services - clinical	**62,221**	60,700
Supplies and services - general	**6,813**	7,193
Establishment	**6,807**	7,094
Transport	**778**	683
Premises	**21,562**	19,476
Bad debts	**61**	840
Depreciation and amortisation	**27,781**	23,145
Fixed asset impairments and reversals	**2,286**	1,346
Audit fees	**80**	115
Other auditor's remuneration	**3**	20
Clinical negligence	**5,757**	5,819
Other	**6,136**	6,641
TOTAL	**632,961**	599,324

5.2 Operating leases

5.2/1 Operating expenses include:

	2006/07	2005/06
	£000	£000
Other operating lease rentals	**1,800**	1,728
TOTAL	**1,800**	1,728

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

Operating leases which expire:

	Land and buildings	Other leases	Land and buildings	Other leases
	£000	£000	£000	£000
Within 1 year	**12**	**79**	0	276
Between 1 and 5 years	**223**	**574**	236	724
After 5 years	**158**	**549**	157	247
TOTAL	**393**	**1,202**	393	1,247

5.3 Salary and Pension entitlements of senior managers

A) Remuneration

Name and Title	To 31st March 2007 Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind Rounded to the nearest £100
Mr A J Cash, Chief Executive (seconded to Department of Health 30th June 2006)	45-50	-	-
Mr J Watts, Director of Human Resources	115-120	-	-
Mr N Priestley, Director of Finance	130-135	-	-
Mr G Davies, Acting Medical Director (from 1st July 2006)	110-115	-	-
Mrs H Scholefield, Chief Nurse	115-120	-	-
Mr C Welsh, Medical Director (Acting Chief Executive from 1st July 2006)	155-160	-	-
Mr C C Linacre, Director of Service Development (appointed Deputy Chief Executive 1st July 2006)	125-130	-	-
Mr C Suddes, Non-Executive Director (appointed with effect from 1st July 2006)	10-15	-	-
Mr J P Donnelly, Non-Executive Director	10-15	-	-
Ms V R Ferres, Non-Executive Director	10-15	-	-
Mr V G W Powell, Non-Executive Director	10-15	-	-
Mr J M Stoddart, Non-Executive Director (left 30th June 2006)	0-5	-	-
Professor A P Weetman, Non-Executive Director	10-15	-	-
Ms O V Bright, Non-Executive Director	10-15	-	-
Mr D Stone, Chairman	50-55	-	-

5.3 Salary and Pension entitlements of senior managers

B) Pension Benefits

Name and title	Real increase in pension and related lump sum at age 60 (bands of £2500)	Total accrued pension and related lump sum at age 60 at 31st March 2007 (bands of £5000)	Cash Equivalent Transfer Value at 31st March 2007	Cash Equivalent Transfer Value at 31st March 2006	Real Increase in Cash Equivalent Transfer Value	Employer's Contribution to Stakeholder Pension
	£000	£000	£000	£000	£000	To nearest £100
Mr A J Cash, Chief Executive (Seconded to Department of Health from 30th June 2006)	0 - 2.5	275 - 280	1,117	1,022	12	6,500
Mr J Watts, Director of Human Resources	5 - 7.5	200 - 205	946	814	78	16,200
Mr N Priestley, Director of Finance	7.5 - 10	155 - 160	519	467	28	18,700
Mr G Davies, Acting Medical Director (appointed with effect from 1st July 2006)	12.5 - 15	245 - 250	998	888	46	16,800
Mrs H Scholefield, Chief Nurse	25 - 27.5	150 - 155	472	391	50	16,200
Mr C Welsh, Acting Chief Executive (appointed with effect from 1st July 2006)	15 - 17.5	265 - 270	N/a	1,086	N/A	22,400
Mr C C Linacre, Director of Service Development (appointed Deputy Chief Executive 1st July 2006)	17.5 - 20	225 - 230	1,026	917	60	17,900

As Non-Executive members do not receive pensionable remuneration there are no entries in respect of pensions for Non-Executive members.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies.

The CETV figures, and from 2004-05 the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV - this reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

6 Staff costs and numbers

6.1 Staff costs

	2006/07	2006/07	2006/07	2005/06	2005/06	2005/06
	Total	**Permanently Employed**	**Other**	Total	Permanently Employed	Other
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Salaries and wages	**349,869**	346,177	3,692	331,258	325,877	5,381
Social Security Costs	**24,875**	24,875	0	23,716	23,716	0
Employer contributions to NHSPA	**37,344**	37,344	0	35,354	35,354	0
Other pension costs	**33**	33	0	(81)	(81)	0
Agency/contract staff	**4,326**	0	4,326	6,804	0	6,804
TOTAL	**416,447**	**408,429**	**8,018**	397,051	384,866	12,185

The above figure of £416,447k is net of the amount of £1,062k (12 months to 31.3.2006, £929k) in respect of capitalised salary costs included in fixed asset additions (note 11.1).

