

Data entered below will be used throughout the workbook:

| | |
|---------------------|--|
| Trust name: | West Hertfordshire Hospitals NHS Trust |
| This year | 2005/06 |
| Last year | 2004/05 |
| This year ended | 31 March 2006 |
| Last year ended | 31 March 2005 |
| This year beginning | 1 April 2005 |

2005-06 Annual Accounts of West Hertfordshire Hospitals NHS Trust

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE TRUST

The Secretary of State has directed that the Chief Executive should be the Accountable Officer to the Trust. The relevant responsibilities of Accountable Officers, including their responsibility for the propriety and regularity of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Accountable Officers' Memorandum issued by the Department of Health.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as an accountable officer.

5/7/06 Date..... David Lewis.....Chief Executive

2005-06 Annual Accounts of West Hertfordshire Hospitals NHS Trust

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are required under the National Health Service Act 1977 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure of the Trust for that period. In preparing those accounts, the directors are required to:

- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury
- make judgements and estimates which are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Trust and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction of the Secretary of State. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm to the best of their knowledge and belief they have complied with the above requirements in preparing the accounts.

By order of the Board

.....5/7/06.....Date.....David Lewis.....Chief Executive

.....5/7/06.....Date.....C. J. 7.....Finance Director

STATEMENT ON INTERNAL CONTROL 2005/06

1. Scope of Responsibility

The Board is accountable for internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

- Identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives,
- Evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control and Assurance Framework has been in place in West Hertfordshire Hospitals NHS Trust for the whole year ended 31 March 2006, and up to the date of approval of the annual report and accounts.

3. Capacity to Handle Risk

The Trust considers the management and handling of risk as one of its top priorities. The identification and management of risk is seen within the Trust as every employee's responsibility. To provide leadership and structure in the management of risk, the Director of Nursing, Midwifery, Quality & Risk has specific responsibility for leading the risk management process. This responsibility is discharged throughout the organisation through the Trust's Head of Quality & Risk and Divisional Risk Leads. Divisional Risk Leads act as a resource and focus for the identification and review of risks within the Divisional setting. They also assist the Divisions in the development and implementation of effective ways to manage these risks as detailed in their Divisional Risk Management Strategies.

In addition to this, specific Risk Management guidance on the responsibilities of staff at various levels and, on the systems in place to manage Risk is detailed within the Trusts Risk Management Strategy and the Incident Reporting Policy. More in depth Risk Management guidance at divisional level is detailed within the respective individual Divisional Risk Management Strategies.

All employees are introduced to Risk Management and Health and Safety at Induction and this is revisited at mandatory staff updates yearly. The Trust hosts regular study days for Managers on Risk Management and Health and Safety, which addresses their individual responsibilities in detail and on Risk Scoring for Managers so they may effectively manage incident reports.

The Trust has a fully implemented and integrated risk management database and risk register. This can be viewed both within the Divisions and at Executive level. Risks are clearly recorded and identified in a standardised way.

Performance Review Meetings are held each quarter and specific governance and reporting structures are put in place to deal with major areas of work e.g. the Investing in Your Health Programme Board.

There is representation by the Trust at the Bedfordshire and Hertfordshire Clinical Governance Liaison Group and a Regional Patient Safety Forum to ensure that a strategic approach to risk is aligned across the regional health economy. Minutes from this Group are sent automatically to the Trust's Head of Quality & Risk for noting and action.

Additionally, the National Patient Safety Agency Regional Manager communicates directly with the Head of Quality & Risk to also ensure consistency in approach.

As Accountable Officer I seek to learn from good practice via exchange of information with other Chief Executives regarding good practice in their organisations, reading of relevant articles and documentation and advice from managers and staff within the Trust as to what has worked well in handling risk and should be rolled out across the organisation.

In addition, the Trust works with the other partners in managing elements of risk. The Trust works with the Strategic Health Authority via various structures. Chief Executives across the Health Economy meet every six weeks with myself and, there is a Strategic Health Authority Chief Executive meeting on a one to one basis at least every two months. Chairs across the Health Economy also meet on a regular basis and there are a number of other functional groups e.g. Directors of Finance who have a formal programme of meetings across the year.

4. **The Risk and Control Framework**

The Trust has implemented a process for identifying, evaluating and managing the significant risks faced by the Trust throughout the financial year and up to the approval date of the annual accounts. The process is subject to regular review by the Board directly and via the Trust Risk Management Committee and Audit Committee. In order to provide the appropriate control framework the Trust Risk Management Committee has the support of the following Trust Risk Sub-committees:

- Clinical Governance
- Environment and Facilities
- Finance and Performance
- Health & Safety
- Emergency Planning Group

Through this structure significant risks are identified, evaluated and controlled by each Division within the Trust. All risks, or changes in risk, are identified and described in the Trust's Risk Register. They are then evaluated and prioritised so that an action plan can be devised for the most significant ones. The Trust's Risk Management Team reviews and monitors this process.

Divisional Risk Leads across the Trust continue to significantly increase the focus on risk management by utilising effectively the identification and escalation processes in place. The Business Planning process also continues to be integral in identifying risks for the Divisions, and in populating the Trust's Risk Register and Assurance Framework, which has been in place since April 2004.

Building on the improvements made on the incident reporting procedure during 2004/5, the Trust now provides the Risk Management Committee with quarterly analysis of key themes extrapolated from incident reporting data held on its Risk Management Database. This ensures that the Risk Management Committee is aware of and can act on key messages arising from incident reporting.

Steps continue to be taken to embed internal control and risk management further into the operations of the Trust and to deal with areas of improvement which come to management's and the Board's attention. In particular the following actions have raised the profile of risk management.

- Agreed Trust definition for a strategic risk
- Strengthening of the process for escalating strategic risks which includes consequential population of the Assurance Framework
- Regular performance audit of the Trusts Risk Management Database

The Trust's strategic objectives have now been aligned with the 'Standards for Better Health' and consequently all gaps in compliance recorded on The Assurance Framework. Executive and operational responsibility for each of the Standards for Better Health has been assigned and monitoring of compliance is ongoing.

The Trust achieved the "Practice Plus" level of the Improving Working Lives standard, one of the first Trust's in the SHA area to do so.

External audit recommendations are acted upon and updated to the Audit Committee.

The Trust actively involves and seeks the views of our patient's via the following groups/panels:

Patients' Panel:

The Trust's Patients' Panel has been established for three years and play an active part in the Trust. As from the 1 April 2005 a new Patients' Panel Chair was elected.

The Patients' Panel regularly attends the Trust Staff Induction Training days to advise staff of their role within the Trust. With patient representatives, the Panel are linked into a wide range of meetings and projects within the Trust.

The Panel also holds regular 'surgeries' at Watford, Hemel & St Albans Hospitals meeting patients and members of the public whilst they are waiting in Out Patient Departments or at the tea bars. The Panel also help on a monthly basis with the iPEAT inspections and review all patient information and questionnaires to ensure it is 'user friendly' before being published.

The Patients' Panel are also playing a part in service re-design and improvement and have been instrumental in offering their input and support to the new Dermatology, Breast Care centralisation and Ophthalmology, not only at the option appraisals stages but through to colour schemes and choice of furnishings. The Chair of the Panel is a regular member of the Investing in Your Health (IiYH) project team in respect of the new Health Campus and other members, together with PPI Forum and patient representatives, are attending the Internal Hospital User Groups (IHUGS) to be involved in the planning of the future hospital.

