

St Andrew's Healthcare

Annual Report and financial statements

for the year ended 31 March 2008

Registered Charity Number	1104951
Registered Company Number	5176998

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St Andrew's Healthcare

Annual Report and financial statements for the year ended 31 March 2008

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St Andrew's Healthcare

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Legal and administrative details of the Charitable Company, its Directors, Trustees and Advisers for the year ended 31 March 2008

The principal address and registered office of St Andrew's Healthcare (the "charitable company") is

St Andrew's Healthcare
Billing Road
Northampton NN1 5DG

Directors and Trustees of the charitable company during the year were

Charles Wake	Non-executive Chairman	
Stuart Richmond-Watson	Non-executive & Deputy Chairman	
Dr Philip Sugarman	Chief Executive & Medical Director	Re-appointed 27/07/07
John Church	Non-executive	
James Mackaness	Non-executive	
Sir James Spooner	Non-executive	Resigned 27/07/07
Peter Winslow	Non-executive	Appointed 27/07/07
Christopher Oakes	Executive	Re-appointed 27/07/07
Caroline Rose	Executive	
James Watkins	Executive	Re-appointed 27/07/07
Duncan Orme	Executive & Company Secretary	Appointed as Executive 02/04/07 Appointed as Co Sec 28/03/08
Nigel Blackham	Executive & Company Secretary	Resigned as Executive 02/04/07 Resigned as Co Sec 28/03/08

All non-executive directors are also members of St Andrew's Hospital (which is a registered charity, Number 202659)

The following act in a professional capacity for the charitable company

Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Registered Auditors Abacus House Castle Park Cambridge CB3 0AN
Internal Auditors	Grant Thornton UK LLP 30 Finsbury Square London C2P 2YU
Solicitors	Hewitsons 7 Spencer Parade Northampton NN1 5AB
Bankers	NatWest Bank plc East of England Corporate Banking Milton Keynes Corporate Office 2 nd Floor 152 Silbury Boulevard Central Milton Keynes MK9 1LT
Investment Managers	Smith & Williamson Investment Management Limited 25 Moorgate London EC2R 6AY

Specific investment powers and their authority

The Trustees have received authorisation from the Charity Commissioners under the power given in section 26 of the Charities Act 1993 to enter into an interest rate swap agreement in order to effectively fix the rate applicable to a variable rate loan facility

Report of the Directors for the year ended 31 March 2008

The Trustees, who are also directors of the charitable company for the purpose of the Companies Act 1985, present their fourth annual report, since incorporation on 12 July 2004, and the audited consolidated financial statements for the year ended 31 March 2008

The information with respect to trustees, directors, officers and advisors, as disclosed in the reference and administrative details section, forms part of this report. The financial statements comply with current statutory requirements, the Memorandum and Articles of Association, applicable Accounting Standards in the United Kingdom and the Statement of Recommended Practice (SORP) "Accounting and Reporting by Charities" issued in March 2005, the Charities Act 1993 and the Companies Act 1985

Structure, Governance and Management**Status**

St Andrew's Healthcare is a charitable company limited by guarantee, incorporated on 12 July 2004 (company registered no 5176998) and a charity registered with the Charity Commission on 16 July 2004 (charity registered no 1104951) under the Charities Act 1960, and as a Mental Nursing Home in accordance with the Nursing Homes Act 1975 as amended by the Health Services Act 1980 and the Health and Social Services and Social Security Adjudications Act 1983 and under the Care Standards Act 2000. The charitable company is governed by ten directors, who are the charity's trustees, in accordance with the memorandum and articles of the company.

Corporate Governance

In agreement with the Charity Commission, the charitable company has adopted applicable and appropriate supporting principles and the provisions set out in the Combined Code on Corporate Governance of the Financial Reporting Council (the code). The Trustees consider this to be an important safeguard for a company limited by guarantee with a unitary board. The unitary board comprises a balance of unpaid non-executive directors/trustees and executive directors/trustees who are also paid employees.

The Board

The Board has formally met thirty-seven times since incorporation in July 2004 and met ten times during the year ended 31 March 2008, considering forward planning and budgets, progress against current plans, future strategy, risk review and management together with major investment decisions. During the year to 31 March 2008, all directors were present at three of those meetings, a single non-executive director was absent from four meetings. All day to day management decisions are delegated to the executive directors who operate within the executive directors' team which reports to the board. Executive and non-executive directors of the charitable company represent it on the boards of the subsidiary entities: Three Shires Hospital Limited, the Pavilion Clinic Limited and St Andrew's Property Management Limited.

The Chairman of the board since incorporation has been Charles Wake. Stuart Richmond-Watson was appointed Vice Chairman and senior independent director. Philip Sugarman was Chief Executive throughout the year.

The board considers all five member and non-executive directors as shown on page 1, Charles Wake, Stuart Richmond-Watson, John Church, James Mackaness, Sir James Spooner (until 27/07/07) and Peter Winslow (from 27/07/07) to be independent. These directors have no financial or other business relationship with the charitable company, offering their services on an unpaid and voluntary basis.

The Chairman, Charles Wake, is the Managing Partner of Courteenhall Farms, and Chairman of the following companies: Stewart & Allen Limited, an engineering company, Broughtons of Cheltenham Limited, a small group of motor dealerships, and SP Broughton & Co Limited, a property owning and holding company. He is a director of the North Northamptonshire Development Company, a member of the Agricultural Land Tribunal and a member of the Lord Chancellor's Advisory Committee for Northamptonshire.

Report of the Directors for the year ended 31 March 2008 (Continued)

The non-executive directors met on 28 March 2008 without the executive directors in order to review and evaluate the performance of the board and associated committees and in advance of the Remuneration Committee meeting on 25 April 2008. The senior independent director also met with the remaining directors on 28 March 2008 in order to evaluate the performance of the Chairman.

All directors meet on a quarterly basis with the members of the charitable company in order to report on the state of the business, future plans and to draw on the views and experience of the general charitable company membership. Such meetings were held in April 2007, July 2007, October 2007, February 2008 and April 2008.

The Board, through a rigorous risk review and informed appropriate targeting of internal audit, has appraised itself of the effectiveness of the group's system of internal controls and where deficiencies have been identified, appropriate remedial action continues to be implemented.

The Trustees

The executive members of the board are selected to fulfil the job descriptions and job titles as set out in the memorandum of association. Prior to appointment, executive directors are subject to rigorous assessment as to their suitability and competence for the position as set out in their job specification. At this time they will receive an induction into the organisation specifically tailored to their assessed needs. They are then, subject to the recommendation of the nominations committee, appointed by the members to the board.

Non-executive members of the board are drawn from the membership of the charitable company on the basis of the specific expertise and experience that they are able to contribute to build a diverse and balanced team of executives and non-executives. It is the function of the nominations committee to assess, as vacancies arise across the membership of the charitable company, the required attributes of any new proposed members to ensure that the membership not only provides a flexible pool of potential non-executive directors, but also creates a membership that appropriately reflects the varied needs of the beneficiaries of the charity.

As described above the board informs the membership of the charitable company on a quarterly basis through regular meetings and events. It is through these meetings, regular individual visits to specific areas and involvement in committees that the membership is appropriately inducted and trained in the operation of the group. As non-executive board vacancies arise, the nominations committee, drawing on the experience of the regular exposure of the membership, will, having regard to the required attributes of the board member, nominate a suitable candidate to the membership for appointment. On appointment any specific deficiencies or training requirements will be identified and a further suitable induction program implemented. On a quarterly basis the non-executive directors meet with the executive directors for facilitated context based training. This training is designed to orient the non-executive directors to the peculiarities of the business, regulatory environment, market background and competitor activity with the intention of maximising the performance of the board.

The Executive Directors' Team

The executive directors meet on a monthly basis as a team. Decision making within the company is governed by a policy on authorisation and limits of authority. Major strategic and policy decisions are made by the board. Operational decisions are delegated in a structured way down through the executive directors to management in line with the policy. A number of group wide development boards report to the executive directors ensuring that corporate activities and projects are implemented in a coherent manner. Each operating division has its own management team which periodically meets with the executive directors to forward plan, monitor and review progress against plan and agree consequent actions required. A programme and risk management board oversees and monitors the development boards assessing progress against plan whilst monitoring and reporting on risk to the Executive Directors' team and the Audit Committee.

Report of the Directors for the year ended 31 March 2008 (Continued)**The Audit Committee**

The charitable company has an Audit Committee. The Committee comprises at least three members of the charitable company, one of whom must be a member of the board. The Audit Committee and chairman of that committee are appointed by the board upon nomination by the Nominations Committee. The Chairman of the Audit Committee is Alec Foster, the Board member on the Committee is John Church. The other members, drawn from the membership of the charitable company are Robert Heygate and Sir John Robinson, who both served throughout the year, and John McCall who was appointed as an additional member on 27 April 2007. The Audit Committee met in June 2007, October 2007 and March 2008.

The June 2007 meeting was attended by three members of the committee, the October meeting was attended by four members of the Committee, and the March meeting was attended by all members of the Committee.

The Audit Committee regularly reviews risk attached to the business and through the activities of both internal and external audit satisfies itself and reports to the board on the efficacy of the charitable company's regime of controls.

The Remuneration Committee

The charitable company has a Remuneration Committee which comprises at least three members, all of whom must be non-executive directors. The Remuneration Committee meets in April each year. The Chairman of the Committee is Stuart Richmond-Watson and it was attended by four non-executive directors (Stuart Richmond-Watson, Charles Wake, Sir James Spooner, and John Church) with one member (Sir John Robinson) in attendance when it met in April 2007. Non-executive directors and members receive no remuneration or benefits from the charitable company. The Remuneration Committee determines annually the pay and benefits package for the executive directors who are both employees of the charitable company and trustees of the charity.

No part of the executive directors' remuneration is derived from their position as trustees. The level of remuneration is assessed based upon individual performance, industry and profession comparatives and upon the efficacy of the executive directors as part of the board as a whole. No executive director has a non-executive or other position outside the group that attracts remuneration.

The Nomination Committee

The charitable company has a Nomination Committee which comprises at least three non-executive directors, two of whom must be the Chairman and Vice Chairman of the Board. Other members must be drawn from the company membership including the remaining non-executive directors. The Nomination Committee meets in April each year, on the same date as the Remuneration Committee, and at other times as required. The Chairman of the Nomination Committee is Stuart Richmond-Watson, it was attended by four non-executive directors (Stuart Richmond-Watson, Charles Wake, Sir James Spooner and John Church) together with two members (Sir John Robinson and Lady Juliet Townsend) when it met in April 2007. No executive director or employee may be a member of the Nomination Committee. The purpose of the Nomination Committee is to nominate appropriate candidates for appointment for positions of director (executive and non-executive), St Andrew's Healthcare nominated directors of St Andrew's Property Management Limited and Three Shires Hospital Limited, membership of other board appointed Committees, the Remuneration, Audit, and Investment Committees, and members of the charitable company. Board appointments must be drawn from the charitable company membership for non-executive directors, and must, as set out in "The Trustees" above, be drawn from a group of tightly defined specific employee posts for executive directors.

Nominations are made on the basis of matching the needs of an effective board against the available skills of the employees and members who are eligible. Nominations for membership of the charitable company, which is open to the public, are determined following a review of the skill, background and mix of the existing members, identifying specific areas where the attributes of potential candidates could strengthen the membership.