6.2 Average number of persons employed

	2006/07	2006/07	2006/07	2005/06	2005/06	2005/06
	Total	Permanently Employed	Other	Total	Permanently Employed	Other
	Number	Number	Number	Number	Number	Number
Medical and dental	**1,380**	1,340	40	1,325	1,273	52
Administration and estates	**2,418**	2,306	112	2,433	2,310	123
Healthcare assistants and other support staff	**1,269**	1,269	0	1,308	1,308	0
Nursing, midwifery and health visiting staff	**4,738**	4,556	182	4,815	4,426	389
Scientific, therapeutic and technical staff	**1,883**	1,869	14	1,873	1,853	20
Total	**11,689**	**11,340**	**349**	11,754	11,170	584

6.3 Employee benefits

	2006/07	2005/06
	£000	£000
None	**0**	0
	0	0

6.4 Early Retirements Due to Ill Health

	2006/07 £000	2006/07 Number	2005/06 £000	2005/06 Number
Number of early retirements agreed on the grounds of ill health		**28**		23
Cost of early retirements agreed on grounds of ill health	**1,174**		802	

As explained in note 1.13, these costs were borne by the NHS Pensions Agency.

7 Performance on payment of debts

The Better Payment Practice Code requires the Trust to pay all undisputed invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later. The Trust's performance against this code is set out below:

	2006/07	2005/06
Number of non-NHS invoices paid	**143,777**	144,803
Number of non-NHS invoices paid within 30 days	**137,892**	136,713
Percentage of invoices paid within 30 days	**95.91%**	94.41%

	£000	£000
Value of non-NHS invoices paid	**211,444**	207,946
Value of non-NHS invoices paid within 30 days	**200,986**	196,705
Percentage of invoices paid within 30 days	**95.05%**	94.59%
Amounts included within Interest Payable (Note 9) arising from claims made under the Late Payment of Debts (Interest) Act 1998	**0**	0
Compensation paid to cover debt recovery costs under this legislation	**0**	0

8 Profit on Disposal of Fixed Assets

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

	2006/07 Total £000	2005/06 Total £000
Profit on disposal of equipment	**0**	103
TOTAL	**0**	103

9 Interest Payable and similar charges

	2006/07 £000	2005/06 £000
No interest was payable in 2006-07 or the previous financial year	**0**	0
TOTAL	**0**	0

10.1 Intangible fixed assets:

	Total	Software licences
	£000	£000
Gross cost at 1st April 2006	1446	1446
Impairments	0	0
Reclassifications	27	27
Other revaluations	0	0
Additions - purchased	143	143
Additions - donated	0	0
Disposals	(14)	(14)
Gross cost at 31st March 2007	**1602**	**1602**
Amortisation at 1st April 2006	648	648
Amortisation at start of period for new FT's	0	0
Provided during the year	204	204
Impairments	0	0
Reversal of impairments	0	0
Reclassifications	0	0
Other revaluations	0	0
Disposals	(14)	(14)
Amortisation at 31st March 2007	**838**	**838**
Net book value		
- Purchased at 1st April 2006	787	787
- Donated at 1st April 2006	11	11
Total at 1st April 2006	**798**	**798**
Net book value		
- Purchased at 31st March 2007	756	756
- Donated at 31st March 2007	8	8
Total at 31st March 2007	**764**	**764**