The Patient & Public Involvement Steering Group has now merged with the new Patient Experience Group. Membership includes PALS, Patient & Public Involvement, Patients Affairs, Patient & Public Involvement Forum, Modern Matrons, Spiritual & Pastoral Care Coordinator, Quality & Risk, Infection Control, Facilities & Voluntary Services and

housekeepers. There are also forty to fifty patient representatives who link in with the Panel from time to time to carry out various tasks within the Trust.

Patient & Public Involvement Forums:

Patient & Public Involvement Forums were established in December 2003 to monitor and review health services from the patient's perspective, to seek the public's views about health services and to make recommendations to the NHS based on those views. The Healthcare Commission now oversees them.

The Acute PPI Forum has been active within the Trust since and has eleven members to date (with a further member awaiting CRB check)

The Trust is keen to support and work closely with the Forum. The PPI Manager is the main Trust link, liaising with the PPI Forum Support Officer from the Community to meet with the Trust Chair and CEO, which allows them all the opportunity of hearing issues of joint interest. A newsletter is in development to keep PPI Forum members and volunteers within the hospital updated. The Forum Chair is formally invited and has a seat on the Trust Board with speakers rights

The Forum holds regular public meetings across the four hospital sites to which various members of WHHT and the SHA have spoken.

The Forum are currently linked into iPEAT visits, Think Clean Day, the Patient Experience Group (PEG) and all public consultations around Investing in Your Health (IiYH), the Watford Health Campus and also the Specialist Services Cancer Centre. Forum members have just set up a questionnaire to be given to all patients at pre-assessment clinics across the Trust in respect of their hospital discharge.

PPI Forum members using their statutory rights also visit the Trust in respect of their announced and unannounced monitoring visits.

5. Review of Effectiveness

As Accountable Officer, I have responsibility on behalf of the Trust for reviewing the effectiveness of the system of internal control. My review is informed by the Assurance Framework which process provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by the recent reviews that have been carried out in the Trust by Clinical Negligence Scheme for Trusts (CNST), Patient Environment Action Team (PEAT), Improving Working Lives (IWL) and Health and Safety Executive (HSE). The Head of Internal Audit will provide the Trust with an opinion statement on the overall arrangements on internal control and on the controls reviewed as part of their internal audit work. Executive Directors are providing me with assurance on the development and maintenance of the system of internal control.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee and, Risk Management Committee. A plan to address weaknesses and ensure continuous improvement of the system is in place.

Below describes the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of:

- **The Board**

The Trust Board has endorsed a mechanism to gain assurances about the effectiveness of the controls in place to manage principal risks, i.e. risks. This mechanism ensures that risks are fed up to the Board through the organisational structure in place within the Trust.

The Board reviews and maps these to its own assurance needs, enabling the Trust Board to address and put in place any improvements necessary.

- **The Audit Committee**

The Audit Committee reports directly to the Board providing assurance on the maintenance of the system of internal control. The Committee comprises three Non-Executive Directors with the Director of Finance and other representatives including Internal and External Audit in attendance.

The Audit Committee's primary role is to independently oversee the governance and assurance process on behalf of the organisation and to report to Trust Board on whether the systems in place for risk management and internal control are robust and effective. The Audit Committee receive regular reports from the Head of Quality and Risk at the Audit Committees ensuring that appropriate issues are escalated to the Audit Committee from the Risk Management Committee. This Committee ensures that audit plans are drawn up with full consideration of all risks as detailed within the Trust Risk Register.

- **The Trust Risk Management Committee**

The Trust Risk Management Committee (Trust Board Sub-Committee) is responsible for scrutinising and seeking assurance that coordinating risk management activities across all areas of Trust remain effective. It is responsible for assisting the Trust Board in maintaining the effectiveness and efficiency of its operations, ensuring the reliability of internal and external reporting and assisting with compliance with legal obligations and regulations. The Trust Risk Management Committee considers all formal reports to external bodies before they are issued. It also considers the risk register on a regular basis.

The Trust Risk Management Committee will consider/prescribe any treatment/action necessary when reviewing principal risks escalated to them and also prioritise and report significant risks accordingly to the Trust Board. The Risk Management Committee also reviews and directs the Trust's strategic approach to managing risk to ensure that it is able to meet its strategic objectives.

- **Executive Directors**

Executive Directors have overall responsibility for the implementation of the risk management strategy. They are responsible for the overseeing of the processes for identifying and assessing risk, and for advising the Chief Executive as necessary. They ensure that so far as it is reasonably practical resources are available in order to manage risk.

Principal risks that threaten the achievement of the Trust's strategic objectives are managed proactively and identified from existing risk management arrangements through the Trust Risk Management sub-committees chaired by the Executive Directors. The Trust identifies through these sub-committees' organisational risks for the Risk Management Committee to consider.

- **Internal Audit**

Internal Audit reviews the system of internal control throughout the year and reports accordingly to the Audit Committee.

6. **Significant Internal Control Issues**

The Trust failed to break-even on its income and expenditure account in 2005/06, reporting a deficit of £26.785m. The Trust has forecast that if this deficit is carried forward and known cost and income trends continue, further substantial deficits would result in future years. Actions that the Trust is taking to remedy the situation include:

- putting in place a Board-approved action plan to strengthen the financial management and governance arrangements of the Trust
- agreeing a financial recovery plan with the Strategic Health Authority to achieve financial balance by the end of 2007/08

Actions taken to formulate the financial recovery plan include:

- a wide-ranging review of the way the Trust works and the services it provides, with external support from PriceWaterhouseCoopers.
- the setting-up of a Turnaround Team, led by an experienced Turnaround Director and supported by dedicated staff. The Team have identified over twenty workstreams for implementation covering the maximisation of income, clinical efficiency, non-clinical efficiency and the alignment of staff to tasks
- a review of the feasibility of accelerating the restructuring of the Trust's services and the best use of current sites and facilities, ahead of the originally planned timescale of the Investing in Your Health strategy

All Strategic risks are reviewed on a continual basis to ensure that there are no gaps in control and/or assurance. Where these occur they are added to the risk register and there are action plans in place to address them.

Signed *David Law* Date: *5/7/06*

David Law
Chief Executive

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2005-6.doc

Independent auditor's report to the Board of West Hertfordshire Hospitals NHS Trust

Opinion on the financial statements

I have audited the financial statements of West Hertfordshire Hospitals NHS Trust for the year ended 31 March 2006 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes, excluding Note 22.1. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out within them.

This report is made solely to the Board of West Hertfordshire Hospitals NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of directors and auditor

The directors' responsibilities for preparing the financial statements in accordance with directions made by the Secretary of State are set out in the Statement of Directors' Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

I review whether the directors' statement on internal control reflects compliance with the Department of Health's requirements, 'The Statement of Internal Control 2003/04' issued on 15 September 2003 (re-issued on 7 April 2006) and further guidance on 7 April 2006. I report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the directors' statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2006 and of its income and expenditure for the year then ended; and
- the part of the Remuneration Report to be audited has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.