Report of the Directors for the year ended 31 March 2008 (Continued) **The Investment Committee**

The charitable company has an Investment Committee which comprises three members of the charitable company, one of whom is a non-executive director. Meetings of the Investment Committee are also attended by the Company Secretary, Nigel Blackham (until 28/03/08) and then Duncan Orme (from 28/03/08). The Chairman of the Committee is Stephen Schilizzi who is also Chairman of the St Andrew's Group of Hospitals Pension Scheme Trustees.

The non-executive director member is Stuart Richmond-Watson and the third member is Alec Foster who is also Chairman of the Audit Committee. The Investment Committee met in May and August 2007 and January 2008. The members of the Committee have been selected specifically for their knowledge, experience and expertise in the investment arena. The Investment Committee has no direct powers but makes independent recommendations on the appointment of fund managers, investment strategy and other investment matters regarding the separate investment funds.

Statement of Directors' Responsibilities

The directors are required by company and charity law to prepare the financial statements for each financial year on a going concern basis, unless it is inappropriate to presume that the company will continue in business. The financial statements should give a true and fair view of the state of affairs of the charitable company and the consolidated group as at the end of the financial year and of the surplus or deficit of the group for the year ended 31 March 2008.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2008, which have been drawn up on a going concern basis.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charitable company and the group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the charitable company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors confirm that all investment purchases have been in accordance with their powers in the governing instrument.

So far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the director's duty to exercise due care, skill and diligence) that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Employees

Equal Opportunities as a management policy at the charitable company is designed to attract the best people and to maximise potential throughout the organisation. Equal opportunities in this context includes as far as practicable equal opportunities for those with a disability. The charitable company is committed to providing an environment for its employees and residents which is free from any form of harassment, intimidation, bullying, victimisation or discrimination. All staff are treated openly and fairly, with dignity and respect and the organisation values their commitment towards providing quality service to all service users.

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the charitable company continues and the appropriate training is arranged.

It is the policy of the charitable company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Report of the Directors for the year ended 31 March 2008 (Continued)

In accordance with the Recruitment, Selection, Diversity Policies and Procedures, posts are advertised, and applications are invited from, prospective candidates who meet the requirements as set out in the person specification. The person specification outlines the essential requirements of a position, including any physical attributes.

Staff employed by the charitable company receive an annual Individual Performance Development Review, with a six monthly review. Individuals agree with their Manager their objectives, identify training needs and discuss their future, including any barriers to development.

There is a monthly team briefing that cascades information throughout the whole organisation. Staff are regularly consulted on specific matters that affect the group and their employment.

External Audit & Auditors

The auditor to the Group also provides limited non-audit services in respect of VAT and taxation advice. Such advice is provided by a separate office from the audit services and is of a limited scale, such that auditor objectivity and independence is assured. In addition the auditor has confirmed in writing that they do not believe these matters threaten their independence and objectivity.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution to appoint auditors will be proposed at the Annual General Meeting.

Risks

The group is exposed to the following significant business risks.

Market risk

A significant risk for the charitable company arises from financial pressures within the National Health Service which could limit the volume of referrals. Overall occupancy for the year was just below plan and weakened slightly towards the year end. Income was increased due to increased case complexity and a preponderance of difficult-to-manage residents.

These required a high level of care which generated associated additional income. Despite some additional cost the additional income again resulted in a financial return greater than that originally planned. This is in contrast with the experience of many providers operating in the independent sector who struggled with low occupancy throughout the year.

Pricing risk

The charitable company's pricing strategy is set to mitigate the occupancy risk associated with financial pressure on the National Health Service by ensuring that although above average quality is offered the prices charged remain competitive to the independent market norm. It is the organisation's intention to closely scrutinise costs in order to ensure that margins allow further room for manoeuvre should price competition harden.

Investment risk

Other risks facing the charitable company arise from the state of the stock markets, these impact upon both the pension funds surplus or deficit and the valuation of charitable company investments. The weakness in the stock market contributed to the reported pension fund deficit.

The charitable company has pursued a conservative funding policy, borrowing against loan facilities in advance of commitment to secure lower interest rates and to avoid the risks associated with necessary investment liquidation in uncertain markets.

Report of the Directors for the year ended 31 March 2008 (Continued)

The charitable company holds investments (separate from the £2.7M (2007 £2.5M) permanent endowment investments within the Charity) of £21.1M (2007 £27.7M). Overall investments decreased by £6.6M from the previous year because of liquidations to fund capital development costs and after taking account of investment revaluations. As set out in the reserves policy, these investments are held to cover timing differences in relation to the forward capital development program, as a reserve against self-insured medical malpractice liabilities and as part cover for the defined benefit pension scheme deficit.

Property-related risks

For many years the charitable company has successfully demonstrated that new buildings constructed to accommodate long term residents could be classified as "relevant residential" for VAT purposes. This allowed the recovery of VAT on the construction of such buildings as they could be zero rated. HM Revenue and Customs have challenged this position on the construction of Malcolm Arnold House which was completed in 2005. The charitable company through its subsidiary St Andrew's Property Management Limited, has successfully appealed against this ruling and VAT in the order of £5.2M has been reclaimed in respect of Malcolm Arnold House, Smyth House and Clare House Phase II in Essex.

A further risk was demonstrated during 2005/06 where achieving planning consent for further expansion at the Essex site took in excess of a year longer than anticipated. It is possible that for some potential sites, appropriate planning permission may not be obtained.

The directors consider the performance of the group to be appropriate and consistent with the size and operating environment of the organisation but can see areas where improvement is possible for the future.

Risk Management

Inherent in running an organisation primarily dealing with practical mental healthcare is a robust awareness of risk, together with active recognition and management. To this end the Group has a number of risk management policies and has an established Risk Management Group. Some of the key risks currently facing the organisation have been detailed above.

The process behind, and the construction of, the risk register has been independently scrutinised by Grant Thornton in 2006/07 who acted as internal auditor to the St Andrew's Healthcare Group during 2007/08. During 2007/08 the focus of internal audit has been on financial systems, supported by the appointment of an in-house internal auditor with an initial remit of reviewing St Andrew's Healthcare risk management arrangements.

The Audit Committee takes a broader overview on global risk and drawing from the substantial experience of its members from both the commercial and insurance arenas, whilst ensuring that adequate measures are in place to appropriately deal with identified risks. The major risks to which the organisation is exposed have been identified and reviewed with systems in place to mitigate those risks. Each material risk has been allocated to a particular Executive Director as a specific responsibility, the Director is tasked with controlling and mitigating as necessary. Work continues to fully embed a culture of inherent risk awareness and management within the organisation.

Objectives & Activities

Objects

The primary objects of the charitable company are to promote the healing of sickness and the relief of suffering by the establishment and maintenance of residential institutions in the United Kingdom to meet the needs of those experiencing psychiatric illness, developmental disability, acquired brain injury and related disorders. The charitable company is a national primary trading charity and aims to be the national leader in specialist mental healthcare by investing in high quality care.

Quality at St Andrew's Healthcare encompasses the delivery of appropriate care with a full appreciation of value for money together with targeted and effective application of charitable resources. St Andrew's Healthcare remains committed to the tradition of working with and treating challenging difficult-to-manage residents to enable them to lead lives which are as productive and satisfying as possible.

Report of the Directors for the year ended 31 March 2008 (Continued)**Strategy**

The strategy adopted by the charitable company in pursuit of its objects is to provide and expand facilities at existing locations and to create new specialist facilities located closer to where those in need of them are referred. In order to do this the charitable company will invest in the skills of all of its people in an open and trusting way taking an integrated approach to healthcare governance. The charitable company will safeguard its residents and achieve beneficial health outcomes which, together with sound business performance, will amount to an outstanding outcome for beneficiaries.

Aims and objectives for 2007/08

During 2007/08 the primary objectives were to promote the healing of sickness and the relief of suffering by the establishment and maintenance of residential institutions as set out in Objects above. These objectives were met through increased and improved facilities at Northampton and with the refurbishment and occupation of accommodation released on the commissioning of a new facility for women, Smyth House. Contracts were also exchanged to purchase additional land adjoining the main Northampton campus which will facilitate future expansion. In the previous year, local National Health Service purchasers aided the charitable company in meeting its aim by making significant capital grant monies available to support the acquisition and development of expanded accommodation on this site.

Facilities at Clare House, Essex were expanded by the construction of a new extension which opened in April 2007. Two new sites were acquired for further geographical development in the West Midlands and Nottinghamshire. Building work on the West Midlands site started in April 2007.

The charitable company again further increased the number of residents accommodated and made further progress in the development of clinical outcome measures.

Public Benefit Policy

The charitable company has always provided public benefit. In response to recent changes in charity law and regulation (under the Charities Act 2006) it has formalised this with the introduction of a Public Benefit Policy ("the Policy").

The Policy sets the charitable company's work in the context of these developments. The charitable company continues to strive to provide the leading edge treatment for Mental Health and Learning Disability conditions for members of the public admitted to its care, leading them through a care pathway to ensure as far as is possible that they will be able to re-integrate to the community on a permanent basis.

All surpluses are reinvested to improve and develop the residential and treatment facilities and thereby enhance the lives of the patients. Professional staff with the highest qualifications are recruited and provided with continuing professional education to enable the charitable company to provide the benefits to the public and thereby fulfil the purposes of the organisation.

New services are being developed to respond to the changing needs in this specialist area, with new specialist wards being opened up to treat Asperger's Syndrome, as well as the existing provision for Huntington's disease, dementia etc. Wards are set up at a size to foster a sense of community, and patients are moved through the care pathway and prepared to re-integrate into the community. The charitable company is able to take in the most challenging patients with whom other institutions are unable to cope.

The Trustees consider the benefits of the charitable company's services to patients, other beneficiaries and the wider public in improving mental health are self-evident.

Although the core services are subject to fees, these have been assessed by the Directors as being appropriate for the specialist service delivered and of a reasonable level for the mental healthcare sector. Additionally, fees are met in almost all cases from public funding through the National Health Service, so the charitable company's benefits are accessible to all, regardless of means.

For patients who have difficulty in paying for the residential treatment and where National Health Service funding is not available, consideration is given to reduced rates as a charitable benefit.

Report of the Directors for the year ended 31 March 2008 (Continued)

The charitable company also conducts and sponsors research and development in order to provide enhanced benefit for future generations

The charitable company is exploring ways in which its services to the wider community (as well as patients) may be expanded, in order to strengthen the continuum of care it seeks to provide in mental healthcare services

The Trustees of the charitable company are aware of the principles on which Public Benefit is assessed in the modern charity environment. This is set out in the Charity Commission's Guidance, both its general Public Benefit Guidance and in the Guidance on Public Benefit and Fee-Charging. This latter Guidance is in draft and subject to consultation during 2008 and the Policy will be amended as necessary once the Guidance is finalised.

Activities of Group Entities

The performance of the group entities described below is disclosed in note 6 to the financial statements

St Andrew's Property Management Limited

St Andrew's Property Management Limited was a wholly owned subsidiary of the charitable company throughout the year. The company continued to carry out major construction design and build projects, and manages certain non-core sporting and recreational facilities for the Group.

During the year the company completed the construction of Smyth House at Northampton and continued with the construction in the West Midlands. Further new developments at Northampton are being planned with construction due to start following the completion of the purchase of additional land adjacent to the main site. As previously mentioned, another development in Nottinghamshire is being planned. Other potential site opportunities are under negotiation.