11 Tangible Fixed Assets

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

	Total	Land	Buildings exc dwellings	Dwellings	Assets under construction	Plant & machinery	Transport equipment	Information technology	Furniture & fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1st April 2006	528,075	26,444	335,569	2,601	37,279	93,583	830	13,855	17,914
Cost or valuation at start of period for new FT's	0	0	0	0	0	0	0	0	0
Additions - purchased	26,823	0	2,505	0	20,740	2,706	29	570	273
Additions - donated	5,094	0	71	0	4,492	452	0	0	79
Impairments	(2,007)	(595)	(1,009)	0	(403)	0	0	0	0
Reclassifications	(27)	0	37,660	0	(46,310)	7,194	0	1,131	298
Other revaluations	(578)	0	(3,709)	0	185	2,442	23	0	481
Disposals	(6,626)	0	(475)	0	0	(5,182)	(7)	(690)	(272)
Cost or valuation at 31st March 2007	**550,754**	**25,849**	**370,612**	**2,601**	**15,983**	**101,195**	**875**	**14,866**	**18,773**
Depreciation at 1st April 2006	93,984	0	13,720	109	0	57,301	615	10,177	12,062
Depreciation at start of period for new FT's	0	0	0	0	0	0	0	0	0
Provided during the year	27,577	0	17,617	110	0	7,277	58	1,233	1,282
Impairments	286	0	1	0	0	260	0	18	7
Reversal of impairments	(7)	0	(7)	0	0	0	0	0	0
Reclassifications	0	0	24	0	0	(24)	0	103	(103)
Other revaluations	(748)	0	(2,537)	0	0	1,449	17	0	323
Disposals	(6,626)	0	(475)	0	0	(5,182)	(7)	(690)	(272)
Depreciation at 31st March 2007	**114,466**	**0**	**28,343**	**219**	**0**	**61,081**	**683**	**10,841**	**13,299**
Net book value - restated									
- Purchased at 1st April 2006	397,078	25,098	295,888	2,312	31,700	32,737	198	3,646	5,499
- Donated at 1st April 2006	37,013	1,346	25,961	180	5,579	3,545	17	32	353
Total at 1st April 2006	**434,091**	**26,444**	**321,849**	**2,492**	**37,279**	**36,282**	**215**	**3,678**	**5,852**
Net book value									
- Purchased at 31st March 2007	397,008	24,503	309,234	2,211	15,001	36,777	181	4,002	5,099
- Donated at 31st March 2007	39,280	1,346	33,035	171	982	3,337	11	23	375
Total at 31st March 2007	**436,288**	**25,849**	**342,269**	**2,382**	**15,983**	**40,114**	**192**	**4,025**	**5,474**

11.2 Analysis of tangible fixed assets:

	Total	Land	Buildings exc dwellings	Dwellings	Assets under construction	Plant & machinery	Transport equipment	Information technology	Furniture & fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net book value									
Protected assets at 31st March 2007	370,500	25,849	342,269	2,382	0	0	0	0	0
Unprotected assets at 31st March 2007	65,788	0	0	0	15,983	40,114	192	4,025	5,474
Total at 31st March 2007	**436,288**	**25,849**	**342,269**	**2,382**	**15,983**	**40,114**	**192**	**4,025**	**5,474**

11.3 Assets held at open market value

There were no assets held at open market value at the Balance Sheet date or at 31st March 2006.

11.4 Net book value of assets held under finance leases and hire purchase contracts at the Balance Sheet date:

No assets were held under finance leases or hire purchase contracts at the Balance Sheet Date or at 31st march 2006.

12 Fixed asset investments

During 2006/07 the Trust acquired an 18% holding in Aperio Diagnostics, a company commercially developing intellectual property.

The Trust holding carries a minimal value at the Balance Sheet Date.

13 Stocks

	31st March 2007	31st March 2006
	£000	£000
Raw materials and consumables	**7,904**	8,097
Total	**7,904**	8,097

14 Debtors

	31st March 2007	31st March 2006
	£000	£000
Amounts falling due within one year:		
NHS debtors	**16,563**	23,064
Provision for irrecoverable debts	**(1,144)**	(1,400)
Other prepayments and accrued income	**1,396**	1,751
Other debtors	**11,702**	8,955
Sub Total	**28,517**	32,370
Amounts falling due after more than one year:		
NHS debtors	**272**	277
Other debtors	**2,091**	2,144
Sub Total	**2,363**	2,421
Total	**30,880**	34,791

15 Current Asset Investments

	2006/07 Total £000	2005/06 Total £000
Balance at start of period	**0**	0
Investments purchased	**165,000**	180,000
Investments sold	**(165,000)**	(180,000)
At end of period	**0**	0

16 Creditors

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

Amounts falling due within one year:	31st March 2007 £000	31st March 2006 £000 (Restated)
NHS creditors	**9,457**	10,727
Non-NHS trade creditors - revenue - other	**11,044**	13,738
Non-NHS trade creditors - capital	**4,472**	6,554
Tax and social security costs	**8,855**	8,076
Other creditors	**491**	558
Accruals and deferred income	**13,511**	10,662
	47,830	50,315

Amounts falling due after one year:	31st March 2007 £000	31st March 2006 £000
Accruals and deferred income	**2,472**	2,888
	2,472	2,888

NHS creditors include;

- £0k (31 March 2006, £0k) for payments due in future years under arrangements to buy out the liability for early retirements; and
- £4,670k (31st March 2006, £4,411k) outstanding pensions contributions at 31st March 2007.