Rob Murray
Engagement Lead
Officer of the Audit Commission
1st Floor Sheffield House
Lytton Way
Off Gates Way
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SG1 3HG

10th July 2006

FOREWORD TO THE ACCOUNTS

WEST HERTFORDSHIRE HOSPITALS NHS TRUST

These accounts for the year ended 31 March 2006 have been prepared by the West Hertfordshire Hospitals NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form which the Secretary of State has, with the approval of the Treasury, directed.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2006

| | NOTE | 2005/06 £000 | 2004/05 £000 |
|---|------|------------------------|-----------------------|
| Income from activities | 2 | 174,664 | 197,347 |
| Other operating income | 3 | 34,535 | 39,359 |
| Operating expenses | 4-5 | <u>(227,496)</u> | <u>(240,951)</u> |
| OPERATING DEFICIT | | (18,297) | (4,245) |
| Loss on disposal of fixed assets | 7 | <u>(389)</u> | <u>(4)</u> |
| DEFICIT BEFORE INTEREST | | (18,686) | (4,249) |
| Interest receivable | | 578 | 633 |
| Interest payable | 8 | (33) | 0 |
| Other finance costs - unwinding of discount | 15 | (131) | (189) |
| Other finance costs - change in discount rate on provisions | 15 | <u>(667)</u> | <u>0</u> |
| DEFICIT FOR THE FINANCIAL YEAR | | (18,939) | (3,805) |
| Public Dividend Capital dividends payable | | <u>(7,846)</u> | <u>(6,173)</u> |
| RETAINED DEFICIT FOR THE YEAR | | <u><u>(26,785)</u></u> | <u><u>(9,978)</u></u> |

All income and expenditure is derived from continuing operations.

The notes on pages 7 to 34 form part of these accounts.

NOTE TO THE INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 March 2006

| | 31 March 2006 £000 | 31 March 2005 £000 |
|---|-----------------------------------|-----------------------------------|
| Retained deficit for the year | (26,785) | (9,978) |
| Financial support included in retained deficit for the year - NHS Bank | 0 | 0 |
| Financial support included in retained deficit for the year - Internally Generated | 0 | 0 |
| Retained deficit for the year excluding financial support | <u>(26,785)</u> | <u>(9,978)</u> |

The retained deficit for the year is after a reduction in income made under the NHS Resource Accounting Budget (RAB) which requires a deficit taken from one year to be recovered from the following year's income. An alternative comparison of year-on-year performance is as follows:-

| | 31 March 2006 £000 | 31 March 2005 £000 |
|---|-----------------------------------|-----------------------------------|
| Retained deficit for the year | (26,785) | (9,978) |
| Reduced income from prior year deficit (as per draft accounts) | 10,512 | 519 |
| Comparative deficit for the year | <u>(16,273)</u> | <u>(9,459)</u> |

**BALANCE SHEET AS AT
31 March 2006**

| | NOTE | 31 March 2006 £000 | 31 March 2005 £000 |
|--|------|--------------------------|--------------------------|
| FIXED ASSETS | | | |
| Intangible assets | 9 | 602 | 136 |
| Tangible assets | 10 | 223,517 | 221,152 |
| | | <u>224,119</u> | <u>221,288</u> |
| CURRENT ASSETS | | | |
| Stocks | 11 | 3,189 | 3,321 |
| Debtors | 12 | 16,633 | 19,339 |
| Cash at bank and in hand | 17.3 | 227 | 256 |
| | | <u>20,049</u> | <u>22,916</u> |
| CREDITORS: Amounts falling due within one year | 14 | <u>(32,424)</u> | <u>(28,967)</u> |
| NET CURRENT LIABILITIES | | (12,375) | (6,051) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | <u>211,744</u> | <u>215,237</u> |
| CREDITORS: Amounts falling due after more than one year | 14 | (7) | (32) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 15 | (9,200) | (7,178) |
| TOTAL ASSETS EMPLOYED | | <u>202,537</u> | <u>208,027</u> |
| FINANCED BY: | | | |
| TAXPAYERS' EQUITY | | | |
| Public dividend capital | 21 | 152,547 | 137,648 |
| Revaluation reserve | 16 | 85,290 | 79,184 |
| Donated asset reserve | 16 | 2,021 | 2,636 |
| Income and expenditure reserve | 16 | (37,321) | (11,441) |
| TOTAL TAXPAYERS EQUITY | | <u>202,537</u> | <u>208,027</u> |

Signed: David Law (Chief Executive)

Date: 5/7/06

Signed: C5M (Director of Finance)

Date: 5/7/06

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 March 2006**

| | 2005/06 £000 | 2004/05 £000 |
|--|-------------------------|---------------------|
| Deficit for the financial year before dividend payments | (18,939) | (3,805) |
| Fixed asset impairment losses | 0 | (1,954) |
| Unrealised surplus on fixed asset revaluations/indexation | 7,063 | 58,278 |
| Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets | 25 | 324 |
| | <hr/> | <hr/> |
| Total recognised gains and losses for the financial year | (11,851) | 52,843 |
| Prior period adjustment | 0 | (4,133) |
| Total gains and losses recognised in the financial year | <hr/> <u>(11,851)</u> | <hr/> <u>48,710</u> |

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2006

| | NOTE | 2005/06 £000 | 2004/05 £000 |
|--|------|-----------------|-----------------|
| OPERATING ACTIVITIES | | | |
| Net cash inflow/(outflow) from operating activities | 17.1 | (4,535) | 8,844 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE: | | | |
| Interest received | | 567 | 649 |
| Interest paid | | <u>(1)</u> | <u>0</u> |
| Net cash inflow from returns on investments and servicing of finance | | 566 | 649 |
| CAPITAL EXPENDITURE | | | |
| Payments to acquire tangible fixed assets | | (7,180) | (9,948) |
| Receipts from sale of tangible fixed assets | | <u>4,096</u> | <u>4,547</u> |
| Net cash outflow from capital expenditure | | (3,084) | (5,401) |
| DIVIDENDS PAID | | | |
| | | (7,846) | (6,173) |
| Net cash outflow before financing | | <u>(14,899)</u> | <u>(2,081)</u> |
| FINANCING | | | |
| Public dividend capital received | | 14,899 | 2,081 |
| Public dividend capital repaid (not previously accrued) | | <u>0</u> | <u>0</u> |
| Net cash inflow from financing | | <u>14,899</u> | <u>2,081</u> |
| Increase/(decrease) in cash | | <u><u>0</u></u> | <u><u>0</u></u> |

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The Secretary of State for Health has directed that the financial statements of NHS Trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2005/06 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Resource Accounting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the business by reference to their current costs. NHS Trusts are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

1.2 Acquisitions and Discontinued Operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one public sector body to another.

1.3 Income Recognition

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

1.4 Intangible Fixed Assets

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

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

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

1.5 Tangible Fixed Assets

Capitalisation

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

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost

Expenditure on digital hearing aids in the year ended 31 March 2004 (but not in earlier years) was treated as capital expenditure, in accordance with the amendment to the Capital Accounting Manual issued in July 2003, giving rise to an increase in fixed assets regardless of the cost of the individual hearing aids. Subsequent purchases of digital hearing aids are capitalised only when the total value is greater than £5,000. Where small numbers of appliances are purchased the costs are expensed as incurred.

Valuation

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

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

Professional valuations are carried out by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied on the 31 March 2005.

The valuations are carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. The value of land for existing use purposes is assessed at Existing Use Value. For non-operational properties including surplus land, the valuations are carried out at Open Market Value.

Additional alternative Open Market Value figures have only been supplied for operational assets once they have been taken out of operational use and subsequently disposed of.

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Assets in the course of construction are valued at current cost using the indices as for land and buildings, as above. These assets include any existing land or buildings under the control of a contractor.

The Trust has no residual interests in off-balance sheet Private Finance Initiative Properties.

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

Depreciation, Amortisation and Impairments

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

Assets in the course of construction are not depreciated until the asset is brought into use.

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

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

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

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

1.6 Donated Fixed Assets

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

1.7 Government Grants

The Trust has received no Government Grants.

1.8 Private Finance Initiative (PFI) Transactions

The Trust has no current PFI contracts.

1.9 Pooled Budgets

The Trust has no Pooled Budget Projects.

1.10 Stocks

Stocks are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks.