St Andrew's Property Management Limited has executed a deed of covenant in favour of the charitable company, donating all its taxable profits.

Three Shires Hospital Limited

The Three Shires Hospital is an acute medical surgical hospital located within the grounds of the main St Andrew's Northampton site. St Andrew's Healthcare, through its subsidiary company St Andrew's Property Management Limited, has a 50% holding in Three Shires Hospital Limited. The remaining 50% of the shares in this company are held by BMI Healthcare Limited ("BMI"). BMI and St Andrew's Property Management Limited are parties to a shareholders agreement governing the operation of Three Shires Hospital Limited. Three Shires Hospital Limited has leased the Three Shires Hospital buildings from the charitable company and has a management agreement with BMI to run the Hospital. The charitable company has ultimate control over this company by means of the chairman's casting vote which may be exercised under some specifically defined circumstances.

Pavilion Clinic Limited

The Pavilion Clinic was opened as a diagnostic and outpatient facility in Northampton in July 2007. The company is 51% owned by Three Shires Hospital Limited, whose chairman has a casting vote and the company is therefore consolidated into the Group accounts. The other 49% is owned by Global Diagnostics Limited.

The St Andrew's Healthcare and Cygnet Health Care Limited Joint Venture

The charitable company and Cygnet Health Care Limited dissolved their unincorporated joint venture on 1 September 2007. The results of the joint venture up to 1 September 2007 are consolidated as well as the resulting gains on dissolution.

The dissolution of the joint venture was by mutual agreement between the partners with the Isham House business reverting to St Andrew's and the "St Andrew's at Harrow" businesses continuing with Cygnet Health Care Limited under their name.

Report of the Directors for the year ended 31 March 2008 (Continued)

STAC Healthcare Limited

As part of the dissolution arrangements in relation to the St Andrew's Healthcare and Cygnet Health Care Limited Joint Venture, St Andrew's Property Management Limited sold its 40% shareholding in STAC Healthcare Limited, the company which owned the property at Kenton Road, Harrow, to Cygnet Health Care Limited on 1st September 2007

Achievements and Performance

Review of activities and performance of divisions

The Group comprises five main divisions based at Northampton and one in Essex. The divisions are each managed by a Service Director who has a Registered Manager reporting directly to them. The Service Directors report to the Chief Executive. Income and expenditure within these divisions is as set out in notes 2 and 3 of the financial statements.

The current divisions are as follows -

Northampton divisions

- Adolescent Service (including mental health and learning disability)
- Adult Men's Service (including mental health and learning disability)
- Adult Women's Service (including mental health and learning disability)
- Brain Injury Rehabilitation (within the Kemsley National Centre)
- Older age (including Huntington's disease services)

St Andrew's Healthcare in Essex

- Adult men's and women's mental health

Overall activity, expressed as a measure of utilisation of capacity, increased on that from 2006/07. This, together with a shift towards more difficult-to-manage residents, resulted in an increase in income year on year.

A significant proportion of the company's income arises through referrals from the National Health Service.

Significant discounts were granted to some primary care trusts in recognition of the volume of referrals and the partnership between the National Health Service and charitable company.

Key Performance Indicators

St Andrew's Healthcare has a "Balanced Scorecard", an advanced and comprehensive set of key performance indicators including clinical standards, health outcome, clinical risk management, therapeutic activity, market activity, as well as staff and financial indicators. Generally the business and related indicators mirror that which any large complex organisation requires to properly monitor and manage performance.

However, the clinical and healthcare indicators incorporate novel types of clinical audit as well as accepted tools such as HoNOS-secure. The latter is a version of the Health of the Nation Outcome Scales developed at St Andrew's Healthcare, in association with the Royal College of Psychiatrists Research Unit. Where appropriate, target levels for these indicators are set and the actual performance against these targets together with developing trends are regularly reviewed at board level and in more detail at divisional management level. Focus on these indicators has been associated with a demonstrable improvement in performance.

Report of the Directors for the year ended 31 March 2008 (Continued)

Divisional Activity:

Adolescents, Adult Men's and Adult Women's Services

The overall number of residents helped by these divisions continued at a high level. The Adolescent group of residents are a significant challenge for the experienced teams who are required to meet their needs. There was a shortfall in the activity during the early part of the year, however, activity increased in the final quarter. Following the dissolution of the joint venture with Cygnet Health Care Limited, Isham House was successfully integrated into the Men's Division. The Women's Service benefited from the increased capacity on the opening of Smyth House during the year.

Brain Injury Rehabilitation

Activity was just below budget for the year although per day income was boosted by particularly demanding residents requiring additional care. As a result financial and activity performance maintained the levels of 2006/07. The division held a number of successful conferences during the year.

Older Age

This division serves the need in a range of care groups from many sources including those requiring a high level of supervision and those requiring nursing care. The division met its activity targets but was behind on income due to a varied dependency mix.

St Andrew's Healthcare in Essex

Activity was just below target, however the financial result was on budget.

Expansion Plans

Due to the high level of demand the charitable company is expanding at the Northampton and Essex locations and other regional locations. This expansion gives rise to the majority of the £15M capital commitments disclosed in note 15 to the financial statements.

Connected Charities

The Group is connected to the charity Workbridge Enterprises Limited by virtue of having trustees in common.

Workbridge Enterprises Limited provides an addition to the Group's services and facilities by way of the provision of work experience to some residents at St Andrew's.

It has been agreed that the St Andrew's Healthcare and Workbridge Enterprises Limited charities would work better as one and the directors have decided in principle that the two charities should merge. There would be a period of consultation for Workbridge staff and assuming they accepted the proposal there would then follow a period of work with the Charity Commission, at the end of which Workbridge Enterprises Limited would become a division of St Andrew's. The identity and brand would continue but would offer services that would link into St Andrew's Healthcare (Note 25).

Permanent endowment

The discussions with the Charity Commission have now been concluded with a decision that the land and buildings on the main Northampton site are not permanent endowment. The status of the Well Vale Estate and investments held by St Andrew's Hospital, a subsidiary of the charitable company ("the Charity") is still being investigated.

The land and original buildings on the main Northampton site are now reclassified as unrestricted funds. The transfer documents are being prepared to transfer the title to the charitable company from the Charity. The results of the Charity have been consolidated into the Group.

Report of the Directors for the year ended 31 March 2008 (Continued)**Donations**

Donations received during the year were £37,000 (2007 £5,031,000). The majority of this related to donations from a trust. In the previous year, £5,000,000 related to capital grants received from the National Health Service in support of the land purchase at Northampton (Note 14).

Financial Review**Reserves policy**

St Andrew's Healthcare is a primary trading charity with a significant forward capital development program. The charitable company is committed to substantial development costs in relation to new facilities in the West Midlands, these give rise to the majority of the capital commitments of £15M (2007 £39.7M) disclosed within note 15 to the financial statements.

Total funds carried forward as disclosed in the statement of financial activities on page 16 are £106.1M (2007 £105.5M). The group has £104.4M (2007 £86.2M) invested in tangible fixed assets which are not available for other uses. During 2004, the decision was taken to self insure the first £1M of potential medical malpractice liability that for prudence requires a level of reserve. The pension deficit of £15.1M (2007 £3.9M) is recognised on the balance sheet, should the stock market not perform to expectation or a high level of financial performance not be maintained, this deficit will require additional funding. Additional funding of £5M was contributed in March 2008 and the Charitable Company is committed in principle to further additional funding of £2M per year for the next 9-10 years.

The trustees maintain general reserves in the form of stock market investments and cash in order to be able to meet short term capital development commitments independently of current financial performance. The charitable company is able to finance existing commitments from current cash flow together with the disposal of a proportion of the investments designated as general reserves. Having in mind the above variables and after taking advice from the investment committee, the board has taken the view that it is appropriate at this time, for the Charity and charitable company to retain about £10M of investments representing free reserves.

Loan facilities have been negotiated with the charitable company's banker in order to be able to best meet short to medium term cash flow requirements.

The precise level and mix of funding for projects between investment disposal and loan finance will be decided upon having in mind the market conditions at the time the finance is required.

At the year end free reserves, after taking into account existing commitments and allowing for an insurance reserve, exceeded the £10M reserves policy value, standing at £23M.

As already noted, terms for the acquisition and development of other sites are under negotiation. In order not to delay these developments the board has decided that alternatives will be sought to finance such expansion. If these prospects came to fruition then the charitable company would need to meet the demand on capital by further disposal of investments and by utilising the external loan finance facilities that are in place.

The policy on capital funding and the level of reserves is reviewed annually and at the time each major element of expenditure becomes a firm commitment.

Business review / results and financial performance

The overall financial results prior to the inclusion of the FRS17 adjustment have increased by 32% to £19.89M (2007 £15.08M).

Although the financial results for the previous year benefited from substantial capital grants totalling £5M received from two local National Health Service purchasers, charitable and other discounts amounting to £5.5M were granted in respect of a number of residents.

Report of the Directors for the year ended 31 March 2008 (Continued)

The Three Shires Hospital Limited has contributed £97,000 (2007 £720,000) to the consolidated surplus for the current year. Following a review of its activities and profitability, the Group dissolved its joint venture with Cygnet Health Care Limited on 1 September 2007. The results of this joint venture for the 5 months to 31 August 2007 contributed £266,000 (2007 £92,000) to the current year consolidated surplus.

Further details of these entities may be found in notes 5 and 6 to the financial statements.

Investment policy and performance

Investments are managed by the Group's Fund manager on a discretionary basis without restrictions regarding social, environmental or ethical considerations. Investment performance is measured against the WM Charity Fund index monitor (constrained by Asset Mix) benchmark. The Group's investment performance for the year was a positive return of 2.31% (2007 8.35%) against the benchmark negative return of -2.86% (2007 7.89% positive return).

Creditor payment policy

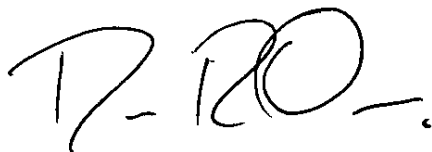
The charitable company aims to pay creditors in line with agreed payment terms, with the average creditor days being below 30.

Plans for Future Periods

In addition to the land acquired during the year, the charitable company also sought other sites throughout England to increase geographic coverage. Additional capacity constructed on these sites will enable the charitable company to meet the needs of an increased number of residents closer to their place of referral. Other potential sites have been located and it is aimed to acquire those that prove to be appropriate in due course. The charitable company aims in 2008/09 and thereafter, to commence construction of a range of facilities to further meet the needs of those who fall within its charitable objects. The search for other potential sites throughout the country will continue as long as it is clear that there are insufficient places to house those in need of care and the charitable company is in a position to economically fund the construction and commission of such facilities with an appropriate financial return.

One of the main risks for the future development of the charitable company is that it might not be possible to locate suitable sites and obtain planning permission that will enable the desired rate of expansion in a financially viable way, however the board continues to examine opportunities for the development of the Charity.