16.2 Prudential Borrowing Limit

	2006/07 Limit £000	2006/07 Actual £000	31st March 2006 Limit £000	31st March 2006 Actual £000
Long-Term Borrowing Limit set by Monitor	**146,700**	**0**	85,200	0
Working Capital Facility	**46,000**	**0**	46,000	0
Total Prudential Borrowing Limit	**192,700**	**0**	131,200	0
Minimum Dividend Cover	**>1**	**3.41**	>1	2.92

The NHS Foundation 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 any working capital facility approved by Monitor.

Further information on the NHS Foundation Trust's Prudential Borrowing Code & Compliance Framework can be found on the website of Monitor, the Independent Regulator of Foundation Trusts.

The financial ratios for 2006/07 (2005/06) as published in the Pudential Borrowing Code are shown above with the actual level of achievement for the period.

During 2006/07 the Trust received approval for an £18.3 million long-term loan to fund its critical care expansion scheme.

This facility was not used during the year.

17 Provisions for liabilities and charges

	Pensions relating to other staff	Legal claims	Other	**31st March 2007 Total**	31st March 2006 Total
	£000	£000	£000	**£000**	£000
At start of period	2,516	895	9,917	**13,328**	6,829
Change in discount rate	0	0	0	**0**	253
Arising during the year	217	452	12,490	**13,159**	8,006
Utilised during the year	(152)	(269)	(2,135)	**(2,556)**	(1,331)
Reversed unused	0	(246)	0	**(246)**	(474)
Unwinding of discount	55	0	0	**55**	45
At 31st March 2007	2,636	832	20,272	**23,740**	13,328
Expected timing of cashflows					
Within one year	155	832	20,272	**21,259**	10,958
Between one and five years	589	0	0	**589**	553
After five years	1,892	0	0	**1,892**	1,817

Pensions relating to other staff represents liability relating to staff retiring before April 95 (£612k) and Injury Benefit Liabilities (£2,024k).

Injury Benefits are payable to current and former members of staff who have suffered injury at work. These cases have been adjudicated by the NHS Pensions Authority.

The value shown is the discounted present value of payments due to the individuals for the term indicated by Government Actuary life expectancy tables, and the actual value of this figure represents the main uncertainty in the amounts shown.

Legal claims relate to claims brought against the Trust for Employers Liability or Public Liability. These cases are handled by the NHSLA, who provide an estimate of the Trust's probable liability.

Actual costs incurred are subject to the outcome of legal action. Costs in excess of £10,000 per case are covered by the NHSLA and not included above.

Other provisions relate to:

- Costs likely to be incurred under the 'Agenda for Change' pay award (£13,329k)
- Costs likely to be incurred under the Trust workforce reduction scheme (£5,217k)
- Costs likely to be incurred due to equal pay claims (£1,111k)
- Costs likely to be incurred under the 'Non-Consultant Medical Staff pay award' (£463k)
- Costs likely to be incurred under the Consultants' contract pay award (£152k)

The consultation with staff in respect of the pay awards and the staff reduction project is continuing.

Of the above total provision and related payments, some £330,652 has been covered by "back-to-back" income arrangements with the Trust's major purchasers.

£25,614,737 is included in the provisions of the NHS Litigation Authority at 31st March 2007 in respect of clinical negligence liabilities of the Trust (31st March 2006 £23,006,752).

18 Reserves

18.1 Movement in taxpayers' equity:

	31st March 2007	31st March 2006
	£000	£000
Taxpayers' equity at start of period	**433,301**	409,688
Surplus for the financial year	**15,720**	13,131
Public dividend capital dividend	**(12,753)**	(12,529)
Gains / (losses) from revaluation of purchased fixed assets	**829**	(776)
New public dividend capital received	**0**	24,844
Transfers from donated asset reserve	**2,265**	1,995
Taxpayers' equity before Prior Period Adjustment (Note 29)	**439,362**	436,353
Prior Period Adjustment - transfer of Big Lottery Fund	**0**	(3,052)
Closing Government Funds	**439,362**	433,301

18.2 Movements in public dividend capital

	31st March 2007	31st March 2006
	£000	£000
Public Dividend Capital at start of period	**305,119**	280,275
New Public Dividend Capital received	**0**	24,844
Public Dividend Capital at 31st March 2007	**305,119**	305,119