1.11 Research and Development

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

- there is a clearly defined project;
- the related expenditure is separately identifiable;
- the outcome of the project has been assessed with reasonable certainty as to:
 - its technical feasibility;
 - its resulting in a product or service which will eventually be brought into use;
- adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. The Trust is unable to disclose the total amount of research and development expenditure charged in the income and expenditure account because some research and development activity cannot be separated from patient care activity.

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

1.12 Provisions

General

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms. This is a change from the rate of 3.5% in 2004/05 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 15.

Clinical Negligence Costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at Note 15.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2005/06 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

Non-clinical Risk Pooling

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

1.13 Pension Costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the Trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2005/06 was £12,700,387 (2004/05: £13,307,844).

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employers contribution rates. This valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at www.nhs.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employers' contributions be set at 14% of pensionable pay from 1 April 2004. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

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

1.14 Liquid Resources

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

1.15 Value Added Tax

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

1.16 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the Income and Expenditure account.

1.17 Third Party Assets

Assets belonging to third parties, such as money held on behalf of Patients, are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 25 to the accounts.

1.18 Investments

The Trust has no fixed or current asset investments.

1.19 Employee Benefits

The Trust has no non-pay benefits which are not attributable to individual employees, e.g. group membership of a club.

1.20 Segmental Analysis

The Trust does not have more than one business segment, therefore the provisions of SSAP25 do not apply.

1.21 Leases

The Trust has no Finance Leases. Operating leases and the rentals are charged to the Income and Expenditure account.

1.22 Public Dividend Capital (PDC) and PDC Dividend

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

A charge, reflecting the forecast cost of capital utilised by the Trust, is paid over as a public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. The rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities (Capital Cost Absorption Rate) is shown in Note 22.2 to the accounts.

1.23 Losses and Special Payments

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

Losses and Special Payments are charged to the relevant functional headings in the Income and Expenditure account on an accruals basis. Note 27 to the accounts is compiled directly from the Losses and Compensations Register which is prepared on a cash basis.

2. Income from Activities

| | 2005/06 | 2004/05 |
|--------------------------------------|----------------|----------------|
| | £000 | £000 |
| Primary Care Trusts | 162,485 | 192,174 |
| Local Authorities | 112 | 342 |
| Department of Health | 8,560 | 0 |
| Non NHS: | | |
| - Private Patients | 2,192 | 3,485 |
| - Overseas patients (non-reciprocal) | 418 | 238 |
| - Road Traffic Act | 868 | 1,059 |
| - Other | 29 | 49 |
| | 174,664 | 197,347 |

As a consequence of the introduction of Payment by Results, income is now received from the Department of Health in respect of Market Forces Factor and Transitional Relief.

Road Traffic Act income is subject to a provision for doubtful debts of 10.6% to reflect expected rates of collection.

3. Other Operating Income

| | 2005/06 | 2004/05 |
|---|---------------|---------------|
| | £000 | £000 |
| Education, training and research | 9,764 | 13,952 |
| Charitable and other contributions to expenditure | 15 | 606 |
| Transfers from donated asset reserve | 692 | 548 |
| Income Generation | 3,066 | 3,330 |
| Other income | 20,998 | 20,923 |
| | 34,535 | 39,359 |

Income Generation comprises income from the Pharmaceutical Packaging Assembly Service of £1,562k, staff accommodation £454k, Bishopswood Hospital £295k, car parking income £630k and other income generation of £125k.

Other income comprises Estates services of £491k, services provided to other Hertfordshire Trusts £10,660k, services provided to other NHS bodies £3,532k, and miscellaneous income £6,315k.

With effect from 1st April 2005, the management of Cancer Services at the Mount Vernon Hospital transferred to the East & North Hertfordshire NHS Trust. Income relating to these services in 2004/05 was £20,929k and included under various headings under both Income from Activities and Other Operating Income.

4. Operating Expenses

4.1 Operating expenses comprise:

| | 2005/06 | 2004/05 |
|---|----------------|----------------|
| | £000 | £000 |
| Services from other NHS Trusts | 6,198 | 7,679 |
| Services from other NHS bodies | 49 | 54 |
| Purchase of healthcare from non NHS bodies | 0 | 57 |
| Directors' costs | 682 | 739 |
| Staff costs | 145,802 | 153,587 |
| Supplies and services - clinical | 30,973 | 34,659 |
| Supplies and services - general | 7,379 | 7,036 |
| Establishment | 4,209 | 4,875 |
| Transport | 44 | 47 |
| Premises | 13,753 | 12,086 |
| Bad debts provision | 203 | 85 |
| Depreciation and amortisation | 8,451 | 8,025 |
| Fixed asset impairments and reversals | 0 | 293 |
| Audit fees | 241 | 222 |
| Clinical negligence (insurance contribution to NHSLA) | 4,048 | 4,114 |
| Other | 5,464 | 7,393 |
| | <u>227,496</u> | <u>240,951</u> |

Directors' costs above exclude non-voting directors who are included in staff costs.

With effect from 1st April 2005, the management of Cancer Services at the Mount Vernon Hospital transferred to the East & North Hertfordshire NHS Trust. Expenditure relating to these services in 2004/05 was £22,201k and included under various headings above.

4.2 Operating Leases

4.2/1 Operating expenses include:

| | 2005/06 £000 | 2004/05 £000 |
|-------------------------|-----------------|-----------------|
| Operating lease rentals | 1,178 | 1,172 |
| | <u>1,178</u> | <u>1,172</u> |

4.2/2 Annual commitments under non - cancellable operating leases are:

| | Land and buildings | | Other leases | |
|--------------------------------|--------------------|-----------------|-----------------|-----------------|
| | 2005/06 £000 | 2004/05 £000 | 2005/06 £000 | 2004/05 £000 |
| Operating leases which expire: | | | | |
| Within 1 year | 0 | 0 | 220 | 174 |
| Between 1 and 5 years | 0 | 0 | 649 | 732 |
| After 5 years | 27 | 27 | 176 | 713 |
| | <u>27</u> | <u>27</u> | <u>1,045</u> | <u>1,619</u> |

5. Staff Costs and Numbers

5.1 Staff costs

| | 2005/06 | | | 2004/05 |
|---------------------------------|----------------|-------------------------|--------------|----------------|
| | Total | Permanently Employed | Other | |
| | £000 | £000 | £000 | £000 |
| Salaries and wages | 124,500 | 115,239 | 9,261 | 131,238 |
| Social Security Costs | 9,252 | 9,252 | 0 | 9,742 |
| Employer contributions to NHSPA | 12,681 | 12,681 | 0 | 13,290 |
| Other pension costs | 0 | 0 | 0 | 0 |
| | 146,433 | 137,172 | 9,261 | 154,270 |

Staff costs above exclude non-executive directors.

The above figures exclude capitalised staff costs totalling £174k (2004/05: £232k).

"Other" staff costs relate to agency staff (2004/05: £11,777k).

5.2 Average number of persons employed

| | 2005/06 | | | 2004/05 |
|---|--------------|-------------------------|------------|--------------|
| | Total | Permanently Employed | Other | |
| | Number | Number | Number | Number |
| Medical and dental | 507 | 472 | 35 | 537 |
| Administration and estates | 1,013 | 954 | 59 | 1,107 |
| Healthcare assistants and other support staff | 570 | 570 | 0 | 541 |
| Nursing, midwifery and health visiting staff | 1,297 | 1,146 | 151 | 1,418 |
| Nursing, midwifery and health visiting learners | 5 | 5 | 0 | 6 |
| Scientific, therapeutic and technical staff | 465 | 416 | 49 | 653 |
| Other | 9 | 3 | 6 | 22 |
| Total | 3,866 | 3,566 | 300 | 4,284 |

The NHS Manual for Accounts requires staff numbers to be calculated as an average of each weekly establishment. The Trust calculates its staff numbers as an average of each monthly establishment.