By order of the Board



D R Orme
Director

25 July 2008

Independent auditors' report to the members of St Andrew's Healthcare

We have audited the group and parent charitable company financial statements ("the financial statements") of St Andrew's Healthcare for the year ended 31 March 2008 which comprise the consolidated statement of financial activities, the consolidated and charitable company balance sheets, the consolidated cash flow statement and the related notes

These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of trustees and auditors

The responsibilities of the trustees (who are also the directors of St Andrew's Healthcare for the purposes of company law) for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the charitable company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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 whether in our opinion the information given in the directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 trustees' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the reference and administrative details and the Report of the Directors 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 audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group and charitable company'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

Independent auditors' report to the members of St Andrew's Healthcare (Continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent charitable company's affairs as at 31 March 2008 and of the group's incoming resources and application of resources, including the group's income and expenditure and cash flows, for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cambridge

Date *18 August 2008*

**Consolidated statement of financial activities
(incorporating consolidated income and expenditure account and statement of total
recognised gains and losses) for the year ended 31 March 2008**

	Note	Permanent Endowment Fund £'000	*Restricted Funds £'000	Unrestricted Funds £'000	Total 2008 £'000	Total 2007 £'000
Incoming resources from						
charitable activities	2	-	-	121,342	121,342	106,405
Incoming resources from						
generated funds						
Income from investments	7(a)	-	-	1,777	1,777	1,382
Voluntary income	7(d)	-	37	-	37	5,031
Other incoming resources						
VAT reclaims	24	-	-	825	825	-
Pensions finance income	16	-	-	1,463	1,463	1,294
Total incoming resources		-	37	125,407	125,444	114,112
Resources expended						
Cost of generating funds – investment managers fees		-	-	(91)	(91)	(93)
Costs of charitable activities	3(a)	-	-	(106,790)	(106,790)	(99,264)
Governance costs	3(b)	-	-	(445)	(445)	(292)
Other resources expended						
Minority interest share in joint ventures and subsidiary undertakings	5	-	-	67	67	(361)
Interest payable	7(e)	-	-	(988)	(988)	(834)
Total resources expended		-	-	(108,247)	(108,247)	(100,844)
Net incoming resources before transfers		-	37	17,160	17,197	13,268
Transfers						
Transfers between funds		(500)	(5,000)	5,500	-	-
Net incoming resources before other gains and losses		(500)	(4,963)	22,660	17,197	13,268
Other recognised gains and losses						
Gains/(losses) on investment asset disposals	7(b)	(46)	-	2,995	2,949	2,056
Taxation	17	-	-	(256)	(256)	(248)
Net income for year adjusted for taxation and gains on investment asset disposals		(546)	(4,963)	25,399	19,890	15,076
Gains/(losses) on revaluation of investments	7(c)	187	-	(3,121)	(2,934)	(444)
Actuarial (losses) on defined benefit pension scheme	16	-	-	(16,273)	(16,273)	(723)
Net movement in funds	14(a)	(359)	(4,963)	6,005	683	13,909
Total funds brought forward		3,197	5,278	96,990	105,465	91,556
Total funds carried forward		2,838	315	102,995	106,148	105,465

There is no difference between the net incoming resources and its historical cost equivalent

The above results are derived from continuing and discontinued activities. Details of the discontinued activities are disclosed in note 3(c). All gains and losses recognised in the year are included above.

* Note: Restricted funds are income funds

Consolidated balance sheet as at 31 March 2008

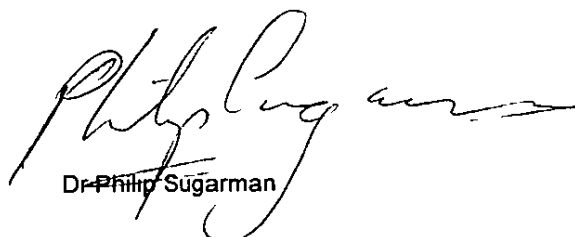
	Note	Permanent Endowment	Restricted	Unrestricted	Total 2008	Total 2007
		£'000	£'000	£'000	£'000	£'000
Fixed assets						
Intangible fixed assets	8(a)	-	-	1,050	1,050	1,108
Tangible fixed assets	8(a)	-	-	104,452	104,452	86,250
Investments	8(a)	2,696	-	21,142	23,838	30,264
Investment in associated company		-	-	-	-	61
		<u>2,696</u>	<u>-</u>	<u>126,644</u>	<u>129,340</u>	<u>117,683</u>
Current assets						
Stock - consumables		-	-	685	685	736
Debtors	9	-	-	7,575	7,575	12,975
Cash and deposits	12	<u>142</u>	<u>315</u>	<u>20,461</u>	<u>20,918</u>	<u>17,031</u>
		<u>142</u>	<u>315</u>	<u>28,721</u>	<u>29,178</u>	<u>30,742</u>
Liabilities						
Creditors amounts falling due within one year	13	<u>-</u>	<u>-</u>	<u>(20,444)</u>	<u>(20,444)</u>	<u>(19,547)</u>
Net current assets		<u>142</u>	<u>315</u>	<u>8,277</u>	<u>8,734</u>	<u>11,195</u>
Total assets less current liabilities		2,838	315	134,921	138,074	128,878
Long term bank loans	12	-	-	(15,456)	(15,456)	(17,138)
Deferred tax liability	18	<u>-</u>	<u>-</u>	<u>(86)</u>	<u>(86)</u>	<u>(87)</u>
Net assets excluding pension scheme liability		2,838	315	119,379	122,532	111,653
Defined benefit pension scheme liability	16	<u>-</u>	<u>-</u>	<u>(15,092)</u>	<u>(15,092)</u>	<u>(3,917)</u>
Net assets		<u>2,838</u>	<u>315</u>	<u>104,287</u>	<u>107,440</u>	<u>107,736</u>
Funds of the Group						
Funds		2,838	315	118,087	121,240	109,382
Pension liability		-	-	(15,092)	(15,092)	(3,917)
Funds including pension liability	14(a)	2,838	315	102,995	106,148	105,465
Minority interest		-	-	1,292	1,292	2,271
Total funds of the Group		<u>2,838</u>	<u>315</u>	<u>104,287</u>	<u>107,440</u>	<u>107,736</u>

Total funds include a revaluation surplus of £7,571,000 (2007 £10,505,000) reflecting the cumulative unrealised gains made on investments held at 31 March

The financial statements on pages 16 to 40 were approved by the Board of Directors on 27 June 2008 and signed on their behalf on 25 July 2008 by



Charles Wake
Members of the Board of Directors



Dr Philip Sugarman

Charitable company balance sheet as at 31 March 2008

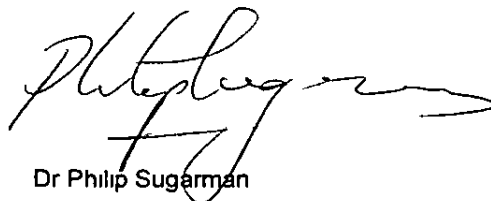
	Note	Restricted £'000	Unrestricted £'000	Total 2008 £'000	Total 2007 £'000
Fixed assets					
Tangible fixed assets	8(b)	-	105,405	105,405	78,755
Investments	8(b)	-	21,142	21,142	27,742
		-	126,547	126,547	106,497
Current assets					
Stock - consumables		-	221	221	266
Debtors amounts falling due after more than one year	9	-	13,665	13,665	9,750
Debtors due within one year	9	-	5,722	5,722	8,200
Joint venture account	10	-	-	-	2,211
Cash and deposits	12	315	16,408	16,723	16,362
		315	36,016	36,331	36,789
Liabilities					
Creditors amounts falling due within one year	13	-	(26,381)	(26,381)	(16,316)
Net current assets		315	9,635	9,950	20,473
Total assets less current liabilities		315	136,182	136,497	126,970
Long term bank loans	12	-	(14,124)	(14,124)	(17,138)
Net assets excluding pension scheme liability		315	122,058	122,373	109,832
Defined benefit pension scheme liability	16	-	(15,092)	(15,092)	(3,917)
Net assets		315	106,966	107,281	105,915
Funds of the Group					
Funds		315	122,058	122,373	109,832
Pension Reserve		-	(15,092)	(15,092)	(3,917)
Total funds	14(b)	315	106,966	107,281	105,915

Total funds include a revaluation surplus of £6,028,000 (2007 £9,148,000) reflecting the cumulative unrealised gains made on investments held at 31 March 2008

The financial statements on pages 16 to 40 were approved by the Board of Directors on 27 June 2008 and signed on their behalf on 25 July 2008 by



Charles Wake
Members of the Board of Directors



Dr Philip Sugarman

Consolidated cash flow statement for the year ended 31 March 2008

Note	Permanent Endowment Fund £'000	Restricted Funds £'000	Unrestricted Funds £'000	Total 2008 £'000	Total 2007 £'000
Net cash inflow from operating activities	-	-	24,638	24,638	14,250
Cash donations	-	37	-	37	5,031
Pension Contribution	-	-	(5,000)	(5,000)	-
	-	37	19,638	19,675	19,281
Returns on investments and servicing of finance					
Interest received	-	-	1,006	1,006	831
Dividends received	-	-	709	709	399
Rental income received	-	-	62	62	152
Interest paid	-	-	(947)	(947)	(834)
Net cash inflows from returns on investments & servicing of finance	-	-	830	830	548
Taxation	-	-	(241)	(241)	(291)
Capital expenditure and financial investment					
Purchase of tangible fixed assets	-	-	(21,489)	(21,489)	(26,539)
Sale of tangible fixed assets	-	-	16	16	-
Sale of assets following JV dissolution	-	-	171	171	-
Purchase of investments	(341)	-	(1,847)	(2,188)	(2,245)
Sale of investments	308	-	8,322	8,630	6,031
Net cash outflow from capital expenditure and financial investment	(33)	-	(14,827)	(14,860)	(22,753)
Total movements before financing	(33)	37	5,580	5,584	(3,215)
Financing					
Net (decrease)/increase in loans and finance leases	-	-	(1,418)	(1,418)	11,729
(Decrease)/Increase in cash	(33)	37	4,162	4,166	8,514
Reconciliation of net cash flow to movement in net funds					
(Decrease)/Increase in cash	(33)	37	4,162	4,166	8,514
Net cash outflow from financing	-	-	1,418	1,418	(11,729)
Change in net funds	(33)	37	5,580	5,584	(3,215)
Non-cash transfer due to expenditure of restricted funds	-	(5,000)	5,000	-	-
Net funds at 1 April	175	5,278	(6,666)	(1,213)	2,002
Net funds at 31 March	142	315	3,914	4,371	(1,213)
Reconciliation of net incoming resources to net cash inflow from operating activities					
	Permanent Endowment Fund £'000	Restricted Funds £'000	Unrestricted Funds £'000	Total 2008 £'000	Total 2007 £'000
Net incoming resources	-	37	17,160	17,197	13,268
Tangible fixed assets – depreciation	-	-	3,100	3,100	2,523
Tangible fixed assets – loss on disposal	-	-	(173)	(173)	121
Adjustment in value of associated company	-	-	61	61	(61)
Less pensions finance income	-	-	(1,463)	(1,463)	(835)
Decrease in stocks	-	-	51	51	(115)
Decrease in debtors & prepayments	-	-	5,400	5,400	(2,360)
Decrease in other assets	-	-	(309)	(309)	(1,393)
Increase in creditors	-	-	1,002	1,002	8,719
Income from investments	-	-	1,777	1,777	(1,382)
Interest payable	-	-	(988)	(988)	834
Decrease- in minority interest	-	-	(980)	(980)	(38)
Donations	-	(37)	-	(37)	(5,031)
Net cash inflow from operating activities	-	-	24,638	24,638	14,250

1 Principal Accounting policies

Basis of accounting

The financial statements have been prepared on a going concern basis, in compliance with the Companies Act 1985 under the historical cost convention as modified by the valuation of investments at market value, and in accordance with the Statement of Recommended Practice Accounting and Reporting by Charities (revised 2005) (SORP 2005) and applicable accounting standards in the United Kingdom

A summary of the more important group accounting policies, which have been applied consistently, is set out below

The charitable company has availed itself of paragraph 3(3) of schedule 4 of the Companies Act 1985 and adapted the Companies Act formats to reflect the special nature of the charitable company's activities. No separate statement of financial activities has been presented for the charitable company alone as permitted by section 230 of the Companies Act 1985 and paragraph 397 of the Charities SORP 2005. The gross income for the year for the charitable company was £102.6M (2007 £84.0M) and the surplus was £17.6M (2007 £14.0M).

