

### **2003 Chairman's Statement**

Healthcare was high on the political and media agenda throughout 2003 and the whole market underwent radical change during the course of the year that will change the face of healthcare in the future. We have seen the Government drive through a number of initiatives, such as new consultant contracts, Foundation Hospitals, Patient Choice and the Independent Sector Treatment Centres ("ISTC") that are set to change every sector within the market.

The Government's invitation to private sector providers, including those from overseas, to integrate more fully with the NHS, is clear indication that the UK's healthcare market is opening up.

This market liberalisation represents a real opportunity for Nuffield Hospitals. In response, we have submitted bids for a number of ISTC sites and to secure a number of major care procurement initiatives for 2004 to 2005. In addition, Nuffield Hospitals continues to serve the NHS at a local level and has been awarded a number of contracts.

Our insured and self pay business remained strong during the year with solid revenue growth. We are committed to continuing to serve our traditional customers but recognise that the liberalisation, and changes in, the wider health care market will inevitably influence their future demands.

Changes in the market and new opportunities to work closer with the NHS, lead us to examine every level of our own structure and operations to ensure that Nuffield Hospitals is best placed to take advantage of these new opportunities. This included our withdrawal from the Independent Healthcare Association which we felt did not reflect our position, as the largest not for profit provider in the UK, in the new market.

As a result, in April 2003 we appointed a new Chief Executive; he, in turn, restructured the senior executive team and appointed a number of new Directors to ensure our executive board structure is appropriate for the future needs of the healthcare market.

A Clinical Director was appointed to lead on clinical governance and transform the way we use information to improve the patient experience at our hospitals. We also appointed a Business Development Director, who is responsible for developing new and innovative products to meet the needs of today's changing healthcare market, and an IT Director, who will be responsible for ensuring that our IT infrastructure will support the business into the future.

In order to ensure that our services remain as affordable and accessible to as many people as possible, we have reorganised to reduce our cost base at hospital and divisional levels. By replacing the old three divisions with four newly defined divisions we are also devolving more responsibility to those closest to the market and the customer.

The Chief Executive and a number of the senior executives have undertaken an exhaustive series of 'roadshows', visiting every hospital within the group to outline the new market opportunities and explain how the restructure, at both executive board, divisional and hospital level, ensures that we are best placed to meet the challenges and opportunities for 2004 and beyond. Further discussions will take place with other stakeholders in 2004.

We have restated our purpose and vision and have communicated our long-term strategic goals.

I am very pleased to report that our turnover rose in 2003 to £410 millions, a 10.8% increase over the £369 millions (restated) in 2002.

## NUFFIELD HOSPITALS

The restructuring and refocusing of our business however is reflected in the net surplus for the year of £3 millions. We are confident that it was necessary to incur the exceptional costs identified in the financial statements and that our business is now better prepared to face the challenges of the changing healthcare market.

In terms of our existing commitments, we continue apace with the new £50 million hospital in Oxford and also the new hospital in York, which is well underway and are due to open in late 2004 early 2005 respectively. We continue to invest in our existing facilities to ensure that we keep up with advancements in diagnostic and treatment techniques as well as meeting demand.

Our health screening business is very buoyant and during the year we opened two new 'stand alone' units in Edinburgh and Manchester and a further unit will open in the Harley Street area of London in early 2004.

In 2003, we saw the completion of the consultation period on charity law, together with the Government's response, and look forward to the enactment of a new Charities Bill in due course.

We remain committed to working in partnership with our consultants for the benefit of patients. The continued support and advice we receive from the Chairmen of our Medical Advisory Committees is vital and much appreciated. I would like to thank all the consultants and other professional colleagues who choose to practice in our hospitals for their ongoing commitment to delivering high quality services.

Ultimately the Board of Governors carries accountability for both the corporate and clinical governance of Nuffield Hospitals. I would, once again, offer thanks to my fellow Governors for the sound judgement, commitment, and individual skills which they bring to our increasingly complex business and I would like to bid welcome to Mr Michael Smith who joined the Board in October 2003.

Our ability to react positively to the opportunities of the changing healthcare market, in particular the development of new ways of delivering healthcare and meeting rising patient expectations, will have an impact on everyone who works in Nuffield Hospitals. I offer my thanks to all staff, led by the Chief Executive and his executive directors, for their commitment in rising to these challenges and for their achievements in 2003.

Douglas Gardner  
Chairman

## **NUFFIELD HOSPITALS**

### **Report of the Board of Governors to the Members**

The Governors present their report together with the financial statements for the year ended 31st December 2003.

### **Governors' Responsibilities for the Financial Statements**

Law applicable to charities in England and Wales requires the Governors to prepare financial statements for each financial year which give a true and fair view of the Trust's and the Group's financial activities during the year and of its financial position at the end of the year. In preparing financial statements giving a true and fair view, the Governors have therefore:

1. Selected suitable accounting policies and then applied them consistently;
2. Made judgements and estimates that are reasonable and prudent;
3. Followed applicable accounting standards including the Statement of Recommended Practice Accounting and Reporting by Charities;
4. Prepared the financial statements on the going concern basis.

The Governors confirm that they are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Constitution and Principal Activities**

On the 1st September 2003, the name of the Trust was changed from Nuffield Nursing Homes Trust to Nuffield Hospitals.

The Trust is a registered charity (Registration No. 205533) incorporated under the Companies Act 1948 being a company limited by guarantee not having a share capital (Company No. 576970). Its principal and registered office is Nuffield House, 1 - 4, The Crescent, Surbiton, Surrey, KT6 4BN.

The Trust is established to prevent, relieve and cure sickness and ill health, to relieve disabilities and needs of the aged and to promote health anywhere in the world. The Trust's principal activities continue to be the provision and management of acute care hospitals and health screening services in the UK.

### **Organisation Structure**

The Governors have appointed professionally qualified senior staff to manage the activities of the Trust. Hospitals are grouped into four geographic divisions being North, Midlands, South West and South East. General managers are appointed at divisional and hospital level to ensure the maintenance and development of both the standards of facilities and the scope and quality of services to meet the needs and expectations of the communities they serve. Each hospital has a Medical Advisory Committee whose function is to provide medical advice to the Hospital General Manager on the medical aspects of the hospital including the regular review of clinical governance data. A central office provides professional and technical advice and support and has access to further medical and other specialist advisers.

Operation of the international business was ceased during the year.

## NUFFIELD HOSPITALS

### Results

The results for the year are set out fully in the financial statements from which the following are highlighted:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>restated</b>
		<b>£'000</b>
Turnover	<b>409,517</b>	<b>369,068</b>
Operating Surplus - Normal	<b>21,514</b>	<b>20,759</b>
- after Exceptionals	<b>10,464</b>	<b>20,759</b>
Retained Surplus	<b>2,978</b>	<b>15,868</b>

Following the publication in November 2003 of the "Amendment to FRS 5 'Reporting the substance of transactions': revenue recognition" the Governors have revised the Group's accounting policy in respect of doctors' fees where such doctors fees are included in the invoice price to the Group's customers. See Accounting Policy c) and Note 2); the turnover reported for 2003 includes such fees and the turnover for 2002 has been similarly restated.