18.3 Movements on Reserves

Movements on reserves in the year comprised the following:	Revaluation Reserve	Donated Asset Reserve	Income and Expenditure Reserve	2006/07 Total
	£000	£000	£000	£000
At start of period	86,022	40,208	5,004	131,234
Prior period adjustment	161	(3,184)	(29)	(3,052)
1st April 2006 (restated)	86,183	37,024	4,975	128,182
Transfer from the Income and Expenditure Account	0	0	2,967	2,967
Loss on other revaluations/indexation of fixed assets	868	(698)	0	170
Transfer of realised profits (losses) to the Income and Expenditure Reserve	(34)	0	34	0
Receipt of donated assets	0	5,094	0	5,094
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated assets	0	(2,131)	0	(2,131)
Other transfers between reserves	(4,493)	0	4,454	(39)
At 31st March 2007	**82,524**	**39,289**	**12,430**	**134,243**

Note that £39k was transferred from Revaluation Reserve to the Government Grant Reserve in respect of realised surpluses.

19 Notes to the Cash Flow Statement

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

	2006/07	2005/06
	£000	£000 (restated)
Total operating surplus	**13,558**	12,248
Depreciation and amortisation charge	**27,781**	23,145
Fixed asset impairments and reversals	**2,286**	1,346
Transfer from donated asset reserve	**(2,131)**	(2,112)
Decrease in stocks	**193**	834
Decrease / increase in debtors	**2,826**	(3,959)
(Decrease) / increase in creditors	**(857)**	2,196
Increase in provisions	**10,357**	6,201
Net cash inflow from operating activities	**54,013**	39,899

19.2 Reconciliation of net cash flow to movement in net debt

	2006/07	2005/06
	£000	£000
Increase in cash in the period	**15,513**	13,098
Change in net debt resulting from cashflows	**15,513**	13,098
Net funds at start of period	**22,055**	8,957
Net funds at 31st March 2007	**37,568**	22,055

19.3 Analysis of changes in net debt

	At 1st April 2006	Cash changes in year	**At 31st March 2007**
	£000	£000	**£000**
OPG cash at bank	21,189	(2,094)	**19,095**
Commercial cash at bank and in hand	866	17,607	**18,473**
	22,055	15,513	**37,568**

Third party assets held by the NHS Foundation Trust (note 26)	19

20 Capital Commitments

Commitments under capital expenditure contracts at the balance sheet date were £21.4 million (31st March 2006, £12.7 million).

The major components of these commitments are as follows:

Scheme	£000
Critical Care Expansion Scheme	12,700
Picture Archiving and Communication System	4,839
Medical Equipment	1,432

21 Post-Balance Sheet Events

There were no material Post-Balance Sheet events.

22 Contingencies

	2006/07	2005/06
	£000	£000
Gross value	**(313)**	(413)
Amounts recoverable (if any)	**0**	0
Net contingent liability	**(313)**	(413)

Contingencies represent the consequences of losing all current third party legal claim cases.

23 Related Party Transactions

Sheffield Teaching Hospitals NHS Foundation Trust is a body corporate established by order of the Secretary of State for Health.

The Trust considers other NHS Foundation Trusts to be related parties as they and the Trust are under the common control of Monitor.

During the year the Trust contracted with certain other Foundation Trusts for the provision of clinical and non-clinical support services.

The value of activity undertaken with these organisations was not material to the accounts.

During the year none of the Board Members or members of the key management staff or parties related to them has undertaken any material transactions with Sheffield Teaching Hospitals NHS Foundation Trust.

Professor C Welsh and Professor A P Weetman have clinical commitments at Thornbury and Claremont private hospitals, both of which are sited in Sheffield. In the period the Trust purchased healthcare from these two hospitals in the sum of £714k and £99k respectively.

The Trust also purchased orthopaedic healthcare from Sheffield Orthopaedics Ltd, a limited company who manage healthcare provided at the above hospitals. This amounted to £2.0m during the period. Certain of the Trust's clinical employees have an interest in this company.

Certain members of the Trust's Governors' Council are appointed from key organisations with which the Trust works closely.

These governors represent the views of the staff and of the organizations with and for whom they work.

This representation on the Governors' Council gives important perspectives from these key organizations on the running of the Trust, and is not considered to give rise to any potential conflicts of interest.

The Trust is a significant recipient of funds from Sheffield Hospitals Charitable Trust. Grants received in the year from this Charity amounted to £1.1m. The Trust has also received revenue and capital payments from a number of other charitable funds.

Certain of the trustees of the charitable trusts from whom the Trust has received grants are members of the NHS Foundation Trust Board.

24 Private Finance Transactions

24.1 PFI schemes deemed to be off-balance sheet

	2006/07	2005/06
	£000	£000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet - gross	42	0
Amortisation of PFI deferred asset	0	0
Net charge to operating expenses	**42**	0

The Trust is committed to make the payment of £2,686k during the next financial year. Future annual payments will be increased by the Retail Prices Index on 1 April in each year.