Funds and reserves

The group is financed out of three funds: unrestricted funds, restricted funds and the permanent endowment fund. Sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with restrictions imposed.

Unrestricted funds

Unrestricted funds comprise fixed assets, investments and working capital employed within the "business" of the charitable company. Funds represented by fixed assets utilised within the "business" of the charitable company are not freely available for other purposes and thus additional funds (held as investments) are required to support the reserves policy as set out in the trustees' report.

These funds represent monies put aside and invested in support of the requirement of the reserves policy.

Unrestricted funds represent funds which can be expended as the trustees see fit, in accordance with the objects of the charitable company.

Restricted funds

Restricted funds are held in respect of specific legacies and donations received where the use of those funds is restricted to a particular purpose by the donor.

Permanent endowment fund

The permanent endowment fund represents the balance of funds originally raised on the formation of the Charity (now St Andrew's Hospital).

This fund consists of the Well Vale Estate and investments. The endowment fund is held within the Charity, and has been consolidated here as the Charity is considered a wholly owned quasi-subsidiary of the charitable company.

The status of the Well Vale Estate and the investments continues to be discussed with the Charity Commission. See note 23 to the financial statements.

External funds

As part of the Charitable company's activities it accepts receipts on behalf of the service users and holds these funds within the Charitable company's bank accounts. To ensure that these funds are safeguarded long term investments are made to reflect the liability of the Charitable company for these balances held in trust. These investments and service user balances are removed from the balance sheet figures and are detailed within Note 11.

1 Principal Accounting policies (continued)

Basis of consolidation

The consolidated statement of financial activities and balance sheet include, on a line by line basis

- the charitable company – St Andrew's Healthcare (formerly St Andrew's Group of Hospitals),
- the Charity - St Andrew's Hospital,
- St Andrew's Property Management Limited, an incorporated wholly owned subsidiary undertaking,
- Three Shires Hospital Limited, a subsidiary of St Andrew's Property Management Limited,
- The Pavilion Clinic Limited, a subsidiary of Three Shires Hospital Limited, and
- the joint venture with Cygnet Health Care Limited, until 31 August 2007, in which the charitable company had a controlling interest

STAC Healthcare Limited was considered to be an associate until 31 August 2007 and therefore equity accounted for in line with FRS 9 within the results of the Group until that date

All subsidiaries have a year end of 31 March, with the exception of The Pavilion Clinic, which has a 30 September year end. Owing to the operational need to have a year end in line with that of the other shareholder, The Pavilion Clinic Limited prepares its accounts to 30 September each year, however interim accounts are drawn up at 31 March for consolidation purposes

Intra-group sales and profits are eliminated on consolidation. New subsidiaries included in the Group for the first time are consolidated from the date of acquisition

Joint Ventures

Joint ventures, which meet the definition of a subsidiary undertaking, are included in the consolidated financial statements of the charitable company. Other joint ventures are accounted for under FRS 9 "Associates and Joint Ventures" such that the Group's share of the surplus or deficit is included in the statement of financial activities in that year

Basis for recognising liabilities and provisions

Liabilities are recognised as soon as there is a legal or constructive obligation committing the Group to expenditure. Provisions are made as a fair estimate of a liability arising or the reduction in value of an asset. The Group is not a grant making body and there are no long term liabilities, other than bank loans

Basis for allocation of resources expended

The majority of resources expended is directly in pursuit and support of the charitable aim. Only those resources primarily expended in governance costs of the Group are identified as such. As a primary trading charity, no material amounts are currently expended or are separately identified as costs of generating funds except investment management fees

Fixed assets and depreciation

Intangible fixed assets - acquired goodwill is written off in equal annual instalments over its estimated useful economic life, normally considered to be 20 years. The directors' assessment of the useful economic life of this goodwill is based on the expected future profitability of the relevant entity

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost less estimated residual value over the expected useful lives of the assets. Only asset additions in excess of £5,000 per item or group of items are capitalised. The rates used are

1 Principal Accounting policies (continued)

Asset	Rate	Basis
Buildings	2%	Straight line
Fixtures, fittings and machinery	10%	Straight line
Garden implements	10%	Straight line
Motor vehicles	25%	Reducing balance
Computer equipment	25%	Straight line

No depreciation is charged on land or assets in the course of construction

Land and Buildings

Land and buildings represents the cost of buildings incurred at various dates since the charity was founded. Only the cost of new buildings, extensions to existing buildings and substantial structural renovations are capitalised. Refurbishments, including integral fixtures and fittings, are regarded as repairs and charged to the statement of financial activities as incurred on the basis that this maintains the standard of performance of the assets.

It is the charitable company's policy to maintain freehold properties in such condition that the value of the estate, taken as a whole, is not impaired by the passage of time.

Stocks

Stocks comprising pharmacy stocks and general stock held in the Group's stores are included at the lower of cost and net realisable value.

Leases

Rent receivable and payable under operating leases is credited or charged to the statement of financial activities on a straight line basis over the period of the lease.

Income

Income is received for fees and other operating activities of the charitable company. Income is accounted for when receivable and in the period in which a service has been provided and is net of discounts. Investment income receivable is not materially different from that received in the period. Grant income is accounted for in the period it is received and where such income is received for a specific purpose it is accounted for as a restricted fund until expended in the pursuit of the purpose. Income arising from permanent endowment investments is received as unrestricted funds.

Investments and investment gains or losses

Investments are shown at market value.

Long term investments, where market value is readily ascertainable, are shown at market value, where market value is not readily ascertainable then they are shown at cost, unless in the opinion of the trustees, they have suffered a permanent diminution of value, when they will be stated net of impairment. Investment gains and losses realised on disposal and unrealised on revaluation, are recognised as they occur in the statement of financial activities.

Interest rate swaps

Income and expenditure under interest rate swap agreements are matched against the respective interest costs of borrowing in the statement of financial activities.

Principal Accounting policies (continued)**Pensions**

The Group has two types of pension scheme

Defined contribution scheme

For the defined contribution scheme, contributions are made into a group personal pension plan and are currently set at 6% of basic salary. The employee rate is a minimum of 3% of basic salary to qualify for the employer's contribution. The charitable company's contributions are charged to the statement of financial activities each year during the period in which the employee is an active member of the scheme. The costs of administering the scheme and providing for death in service are met by the Group.

Defined benefit scheme

The Group also operates a defined benefit pension scheme. This scheme was effectively closed to new entrants on 1 April 2003 but remains open to future accrual and continues to require contributions to be made to a separately administered fund. Under exceptional circumstances, the scheme can receive new entrants, such circumstances requiring the full approval of the board.

The pension liability recognised in the balance sheet is the obligation of the Group being the present value of scheme's liabilities less the value of the assets in the scheme.

The pension costs for the scheme are analysed into (i) current service cost, (ii) past service cost, (iii) net expected return on pension asset and (iv) interest on pension liabilities. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the statement of financial activities. Net expected return on the pension scheme asset comprises the expected return on the pension scheme assets less interest on scheme liabilities.

The actuarial gains and losses which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are taken to the statement of financial activities.

Irrecoverable VAT

Any irrecoverable VAT is charged to the statement of financial activities, or capitalised as part of the cost of the related asset, where appropriate.

Taxation

The charitable company is potentially exempt from taxation in respect of income and capital gains received within categories covered by section 505 of the Income and Corporation Taxes Act 1988 or Section 256 of the taxation of Chargeable Gain Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The charitable company's subsidiary companies and joint ventures are subject to corporation tax and deferred tax in the same way as commercial organisations and as such liabilities are included where appropriate. Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in the future, or a right to pay less taxation in the future.

Major Donations

Where major donations are received comprising assets and liabilities other than cash, the net amount representing the directors' valuation of the asset received net of any attached liability is accounted for in the statement of financial activities. Appropriate adjustment is made in the cash flow statement in order to properly identify the cash effects of such donations.

2 Incoming resources from charitable activities

	2008 £'000	2007 £'000
Maintenance fees	118,231	104,753
Other operating income	3,111	1,652
	121,342	106,405

Maintenance fees includes £4,934,000 (2007 £10,279,000) in respect of the joint venture with Cygnet Health Care Limited and £13,159,000 (2007 £12,200,000) in respect of Three Shires Hospital Limited

Incoming resources from charitable activities above, so far as they can be attributed to the main service areas, are as analysed below

For the year ended 31 March 2008

	Women's Adolescent and Men's Services £'000	Essex Women's and Men's Services £'000	Brain Injury Rehab £'000	Older Age Services £'000	Other group entities £'000	Total £'000
Maintenance fees	60,507	10,585	15,340	13,101	18,698	118,231
Other operating income	-	-	-	-	3,111	3,111

For the year ended 31 March 2007

	Women's Adolescent and Men's Services £'000	Essex Women's and Men's Services £'000	Brain Injury Rehab £'000	Older Age Services £'000	Other group entities £'000	Total £'000
Maintenance fees	48,948	8,176	14,000	11,685	21,944	104,753
Other operating income	-	-	-	-	1,652	1,652

3(a) Costs of charitable activities

	2008 £'000	2007 £'000
Direct charitable expenditure		
Staff costs (see note 4)	78,271	72,651
Housekeeping and residents' expenses	11,887	10,594
Establishment	10,115	9,992
Administration	3,248	3,334
Advertising	335	193
Depreciation and amortisation – owned assets	2,869	2,530
Depreciation – on finance leases	289	-
Allowance for bad and doubtful debts	(399)	(168)
Operating lease costs – other than plant and machinery	175	138
Total direct charitable expenditure	106,790	99,264

Direct charitable expenditure above, so far as it can be attributed to the main service areas is as analysed below

For the year ended 31 March 2008

	Women's Adolescent and Men's Services £'000	Essex Women's and Men's Services £'000	Brain Injury Rehab £'000	Older Age Services £'000	Other group entities £'000	Total £'000
Staff costs (see note 4)	41,627	8,117	11,289	9,142	8,160	78,335
Housekeeping and residents' expenses	3,722	904	823	1,161	5,277	11,887

3(a) Costs of charitable activities

For the year ended 31 March 2007

	Women's, Adolescent and Men's Services £'000	Essex Women's and Men's Services £'000	Brain Injury Rehab £'000	Older Age Services £'000	Other group entries £'000	Total £'000
Staff costs (see note 4)	36,441	6,403	10,833	8,120	11,862	73,659
Housekeeping and residents' expenses	3,148	749	644	1,194	4,859	10,594

3(b) Governance Costs

	2008 £'000	2007 £'000
Governance Costs of the Group		
External audit - charitable company auditors	126	102
External audit - other group auditors	20	26
Charitable company auditors taxation services	138	37
Accountancy advice - other group auditors	54	7
Internal audit	90	102
Indemnity insurance	13	13
Trustees' expenses	4	5
Total governance costs of the Group	445	292

During the year the trustees did not receive any remuneration in their role as trustees, or reimbursed expenses from the Group other than a total of £3,830 paid to 5 trustees (2007 £4,925 paid to 5 trustees) by way of reimbursement for travelling expenses incurred. All the above costs have been covered from unrestricted funds.