The financial performance of the Group for the year was materially affected by costs it was deemed necessary to incur to restructure and reposition the Group and to establish the fair value of the assets and business of the Care Centre. These costs are identified in the financial statements as exceptional items.

Also included in the figures are donations and bequests amounting to £73,000 (2002 - £119,000). The Board of Governors is most grateful for this interest and support for the Trust which continues to be welcomed and used in pursuit of the general objects as stated above. The Board thanks donors and their representatives.

The Board continues its policy of seeking to extend the accessibility of its services to as many as possible of the public and of assuring high standards for those services. The achievement of this over the longer term will secure the financial strength of the Trust.

As in past years the Board has determined that prices charged for the Trust's services should reflect the full costs of their provision including development expenses but should still be at a level that ensures they are affordable, and accessible to, as many people as possible. All surpluses are fully reinvested for the objects of the Trust.

The Trust's core business continues to come from the insured and self-paying patients but with significant numbers of NHS patients being treated in our hospitals arising from the Government's continued commitment to working with the independent health care sector.

The Trust has continued to invest in the provision of additional facilities with new hospitals in Oxford and York under development and due to open in late 2004 and early 2005 respectively.

In respect of the health screening business, new health screening stand-alone units were developed and are operational in Manchester and Edinburgh. In addition a Central London unit off Harley Street will open in early 2004.

In addition to building new hospitals and developing new health screen centres, the regular programme of upgrade and renewal of existing facilities have continued.

Capital development projects were completed during the year at hospitals in Derby, Cambridge and Ipswich and schemes were in progress at Birmingham, Lincoln, Nottingham, Wolverhampton, Tunbridge Wells, Woking, Taunton and Southampton.

## NUFFIELD HOSPITALS

### Governors

In accordance with the Articles of Association of the Trust at least one third of the Governors are required to retire by rotation each year. To comply with Charity Commission requirements, the maximum period any one Governor can serve is nine years remunerated service.

The names of Members of the Board of Governors as at 31st December 2003 were:

- ✦ Mr D F Gardner (Chairman)
- \* Mr J S Evans (Deputy Chairman and Chairman of the Audit Committee)
- \*✦ Mr L Evander
- ✦# The Lord Glenarthur  
Sir Mark Moody-Stuart
- # Mr M Smith (appointed 1st October 2003)
- \*# Mr C Tetley
  
- \* Member of the Audit Committee
- ✦ Member of the Executive Remuneration Committee
- Member of the Nomination Committee
- # Member of the Board Integrated Governance Group

Mr Lars Evander and Mr Christopher Tetley retire from the Board at the Annual General Meeting in accordance with Article 27(1) and offer themselves for re-election.

Mr Michael Smith was appointed to the Board on 1st October 2003 and, pursuant to Article 28 (c), offers himself for election to the Board at the Annual General Meeting.

### Risk Management and Reserves

The Trust adopts a wide-ranging approach to the management of risk. In 2003, a strategic review of the major opportunities and risks to the Trust was carried out, which identified the need to restructure and reposition the Group, as mentioned in Note 3).

During the year an Integrated Governance Committee was formed to focus on clinical risk and health and safety. The committee reports to the Board Integrated Governance Group (previously the Clinical Governance Committee) on a quarterly basis.

The Governors review medium term cash flow forecasts and associated financing requirements regularly through the year and approve annual revenue and capital expenditure budgets and plans and therefore assess the Trust's requirements for free income reserves on a regular basis.

The unrestricted funds of the Group are principally invested in the tangible fixed assets that are used to provide services in accordance with the objectives of the Trust. The fixed assets of the Trust have been used as security for bank finance facilities that enable short-to-medium term income fluctuations to be managed. Further unrestricted funds are required and used to finance the working capital requirements of the Group's activities.

### Fixed Assets

Particulars of the Trust's tangible and other fixed assets are stated in Notes 17 and 18 to the financial statements.

## **NUFFIELD HOSPITALS**

### **Other Charities**

The Trust acts as sole Trustee to three separate trusts which were set up to benefit individuals in and about Oxford and to contribute to the maintenance of The Acland Hospital. The capital assets are invested in various managed funds and revenue awaiting disbursement is kept in separate bank accounts and not included in the financial statements of the Trust. Separate financial statements are prepared in respect of these trusts.

The Trust acts as sole Trustee also to HRH Princess Christian's Hospital charity which has been merged with the Trust and is now treated as a Restricted Fund for which separate accounts are, therefore, no longer filed.

### **Employee Involvement**

The Trust has continued its practice of keeping staff informed of matters affecting them as employees, and the financial, economic and political factors influencing the Trust's performance. A periodic staff journal focuses on corporate and local news and people, and provides a sense of community across the Trust's diverse geographic and functional spread. Bespoke communications plans are developed to enhance the knowledge and understanding of specific projects and programmes. Managers are encouraged to seek other means of involving staff in the day to day running of the hospitals, with the aim of continuously improving the Trust's standard of care. 2003 also saw the introduction of the first regular company-wide employee attitude survey from which the General Managers receive feedback about how to improve engagement and motivation. This will be repeated every year.

We continue to work in partnership with a number of recognised Trade Unions for the benefit of our staff.

### **Disabled Employees**

The Trust recognises its responsibilities under the Disability Discrimination Act 1995 and has continued to ensure that disabled persons are given consideration on an equal basis to other candidates in respect of all areas of employment including recruitment, training, career development and promotion. The Trust endeavours to provide continuing employment and, where necessary, arranges appropriate training for employees who have become disabled during their employment.

The Trust also recognises its obligations as a service provider, under further legislation introduced in October 1999, to take appropriate measures to protect disabled customers.

### **Auditors**

Grant Thornton offer themselves for reappointment as Auditors in accordance with Section 385 of the Companies Act 1985. Resolutions will be proposed at the Annual General Meeting to reappoint them and to authorise the Governors to fix the remuneration of the Auditors for the year ending 31st December 2004.

25th February 2004

Authorised by the Board of Governors

Douglas Gardner  
Chairman

## **NUFFIELD HOSPITALS**

### **Report of the Independent Auditors to the Members of Nuffield Hospitals**

We have audited the financial statements of Nuffield Hospitals for the year ended 31 December 2003 which comprises the consolidated income and expenditure account, the consolidated statement of financial activities, the balance sheets, the consolidated cash flow statement and the principal accounting policies and notes 1 to 37 on pages 14 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of Governors and Auditors**

The Governors are trustees for the purposes of charity law and the directors of Nuffield Hospitals for the purposes of company law. Their responsibilities for preparing the governors' report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Governors' responsibility.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the governors' report is not consistent with the financial statements, if the charitable company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Governors' remuneration and transactions with the Group is not disclosed.

We read other information contained in the governors' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of Opinion**

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

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

## **NUFFIELD HOSPITALS**

### **Report of the Independent Auditors to the Members of Nuffield Hospitals (continued)**

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Charitable Company and of the Group as at 31st December 2003 and the Group's incoming resources and application of resources, including its income and expenditure, in the year then ended and have been properly prepared in accordance with the provisions of the Companies Act 1985.