	£000
Estimated capital value of the PFI scheme	29,800
Contract start date	December 2004
Contract handover date	March 2007
Length of project (years)	32
Number of years to end of project	29.75
Contract end date	December 2036

The PFI scheme is a scheme to build a new medical ward block on the Northern General Hospital site (Sir Robert Hadfield Wing).

The residual interest projected value at December 2036 is based on an average percentage for similar schemes, and will shortly be replaced by projections from professional valuers now practical completion of the scheme has been achieved.

There are no deferred assets associated with this scheme.

Detail;	£,000
- Value of deferred asset	0
- Value of residual interest	17,658

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

There are no PFI schemes deemed to be on-balance sheet.

25 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, the NHS Foundation Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The NHS Foundation Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Foundation Trust in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures other than the currency profile. Provisions are shown gross. Any amounts expected in reimbursement against a provision (and included in debtors) are separately disclosed.

Liquidity risk

The NHS Foundation Trust's net operating costs are incurred under annual service agreements with local Primary Care Trusts, which are financed from resources voted annually by Parliament. The NHS Foundation Trust also largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. Sheffield Teaching Hospitals NHS Foundation Trust is not, therefore, exposed to significant liquidity risks.

Interest Rate Risk

8.85% of the Trust's financial assets and 100% of its financial liabilities disclosed under this note carry nil or fixed rates of interest. There is a risk therefore, in terms of assets, however this risk is considered minimal owing to rates of interest tracking Bank of England base rates. Sheffield Teaching Hospitals NHS Foundation Trust is not, therefore, exposed to significant interest rate risk. The two tables on the following page show the interest rate profiles of the Trust's financial assets and liabilities:

25.1 Financial Assets

					Fixed rate		Non-interest bearing
Currency	**Total**	**Floating rate**	**Fixed rate**	**Non-interest bearing**	**Weighted average interest rate**	**Weighted average period for which fixed**	**Weighted average term**
At 31st March 2007	**£000**	**£000**	**£000**	**£000**	**%**	**Years**	**Years**
Sterling	37,840	34,491	272	3,077	2.2%	n/a	n/a
Gross financial assets	**37,840**	34,491	272	3,077			
Currency							
At 31 March 2006	£000	£000	£000	£000	%		
Sterling	22,332	21,648	277	407	2.2%	n/a	n/a
Gross financial assets	22,332	21,648	277	407			

25.2 Financial Liabilities

					Fixed rate		Non-interest bearing
Currency	**Total**	**Floating rate**	**Fixed rate**	**Non-interest bearing**	**Weighted average interest rate**	**Weighted average period for which fixed**	**Weighted average term**
At 31st March 2007	**£000**	**£000**	**£000**	**£000**	**%**	**Years**	**Years**
Sterling	(325,391)	0	(20,272)	(305,119)	2.2%	n/a	n/a
Gross financial liabilities	**(325,391)**	0	(20,272)	(305,119)			
Currency	£000	£000	£000	£000	%		
At 31 March 2006							
Sterling	(315,036)	0	(9,917)	(305,119)	2.2%	n/a	n/a
Gross financial liabilities	(315,036)	0	(9,917)	(305,119)			

Note: The public dividend capital is of unlimited term.

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

25.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the NHS Foundation Trust's financial assets and liabilities as at 31st March 2007.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	37,568	37,568	
Debtors over 1 year:			
Agreements with commissioners to cover creditors and provisions	272	272	Note a
	37,840	37,840	
Financial liabilities			
Provisions under contract	(20,272)	(20,272)	Note b
Public dividend capital	(305,119)	(305,119)	Note c
Total	(325,391)	(325,391)	

Notes

a. These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with note b below, fair value is not significantly different from book value.

b. Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.

c. The figure is the full value of PDC in the balance sheet and 'book value' equals 'fair value'.

26 Third Party Assets

The Trust held £18,587 (31st March 2006, £21,168) at bank and in hand at 31st March 2007 which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from the cash at bank and in-hand figure reported in the accounts.

27 Losses and Special Payments

There were 366 (562 in the year to 31st March 2006) cases of losses and special payments totalling £327k (12 months to 31st March 2006, £1,106k) approved during the financial year.

There were no cases (12 months to 31st March 2006 - 2 cases) of losses exceeding £100,000.

