West Hertfordshire Hospitals NHS

NHS Trust

2006 - 2007 Annual Report

Watford General Hospital

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Watford

Hertfordshire

WD18 OHB

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St Albans City Hospital

Waverley Road

St Albans

Hertfordshire

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Hemel Hempstead General Hospital

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Hertfordshire

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Content

On a journey to success

A message from the Chairman and Chief Executive

West Hertfordshire Hospitals NHS Trust, like the whole NHS family, is going through a period of great change. In the past year we have seen more and more patients book appointments at a time and date to suit them, direct from their GP's surgery. More patients than ever are having their surgery as a day case – operations that even a few years ago would have meant a week in bed. The use of new technologies such as the Picture Archiving Communication System – digital x-rays and scans – is transforming the way in which doctors and nurses work and allowing us to provide better patient care.

Last year we highlighted the challenges faced by the Trust and our vision to both face and solve these issues. We began the financial year in a challenging position and have worked tirelessly this year to bring our budget closer to balance and live within our means. We closed the financial year by achieving the financial position agreed with the Strategic Health Authority; a significant step forward for the Trust. The current year will be equally testing, however the systems and processes put in place during the past 12 months, including improvements in clinical coding, the introduction of monthly divisional financial and operational scrutiny, the establishment of financial trading accounts, together with robust challenge within the Finance and Performance Committee, will set us in good stead for the future as we work towards generating a significant financial surplus in the financial year.

The Trust's performance is monitored against key standards set by the Healthcare Commission, many of which reflect the public desire to have services provided on a timely basis. Against these benchmarks the Trust's waiting times performance has been excellent, including some of the best cancer waiting times in the country and 98% of patients seen within four hours in A&E over the course of the year. Reaching these standards, alongside a significant reduction in our infection rates for MRSA and Clostridium difficile, whilst at the same time reducing our costs by around £15 million, has not been easy and we hope that the hard work and determination of our staff will be recognised in this year's Annual Health Check by the Healthcare Commission.

In October 2006, the management of the Trust's Plastics Surgery service transferred to the Royal Free Hospital, Hampstead, whilst Acute Children's Services, previously managed by the Hertfordshire Partnership NHS Trust, transferred to this Trust.

In July, the East of England Strategic Health Authority was established, followed by, in October, the new West Hertfordshire Primary Care Trust. Excellent working relationships continue to develop.

During the year we have proposed significant changes to the way we provide acute healthcare to our local community. The separation of emergency and planned care will reduce the incidence of hospital acquired infection, result in fewer cancelled operations and allow teams of skilled health professionals to work together in one location, pooling both knowledge and resources.

In November, the Board confirmed the decision to centralise acute services at Watford General Hospital in advance of the Watford Health Campus, and decided to locate planned surgery at St Albans City Hospital. Whilst we acknowledge the feelings of anxiety within local communities, we believe that these changes are

Prof Thomas Hanahoe
Chairman

David Law
Chief Executive

fundamental to ensuring a strong, vibrant and high quality health service in west Hertfordshire, which is fit for purpose in the 21st century.

In November, the new West Hertfordshire PCT, which is the main NHS funding agency for the Trust, announced publicly that it is satisfied that Watford remains the right place for the further development of major hospital services in west Hertfordshire, and that it continues to support plans to develop the new Watford Health Campus. The PCT together with this Trust and East & North Hertfordshire NHS Trust is currently consulting publicly on the future organisation of Acute Services in Hertfordshire. Following completion of the consultation, a decision about the reorganisation of services is expected in the autumn.

Plans to develop the Watford Health Campus as part of a unique nine-organisation partnership have moved forward at a pace. Following a period of pre-planning consultation, the outline planning application was lodged with Watford Borough Council in July with a decision expected in December 2007.

We welcome the support and ongoing scrutiny of our many 'critical friends'. The Hertfordshire County Council Overview and Scrutiny Committee, local authorities, community-based groups, the Patient and Public Involvement Forum and the Patients' Panel have all played a major role in shaping the way the Trust has worked to plan health services for the future.

Patients are exerting greater influence and choice on how, when and where they are treated and new funding mechanisms (known as 'payment by results') are being introduced. These are important developments for the Trust but they present a real challenge in predicting how many patients will need care in any given period.

The Trust Board believes Foundation Trust* status will allow us further to improve clinical services and become more accountable to our patients, our staff and the local community and we plan to seek FT status in late 2008. To achieve our goal, we must become more business and more patient focused. One thing is certain, these changes will touch every member of staff in some way as we revolutionise the way we provide and deliver healthcare, and bring about greater efficiency and better use of resources. We pay tribute to their ongoing support and dedication, as well as to our volunteers and our many partners and colleagues in the health service and local community.

** NHS foundation trusts are a fundamental part of the current NHS reform programme. They reflect the move from a centrally managed service towards one that is managed locally and is therefore more responsive to patients. They are accountable to local people, who can become members and governors, and are able to decide for themselves what capital investment is needed in order to improve their services. Foundation Trusts are authorised and monitored by Monitor – the Government's Independent Regulator of NHS Foundation Trusts.*

Operating and Financial Review

West Hertfordshire Hospitals NHS Trust

West Hertfordshire Hospitals NHS Trust was formed from the Mount Vernon and Watford Hospitals NHS Trust and the St Albans and Hemel Hempstead NHS Trust on 1 April 2000. The Trust provides health services at Hemel Hempstead General Hospital, Watford General Hospital and St Albans City Hospital. We employ more than 3500 staff working in over 50 different professions to serve the people of west Hertfordshire and beyond.

The Trust's key relationships in the delivery of care continue to be with the West Hertfordshire PCT, General Practitioners/Practice-Based Commissioners, community based healthcare staff, and local social services. The development of practice-based commissioning by GPs is bringing closer engagement between GPs and the Trust and this is evidenced by the joint bids that have been developed to provide Clinical Advisory Treatment Services.