5.3 Management costs

| | 2005/06 £000 | 2004/05 £000 |
|--|-----------------|-----------------|
| Management costs | 10,009 | 10,231 |
| Income | 209,199 | 236,706 |
| Percentage of Management Costs to turnover | 4.81% | 4.36% |

Management costs are defined as those on the management costs website at www.dh.gov.uk/PolicyAndGuidance/OrganisationPolicy/FinanceAndPlanning/NHSManagementCosts/fs/en..

5.4 Retirements due to ill-health

During 2005/06 there were 7 (2004/05: 7) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £194k (2004/05: £348k). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.

6. Better Payment Practice Code**6.1 Better Payment Practice Code - measure of compliance**

| | 2005/06 Number | 2005/06 £000 |
|---|-------------------|-----------------|
| Total Non-NHS trade invoices paid in the year | 76,129 | 64,942 |
| Total Non NHS trade invoices paid within target | 23,523 | 20,144 |
| Percentage of Non-NHS trade invoices paid within target | 31% | 31% |
| Total NHS trade invoices paid in the year | 2,890 | 16,567 |
| Total NHS trade invoices paid within target | 395 | 4,616 |
| Percentage of NHS trade invoices paid within target | 14% | 28% |

The Better Payment Practice Code requires the Trust to aim to pay all undisputed invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later. During 2005/06 the Trust extended creditor payment terms to assist in the management of cash flows which were negatively affected by the Income and Expenditure account deficit.

6.2 The Late Payment of Commercial Debts (Interest) Act 1998

| | 2005/06 £000 | 2004/05 £000 |
|---|-----------------|-----------------|
| Amounts included within Interest Payable (Note 8) arising from claims made under this legislation | 33 | 0 |

7. Profit/(Loss) on Disposal of Fixed Assets

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

| | 2005/06 £000 | 2004/05 £000 |
|--|-----------------|-----------------|
| Profits on disposal of plant and equipment | 0 | 0 |
| Loss on disposal of plant and equipment | (389) | (4) |
| | <u>(389)</u> | <u>(4)</u> |

8. Interest Payable

| | 2005/06 £000 | 2004/05 £000 |
|----------------------------------|-----------------|-----------------|
| Late payment of commercial debts | 33 | 0 |
| | <u>33</u> | <u>0</u> |

Of the above figure, £33k relates to interest payable due on delayed payments to a capital contractor, as contractually agreed by both parties following legal and audit approval.

9. Intangible Fixed Assets

| | Software Licences £000 | Licenses and trademarks £000 | Patents £000 | Development Expenditure £000 | Total £000 |
|---------------------------------------|------------------------------|------------------------------------|-----------------|------------------------------------|---------------|
| Gross cost at 1 April 2005 | 229 | 0 | 0 | 0 | 229 |
| Indexation | 0 | 0 | 0 | 0 | 0 |
| Impairments | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 550 | 0 | 0 | 0 | 550 |
| Other revaluation | 0 | 0 | 0 | 0 | 0 |
| Additions purchased | 0 | 0 | 0 | 0 | 0 |
| Additions donated | 0 | 0 | 0 | 0 | 0 |
| Additions government granted | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Gross cost at 31 March 2006 | 779 | 0 | 0 | 0 | 779 |
| Amortisation at 1 April 2005 | 93 | 0 | 0 | 0 | 93 |
| Indexation | 0 | 0 | 0 | 0 | 0 |
| Impairments | 0 | 0 | 0 | 0 | 0 |
| Reversal of impairments | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 |
| Other revaluation | 0 | 0 | 0 | 0 | 0 |
| Charged during the year | 84 | 0 | 0 | 0 | 84 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Amortisation at 31 March 2006 | 177 | 0 | 0 | 0 | 177 |
| Net book value | | | | | |
| - Purchased at 1 April 2005 | 136 | 0 | 0 | 0 | 136 |
| - Donated at 1 April 2005 | 0 | 0 | 0 | 0 | 0 |
| - Government Granted at 1 April 2005 | 0 | 0 | 0 | 0 | 0 |
| - Total at 1 April 2005 | 136 | 0 | 0 | 0 | 136 |
| - Purchased at 31 March 2006 | 602 | 0 | 0 | 0 | 602 |
| - Donated at 31 March 2006 | 0 | 0 | 0 | 0 | 0 |
| - Government Granted at 31 March 2006 | 0 | 0 | 0 | 0 | 0 |
| - Total at 31 March 2006 | 602 | 0 | 0 | 0 | 602 |

10. Tangible Fixed Assets**10.1 Tangible fixed assets at the balance sheet date comprise the following elements:**

| | Land | Buildings excluding dwellings | Dwellings | Assets under construction and payments on account | Plant and Machinery | Transport Equipment | Information Technology | Furniture & fittings | Total |
|---|---------------|-------------------------------------|---------------|--|------------------------|------------------------|---------------------------|-------------------------|----------------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation at 1 April 2005 | 83,088 | 107,264 | 10,361 | 7,516 | 22,377 | 225 | 5,730 | 3,546 | 240,107 |
| Additions purchased | 0 | 0 | 0 | 8,680 | 0 | 0 | 0 | 0 | 8,680 |
| Additions donated | 0 | 0 | 0 | 17 | 8 | 0 | 0 | 0 | 25 |
| Additions government granted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 1,997 | 6 | (5,645) | 900 | 0 | 1,731 | 461 | (550) |
| Indexation | 4,154 | 1,969 | 190 | 97 | 473 | 5 | 0 | 57 | 6,945 |
| Other in year revaluation | 500 | 8 | 34 | 0 | 0 | 0 | 0 | (104) | 438 |
| Disposals | (1,010) | 0 | (1,024) | (2,131) | (4,779) | (52) | (472) | 0 | (9,468) |
| Cost or Valuation at 31 March 2006 | 86,732 | 111,238 | 9,567 | 8,534 | 18,979 | 178 | 6,989 | 3,960 | 246,177 |
| Depreciation at 1 April 2005 | 0 | 0 | 0 | 0 | 14,771 | 146 | 3,422 | 616 | 18,955 |
| Charged during the year | 0 | 5,267 | 302 | 0 | 1,670 | 28 | 838 | 262 | 8,367 |
| Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reversal of Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Indexation | 0 | 5 | 0 | 0 | 312 | 3 | 0 | 0 | 320 |
| Other in year revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | (13) | 0 | (4,489) | (49) | (421) | 0 | (4,982) |
| Depreciation at 31 March 2006 | 0 | 5,272 | 289 | 0 | 12,254 | 128 | 3,839 | 878 | 22,660 |
| Net book value | | | | | | | | | |
| - Purchased at 1 April 2005 | 83,088 | 106,254 | 10,361 | 7,231 | 6,308 | 46 | 2,306 | 2,923 | 218,517 |
| - Donated at 1 April 2005 | 0 | 1,010 | 0 | 285 | 1,298 | 33 | 2 | 7 | 2,635 |
| - Government Granted at 1 April 2005 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total at 1 April 2005 | 83,088 | 107,264 | 10,361 | 7,516 | 7,606 | 79 | 2,308 | 2,930 | 221,152 |
| - Purchased at 31 March 2006 | 86,732 | 105,215 | 9,278 | 8,516 | 5,722 | 23 | 3,139 | 2,871 | 221,496 |
| - Donated at 31 March 2006 | 0 | 751 | 0 | 18 | 1,003 | 27 | 11 | 211 | 2,021 |
| - Government Granted at 31 March 2006 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| - Total at 31 March 2006 | 86,732 | 105,966 | 9,278 | 8,534 | 6,725 | 50 | 3,150 | 3,082 | 223,517 |

Disposals include transfers to the East & North Herts NHS Trust (£ 2,018k) and the Hillingdon NHS Trust (£444k) relating to the changes in management responsibilities at the Mount Vernon Hospital.