Grant Thornton  
Registered Auditors  
Chartered Accountants  
25th February 2004



## NUFFIELD HOSPITALS

### Consolidated Income and Expenditure Account

year ended 31st December 2003

	Note	2003 £'000	2002 restated £'000
<b>Turnover</b>		409,517	369,068
Cost of services			
Normal	9	( 372,830)	( 332,195)
Exceptional	9	( 7,922)	-
<b>Gross surplus</b>		28,765	36,873
Administrative expenses			
Normal	4	( 15,173)	( 16,114)
Exceptional	4	( 3,128)	-
<b>Operating surplus</b>	5	10,464	20,759
Surplus on disposal of fixed assets	6	621	1,024
		11,085	21,783
Interest receivable and similar income	7	191	142
Interest payable	8	( 8,298)	( 6,057)
<b>Surplus on ordinary activities before taxation</b>		2,978	15,868
Tax on surplus on ordinary activities	15	-	-
<b>Retained surplus for the financial year</b>	16	2,978	15,868

There were no recognised gains or losses other than the retained surplus for the financial year.

Income and expenditure shown above derives from continuing activities.

The accounting policies and notes on pages 14 to 32 form part of these financial statements.

## NUFFIELD HOSPITALS

### Consolidated Statement of Financial Activities

year ended 31st December 2003

	Note	Restric ted £'000	Unres tricted £'000	2003 Total £'000	2002 Total restated £'000
<b>Incoming resources</b>					
Services to patients and others		4,645	404,799	409,444	368,949
Donations, gifts and legacies		30	43	73	119
Investment income	7	17	174	191	142
Surplus on disposal of fixed assets	6	-	621	621	1,024
<b>Total incoming resources</b>		<b>4,692</b>	<b>405,637</b>	<b>410,329</b>	<b>370,234</b>
<b>Charitable expenditure</b>					
Cost of activities in furtherance of the charity's activities					
Normal	9	( 4,656)	( 368,174)	( 372,830)	( 332,195)
Exceptional	9	( 18)	( 7,904)	( 7,922)	-
Support costs					
Normal	10	-	( 13,090)	( 13,090)	( 13,709)
Exceptional	10	-	( 2,367)	( 2,367)	-
Management and administration costs					
Normal	11	-	( 2,083)	( 2,083)	( 2,405)
Exceptional	11	-	( 761)	( 761)	-
Interest payable	8	-	( 8,298)	( 8,298)	( 6,057)
<b>Total resources expended</b>		<b>( 4,674)</b>	<b>( 402,677)</b>	<b>( 407,351)</b>	<b>( 354,366)</b>
<b>Movement in total funds for the year</b>					
Net incoming resources before transfer of funds		18	2,960	2,978	15,868
Transfer between funds		29	( 29)	-	-
<b>Net movement in funds in the financial year</b>	16	<b>47</b>	<b>2,931</b>	<b>2,978</b>	<b>15,868</b>
Fund balances at 1st January		89	246,773	246,862	230,994
<b>Fund balances at 31st December</b>	27	<b>136</b>	<b>249,704</b>	<b>249,840</b>	<b>246,862</b>

There were no recognised gains or losses other than the net movement in funds in the financial year.

Incoming resources and resources expended derived from continuing activities.

The accounting policies and notes on pages 14 to 32 form part of these financial statements.

## NUFFIELD HOSPITALS

### Consolidated Balance Sheet at 31st December 2003

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Tangible assets	17	453,293	408,856
Investments	18	157	157
		<hr/>	<hr/>
		453,450	409,013
<b>Current assets</b>			
Stocks	19	10,334	9,045
Debtors	20	42,979	39,468
Cash at bank and in hand		267	172
		<hr/>	<hr/>
		53,580	48,685
<b>Creditors : amounts falling due     within one year</b>	21	( 48,887)	( 42,076)
		<hr/>	<hr/>
<b>Net current assets</b>		4,693	6,609
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		458,143	415,622
<b>Creditors : amounts falling due     after more than one year</b>	22	( 204,290)	( 165,139)
<b>Provisions for liabilities and charges</b>	25	( 3,956)	( 3,564)
		<hr/>	<hr/>
<b>Net assets</b>		249,897	246,919
		<hr/> <hr/>	<hr/> <hr/>
<b>Income funds</b>			
Restricted funds	27	136	89
Unrestricted funds			
Fixed assets		239,732	234,553
Working capital		9,972	12,220
		<hr/>	<hr/>
	27	249,704	246,773
<b>Total</b>	SOFA	249,840	246,862
		<hr/>	<hr/>
<b>Capital funds</b>			
Permanent endowment	26 and 27	57	57
		<hr/>	<hr/>
<b>Group funds</b>		249,897	246,919
		<hr/> <hr/>	<hr/> <hr/>

Approved by the Board of Governors  
on 25th February 2004

Douglas Gardner - Chairman

David Mobbs - Chief Executive

The accounting policies and notes on pages 14 to 32 form part of these financial statements.

## NUFFIELD HOSPITALS

### Trust Balance Sheet at 31st December 2003

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Tangible assets	17	447,788	402,535
Investments	18	10,616	10,665
		<hr/>	<hr/>
		458,404	413,200
<b>Current assets</b>			
Stocks	19	10,334	9,045
Debtors	20	44,669	41,812
Cash at bank and in hand		196	113
		<hr/>	<hr/>
		55,199	50,970
<b>Creditors : amounts falling due     within one year</b>	21	( 55,531)	( 48,721)
		<hr/>	<hr/>
<b>Net current (liabilities)/assets</b>		( 332)	2,249
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		458,072	415,449
<b>Creditors : amounts falling due     after more than one year</b>	22	( 204,219)	( 165,055)
<b>Provisions for liabilities and charges</b>	25	( 3,956)	( 3,564)
		<hr/>	<hr/>
<b>Net assets</b>		249,897	246,830
		<hr/> <hr/>	<hr/> <hr/>
<b>Income funds</b>			
Restricted funds	27	136	89
Unrestricted funds			
Fixed assets		239,709	234,429
Working capital		9,995	12,255
		<hr/>	<hr/>
	27	249,704	246,684
		<hr/>	<hr/>
Total		249,840	246,773
		<hr/>	<hr/>
<b>Capital funds</b>			
Permanent endowment	26 and 27	57	57
		<hr/>	<hr/>
<b>Trust funds</b>		249,897	246,830
		<hr/> <hr/>	<hr/> <hr/>

Approved by the Board of Governors  
on 25th February 2004

Douglas Gardner – Chairman

David Mobbs – Chief Executive

The accounting policies and notes on pages 14 to 32 form part of these financial statements.

## NUFFIELD HOSPITALS

### Consolidated Cash Flow Statement

year ended 31st December 2003

	Note	2003 £'000	2002 £'000
<b>Net cash inflow/(outflow) from operating activities</b>			
Normal	29	57,158	48,608
Exceptional	29	(5,182)	-
<b>Net cash outflow from returns on investments and servicing of finance</b>	30	(8,264)	(9,077)
<b>Taxation</b>		-	-
<b>Capital expenditure and financial investment</b>			
Normal	31	(67,022)	(78,478)
Exceptional	31	(20)	4,201
<b>Acquisitions</b>	32	(16,168)	-
<b>Cash outflow before use of liquid resources and financing</b>		(39,498)	(34,746)
<b>Financing</b>	33	38,917	36,422
<b>Financing (decrease)/increase in cash for the financial year</b>	34	(581)	1,676
<b>Reconciliation of net cash flow to movement in net debt</b>			
<b>(Decrease)/increase in cash for the financial year</b>		(581)	1,676
Cash inflow from changes in debt and lease finance	33	(38,917)	(36,422)
Change in net debt resulting from cash flows	34	(39,498)	(34,746)
Finance leases acquired with acquisition	34	(259)	-
<b>Movement in net debt in the financial year</b>		(39,757)	(34,746)
Net debt at 1st January	34	(171,151)	(136,405)
<b>Net debt at 31st December</b>	34	(210,908)	(171,151)

The accounting policies and notes on pages 14 to 32 form part of these financial statements.