3(c) Discontinued Activities

The charitable company and Cygnet Health Care Limited dissolved their unincorporated joint venture on 1 September 2007. The results of the joint venture up to 1 September 2007 are consolidated within the unrestricted funds within the Statement of Financial Activities. The impact of these results is as follows -

	Unrestricted Funds Discontinued Activities 2008 £'000	Unrestricted Funds Discontinued Activities 2007 £'000
Incoming resources from charitable activities	4,933	10,279
Incoming resources from generated funds		
Income from investments	-	-
Voluntary income	-	-
Other incoming resources	-	-
Total Incoming resources	4,933	10,279
Resources expended		
Cost of generating funds - investment managers fees	-	-
Costs of charitable activities	4,467	10,187
Governance costs	-	-
Total resources expended	4,467	10,187
Net incoming resources	266	92

4 Staff costs and emoluments

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Staff costs in note 3(a) are analysed as				
Gross remuneration	66,944	62,342	59,775	51,896
Employer's NI costs	5,732	5,354	5,196	4,533
Pension contributions	5,595	4,955	5,205	4,360
Staff costs	<u>78,271</u>	<u>72,651</u>	<u>70,175</u>	<u>60,789</u>

The average monthly number of whole time equivalent (W T E) persons employed by the Group during the year was 2,384 (2007 2,204) The equivalent number of WTE persons employed by the Charitable Company was 1,987(2007 1,842)

	Consolidated		Charitable Company	
	2007/08	2006/07	2007/08	2006/07
	WTE	WTE	WTE	WTE
Clinical	474	308	373	258
Nursing	1,359	1,301	1,158	1,116
Support	536	572	443	458
Management	15	23	13	13

The number of employees whose total emoluments excluding pension contributions for the year fell within each band of £10,000 from £60,000 upwards is as follows

	2007/08	2006/07
	Number	Number
£60,001 to £70,000	9	6
£70,001 to £80,000	4	5
£80,001 to £90,000	7	9
£90,001 to £100,000	8	8
£100,001 to £110,000	4	3
£110,001 to £120,000	7	9
£120,001 to £130,000	9	2
£130,001 to £140,000	5	5
£140,001 to £150,000	4	3
£320,001 to £330,000	-	1
£410,001 to £420,000	1	-

The highest paid employee, who was also a director, received total remuneration of £416,147 (2007 £326,147) In addition, the accrued pension entitlement under the defined benefit scheme was £4,191 (2007 £3,602) with a respective lump sum entitlement of £12,572 (2007 £10,805)

In relation to the employees above, contributions of £58,382 (2007 £29,521) were paid in respect of 13 members (2007 7) of the money purchase pension scheme and 36 (2007 34) were members of, and had accrued benefits under, the defined benefit scheme (see note 16)

Directors' emoluments	2008	2007
	£'000	£'000
Aggregate emoluments	1,086	826
Retirement benefits are accruing to 6 (2007 5) directors under a defined benefit scheme		
The increased annual pension entitlement accruing to the directors under the defined benefit pension scheme	176	152
The increased value of the cash sum benefit	528	455

5 Minority interest share in joint ventures and subsidiary undertakings

	2008 £'000	2007 £'000
Share of results of the Joint Venture with Cygnet Health Care Limited providing acute psychiatry at "St Andrew's at Harrow" and Northampton		
- Minority interest share	196	180
- St Andrew's Healthcare share	266	92
Cygnet Health Care Joint Venture surplus	462	272
Share of consolidated results of Three Shires Hospital Limited, a Joint Venture with BMI Healthcare providing acute medical surgical services		
- Minority interest share	(263)	181
- St Andrew's Healthcare share	97	720
Three Shires Hospital Limited surplus	(166)	901
- Total minority interest share	(67)	361
- Total St Andrew's Healthcare share	809	812
Total Joint Venture surpluses	742	1,173

6 Interest in subsidiary undertakings

Investment entity	Holding (%)	Registered Office	Results for the year
St Andrew's Property Management Limited ¹	100%	England and Wales	Net assets - £360,002 Surplus - £90,000
St Andrew's Group of Hospitals Limited ²	100%	England and Wales	Dormant Net Assets - £2
Three Shires Hospital Limited ³	50%	England and Wales	Net assets - £3,973,788 Surplus before dividend of £90,000 - £373,024
The Pavilion Clinic Limited ³	25.5%	England and Wales	Net liabilities - (£276,589) Deficit - (£203,717)

¹ At 31 March 2008 the Group's sole active wholly owned incorporated subsidiary undertaking was St Andrew's Property Management Limited. This company is registered in England and Wales. The charitable company owns 100% of the two £1 ordinary shares of the company. This company manages construction projects and certain non-core sporting and recreational facilities for the Group. It had a turnover of £17,069,000 (2007 £15,357,000) and contributed a profit of £23,000 (2007 £39,000) to the consolidated results. The amount which is donated to the charitable company by deed of covenant was £1,149,000 (2007 £436,000). The balance of the profit disclosed in the statutory accounts of this company is eliminated on consolidation. The aggregate assets and liabilities of the company are £20,356,000 and £19,996,000 respectively (2007 £11,154,000 and £10,884,000).

² The Group has a 100% interest in St Andrew's Group of Hospitals Limited. This company has been dormant throughout the year.

³ The charitable company is an indirect shareholder of Three Shires Hospital Limited, a company registered in England and Wales. St Andrew's Property Management Limited acquired 1,250,000 £1 shares on 8 April 2004 amounting to 50% of the issued share capital of the company. The Group has a controlling interest in this company through the provisions of a shareholders' agreement giving the Group the power to appoint the Chairman and under certain circumstances, exercise a casting vote. Three Shires Hospital Limited operates the business of the Three Shires Hospital, an acute medical surgical hospital situated in the grounds of St Andrew's Healthcare in Northampton. The accounts of this company are consolidated from 8 April 2004. Three Shires Hospital Limited, together with Global Diagnostics Limited, formed The Pavilion Clinic Limited in July 2007. Three Shires Hospital Limited has the controlling interest and holds 51% of the issued ordinary share capital.

Three Shires Hospital Limited (including the subsidiary undertaking in The Pavilion Clinic Limited), contributed £97,000 (2007 £720,000) to the consolidated results of the Group (see note 5). It had a consolidated turnover of £13,910,000 (2007 £12,200,000). The aggregate assets and liabilities of Three Shires Hospital Limited group are £8,249,000 and £4,817,000 respectively (2007 £6,217,000 and £2,526,000).

6 Interest in subsidiary undertakings (Continued)

⁴ The Group had a controlling interest, by means of the Chairman's casting vote, in a joint venture with Cygnet Health Care Limited. The principal place of business for the joint venture was at Bowden House, Harrow-on-the-Hill. By mutual agreement between the partners the Joint Venture was dissolved on 1 September 2007 with the Northampton business reverting to St Andrew's Healthcare and the Harrow businesses continuing in the name of Cygnet Health Care Limited. This venture was engaged in acute psychiatry and during the period up to 31 August 2007, contributed £266,000 (2007 £92,000) to the consolidated results of the Group (see note 5). It had a turnover of £4,934,000 (2007 £10,279,000). The assets and liabilities of the joint venture were taken over by St Andrew's Healthcare on 1 September 2007. At the previous year end the aggregate assets and liabilities were respectively £3,520,000 and £1,119,000.

7(a) Investment income

	2008	2007
	£'000	£'000
Dividends	709	399
Interest	1,006	831
Rental Income	62	152
	<u>1,777</u>	<u>1,382</u>

7(b) Gains on revaluation and on investment asset disposal

	2008	2007
	£'000	£'000
Realised gain on disposal of investments	2,949	2,056
Unrealised loss on revaluation of investment assets (see note 7c)	<u>(2,934)</u>	<u>(444)</u>
Net gain	<u>15</u>	<u>1,612</u>

7(c) Investment assets

	2008		2007	
	Cost £'000	Market Value £'000	Cost £'000	Market Value £'000
Unrestricted funds				
General reserve investments - unrestricted	15,114	21,142	18,594	27,742
	<u>15,114</u>	<u>21,142</u>	<u>18,594</u>	<u>27,742</u>
Permanent endowment				
- investments	903	1,541	915	1,507
- Well Vale Estate	12	295	12	180
- deposits - Chantry Commissioners	238	860	238	835
	<u>1,153</u>	<u>2,696</u>	<u>1,165</u>	<u>2,522</u>
Total investment assets	<u>16,267</u>	<u>23,838</u>	<u>19,759</u>	<u>30,264</u>
Surplus of market value over cost		7,571		10,505
Less prior year surplus		(10,505)		(10,949)
Unrealised loss on revaluation of investments for the year to 31 March		<u>(2,934)</u>		<u>(444)</u>

All investment assets are held primarily to provide an investment return for the Group. Investments are listed securities on recognised stock exchanges. The General Reserve Fund investments comprise 74.6% UK securities with a market value of £15,780,000 (2007: 69.9%, £19,385,000) and 25.4% non-UK securities with a market value of £5,362,000 (2007: 30.1%, £8,357,000). The permanent endowment investments comprise 100% UK securities (2007: 100%). The Well Vale Estate comprises tenanted farming lands of approximately 79 acres (2007: 79 acres). See also Note 8.

7(d) Voluntary income

	2008 £'000	2007 £'000
Capital Grants	-	5,000
Other Donations	37	31
	<u>37</u>	<u>5,031</u>

7(e) Interest payable

	2008 £'000	2007 £'000
Bank loan interest	909	674
Finance lease interest	31	-
Other interest	49	160
	<u>988</u>	<u>834</u>

8 Fixed assets & Investments

(a) Consolidated

	Unrestricted funds	Unrestricted funds	Unrestricted funds	Unrestricted funds	Unrestricted funds
	Freehold land and buildings	Assets under construction	Fixtures, fittings, and machinery	Motor vehicles	Total tangible assets
	£'000	£'000	£'000	£'000	£'000
Tangible and Intangible fixed assets					Intangible assets
Cost At 1 April 2007	66,885	26,723	8,303	308	102,219
Additions	7,583	15,764	3,120	6	26,473
Impact of VAT refund (note 24)	(4,984)	-	-	-	(4,984)
Reclassification	26,723	(26,723)	-	-	-
Disposals	-	-	(1,471)	(69)	(1,540)
Disposals following dissolution of JV	(269)	-	(336)	-	(605)
At 31 March 2008	95,938	15,764	9,616	245	121,563
Depreciation at 1 April 2007	11,465	-	4,247	257	15,969
Charge for the year	1,837	-	1,310	14	3,161
Impact of VAT refund (note 24)	(61)	-	-	-	(61)
Disposals	-	-	(1,459)	(65)	(1,524)
Disposals following dissolution of JV	(219)	-	(215)	-	(434)
At 31 March 2008	13,022	-	3,883	206	17,111
Net book value At 31 March 2008	82,916	15,764	5,733	39	104,452
At 31 March 2007	55,418	26,723	4,058	51	86,250

	Permanent Endowment	Unrestricted fund	Total
	Investments	Investments	£'000
	£'000	£'000	£'000
Cost At 1 April 2007	1,165	18,594	19,759
Purchases	341	1,847	2,188
Disposals	(307)	(8,322)	(8,629)
Realised profit/(loss) reinvested	(46)	2,995	2,949
At 31 March 2008	1,153	15,114	16,267
Unrealised gains at 1 April 2007	1,357	9,148	10,505
Gain for the year	186	(3,120)	(2,934)
At 31 March 2008	1,543	6,028	7,571
Net book value At 31 March 2008	2,696	21,142	23,838
Net book value At 31 March 2007	2,522	27,742	30,264

Included within unrestricted freehold land and buildings is £500,000 being the previously categorised permanent endowment asset in respect of the land and original buildings on the main Northampton site (see notes 14 and 23). Following confirmation from the Charity Commission these land and buildings have been reclassified as unrestricted funds.