Of the totals at 31 March 2006, £716k related to land valued at open market value.

The Trust has no assets held under finance leases or hire purchase contracts.

10.2 The net book value of land, buildings and dwellings at 31 March 2006 comprises:

| | 31 March 2006 £000 | 31 March 2005 £000 |
|--------------|-----------------------|-----------------------|
| Freehold | 201,976 | 200,713 |
| TOTAL | 201,976 | 200,713 |

11. Stocks

| | 31 March 2006 £000 | 31 March 2005 £000 |
|-------------------------------|-----------------------|-----------------------|
| Raw materials and consumables | 3,189 | 3,321 |
| TOTAL | 3,189 | 3,321 |

12. Debtors

| | 31 March 2006 £000 | 31 March 2005 £000 |
|--|-----------------------|-----------------------|
| Amounts falling due within one year: | | |
| NHS debtors | 10,206 | 12,994 |
| Provision for irrecoverable debts | (376) | (199) |
| Other prepayments and accrued income | 2,353 | 2,546 |
| Other debtors | 3,608 | 3,031 |
| Sub Total | 15,791 | 18,372 |
| Amounts falling due after more than one year: | | |
| NHS debtors | 387 | 374 |
| Other debtors | 455 | 593 |
| Sub Total | 842 | 967 |
| TOTAL | 16,633 | 19,339 |

NHS Debtors falling due after more than one year of £387k (2004/05: £374k) relate to back-to-back debtors for payments made in respect of early retirements and injury benefit claims, primarily with the Watford and Three Rivers Primary Care Trust.

Other Debtors falling due after more than one year of £455k (2004/05: £593k) relate to Road Traffic Accident cases.

13. Investments**13.1 Fixed Asset Investments**

The Trust has no Fixed Asset Investments.

13.2 Current Asset Investments

The Trust has no Current Asset Investments.

14. Creditors

14.1 Creditors at the balance sheet date comprise:

| | 31 March 2006 £000 | 31 March 2005 £000 |
|---|-----------------------|-----------------------|
| Amounts falling due within one year: | | |
| Bank overdrafts | 227 | 256 |
| Current instalments due on loans | 0 | 2,372 |
| Interest payable | 32 | 0 |
| NHS creditors | 10,345 | 5,928 |
| Non - NHS trade creditors - revenue | 3,827 | 2,827 |
| Non - NHS trade creditors - capital | 3,001 | 1,501 |
| Tax and social security costs | 3,582 | 2,642 |
| Other creditors | 2,593 | 4,860 |
| Accruals and deferred income | 8,817 | 8,581 |
| Sub Total | 32,424 | 28,967 |

Amounts falling due after more than one year:

| | | |
|------------------|---------------|---------------|
| NHS creditors | 7 | 32 |
| Sub Total | 7 | 32 |
| TOTAL | 32,431 | 28,999 |

14.2 Loans and other long-term financial liabilities

| | 31 March 2006 £000 | 31 March 2005 £000 |
|-----------------------------|-----------------------|-----------------------|
| Amounts falling due: | | |
| In one year or less | 0 | 2,372 |
| TOTAL | 0 | 2,372 |

| | 31 March 2006 £000 | 31 March 2005 £000 |
|------------------------------------|-----------------------|-----------------------|
| Wholly repayable within five years | 0 | 2,372 |
| TOTAL | 0 | 2,372 |

14.3 Finance lease obligations

The Trust has no Finance Lease obligations.

14.4 Finance Lease Commitments

The Trust has no Finance Lease commitments.

15. Provisions for liabilities and charges

| | Pensions relating to former directors £000 | Pensions relating to other staff £000 | Legal claims £000 | Restructurings £000 | Other £000 | Total £000 |
|--------------------------|---|--|----------------------|------------------------|---------------|---------------|
| At 1 April 2005 | 0 | 5,364 | 0 | 0 | 1,814 | 7,178 |
| Change in discount rate | 0 | 607 | 0 | 0 | 60 | 667 |
| Arising during the year | 0 | 1,390 | 0 | 0 | 1,581 | 2,971 |
| Utilised during the year | 0 | (590) | 0 | 0 | (1,157) | (1,747) |
| Unwinding of discount | 0 | 119 | 0 | 0 | 12 | 131 |
| At 31 March 2006 | 0 | 6,890 | 0 | 0 | 2,310 | 9,200 |

Expected timing of cashflows:

| | | | | | | |
|----------------------------|---|-------|---|---|-------|-------|
| Within one year | 0 | 605 | 0 | 0 | 1,863 | 2,468 |
| Between one and five years | 0 | 3,258 | 0 | 0 | 211 | 3,469 |
| After five years | 0 | 3,027 | 0 | 0 | 236 | 3,263 |

Pension provisions for early retirements are calculated for the full term and then discounted down to current values. Each year this discount is unwound resulting in a charge to the Income and Expenditure account. In 2005/06 the Treasury discount rate used changed to 2.2% (2004/05: 3.5%), with effect from 1st April 2005.

The column headed "Other" refers to the following:

- (i) £565k (2004/05: £365k) injury benefit claims. The expected timing of cashflows is based upon information provided by the NHS Litigation Authority, and will be dependant upon the actual settlement of outstanding cases.
- (ii) £1,745k (2004/05: £1,449k) back-pay (to 1st October 2004) for staff currently being assimilated under the NHS salary review, Agenda for Change. The expected timing of cashflows is based upon information currently to hand but could be subject to minor variations.

£22,403k is included in the provisions of the NHS Litigation Authority at 31 March 2006 in respect of clinical negligence liabilities of the Trust (31 March 2005 £12,350k).

16. Movements on Reserves

Movements on reserves in the year comprised the following:

| | Revaluation Reserve £000 | Donated Asset Reserve £000 | Government Grant Reserve £000 | Other Reserves £000 | Income and Expenditure Reserve £000 | Total £000 |
|---|--------------------------------|-------------------------------------|--|---------------------------|--|---------------|
| At 1 April 2005 | 79,184 | 2,636 | 0 | 0 | (11,441) | 70,379 |
| Transfer from the income and expenditure account | 0 | 0 | 0 | 0 | (26,785) | (26,785) |
| Surplus on other revaluations/indexation of fixed assets | 7,011 | 52 | 0 | 0 | 0 | 7,063 |
| Transfer of realised profits (losses) to the Income and Expenditure | (686) | 0 | 0 | 0 | 686 | |
| Receipt of donated assets | 0 | 25 | 0 | 0 | 0 | 25 |
| Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated/government granted assets | 0 | (692) | 0 | 0 | 0 | (692) |
| Other transfers between reserves | (219) | 0 | 0 | 0 | 219 | 0 |
| At 31 March 2006 | <u>85,290</u> | <u>2,021</u> | <u>0</u> | <u>0</u> | <u>(37,321)</u> | <u>49,990</u> |

17. Notes to the Cash Flow Statement**17.1 Reconciliation of operating deficit to net cash flow from operating activities:**

| | 2005/06 | 2004/05 |
|---|----------------|----------------|
| | £000 | £000 |
| Total operating deficit | (18,297) | (4,245) |
| Depreciation and amortisation charge | 8,451 | 8,025 |
| Fixed asset impairments and reversals | 0 | 293 |
| Transfer from donated asset reserve | (692) | (548) |
| (Increase)/decrease in stocks | 132 | (566) |
| (Increase)/decrease in debtors | 2,718 | (424) |
| Increase in creditors | 1,929 | 7,500 |
| Increase/(decrease) in provisions | 1,224 | (1,191) |
| Net cash inflow/(outflow) from operating activities | (4,535) | 8,844 |