## NUFFIELD HOSPITALS

### Accounting Policies

year ended 31st December 2003

The financial statements have been prepared under the historical cost convention and in accordance with the Statement of Recommended Practice, Accounting and Reporting by Charities (SORP 2000), applicable accounting standards and the Companies Acts 1985, with the exception of listed investments that are stated at the lower of cost or market value for the reason explained in note 18.

The accounting policies are consistent with the previous year's policies with the exception of that for turnover, which is explained in c) below and in note 2.

#### a) **Basis of consolidation**

The Group financial statements consolidate the accounts of the Trust and its subsidiary undertakings drawn up to 31st December 2003. The results of subsidiary undertakings acquired during the year have been included from the date of acquisition. Internal sales and surpluses are eliminated on consolidation. On acquisition of an undertaking, all of the undertaking's assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

#### b) **Funds**

Unrestricted funds are expendable at the discretion of the Governors in furtherance of the objects of the Trust and have been designated as being used to provide tangible fixed assets and working capital.

Restricted funds are subject to specific trusts, which may be declared by the donor(s), and are within the objects of the Trust. Restricted funds are transferred to unrestricted when the specific requirements of the donation are satisfied.

Permanent endowments are capital funds where the Governors have no power to convert the capital into income.

#### c) **Turnover**

Following the publication in November 2003 of the "Amendment to FRS 5 'Reporting the substance of transactions': revenue recognition" the Governors have revised the Group's accounting policy in respect of doctors' fees included in the invoice price to the Group's customers.

The Governors have determined that within the meaning of FRS 5 the Group can be seen to be acting as the principal in supplying services to its customers where a single contract price is agreed inclusive of doctors' fees.

Turnover is the total amount receivable by the Group, excluding VAT, from charges made to customers plus donations, gifts and legacies.

Donations and gifts are accounted for when received.

Legacies are included in the accounts when there is reasonable certainty that the legacy will be received and the value can be measured with reasonable certainty.

Gifts in kind are valued at their market value on the date of transfer or the estimated value to the Trust when there is no market value.

#### d) **Resources expended**

Expenditure is classified using the headings in SORP 2000. The direct costs of providing services to patients and others are categorised as cost of activities in furtherance of the charity's activities. Support costs are the indirect costs incurred in supporting the charitable activities. Management and administration costs comprise the expenditure incurred for the management of the charity and the compliance with constitutional and statutory requirements.

## NUFFIELD HOSPITALS

### e) **Financial derivatives**

The Group enters into financial derivatives to manage its exposure to fluctuating interest rates and does not enter into speculative derivative contracts. Amounts payable or receivable in respect of interest rate derivatives are recognised as adjustments to interest payable over the period of the contracts.

### f) **Tangible fixed assets and depreciation**

Tangible fixed assets costing more than £1,000 are capitalised at cost including any incidental expenses of acquisition.

The cost of new hospitals and major extension works includes internal project development costs and interest incurred on borrowings to finance the development. The cost of computer software includes internal project development costs. All other development costs are written off in the year of expenditure.

Capitalised interest is calculated by applying a weighted average interest rate to the cost of new hospitals and major extension works in progress during the year.

Impairment reviews are carried out in accordance with Financial Reporting Standard number 11.

No depreciation is charged on freehold land or buildings in course of construction.

Depreciation on the other tangible fixed assets is calculated on a straight line basis to write down the cost over their expected useful economic lives. The applicable periods are:

Freehold buildings	-	60 years or the remaining useful life
Leasehold properties	-	Over the period of the lease or remaining useful life
Furniture and equipment	-	Between 3 and 15 years
Motor vehicles	-	5 years

When the original cost of any tangible fixed assets is subsequently reduced then depreciation is calculated over the average remaining useful lives of the assets affected.

### g) **Purchase and disposal of properties**

The purchase or disposal of a property is accounted for in the year in which the contract is exchanged, provided the transaction is completed before that year's financial statements are approved.

### h) **Investments**

Investments are stated at the lower of cost or market value.

### i) **Stocks**

Stocks are stated at the lower of net realisable value and cost.

### j) **Contributions to defined benefit pension schemes**

The costs of providing pensions are charged to the income and expenditure account and the statement of financial activities over the employees' working lives with the Group, on the basis of a substantially constant percentage of the current and expected future pensionable earnings.

### k) **Post retirement benefits other than pensions**

The cost of providing post retirement healthcare is recognised on a systematic basis over the expected remaining service lives of current employees.

## NUFFIELD HOSPITALS

### l) **Leased assets**

Assets held under finance leases are recorded as fixed assets and the capital element of future rentals is included in creditors. The interest element of the leasing payments represents a constant portion of the capital balance outstanding and is charged to the income and expenditure account and the statement of financial activities over the period of the lease.

All other leases are regarded as operating leases and the total payments made under them are charged to the income and expenditure account and the statement of financial activities on a straight line basis over the lease term.



## NUFFIELD HOSPITALS

### Notes to the Financial Statements

year ended 31st December 2003

#### 1 Segmental information

The Governors are of the opinion that no segmental information is required as the charity's primary purpose of providing healthcare in the UK is carried out through the Group's trading activities.

#### 2 Change in accounting policy

The effect of the change in the definition of turnover as explained in accounting policy c) is set out below.

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Doctors' fees included in:		
Turnover	50,741	45,040
Cost of services	( 50,741)	( 45,040)
	<u>          </u>	<u>          </u>
Operating surplus	-	-
	<u>          </u>	<u>          </u>

There is no effect on the net assets of the Group.

#### 3 Exceptional costs within operating surplus

##### 3 (i) Restructure

During the course of the year it was deemed necessary to restructure and reposition the Group in recognition of the significant changes in the health care market.

Exceptional costs are:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Cost of services/cost of activities in furtherance of the charity's activities	2,669	-
Support costs	2,367	-
Management and administration costs	761	-
	<u>5,797</u>	<u>          </u>
	<u>          </u>	<u>          </u>

##### 3 (ii) Impairment review

An impairment review of the Group's ownership interest in the land and other assets of the Care Centre was carried out during the year. In carrying out the impairment review the Governors sought the advice of a number of parties to ascertain the fair value of the Care Centre's assets and business.