The net book value of tangible assets includes £1,513,318 in respect of assets held under finance leases.

Included within unrestricted freehold land and buildings is a rental property with a Net Book Value as at 31 March 2008 of £679,000 (2007 £Nil). This property was acquired as part of the joint venture dissolution with Cygnet Health Care Limited on 1 September 2007.

Except as noted in the above paragraph, all fixed assets are utilised in the direct charitable activities of the Group. The current market value of land and buildings is not practically determinable without costly external professional advice and would be of doubtful value in understanding the operation of the Group. The directors consider that such an expense would be an inappropriate application of charitable resource and thus have not disclosed the difference between market value and book value.

During the financial year St Andrew's Property Management Limited disposed of its 40% shareholding in STAC Healthcare Limited to Cygnet Health Care Limited on 1 September 2007 for £152,180.

8 Fixed assets & Investments (Continued)

(b) Chantable Company

	Unrestricted funds	Unrestricted funds	Unrestricted funds	Unrestricted funds	
	Freehold land and buildings	Assets under Construction	Fixtures, fittings and Machinery	Motor vehicles	Total
Tangible fixed assets					
	£'000	£'000		£'000	£'000
Cost At 1 April 2007	88,185	-	5,229	297	93,711
Additions	15,874	17,167	1,262	6	34,309
Impact of VAT refund (note 24)	(5,234)	-	-	-	(5,234)
Disposals	-	-	(1,471)	(69)	(1,540)
At 31 March 2008	115,992	17,167	5,020	234	121,246
Depreciation at 1 April 2007	11,330	-	3,375	251	14,956
Charge for the year	1,722	-	736	12	2,470
Impact of VAT refund (note 24)	(61)	-	-	-	(61)
Disposals	-	-	(1,459)	(65)	(1,524)
At 31 March 2008	12,991	-	2,652	198	15,841
Net book value					
At 31 March 2008	85,834	17,167	2,368	36	105,405
At 31 March 2007	76,855	-	1,854	46	78,755
Fixed Asset Investments	Unrestricted Fund				
	Investments				Total
	£'000				£'000
Cost At 1 April 2007	18,594				18,594
Purchases	1,847				1,847
Disposals	(8,389)				(8,389)
Realised profit reinvested	3,062				3,062
At 31 March 2008	15,114				15,114
Unrealised gains at 1 April 2007	9,148				9,148
Gain for the year	(3,120)				(3,120)
At 31 March 2008	6,028				6,028
Net book value At 31 March 2008	21,142				21,142
Net book value At 31 March 2007	27,742				27,742

9 Debtors

	Consolidated 2008 £'000	2007 £'000	Charitable Company 2008 £'000	2007 £'000
a) Long term debtors				
Loan to subsidiary company	-	-	13,665	9,750
b) Current debtors				
Trade debtors	6,239	9,795	5,025	7,049
Amounts due from associated undertakings	-	-	135	-
Other debtors	421	1,562	179	55
Prepayments and accrued income	915	1,618	383	1,096
	7,575	12,975	5,722	8,200

The charitable company advanced a loan of £1,250,000 to St Andrew's Property Management Limited to enable it to acquire 50% of the shares in the Three Shires Hospital Limited – see note 19. The loan has no ultimate repayment date and bears interest at 7.2% for the first 20 years from 8 April 2004 and then 3.25% above Nat West Bank Plc base rate. The charitable company entered into a further loan agreement with St Andrew's Property Management Limited to enable it to finance the purchase and development of sites in the West Midlands and Nottinghamshire. The total facility is for £45 Million and the amount outstanding as at 31 March 2008 was £12,415,000 and is at a variable interest rate of 1% per annum above the base rate of Nat West Bank Plc. The loan is repayable when St Andrew's Property Management Limited transfers, sells or otherwise disposes of the land and or associated developments at the West Midlands site and or the Nottinghamshire site or any part thereof.

10 Joint Venture account

	Charitable Company	
	2008 £'000	2007 £'000
Due within one year	-	1,361
Due in more than one year	-	850
	-	2,211

The charitable company made funds available to the Cygnet Health Care Limited Joint Venture in the form of a long term loan which was not repayable for the duration of the Joint Venture agreement without the consent of both Joint Venture parties. The loan was not interest bearing. On 1 September 2007, the joint venture was dissolved, the remaining outstanding balance (of £77,000) has therefore been included within other debtors (see note 9).

11 External funds (not included on the Balance Sheet)

	2008 £'000	2007 £'000
Assets		
Investments	341	349
Cash deposits	1,240	680
	1,581	1,029
Liabilities		
Patients' deposit scheme	250	250
Deposits held on behalf of patients	1,331	779
	1,581	1,029

External funds represent amounts held on behalf of patients under the patients' deposit scheme, and cash deposits held on behalf of patients.

Under the patients' deposit scheme amounts are repayable in periods up to 5 years from the balance sheet date. Certain of the funds are invested in gilts held in a Trust Account with National Westminster Bank Plc.

12 Cash at bank and in hand and bank loans

	Consolidated			Charitable Company		
	2008	Movement	2007	2008	Movement	2007
	£'000	£'000	£'000	£'000	£'000	£'000
Cash and deposits						
Unrestricted working capital	11,450	1,320	10,130	7,397	(2,242)	9,639
Unrestricted cash at fund manager	9,011	7,563	1,448	9,011	7,563	1,448
Permanent endowment funds cash	142	(33)	175	-	-	-
Restricted cash	315	(4,963)	5,278	315	(4,960)	5,275
	20,918	3,887	17,031	16,723	361	16,362
Bank overdraft	-	279	(279)	-	-	-
Total Cash and deposits	20,918	4,166	(279)	16,752	361	16,362
Bank Loans and finance leases						
Repayable within one year, included within creditors (note 13)	(1,091)	(264)	(827)	(689)	138	(827)
Long term loans and finance leases						
Repayable within one to two years	(1,091)	(203)	(888)	(689)	199	(888)
Repayable between two and five years	(1,615)	954	(2,569)	(685)	1,884	(2,569)
Repayable after five years	(12,750)	931	(13,681)	(12,750)	931	(13,681)
Creditors amounts falling due after more than one year	(15,456)	1,682	(17,138)	(14,124)	3,014	(17,138)
Total bank loans and finance leases	(16,547)	1,418	(17,965)	(14,813)	3,152	(17,965)
Net funds / (debt)	4,371	5,584	(1,213)	1,910	3,513	(1,603)

The following loan facilities to finance capital development are in place

- £12.75M 10 year bullet loan fixed at 4.6% interest to 24 October 2007, thereafter subject to rate change options
- £2.8M 15 year base rate linked reducing balance loan
- The interest rate applicable to this facility has been fixed at 7.74% for ten years by means of an interest rate swap agreement
- £2.4M 15 year fixed rate reducing balance agreement at 7.4% which loan was repaid in the year
- An un-drawn 364 day facility of £23.25M base rate linked

The loans are secured by first legal charges over the charitable company's freehold property at Clare House, Basildon, Essex, Cliftonville Middle School, Berkeley Close, and The Avenue, Northampton

The total finance lease creditors falling due after more than one year is £1,180,595 (2007 £Nil)

13 Creditors: amounts falling due within one year

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank overdraft and loan (note 12)	(733)	(1,106)	(689)	(827)
Finance lease (note 12)	(358)	-	-	-
Trade creditors	(8,326)	(10,059)	(7,505)	(7,682)
Taxation and social security	(2,051)	(1,957)	(1,640)	(1,330)
Amounts due to subsidiary and associated undertakings	-	(23)	(9,574)	(1,142)
Other creditors	(2,078)	(440)	(1,476)	(393)
Accruals and deferred income	(6,898)	(5,962)	(5,497)	(4,942)
Total	(20,444)	(19,547)	(26,381)	(16,316)

14 Funds

(a) Consolidated

	Permanent Endowment funds £'000	Restricted funds £'000	Unrestricted funds £'000	Total funds £'000
At 1 April 2007	3,197	5,278	96,990	105,465
Net incoming resources	141	37	505	683
Transfer between funds	(500)	(5,000)	5,500	-
At 31 March 2008	2,838	315	102,995	106,148

(b) Charitable Company

	Restricted funds £'000	Unrestricted funds £'000	Total funds £'000
At 1 April 2007	5,278	100,637	105,915
Net incoming resources before revaluation and investment asset disposals	37	4,263	4,300
Gains on revaluation and on investment asset disposal	-	(2,934)	(2,934)
Transfer between funds	(5,000)	5,000	-
At 31 March 2008	315	106,966	107,281

(c) Transfer between funds

During the year, clarification has been received from the Charity Commission, as detailed in note 8 (a), and the land and buildings previously disclosed as permanent endowment has now been reclassified as unrestricted funds

In 2006/07 St Andrew's Healthcare received a capital grant of £5,000,000 as a contribution towards the purchase of the Cliftonville site. Following the completion of this transaction the reserves attributable to this purchase have been reclassified as unrestricted funds (see page 12 – Donations)

(d) Charitable Company

The company has no share capital and is limited by guarantee, each of the members has a liability limited to £1 should there be a deficit of assets after meeting liabilities on winding up

15 Commitments

At the year end, the capital commitments were as follows

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Authorised, and contracted for	14,956	39,684	16,452	41,031

At the year end, the annual commitments under non-cancellable operating leases for land and buildings, were -

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Expiring				
After five years	270	-	-	-
	270	-	-	-

At the year end, the annual commitments under non-cancellable operating leases for assets other than land and buildings, were -

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Expiring				
Within one year	54	13	54	11
Within one to five years	43	48	41	48
	97	61	95	59

16 Pension Schemes

The Group operates two pension schemes, the assets of both are held separately from each other and those of the Group. The schemes are independently administered and the amounts charged in the accounts represent the contributions payable to the schemes by the employer in respect of the accounting period.

The Standard Life Group Personal Pension

The plan is a stakeholder exempt defined contribution pension scheme. The employee is required to contribute at least 3% of their pensionable pay. The employer contributed 3% of pensionable pay up to 31 March 2002 and thereafter is contributing 6%. The pension cost charge for the year for this scheme was £709,000 (2007: £595,000).