17.2 Reconciliation of net cash flow to movement in net debt

| | 2005/06 | 2004/05 |
|--|----------------|----------------|
| | £000 | £000 |
| Increase/(decrease) in cash in the period | 0 | 0 |
| Cash inflow from new debt | 0 | 0 |
| Cash outflow from debt repaid and finance lease capital payments | 0 | 0 |
| Cash (inflow)/outflow from (decrease)/increase in liquid resources | 0 | 0 |
| Change in net debt resulting from cashflows | 0 | 0 |
| Non - cash changes in debt | 2,372 | 1,761 |
| Net debt at 1 April 2005 | (2,372) | (4,133) |
| Net debt at 31 March 2005 | 0 | (2,372) |

17.3 Analysis of changes in net debt

| | At 1 April 2005 | Cash Transferred (to)/from other NHS bodies | Other cash changes in year | Non-cash changes in year | At 31 March 2006 |
|-------------------------------------|-----------------|---|-------------------------------|-----------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 |
| OPG cash at bank | 0 | 0 | 100 | 0 | 100 |
| Commercial cash at bank and in hand | 256 | 0 | (129) | 0 | 127 |
| Bank overdraft | (256) | 0 | 29 | 0 | (227) |
| Debt due within one year | (2,372) | 0 | 0 | 2,372 | 0 |
| | <u>(2,372)</u> | <u>0</u> | <u>0</u> | <u>2,372</u> | <u>0</u> |

18. Capital Commitments

Commitments under capital expenditure contracts at 31 March 2006 were £5,154k (31 March 2005: £3,374k)

19. Post Balance Sheet Events

The Trust is not aware of any Post Balance Sheet events that will materially effect its day-to-day operations or have a material financial effect.

20. Contingencies

| | 2005/06 £000 | 2004/05 £000 |
|--------------------------------------|-----------------|-----------------|
| Contingent liabilities (gross value) | (133) | (61) |
| Net value of contingent liabilities | <u>(133)</u> | <u>(61)</u> |

The Trust has contingent liabilities of £73k (2004/05: £61k) relating to staff injury and public liability claims. These have been calculated by the NHS Litigation Authority using probability factors.

During 2005/06 executive responsibilities were removed from a Board director. The Trust is currently negotiating the terms under which the employment contract of the director will be terminated. The Trust has made a firm offer of c£60k.

21. Movement in Public Dividend Capital

| | 2005/06 £000 | 2004/05 £000 |
|--|-----------------|-----------------|
| Public Dividend Capital as at 1 April 2005 | 137,648 | 135,567 |
| New Public Dividend Capital received (including transfers from dissolved NHS Trusts) | 14,899 | 2,081 |
| Public Dividend Capital repaid in year | 0 | 0 |
| Public Dividend Capital as at 31 March 2006 | <u>152,547</u> | <u>137,648</u> |

22. Financial Performance Targets

22.1 Breakeven Performance

The Trust's breakeven performance for 2005/06 is as follows:

| | 1997/98 | 1998/99 | 1999/2000 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 |
|--|---------|---------|-----------|---------|----------|---------|---------|----------|----------|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Turnover | 0 | 0 | 0 | 163,440 | 173,576 | 210,257 | 215,098 | 236,706 | 209,199 |
| Retained surplus/(deficit) for the year | 0 | 0 | 0 | 17 | (11,487) | 11,668 | (4,652) | (9,978) | (26,785) |
| Break-even in-year position | 0 | 0 | 0 | 17 | (11,487) | 11,668 | (4,652) | (9,978) | (26,785) |
| Break-even cumulative position | 0 | 0 | 0 | 17 | (11,470) | 198 | (4,454) | (14,432) | (41,217) |
| The Trust's recovery plan, approved by the Bedfordshire & Hertfordshire Strategic Health Authority, aims to achieve break-even in 2007/08. (see note Materiality test (i.e. is it equal to or less than 0.5%): | | | | | | | | | |
| - Break-even in-year position as a percentage of turnover | 0.00% | 0.00% | 0.00% | 0.01% | (6.62%) | 5.55% | (2.16%) | (4.22%) | (12.80%) |
| - Break-even cumulative position as a percentage of turnover | 0.00% | 0.00% | 0.00% | 0.01% | (6.61%) | 0.09% | (2.07%) | (6.10%) | (19.70%) |
| | | | | | | | | | 2008 |

The Trust working with advisors Price Waterhouse Coopers, local commissioners and the Bedfordshire and Hertfordshire Strategic Health Authority (SHA) has developed a Turnaround Plan for 2006/07 and agreed an overspend control total with the SHA of £12m for 2006/07. On 8th June 2006 the Trust presented options for major service re-configuration to the Hertfordshire County Council Overview and Scrutiny Committee in order to obtain their permission to commence a consultation process with the public and other stakeholders. This permission was granted.

The Trust and the SHA believe that service re-configuration is the only opportunity to bring the Trust back into recurring financial balance. This will require the provision of additional capital funds in order to re-provide facilities on the chosen site. Due to consultation timescales and construction times it will be 2008 before the Trust will be in a position to deliver in-year financial balance.

22.2 Capital Cost Absorption Rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £7,846k, bears to the average relevant net assets of £202,904k, that is 3.9%. The 3.9% is within the Department of Health's materiality range of 3.00% to 4.00%.

22.3 External Financing

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

| | 2005/06 £000 | 2004/05 £000 |
|--------------------------------|-----------------|-----------------|
| External financing limit | 14,899 | 2,081 |
| Cash flow financing | 14,899 | 2,081 |
| External financing requirement | <u>14,899</u> | <u>2,081</u> |
| Undershoot/(Overshoot) | <u>0</u> | <u>0</u> |

22.4 Capital Resource Limit

The Trust is given a Capital Resource Limit which it is not permitted to overspend

| | 2005/06 £000 | 2004/05 £000 |
|---|-----------------|-----------------|
| Gross capital expenditure | 8,705 | 10,048 |
| Less: book value of assets disposed of | (4,488) | (4,551) |
| Plus: loss on disposal of donated assets | 0 | 0 |
| Less: donations towards the acquisition of fixed assets | (25) | (324) |
| Charge against the CRL | <u>4,192</u> | <u>5,173</u> |
| Capital resource limit | 7,784 | 11,435 |
| Underspend against the CRL | <u>3,592</u> | <u>6,262</u> |

The underspend against CRL was mainly due to capital projects only partially completed by 31st March 2006.