Exceptional costs are:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Cost of services/cost of activities in furtherance of the charity's activities	<u>5,253</u>	<u>          </u>
	<u>          </u>	<u>          </u>

## NUFFIELD HOSPITALS

<b>4 Administrative expenses</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Normal		
Support costs (note 10)	13,090	13,709
Management and administration costs (note 11)	2,083	2,405
	<u>15,173</u>	<u>16,114</u>
Exceptional		
Support costs (note 10)	2,367	-
Management and administration costs (note 11)	761	-
	<u>3,128</u>	<u>-</u>
<b>5 Operating surplus</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
This is stated after charging:		
Depreciation on tangible fixed assets:		
On owned assets	33,379	27,809
On assets held under finance leases and hire purchase contracts	92	131
	<u>33,471</u>	<u>27,940</u>
Depreciation charge (note 17)	316	461
	<u>33,787</u>	<u>28,401</u>
Normal depreciation	5,253	-
Impairment provision on tangible fixed assets (note 17)	-	-
	<u>39,040</u>	<u>28,401</u>
Auditors' remuneration (including VAT)	97	94
Other fees to auditors (including VAT)	3	11
Hire of plant and machinery (including operating lease charges)	2,505	2,553
Property operating lease rentals	3,094	2,847
Indemnity insurance for the Governors and officers	31	19
Third party indemnity insurance	1,234	988
<b>6 Surplus on disposal of fixed assets</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Surplus on disposal of property, furniture and equipment	621	1,024
	<u>621</u>	<u>1,024</u>
<b>7 Interest receivable and similar income</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Interest receivable	174	126
Income from UK listed investments	17	16
	<u>191</u>	<u>142</u>

## NUFFIELD HOSPITALS

<b>8 Net interest payable</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdraft	8,914	7,147
Finance charges in respect of finance leases	57	12
Total interest payable	8,971	7,159
Interest capitalised	( 864)	( 1,153)
	8,107	6,006
Expenses in connection with loan facilities	191	51
	8,298	6,057
<b>9 Cost of activities in furtherance of the charity's activities</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Normal		
Staff and related costs	151,603	135,788
Depreciation	32,458	26,989
Other costs	188,769	169,418
	372,830	332,195
Exceptional		
Restructure (note 3)	2,669	-
Impairment (note 3)	5,253	-
	7,922	-
<b>10 Support costs</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Normal		
Staff and related costs	8,924	9,432
Depreciation	1,304	1,400
Other costs	2,862	2,877
	13,090	13,709
Exceptional		
Restructure (note 3)	2,367	-
<b>11 Management and administration costs</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Normal		
Staff and related costs	915	1,090
Depreciation	25	12
Other costs	1,143	1,303
	2,083	2,405
Exceptional		
Restructure (note 3)	761	-

## NUFFIELD HOSPITALS

### 12 Pensions

#### 12 (i) SSAP 24 - Accounting for pension costs

The Group operates two funded defined benefit pension schemes for its employees and one unfunded defined benefit scheme. The assets of the funded schemes are administered by trustees in funds independent from the assets of the Group. The Group also provides post-retirement healthcare benefits to some of its employees.

Costs and liabilities of the schemes are based on actuarial valuations. Full independent actuarial valuations are undertaken every three years. Details of the latest independent valuations of the schemes are given below.

	<b>Superannuation and Family Security Scheme</b>	<b>Pension and Life Assurance Scheme</b>
Full valuation date	30th June 2003	31st March 2003
Method of valuation	Attained age method	Projected unit method
Assumptions of annual increases:		
Investment return	7.0%	6.6%
Pensionable salaries	4.4%	4.4%
Market value of assets	£13,789,000	£96,730,000

At the date of the above full valuation the actuarial value of the schemes' assets was sufficient to cover 74% of the benefits that had accrued to the members after allowing for expected future increases in earnings.

The level of employer contributions in the year totalled £2,977,000 (2002 - £2,526,000) being 4.4% of pensionable salaries. The agreed employer's contribution rate for 2004 is 10.0%.

A provision of £1,448,000 (2002 - £999,000) is included in creditors due within one year for an unfunded defined benefit scheme for retired employees.

#### 12 (ii) FRS 17 - retirement benefit

The actuarial valuations have been updated by an independent qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003. The projected unit method is used to value the liabilities of the schemes. As the Superannuation and Family Security Scheme is closed the current service costs under the projected unit method will increase as the members of the scheme approach retirement. Scheme assets are stated at their market value at 31 December 2003.

Main assumptions for FRS 17 purposes:

	<b>2003</b>	<b>2002</b>	<b>2001</b>
	<b>%pa</b>	<b>%pa</b>	<b>%pa</b>
Rate of increase in salaries above inflation rate	1.8%	1.5%	1.5%
Rate of increase for pensions in payment	2.7%	2.5%	2.5%
Discount rate	5.4%	5.5%	5.8%
Inflation rate	2.7%	2.3%	2.5%

## NUFFIELD HOSPITALS

### 12 Pensions (continued)

The assets and liabilities in the schemes and the expected long term return on the assets were:

	<b>Expected rate of return %pa</b>	<b>2003 Value £'000</b>	<b>Expected rate of return %pa</b>	<b>2002 Value £'000</b>	<b>Expected rate of return %pa</b>	<b>2001 Value £'000</b>
Equities	7.3%	79,252	7.0%	76,269	6.9%	102,447
Bonds	5.2%	43,928	4.7%	19,356	5.4%	19,989
Property	7.3%	5,198	7.0%	4,945	6.9%	4,997
Other	3.7%	891	4.0%	4,628	4.0%	4,077
Total market value of schemes assets		<u>129,269</u>		<u>105,198</u>		<u>131,510</u>
Present value of schemes liabilities		<u>( 183,174)</u>		<u>( 138,296)</u>		<u>( 130,733)</u>
Net pension (liabilities)/assets		<u><u>( 53,905)</u></u>		<u><u>( 33,098)</u></u>		<u><u>777</u></u>

If the above amounts had been recognised in the financial statements, Group funds would be as follows:

	<b>2003 £'000</b>	<b>2002 £'000</b>
Group funds as reported under SSAP 24	249,897	246,919
FRS 17 net pension liabilities	( 53,905)	( 33,098)
Other SSAP 24 adjustments to FRS 17	1,906	1,495
Group funds under FRS 17	<u><u>197,898</u></u>	<u><u>215,316</u></u>

The analysis of amounts that have not been recognised in the income and expenditure account were:

	<b>2003 £'000</b>	<b>2002 £'000</b>
Operating surplus:		
Current service cost under FRS 17	9,580	8,033
Actual contributions charged to the accounts	( 2,977)	( 2,526)
	<u>6,603</u>	<u>5,507</u>
Other finance expense/(income):		
Expected return on pension schemes assets	( 6,957)	( 8,669)
Interest on pension schemes liabilities	7,937	7,755
	<u>980</u>	<u>( 914)</u>

## NUFFIELD HOSPITALS

### 12 Pensions (continued)

Amounts that have not been recognised in the statement of total recognised gains and losses were:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Actual return less expected return on pension schemes assets	8,297	( 34,051)
As percentage of schemes assets	6.4%	( 32.3%)
Experience gains and losses arising on the schemes liabilities	( 7,869)	9,736
As percentage of schemes liabilities	( 4.3%)	7.0%
Changes in assumptions underlying the present value of the schemes liabilities	( 13,652)	( 4,967)
Total actuarial losses	<u>( 13,224)</u>	<u>( 29,282)</u>
As percentage of schemes liabilities	( 7.2%)	( 21.2%)

Movement in the net pension (liabilities)/assets:

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Net assets at the 1st January	( 33,098)	777
Movement in the year:		
Current service cost under FRS 13	( 9,580)	( 8,033)
Contributions	2,977	2,526
Other finance income	( 980)	914
Actuarial loss	( 13,224)	( 29,282)
Net liabilities at 31st December	<u>( 53,905)</u>	<u>( 33,098)</u>

### 13 Governors

	<b>2003</b>	<b>2002</b>
	<b>£</b>	<b>£</b>
Fees paid to the Governors:		
Mr D F Gardner	33,184	32,552
Mr J S Evans	20,739	20,345
The Lord Glenarthur	12,473	12,233
Mr L P Evander	12,473	12,233
Mr C Tetley	12,473	12,233
Sir M Moody-Stuart	10,373	10,173
Mr M J Smith	2,644	-
The Lady Forester	2,568	10,173
	<u>106,927</u>	<u>109,942</u>

No other emoluments were paid to the Governors. Travel and subsistence paid on behalf of or reimbursed to all the Governors was £15,071 (2002 - £15,977) in the year.