The St Andrew's Group of Hospitals Pension Scheme

The Group operates a trust-based occupational scheme, the St Andrew's Group of Hospitals Pension Scheme that provides benefits on a defined benefit basis. The Scheme effectively closed to new entrants from 1 April 2003 but remains open to future accrual. The assets of the scheme are held separately from those of the Group.

The actuary has carried out a full valuation as at 31 March 2007. The results of this valuation have been used to calculate the position on an FRS 17 basis as at 31 March 2008 by projecting forward members' benefits and using the value of the assets reported by the investment manager. The major assumptions used in this valuation are:

	Valuation as at	31 March 2008	31 March 2007	31 March 2006
Rate of increase in salaries		5.00%	4.50%	4.25%
Rate of increase in pensions in payment		3.50%	3.00%	2.75%
Rate of increase of pensions in deferment		3.50%	3.00%	2.75%
Discount rate		6.00%	5.20%	5.00%
Inflation assumption		3.50%	3.00%	2.75%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

16 Pension Schemes (Continued)**Scheme assets**

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain were

	Long-term rate of Return expected at 31-Mar-08	Value at 31-Mar-08 £'000	Long-term rate of Return expected at 31-Mar-07	Value at 31-Mar-07 £'000	Long-term rate of Return expected at 31-Mar-06	Value at 31-Mar-06 £'000
Equities	7.25%	84,548	7.25%	89,379	7.00%	83,491
Bonds	5.25%	22,953	5.00%	22,184	4.50%	6,240
Property	7.25%	3,360	7.25%	3,719	7.00%	3,288
Cash	5.25%	6,534	5.25%	1,567	4.50%	15,130
Total market value of assets		117,395		116,849		108,149
Present value of scheme liabilities		132,487		120,766		112,178
Deficit in the Scheme		(15,092)		(3,917)		(4,029)

Consolidated Reserves Note

	2008 £'000	2007 £'000	2006 £'000
Net assets excluding pension liability	121,240	109,382	97,896
Pension liability	(15,092)	(3,917)	(4,029)
Net assets including pension liability	106,148	105,465	93,867

Analysis of the amount charged to the statement of financial activities (SOFA)

	2008 £'000	2007 £'000	2006 £'000
Current service cost	4,886	4,140	4,346
Past service cost	-	220	-
Total operating charge	4,886	4,360	4,346

Analysis of the amount credited to other finance income

	2008 £'000	2007 £'000	2006 £'000
Expected return on pension scheme assets	7,956	7,105	5,722
Interest on pension scheme liabilities	(6,493)	(5,811)	(5,517)
Net return	1,463	1,294	205

Analysis of actuarial amounts recognised in statement of financial activities (SOFA)

	2008 £'000	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	(12,049)	243	16,286
Experience gains and losses arising on the scheme liabilities	(3,516)	115	(362)
Changes in assumptions underlying the present value of the scheme liabilities	(708)	(1,081)	(3,679)
Actuarial (loss)/gain recognised in SOFA	(16,273)	(723)	12,245

Movement in deficit during the year

	2008 £'000	2007 £'000	2006 £'000
Deficit in scheme at the beginning of the year	(3,917)	(4,029)	(19,914)
Movement in year			
Current and past service cost	(4,886)	(4,360)	(4,346)
Contributions	8,521	3,901	7,781
Other finance income	1,463	1,294	205
Actuarial (loss)/gain	(16,273)	(723)	12,245
Deficit in scheme at the end of the year	(15,092)	(3,917)	(4,029)

16 Pension Schemes (Continued)

History of experience gains and losses

	2008	2007	2006	2005
Difference between the expected and actual return on scheme assets				
Amount £'000	(12,049)	243	16,286	3,766
percentage of scheme assets	-10.0%	0.2%	15.1%	4.6%
Experienced gains and losses on scheme liabilities				
Amount £'000	(3,516)	115	(362)	225
percentage of the present value of the scheme liabilities	-3.0%	0.1%	-0.3%	0.2%
Total amount recognised in SOFA				
Amount £'000	(16,273)	(723)	12,245	(13,831)
percentage of the present value of the scheme liabilities	-12.0%	-0.6%	10.9%	13.6%

17 Taxation

As a charity, St Andrew's Healthcare is broadly exempt from tax on the income and gains arising from its charitable activities and its investments to the extent that the income and gains are applied for charitable purposes only. The taxation charge of £256,000 (2007 £248,000) represents the Group's share of tax suffered by joint ventures and subsidiary companies.

Analysis of the tax charge

The tax charge on the profit on ordinary activities of the subsidiaries for the year was as follows

	2008 £'000	2007 £'000
Current tax		
UK corporation tax	261	241
Over/under provision in prior year	(4)	(1)
Total current tax	257	240
Deferred tax (note 18)	(1)	8
Tax on profit on ordinary activities of subsidiaries	256	248

UK corporation tax was charged at 30% in 2008. Following changes in the recent Budget, future profits chargeable to corporation tax will be subject to a 28% taxation rate.

Factors affecting the tax charge:

The tax assessed for the year is higher (2007 higher) than the standard rate of corporation tax in the UK. The difference is explained below.

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	87	700
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2007 - 28%)	26	196
Effects of		
Expenses not deductible for tax purposes	9	2
Depreciation add back	236	106
Capital allowances	(256)	(72)
Other timing differences	246	9
Over/under provision in prior year	(4)	(1)
Current tax charge	257	240

18 Deferred taxation

	2008
	£'000
Balance at 1 April 2007 – accelerated capital allowances	87
Utilised in the year	(1)
Balance at 31 March 2008 – accelerated capital allowances	<u>86</u>

19 Connected charities and associated company**(a) Workbridge Enterprises Limited**

Workbridge Enterprises Limited, The Old Laundry, Bedford Road, Northampton NN4 7AD is a company limited by guarantee whose object is to provide employment for socially and mentally disabled members of the community. Some members and employees of St Andrew's Healthcare are also members of Workbridge Enterprises Limited. The financial statements of Workbridge Enterprises Limited have not been consolidated into these financial statements, in accordance with FRS 2 "Accounting for subsidiary undertakings", as the charitable company does not have direct control and they are also deemed to be immaterial.

It has been agreed that the St Andrew's Healthcare and Workbridge Enterprises Limited charities would work better together and the directors have decided in principle that the two charities should merge. There would be a period of consultation for Workbridge staff and assuming they accepted the proposal there would then follow a period of work with the Charity Commission, at the end of which Workbridge Enterprises Limited would become a division of St Andrew's. The identity and brand would continue but would offer services that would link into St Andrew's Healthcare.

(b) Three Shires Independent Hospital

Three Shires Independent Hospital, The Avenue, Cliftonville, Northampton NN1 5DR was a registered charity operating within the grounds of the Group. It was managed separately and addressed a separate market. Certain services were supplied by the Group to Three Shires Independent Hospital on an arms length basis. In April 2004 St Andrew's Healthcare received a substantial donation from the Three Shires Independent Hospital comprising the buildings of the Three Shires medical surgical hospital together with a significant donation of cash. St Andrew's, through its subsidiary company St Andrew's Property Management Limited, acquired a 50% holding in a new company Three Shires Hospital Limited which itself had acquired the business of the Three Shires Hospital from the Three Shires Independent Hospital. The remaining 50% of the shares in this company are held by BMI Healthcare Limited. BMI and St Andrew's Property Management Limited entered into a shareholders agreement governing the operation of Three Shires Hospital Limited. Three Shires Hospital Limited has leased the Three Shires Hospital buildings from St Andrew's and entered into a management agreement with BMI to run the Three Shires Hospital.

(c) The Pavilion Clinic Limited

The Pavilion Clinic Limited, 500 Pavilion Drive, Northampton Business Park, Northampton NN4 7YJ is a private company incorporated in January 2007, and 51% owned by the Three Shires Hospital Limited. The remaining 49% of the shares are held by The Global Clinic Northampton Limited. The Pavilion Clinic provides a diagnostic centre of excellence in a dedicated environment, with consulting and physiotherapy services.

19 Connected charities and associated company (Continued)

(d) St Andrew's Group of Hospitals Limited.

This company is a wholly owned subsidiary and is currently dormant. Once final agreement on the permanent endowment land related to the buildings in St Andrew's Hospital has been achieved with the Charity Commission it is anticipated that this company will become a corporate trustee of the charity St Andrew's Hospital. (See also notes 6 and 23)

20 Related party transactions

The Group has not entered into any material transactions with related parties or Trustees during the year which require disclosure under FRS 8 except as noted below. With respect to consolidated entities the Group has taken advantage of the exemption contained in FRS 8 and has not disclosed transactions with those entities.

Material transactions between the connected charities and the associated company comprise

	2008	2007
	£'000	£'000
Workbridge Enterprises Limited		
Rent receivable on leasehold land	45	45
Management and facility services	9	2
Work experience therapy purchased	(252)	(241)
	2008	2007
	£'000	£'000
STAC Healthcare Limited		
Rent payable to STAC Healthcare Limited on land and buildings leased by the St Andrew's Healthcare and Cygnet Health Care Limited Joint Venture	-	(150)

Transactions with the now dissolved Cygnet Health Care Limited Joint Venture are detailed in notes 5 and 10.

21 Related party balances

Included within debtors and creditors are the following material balances between the connected charities and the associated company.

	Consolidated		Charitable Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Workbridge Enterprises Limited (creditor)	(21)	(20)	(21)	(20)
Workbridge Enterprises Limited (debtor)	14	-	14	-
STAC Healthcare Limited debtor	-	272	-	-

22 Ultimate controlling organisation

The directors consider that the ultimate controlling organisation is St Andrew's Healthcare.

23 Permanent endowment land and buildings

The discussions with the Charity Commission have determined that the land and original buildings on the main Northampton site are not a permanent endowment. The status of the Well Vale Estate and investments held by the Charity is still being investigated.

The land and original buildings on the main Northampton site are now reclassified as unrestricted funds. The transfer documents are being prepared to transfer the title to the charitable company. The results of the Charity, St Andrew's Hospital, have been consolidated into the Group.

The Charity continues to discuss with the Charity Commission the status of the investment in the Well Vale Estate and the residual investments, which should be resolved in due course and the status of the Charity, St Andrew's Hospital, will then be determined.

24 VAT reclaims

During the year, St Andrew's Healthcare was successful in reclaiming VAT in respect of drug purchases made by the charity over the last 30 years. The refund amounted to £1,078,000 and costs attributable to this claim amounted to £253,000. The net receipt of £825,000 has been shown on the face of the statement of financial activities.

In addition, the charitable company's subsidiary, St Andrew's Property Management Limited, has successfully appealed against a previous HM Revenue and Customs decision concerning the zero-rating of the construction of certain properties (as described in the Report of the Directors). This has resulted in the charitable company reclaiming £5.2M of VAT, which has been reflected as a reduction in the cost of the relevant assets in Note 8. The associated costs of this reclaim, which are chiefly professional costs, have been expensed in the year.

25 Post balance sheet event

On the 25th April 2008, it was agreed that the St Andrew's Healthcare and Workbridge Enterprises Limited charities would work better together and the directors had decided in principle that the two charities should merge. There would be a period of consultation for Workbridge Enterprises Limited staff and assuming they accepted the proposal there will then follow a long period of work with the Charity Commission, at the end of which Workbridge Enterprises Limited would become a division of St Andrew's Healthcare. The identity and brand would continue but would offer services that would link into St Andrew's Healthcare.