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

28 Public Dividend Capital Dividend

The Trust is required to absorb the cost of capital at a rate of 3.5% of average net relevant assets. The rate is calculated as the percentage that dividends paid on public dividend capital totalling £12,753k (12 months to 31st March 2006 £12,529k) bear to the average net relevant assets during the 12 month period of £378,033k (12 months to 31st March 2006 £363,839k), that is 3.4% (2005-06 - 3.4%).

This is calculated as follows:

	31st March 2007	31st March 2006
	£000	£000
Total Capital and Reserves	439,362	433,301
Less - Donated Asset Reserve	(39,289)	(37,024)
Less - Cash held at Office of the Paymaster General	(19,095)	(21,189)
Ner Relevant Assets	380,978	375,088
Average Net Relevant Assets	378,033	363,839
Dividend paid per Cash Flow statement	12,753	12,529
Percentage	3.4%	3.4%

The Trust's actual rate of return of 3.4% (12 months to 31.3.2006 3.4%) is not materially different from its forecast rate of 3.5%.

29 Prior Period Adjustment - Change in Accounting Policy

New Opportunities and Big Lottery Fund grants used to finance fixed assets are now credited to the deferred income account, included within the creditors balances.

In previous years, these funds were credited to the Donated Asset Reserve, but from 2006/07 onwards, NHS Foundation Trusts are required to account for these grants in accordance with SSAP 4.

The accounts therefore include a prior year adjustment to move New Opportunities and Big Lottery Funds held to finance fixed assets from the Donated Asset Reserve to deferred income (Creditors). As a result, comparative figures for the Year ended 31st March 2006 have been adjusted as follows:

	Total Assets Employed
	31st March 2006
	£000
As previously reported	436,353
Effect of the change in accounting policy	(3,052)
As restated	**433,301**

Statement on internal control

1. Scope of responsibility

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.

I am also personally accountable for all governance related issues. These responsibilities are reflected in the Trust's governance arrangements including its Financial Strategy and Risk Management Strategy.

Progress against the objectives of the Trust are measured, monitored and assessed by the Independent Regulator of NHS Foundation Trusts (Monitor), the Chairman and the Board of Directors, External and Internal Audit Services who monitor progress against the assurance framework as well as ensuring that the organisation operates within the six principles of Good Governance in Public Services which are set out below:

- Focusing on the organisation's purpose and on outcomes for citizens and service users
- Performing effectively in clearly defined functions and roles
- Promoting values for the whole organisation and demonstrating good governance through behaviour
- Taking informed, transparent decisions and managing risk
- Developing the capacity and capability of the governing body to be effective
- Engaging stakeholders and making accountability real
- These principles underpin the need for absolute accountability, probity and transparency within the NHS.

The Trust also applies the NHS Foundation Trust Code of Governance issued by Monitor which brings together best practice advice of public and private sector corporate governance.

2. The purpose of the system of internal control

The system of internal control is designed to manage risks 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 Sheffield Teaching Hospitals 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.

This process forms the basis of the Trust's assurance framework.

The system of internal control has been in place in Sheffield Teaching Hospitals NHS Foundation Trust for the year ended 31 March 2007, and up to the date of approval of the annual report and accounts.

This system has been subjected to independent audit and verification by the Internal Audit Service.

3. Capacity to handle risk

To allow me to discharge my personal accountabilities I have in place governance and management arrangements across the whole organisation, which includes a Healthcare Governance Committee that operates as a sub-group to the Board of Directors. During the past 12 months the Trust has taken steps to further the delivery of integrated governance, particularly in relation to the arrangements in place for the Trust as a whole.

I have also taken steps to ensure that roles, functions and objectives of Directors and Directorate Management Teams are unambiguous, clearly detailed and understood. These objectives are regularly monitored and reviewed by my Executive Director colleagues and myself.

The Governors' Council is now well established and contributing effectively to the governance of the Trust.

The leadership and accountability arrangements concerning risk management are included in the Risk Management

Strategy, job descriptions and identified risk-related objectives. A number of structures and committees exist to oversee and monitor the effectiveness of these arrangements. These include the:

- Management Audit Committee
- Healthcare Governance Committee
- Finance Committee
- HR Committee

The above are formal sub-committees of the Board of Directors with Executive and Non-Executive Director membership.

Each significant risk theme is owned by an Executive Director and my office, through the Trust Secretary, has an overarching responsibility for the development of a cohesive and integrated framework and shared processes for the management of all risk. A top risks action plan is reviewed and monitored by the Trust Executive Group on a monthly basis and formally reported to the Board of Directors each quarter.