## NUFFIELD HOSPITALS

<b>14 Employees</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs during the year:		
Wages and salaries	126,943	112,851
Social security costs	10,746	8,924
Other pension costs	3,462	2,769
	<u>141,151</u>	<u>124,544</u>
	<b>2003</b>	<b>2002</b>
	<b>Number</b>	<b>Number</b>
Average number of employees:		
Full time	4,236	3,922
Part time	4,611	4,371
	<u>8,847</u>	<u>8,293</u>
Estimated whole time equivalents	<u>6,245</u>	<u>5,837</u>
Number of employees in the pension schemes	<u>3,678</u>	<u>3,602</u>

The emoluments of the employees, excluding pension contributions, fell within the following ranges:

	<b>2003</b>	<b>2002</b>
	<b>Number</b>	<b>Number</b>
£50,000 to £59,999	30	26
£60,000 to £69,999	16	17
£70,000 to £79,999	20	13
£80,000 to £89,999	4	9
£90,000 to £99,999	7	5
£100,000 to £109,999	4	2
£110,000 to £119,999	2	2
£120,000 to £129,999	1	-
£130,000 to £139,999	1	1
£140,000 to £149,999	2	1
£150,000 to £159,999	-	1
£160,000 to £169,999	-	1
£200,000 to £209,999	1	-
£260,000 to £269,999	-	1
£360,000 to £369,999	-	1

The Board recognises the need to attract and retain able executives to manage the day to day affairs of the Trust. The remuneration of senior executives is determined by the Remuneration Committee of the Board, which takes independent advice from specialist executive remuneration consultants and applies median rates based on equivalent positions in healthcare and other relevant organisations.

## 15 Tax on surplus on ordinary activities

The parent company is a charity and is not subject to tax because its charitable activities are exempt from tax. The trading subsidiaries have unrelieved tax losses which will be available to offset against future taxable trading profits.

## NUFFIELD HOSPITALS

### 16 Retained surplus/net movement in funds in the financial year

The Trust has taken advantage of Section 230(2) of the Companies Act 1985 and has not included its own income and expenditure account or statement of financial activities in these financial statements. The Group surplus for the year includes £3,067,000 (2002 - £15,880,000) which is dealt with in the financial statements of the Trust. The difference between the Group and Trust surplus is the result of the net loss, including exceptional items, of the subsidiaries of £566,000 (2002 - profit of £14,000); the provision for the reduction in the value of subsidiaries £622,000 (2002 - £132,000); and the gift aid received from a subsidiary of £145,000 (2002 - £158,000).

<b>17 Tangible fixed assets</b>	Buildings in course of construction	Freeholds	Long leaseholds	Equipment and motor vehicles	Total
<b>Group</b>	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1st January 2003	11,491	225,630	36,593	287,397	561,111
Additions at cost	37,726	7,775	-	29,655	75,156
Acquisitions	-	10,624	-	5,439	16,063
Disposals	-	( 6,962)	( 135)	( 10,525)	( 17,622)
Transfers	( 11,924)	5,452	( 118)	6,590	-
At 31st December 2003	<u>37,293</u>	<u>242,519</u>	<u>36,340</u>	<u>318,556</u>	<u>634,708</u>
<b>Depreciation</b>					
At 1st January 2003	-	42,377	3,556	106,322	152,255
Charge for year	-	4,791	590	28,090	33,471
Impairment loss	-	4,675	78	500	5,253
Disposals	-	( 588)	-	( 8,976)	( 9,564)
Transfers	-	101	( 101)	-	-
At 31st December 2003	<u>-</u>	<u>51,356</u>	<u>4,123</u>	<u>125,936</u>	<u>181,415</u>
Net book value at 31st December 2003	<u>37,293</u>	<u>191,163</u>	<u>32,217</u>	<u>192,620</u>	<u>453,293</u>
Net book value at 31st December 2002	<u>11,491</u>	<u>183,253</u>	<u>33,037</u>	<u>181,075</u>	<u>408,856</u>
Net book value at 31st December 2003 represents fixed assets used for:					
Services to patients and others	37,293	191,163	32,217	179,580	440,253
Support and other activities	-	-	-	13,040	13,040
	<u>37,293</u>	<u>191,163</u>	<u>32,217</u>	<u>192,620</u>	<u>453,293</u>

The gross amount on which depreciation on freehold buildings is being provided is £215,094,000 (2002 - £201,927,000).

The net book value of equipment and motor vehicles held under finance leases and similar hire purchase contracts is £284,000 (2002 - £332,000).



## NUFFIELD HOSPITALS

<b>17 Tangible fixed assets (continued)</b>	Buildings in course of construction	Freeholds	Long leaseholds	Equipment and motor vehicles	Total
<b>Trust</b>	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>					
At 1st January 2003	11,491	216,329	40,477	284,995	553,292
Additions at cost	37,726	7,775	-	29,602	75,103
Acquisitions	-	10,624	-	5,439	16,063
Disposals	-	( 6,962)	( 135)	( 10,524)	( 17,621)
Transfers	( 11,924)	3,429	1,905	6,590	-
At 31st December 2003	<u>37,293</u>	<u>231,195</u>	<u>42,247</u>	<u>316,102</u>	<u>626,837</u>
<b>Depreciation</b>					
At 1st January 2003	-	41,981	3,537	105,239	150,757
Charge for year	-	4,637	670	27,874	33,181
Impairment loss	-	4,675	-	-	4,675
Disposals	-	( 588)	-	( 8,976)	( 9,564)
At 31st December 2003	<u>-</u>	<u>50,705</u>	<u>4,207</u>	<u>124,137</u>	<u>179,049</u>
Net book value at 31st December 2003	<u>37,293</u>	<u>180,490</u>	<u>38,040</u>	<u>191,965</u>	<u>447,788</u>
Net book value at 31st December 2002	<u>11,491</u>	<u>174,348</u>	<u>36,940</u>	<u>179,756</u>	<u>402,535</u>

### Group and Trust

Additions during the year include capitalised interest of £864,000 (2002 - £1,153,000) and internal project development costs of £1,985,000 (2002 - £1,458,000). The interest charges and internal project development costs capitalised to date are £10,554,000 (2002 - £9,690,000) and £11,181,000 (2002 - £9,196,000) respectively.