23. Related Party Transactions

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

During the year the following Board Member or party related to him have undertaken material transactions with West Hertfordshire Hospitals NHS Trust.

| | Payments to Related Party | Receipts from Related Party | Amounts owed to Related Party | Amounts due from Related Party |
|--|------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| | £ | £ | £ | £ |
| 2005/06 | | | | |
| <u>NON-EXECUTIVE DIRECTOR</u> | | | | |
| MARTIN SAUNDERS - HERTS COUNTY COUNCIL | 6,153 | 293,170 | 0 | 0 |
| | <u>6,153</u> | <u>293,170</u> | <u>0</u> | <u>0</u> |

The Department of Health is regarded as a related party. During the year the Trust has had a significant number of material transactions in excess of one million pounds with the Department and with other entities for which the Department is regarded as the parent. These entities are listed below:

| | Payments to Related Party | Receipts from Related Party | Amounts owed to Related Party | Amounts due from Related Party |
|---|------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| | £ | £ | £ | £ |
| 2005/06 | | | | |
| <u>NHS EXECUTIVE</u> | | | | |
| HEALTH GENERAL CASH | 7,846,000 | 14,899,000 | | |
| <u>TRUSTS</u> | | | | |
| THE HILLINGDON HOSPITAL | 3,127,946 | 5,526,127 | 454,843 | 1,153,201 |
| EAST & NORTH HERTS | | 14,147,814 | | 4,296,549 |
| BEDS & HERTS AMBULANCE | 1,036,399 | | | |
| HERTS PARTNERSHIP | 1,090,182 | 7,761,709 | 176,867 | 643,141 |
| WATFORD & THREE RIVERS PCT | 2,705,980 | 60,747,676 | 1,709,794 | 1,776,494 |
| CHILTERN & SOUTH BUCKS PCT | | 1,807,735 | | |
| DACORUM PCT | | 37,426,676 | 213,713 | 2,008,967 |
| HARROW PCT | | 3,129,362 | 79,107 | 24,559 |
| HERTSMERE PCT | | 10,783,873 | 230 | 67,027 |
| HILLINGDON PCT | | 10,634,246 | | 427,815 |
| ROYSTON, BUNTINGFORD & BISHOP STORTFORD | | 1,337,678 | 11,761 | |
| ST ALBANS & HARPENDEN PCT | | 32,445,367 | 338,001 | 426,688 |
| <u>HEALTH AUTHORITIES</u> | | | | |
| BEDS & HERTS SHA | | 3,628,583 | | 143,923 |
| NATIONAL BLOOD | 2,317,548 | | 6,508 | |
| NHS LOGISTICS | 4,575,062 | | 789,523 | |
| <u>OTHER BODIES</u> | | | | |
| CUSTOMS & EXCISE | | 4,129,839 | | 700,413 |
| NHS PROFESSIONALS | 1,763,953 | | 413,793 | 84,635 |
| INLAND REVENUE | 36,839,735 | | 3,581,766 | |
| NHSPA | 17,212,421 | | 1,878,815 | |
| EASTERN DEANERY | | 7,483,441 | | |
| DEPARTMENT OF HEALTH | | 9,289,464 | | |
| NHS LITIGATION AUTHORITY | 4,481,745 | | 27,629 | |
| | <u>82,996,971</u> | <u>225,178,590</u> | <u>9,682,350</u> | <u>11,753,412</u> |

The Trust has also received revenue and capital payments from a number of charitable funds, the Trustees for which are also members of the NHS Trust Board.

24. Financial Instruments

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

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

Liquidity Risk

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

Interest-Rate Risk

63% of the Trust's financial assets and 99% of its financial liabilities carry nil or fixed rates of interest. The Trust is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities:

24.1 Financial Assets

| Currency | Total £000 | Floating rate £000 | Fixed rate £000 | Non- interest bearing £000 | Fixed rate | | Non-interest bearing Weighted average term Years |
|-------------------------------|---------------|--------------------------|--------------------|-------------------------------------|---|--|--|
| | | | | | Weighted average interest rate % | Weighted average period for which fixed Years | |
| At 31 March 2006 | | | | | | | |
| Sterling | 614 | 227 | 387 | 0 | 0.00% | 6 | 0 |
| Other | 0 | 0 | 0 | 0 | 0.00% | 0 | 0 |
| Gross financial assets | 614 | 227 | 387 | 0 | | | |
| At 31 March 2005 (prior year) | | | | | | | |
| Sterling | 630 | 256 | 374 | 0 | 0.00% | 7 | 0 |
| Other | 0 | 0 | 0 | 0 | 0.00% | 0 | 0 |
| Gross financial assets | 630 | 256 | 374 | 0 | | | |

24.2 Financial Liabilities

| Currency | Total £000 | Floating rate £000 | Fixed rate £000 | Non- interest bearing £000 | Fixed rate | | Non-interest bearing Weighted average term Years |
|------------------------------------|----------------|--------------------------|--------------------|-------------------------------------|---|--|--|
| | | | | | Weighted average interest rate % | Weighted average period for which fixed Years | |
| At 31 March 2006 | | | | | | | |
| Sterling | 161,981 | 227 | 9,207 | 152,547 | 0.00% | 6 | 0 |
| Other | 0 | 0 | 0 | 0 | 0.00% | 0 | 0 |
| Gross financial liabilities | 161,981 | 227 | 9,207 | 152,547 | | | |
| At 31 March 2005 (prior year) | | | | | | | |
| Sterling | 145,281 | 256 | 7,377 | 137,648 | 0.00% | 7 | 0 |
| Other | 0 | 0 | 0 | 0 | 0.00% | 0 | 0 |
| Gross financial liabilities | 145,281 | 256 | 7,377 | 137,648 | | | |

The Trust's non-interest bearing financial liabilities comprise of provisions for early retirement liabilities and Public Dividend Capital.

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

24.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the Trust's financial assets and liabilities as at 31 March 2006.

| | Book Value | Fair Value | Basis of fair valuation |
|---|------------------|------------------|-------------------------|
| | £000 | £000 | |
| Financial assets | | | |
| Cash | 227 | 227 | |
| Debtors over 1 year: | | | |
| - Agreements with commissioners to cover creditors and provisions | 387 | 387 | Note a |
| Total | <u>614</u> | <u>614</u> | |
| Financial liabilities | | | |
| Overdraft | (227) | (227) | |
| Creditors over 1 year: | | | |
| - Early retirements | (7) | (7) | Note b |
| Provisions under contract | (9,200) | (9,200) | Note c |
| Public dividend capital | (152,547) | (152,547) | Note d |
| Total | <u>(161,981)</u> | <u>(161,981)</u> | |

Notes

- a These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with notes b and c, below, fair value is not significantly different from book value.
- b Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.
- c Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.
- d Public Dividend Capital includes £12.1m as short term borrowing to be repaid by the Trust in 2006/07.

25 Third Party Assets

The Trust held £1k cash at bank and in hand at 31 March 2006 (£5k at 31 March 2005) which relates to monies held by the Trust on behalf of patients. This has been excluded from cash at bank and in hand figures reported in the accounts.

26 Intra-Government and Other Balances

| | Debtors: amounts falling due within one year | Debtors: amounts falling due after more than one year | Creditors: amounts falling due within one year | Creditors: amounts falling due after more than one year |
|---|--|--|--|--|
| | £000 | £000 | £000 | £000 |
| Balances with other Central Government Bodies | 6,563 | 387 | 3,976 | 7 |
| Balances with Local Authorities | 47 | 0 | 4 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 3,558 | 0 | 5,158 | 0 |
| Balances with Public Corporations and Trading Funds | 85 | 0 | 1,211 | 0 |
| Balances with bodies external to government | 5,538 | 455 | 22,075 | 0 |
| At 31 March 2006 | <u>15,791</u> | <u>842</u> | <u>32,424</u> | <u>7</u> |
| Balances with other Central Government Bodies | 10,818 | 374 | 3,390 | 32 |
| Balances with Local Authorities | 85 | 0 | 6 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 2,126 | 0 | 3,945 | 0 |
| Balances with Public Corporations and Trading Funds | 50 | 0 | 966 | 0 |
| Balances with bodies external to government | 5,293 | 593 | 20,660 | 0 |
| At 31 March 2005 | <u>18,372</u> | <u>967</u> | <u>28,967</u> | <u>32</u> |

27 Losses and Special Payments

There were 142 cases of losses and special payments (2004/05: 149 cases) totalling £144,613 (2004/05: £58,734) approved during 2005/06.