Very detailed, specialised and externally accredited training is provided for the managers and staff within the organisation who have specific responsibility for the management of risk. The overall Risk Management Strategy is widely supported by policies, procedures and guidelines that are subject to scrutiny and dissemination by the Controlled Document Unit operated by the Chief Executive's office.

The Trust recognises the importance and benefits of initiatives such as the Knowledge and Skills Framework and Improving Working Lives (in which the Trust has achieved Practice Plus status) and the role of personal development planning in promoting and achieving a competence-based workforce.

Monitor has established a risk-based approach towards regulation and the Trust's compliance with the terms of authorisation. This consists of three main components; the annual plan, in-year monitoring and, where appropriate, interventions. Throughout 2006/07 the Trust has satisfied the requirements of the Compliance Code.

There are well-established partnership arrangements in place for Sheffield as a whole under the aegis of Sheffield First and particularly Sheffield First for Health in which myself and the Trust play an active role.

4. The risk and control framework

The integration of the assurance framework into the business planning of the Trust is ongoing. In particular the principal objectives, based upon the key themes identified in the Trust's Strategic Direction document and the Patient Services Plan, have been aligned directly to the domains within the Healthcare Commission Standards for Better Health.

Risks identified as part of this process are graded in line with the methodology detailed in the Risk Management Strategy and regularly and routinely reported to the Board of Directors who monitor progress against Director-led action plans. Whilst the strategy identifies a level of acceptable risk, the Board of Directors utilise risk reports and other sources of information to consider their risk appetite.

The business planning process within the Trust has been reviewed and revised in 2006/07 to ensure that risk-based decisions can be made in relation to service developments and capital allocation.

5. Review of economy, efficiency and effectiveness of the use of resources

The Trust produces detailed annual plans reflecting its service and operational requirements and its financial targets in respect of income and expenditure and capital investments. These plans incorporate the Trust's plans for improving productivity and efficiency in order to offset the income losses arising from the national efficiency target applied to all NHS providers and the implementation of the Payment by Results funding system; plus local investment proposals. The financial plans reflect organisational-wide plans and initiatives but are also translated into Directorate budgets and productivity and efficiency plans. Increasingly, financial planning at all levels is influenced by income assumed from national tariffs and local prices agreed with Commissioners. Financial plans are approved by the Board, supported by its Finance Committee. An Annual Plan is submitted to Monitor, reflecting financial, service and governance aspects, each of which is ascribed a risk rating by Monitor. This plan incorporates projections for the following two years, which facilitates forward planning by the Trust.

The in-year use of resources is monitored by the Board and its sub-committees via a series of detailed monthly reports, covering finance, activity, capacity, human resource management and risk. These documents are a consolidation of detailed reports that are provided at Directorate and Department level to allow active management of resources on an operational level. Quarterly monitoring returns are submitted to Monitor from which a risk rating is again attributed to the financial, service and governance aspects.

The Trust has established the Adding Value programme to drive enhanced productivity and efficiency through better information, targeting areas for improvement and developing capability and capacity. A key element of the programme is to

seek improvements to patient care alongside productivity and efficiency gains.

All the above is underpinned by the Trust Scheme of Delegation, Standing Orders and Standing Financial Instructions, which allow the Board to ensure resources are controlled only by those appropriately authorised.

The Trust also makes use of both Internal and External Audit functions to ensure the controls are operating effectively and to advise on areas for improvement. All action plans agreed are monitored and implementation is reviewed regularly and reported to the Management Audit Committee as appropriate. Any high-risk issues identified are corrected immediately.

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. This includes ensuring that deductions from salary, employers contributions and payments in to the Scheme are in accordance with Scheme rules, and that member pension scheme records are accurately updated in accordance with the time scales detailed in the Regulations.

6. Review of effectiveness

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. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board and the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Assurance Framework itself provides me with evidence that the effectiveness of controls intended to manage the risks to the organisation achieving its principal objectives have been reviewed. As part of this process the Executive Directors have been actively engaged in considering and reviewing the system of internal control.

My review is also informed by:

- The Management Letter to Directors from the District Auditor
- Self-assessment against the Standards for Better Health
- Internal Audit Reports
- External Audit Reports

My review of the effectiveness of the system of internal control is assisted by the deliberation of the Management Audit Committee. The Management Audit Committee has been receiving and monitoring relevant audit reports and the Internal Audit Service continues to work against a risk-based audit plan.

Signed

C L Welsh

Professor Chris Welsh
Acting Chief Executive
Accounting Officer

6th June 2007

This annual report and accounts has been produced by Sheffield Teaching Hospitals NHS Foundation Trust.

For further information on any aspect of this report or enquiries regarding our services, please visit www.sth.nhs.uk or write to:

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