The interest rate used in calculating capitalised interest is 4.5%, being the weighted average on the Group's general borrowings.

A valuation of the hospitals for loan security purposes at 31st July 2002, undertaken by Insignia Richard Ellis in accordance with the Royal Institution of Chartered Surveyors' Guidance Notes on the Valuation of Assets, produced a total value of £634 million, including moveable furniture and equipment, giving a surplus of £243 million over the net book value of fixed assets at that time which has not been incorporated in the financial statements.

## NUFFIELD HOSPITALS

### 18 Fixed asset investments

	Subsidiary undertakings	UK Listed invest ment	Unlisted invest ment	Total
Group	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 1st January 2003 and 31st December 2003	-	57	100	157
<b>Market value</b>				
At 1st January 2003	-	325	100	425
Investment gains	-	132	-	132
At 31st December 2003	-	457	100	557
<b>Trust</b>				
<b>Cost</b>				
At 1st January 2003 and 31st December 2003	10,849	57	100	11,006
<b>Provision for impairment</b>				
At 1st January 2003	341	-	-	341
Written off in year	49	-	-	49
At 31st December 2003	390	-	-	390
Net book value at 31st December 2003	10,459	57	100	10,616
Net book value at 31st December 2002	10,508	57	100	10,665

#### Subsidiary undertakings

At 31st December 2003, the Trust had interest in the following subsidiary undertakings, all of which are registered in England and Wales.

Company name	Class of share capital held	Portion held by the parent company	Portion held by other group companies	Nature of business
Nuffield Health Care Limited	Ordinary	100%	-	Provision of care for the elderly
Chichester Independent Hospital Limited	Ordinary	100%	-	Provision of acute hospital care
Chichester Leasing Limited	Ordinary	-	100%	Equipment leasing
Sherburne Leasing Limited	Ordinary	-	100%	Non-trading
Independent Surgery Centres Limited	Ordinary	100%	-	Holding company
ISC Estates Limited	Ordinary	-	100%	Hospital development
ISC Leasing (Ipswich) Limited	Ordinary	-	100%	Equipment leasing
ISC Projects Limited	Ordinary	-	100%	Hospital development
Nuffield Nursing Homes Trust	Ordinary	100%	-	Non-trading
NNHT No1 Limited	Ordinary	-	100%	Non-trading

#### UK listed investment

The UK listed investment is held under a trust that prohibits its disposal. The shares are valued at the price on the date the shares were transferred to the Trust.

## NUFFIELD HOSPITALS

19 Stock	Group and Trust	
	2003	2002
	£'000	£'000
Raw materials and consumables	10,334	9,045
Consignment stock not included in the balance sheet	5,500	4,468

There were no significant differences between the replacement cost and the values disclosed above.

20 Debtors falling due within one year	Group		Trust	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	35,472	30,990	35,464	30,988
Amount owed by Group undertakings	-	-	1,698	2,351
Other debtors	3,456	3,077	3,456	3,077
Prepayments and accrued income	4,051	5,401	4,051	5,396
	<u>42,979</u>	<u>39,468</u>	<u>44,669</u>	<u>41,812</u>

Interest is charged on the loans to Group undertakings at the average interest rate incurred by the Trust. The loan of £1,698,000 is secured by way of a first charge on the subsidiary's freehold property.

21 Creditors : amounts falling due within one year	Group		Trust	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank overdrafts	5,440	4,764	5,440	4,764
Obligations under finance leases	91	36	119	62
Trade creditors	11,092	10,354	11,079	10,328
Amounts owed to Group undertakings	-	-	6,746	6,746
Social security and other taxes	3,403	3,205	3,351	3,153
Other creditors	7,856	6,873	7,856	6,873
Pension contributions	1,995	1,531	1,995	1,531
Accruals and deferred income	19,010	15,313	18,945	15,264
	<u>48,887</u>	<u>42,076</u>	<u>55,531</u>	<u>48,721</u>

22 Creditors : amounts falling due after more than one year	Group		Trust	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank loans				
Bank loans	205,500	166,500	205,500	166,500
Deferred expenses in connection with bank loans	( 1,822)	( 2,007)	( 1,822)	( 2,007)
	<u>203,678</u>	<u>164,493</u>	<u>203,678</u>	<u>164,493</u>
Obligations under finance leases repayable				
between 1 and 5 years	144	23	224	131
Social security and other taxes	468	623	317	431
	<u>204,290</u>	<u>165,139</u>	<u>204,219</u>	<u>165,055</u>

## NUFFIELD HOSPITALS

<b>23 Borrowings</b>	<b>Group</b>		<b>Trust</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Borrowings are repayable as follows				
One year or less				
Bank loans and overdrafts	5,440	4,764	5,440	4,764
Finance leases	91	36	119	62
In more than one but not more than two years				
Finance leases	95	20	125	47
In more than two but not more than five years				
Finance leases	49	3	99	84
In more than five years				
Bank loans	205,500	166,500	205,500	166,500
	<u>211,175</u>	<u>171,323</u>	<u>211,283</u>	<u>171,457</u>

The floating interest rates on bank borrowings and derivatives are based on LIBOR. The borrowings are secured by a fixed charge on certain of the assets of the Trust and a floating charge on all the assets of the Trust. The bank loans repayable in more than five years are repayable between 2009 to 2017.

## 24 Financial derivatives

The Trust has the following financial derivatives in place at the 31st December 2002 and 2003.

	<b>Maturity</b>	<b>Rate</b>	<b>Principal</b>
		<b>%</b>	<b>£'000</b>
Interest rate swap into a fixed rate	2017	5.4%	50,000
Interest rate floor into a fixed rate	2006	5.0%	50,000
Interest rate trigger swap into a fixed rate	2012	6.7%	50,000
Interest rate trigger swap into a fixed rate	2012	7.6%	50,000

## 25 Provisions for liabilities and charges

**Group and Trust**  
**£'000**

At 1st January 2003	3,564
Provided in the year	392
At 31st December 2003	<u>3,956</u>

The provision is for post-retirement healthcare for certain employees and pensioners. The principal financial assumptions used to estimate this obligation as at 31st December 2003 were an increase in claim cost of 8% per annum and an average service life for current employees of 18 years.

## 26 Permanent endowments

The Sir Edward Warner Fund was established in 1980 to benefit the Essex Nuffield Hospital as long as that hospital exists and the Trust thereafter.

## NUFFIELD HOSPITALS

### 27 Analysis of net assets between funds

<b>Group</b>	<b>Endow ment £'000</b>	<b>Restric ted £'000</b>	<b>Unres tricted £'000</b>	<b>Total £'000</b>
Fund balances at 31st December 2003 are represented by:				
Tangible fixed assets	-	5,415	447,878	453,293
Investments	57	-	100	157
Current assets	-	4,947	48,633	53,580
Current liabilities	-	( 10,226)	( 38,661)	( 48,887)
Creditors : amounts falling due more than one year	-	-	( 204,290)	( 204,290)
Provisions for liabilities and charges	-	-	( 3,956)	( 3,956)
Net assets	<u>57</u>	<u>136</u>	<u>249,704</u>	<u>249,897</u>
	<b>Endow ment £'000</b>	<b>Restric ted £'000</b>	<b>Unres tricted £'000</b>	<b>Total £'000</b>
<b>Trust</b>				
Fund balances at 31st December 2003 are represented by:				
Tangible fixed assets	-	5,415	442,373	447,788
Investments	57	-	10,559	10,616
Current assets	-	4,947	50,252	55,199
Current liabilities	-	( 10,226)	( 45,305)	( 55,531)
Creditors : amounts falling due more than one year	-	-	( 204,219)	( 204,219)
Provisions for liabilities and charges	-	-	( 3,956)	( 3,956)
Net assets	<u>57</u>	<u>136</u>	<u>249,704</u>	<u>249,897</u>

The restricted funds represent HRH Princess Christian's Hospital and a number of small donations where the moneys received have not yet been used for the purpose defined by the donor.

### 28 Statement of changes in resources applied for fixed assets for the Trust's use at the year end

	<b>Restric ted £'000</b>	<b>Unres tricted £'000</b>	<b>2003 Total £'000</b>	<b>2002 Total £'000</b>
Net movement in Trust's funds for year (note 16)	47	3,020	3,067	15,880
Increase/(decrease) in net book value of charitable tangible fixed assets	285	( 45,538)	( 45,253)	( 47,162)
Increase in net debt (note 34)	-	39,498	39,498	34,746
Acquired finance leases (note 34)	-	259	259	-
Net movement in funds (unavailable)/available for future activities	<u>332</u>	<u>( 2,761)</u>	<u>( 2,429)</u>	<u>3,464</u>

The movement in net debt is included in the statement to identify the value of the tangible fixed assets that are financed by borrowings.

## NUFFIELD HOSPITALS

### 29 Reconciliation of operating surplus to cash flow from operating activities

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Operating surplus	10,464	20,759
Depreciation charge (note 5)	39,040	28,401
Increase in stocks	( 925)	( 1,001)
Increase in debtors	( 1,536)	( 2,167)
Increase in creditors - normal	3,926	2,030
Increase in creditors - exceptional	615	-
Increase in provisions for liabilities and charges	392	586
	<hr/>	<hr/>
Total cash flow from operations	51,976	48,608
Exceptional cash outflow within cash flow from operations	5,182	-
	<hr/>	<hr/>
Normal cash flow from operations	57,158	48,608
	<hr/> <hr/>	<hr/> <hr/>
Exceptional cash outflow		
Reorganisation costs in the operating surplus (note 3)	5,797	-
Creditors	( 615)	-
	<hr/>	<hr/>
Exceptional cash outflow from operations	( 5,182)	-
	<hr/> <hr/>	<hr/> <hr/>

### 30 Returns on investments and servicing of finance

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Interest received	174	126
Dividends received	17	16
Interest paid	( 8,401)	( 7,148)
Interest element of finance lease rental repayments	( 54)	( 12)
Expenses in connection with bank loans	-	( 2,059)
	<hr/>	<hr/>
	( 8,264)	( 9,077)
	<hr/> <hr/>	<hr/> <hr/>

### 31 Capital expenditure and financial investment

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Purchase of tangible fixed assets	( 73,401)	( 78,780)
Proceeds from sales of tangible fixed assets	6,379	302
	<hr/>	<hr/>
Normal	( 67,022)	( 78,478)
Exceptional (costs)/proceeds from sale of fixed assets	( 20)	4,201
	<hr/>	<hr/>
	( 67,042)	( 74,277)
	<hr/> <hr/>	<hr/> <hr/>

## NUFFIELD HOSPITALS

### 32 Acquisition

The Trust purchased for cash the trade and certain assets of the Evelyn Hospital, Cambridge on 10th January 2003.

The amount of assets and liabilities of the acquisition are detailed below:

	<b>Book value</b>	<b>Revalu ation</b>	<b>Account ing policy alignment</b>	<b>At 31 Dec</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Tangible fixed assets	5,975	10,211	( 123)	16,063
Stock	364	-	-	364
Total assets	<u>6,339</u>	<u>10,211</u>	<u>( 123)</u>	<u>16,427</u>
Finance leases	( 259)	-	-	( 259)
Net assets	<u><u>6,080</u></u>	<u><u>10,211</u></u>	<u><u>( 123)</u></u>	<u><u>16,168</u></u>
Satisfied by				<b>£'000</b>
Cash				<u><u>16,168</u></u>

The undertaking acquired during the year made the following utilisation of Group cash flow:

	<b>2003 £'000</b>
Net cash inflow from operating activities	919
Return on investment and servicing of finance	( 696)
Capital expenditure and financial investment	( 623)
Decrease in cash	<u><u>( 400)</u></u>

### 33 Financing

	<b>2003 £'000</b>	<b>2002 £'000</b>
New medium term bank loans	39,000	166,500
Repayment of loans	-	( 130,000)
Capital element of finance lease rental payments	( 83)	( 78)
	<u><u>38,917</u></u>	<u><u>36,422</u></u>

## NUFFIELD HOSPITALS

### 34 Analysis of net debt

	At 1 Jan £'000	Cash flow £'000	Acquis ition £'000	Non-cash changes £'000	Group At 31 Dec £'000
Cash at bank and in hand	172	95	-	-	267
Bank overdrafts (note 21)	( 4,764)	( 676)	-	-	( 5,440)
	<u>( 4,592)</u>	<u>( 581)</u>	<u>-</u>	<u>-</u>	<u>( 5,173)</u>
Bank loans due after more than one year (note 22)	( 166,500)	( 39,000)	-	-	( 205,500)
Finance leases due within one year (note 21)	( 36)	83	( 65)	( 73)	( 91)
Finance leases due after more than one year (note 22)	( 23)	-	( 194)	73	( 144)
	<u>( 171,151)</u>	<u>( 39,498)</u>	<u>( 259)</u>	<u>-</u>	<u>( 210,908)</u>

The non-cash changes include finance lease arrangements entered into by the Group in respect of assets with a capital value at the inception of the lease of £nil (2002 - £nil).

### 35 Capital commitments

	2003 £'000	Group 2002 £'000	2003 £'000	Trust 2002 £'000
Contracted for but not provided in these financial statements	40,940	59,849	40,940	59,840

### 36 Operating lease commitments

	2003 £'000	Group 2002 £'000	2003 £'000	Trust 2002 £'000
Next year's commitments under operating leases expire as follows:				
Land and buildings				
Less than 1 year	28	42	28	42
Between 1 and 5 years	1,218	155	1,218	155
After 5 years	2,054	2,837	2,054	2,575
	<u>3,300</u>	<u>3,034</u>	<u>3,330</u>	<u>2,772</u>
Other				
Less than 1 year	654	399	654	394
Between 1 and 5 years	74	176	74	176
After 5 years	3	9	3	9
	<u>731</u>	<u>584</u>	<u>731</u>	<u>579</u>

### 37 Contingent liability

The Trust has guaranteed the bank overdraft of subsidiary undertakings to the extent of £900,000 (2002 - £900,000), of which none was utilised at 31st December 2003 (2002 - Nil).

The Trust has guaranteed the bank overdraft of Healthcode Ltd, its unlisted investment, to a value of £50,000 (2002 - £50,000).