The Trust's overarching aim is to achieve Foundation Trust status by 2008 and to open the Watford Health Campus in 2014. Work is already underway to make this aim a reality. The *Delivering a Healthy Future* strategy focuses on service development and service improvement for patients. Whilst service redesign forms part of this work, service improvements also began last year with a Best Value Best Practice audit, looking in detail at the Trauma and Orthopaedic Service. Changes are already underway to improve this key service.

Reaching out to our local community is a priority. An External Relationships group is developing the community based elements necessary to achieve Foundation Trust status, ensuring relationships with key stakeholders are developed and nurtured.

Emergency Preparedness

The NHS faces increasing challenges in the area of emergency planning. The Trust is committed to adopting a multi-agency approach to Emergency Planning and is represented on a number of external emergency planning groups led by Hertfordshire Resilience (formerly known as HESMIC).

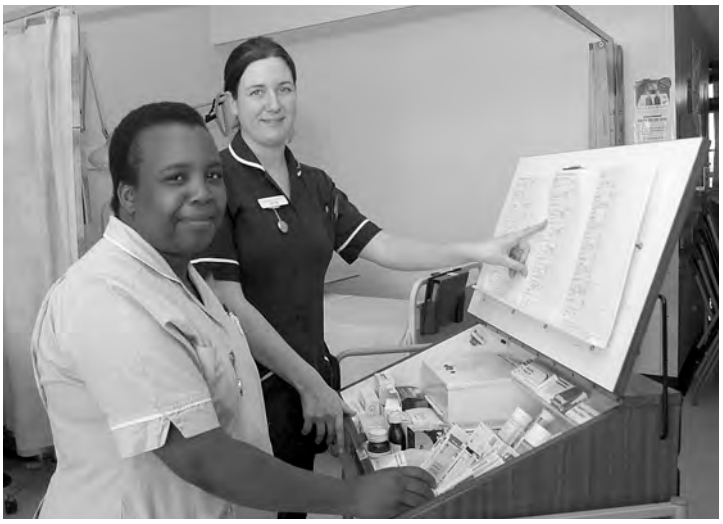
The Trust continually reviews and refines its emergency plans. New legislation (i.e. the Civil Contingencies Act) and new Department of Health guidelines underpin the Trust's Emergency Planning process and our plans for future developments. The Trust is compliant with Department of Health guidance for Emergency Planning and Pandemic Flu and is working towards compliance in Business Continuity.

Performance and Standards for Better Health/Healthcare Commission

This has been a challenging year. In June 2006, the Healthcare Commission rated the Trust as 'weak' for *Quality of Services* and as 'weak' for *Use of Resources* (for 05/06). Since then the Trust has done much to improve its performance in a number of areas. Professor Ramsay, Trust Medical Director, explained: *"Quality of clinical services and efficient use of resources go hand in hand. Over the past year, clinicians have identified how we can use resources like operating theatres, beds and medicines more efficiently. We have worked hard to prevent diagnostic tests being duplicated and to increase the numbers of patients seen as day cases. Whilst tight restrictions on staffing have been challenging in some areas, our staff have worked hard to ensure wards are staffed appropriately, and I am confident that striving for efficiency will continue to improve our clinical standards."*

Performance Targets

Not being kept waiting for appointments and for care in A&E is something we all understand. This year the Trust achieved all key waiting times targets.



Standards for Better Health

The Trust is now compliant in 42 out of 44 Core Standards, representing significant progress in comparison to last year's position where the Trust was compliant in 30 out of 44 Core Standards. The two non-compliant Standards focus on strategic partnership working and public health. Action plans that focus on these areas have been developed to ensure compliance is reached in 2007/08.

Risk Management

Significant progress has been made in the proactive management of risk. In the past year, the Trust has:

- Launched a mandatory training programme aimed at new consultants and medical staff
- Undertaken a pilot assessment of the new NHS Litigation Authority Risk Management Standards
- Achieved CNST Level 2 for maternity
- Produced a Datix User Manual for incidents and standards modules
- Commenced the process of logging risks associated with the Trust's infrastructure

Foundation Trust Status

The Trust has spent time over the last year ensuring that it is well positioned to make an application for Foundation Trust (FT) status towards the end of the 2007/08 financial year. Advice has been sought from other Trusts that have been successful in gaining FT status and the Trust will be looking to use this advice in planning its strategy for achieving success with its application.

In terms of national targets*, the Trust has achieved the following:

*calculated on the basis of Healthcare Commission criteria

- ✓ Waiting time for planned operations – as at the end of March 2007, no patient was waiting more than 20 weeks for admission for planned operations.
- ✓ Waiting time for outpatient appointments – as at the end of March 2007, no patient referred by a GP was waiting more than 11 weeks for a first appointment with a consultant.
- ✓ Waiting time for MRI and CT scans – as at March 2007, no patient was waiting more than 13 weeks for an MRI or CT scan.
- ✓ Outpatient and in-patient booking – since December 2006, 100% of outpatients and patients having planned surgery were able to book their appointment at a time of their choice. In March 2007 the Trust achieved 25.4% of all bookings via the directly bookable route of 'choose and book', with the national figure standing at 20.9%.
- ✓ Cancer two-month wait – in 2006/07 98.4% of those diagnosed with cancer commenced their treatment within two months of their GP sending the referral.
- ✓ Cancer one-month wait – in 2006/07, in addition to those above, all patients diagnosed as having cancer commenced their treatment within one month of diagnosis.
- ✓ Cancer data completeness – we treated 316 cancer patients between January and March 2007.
- ✓ A&E total waiting time – the target for 2006/07 was that over 98% of patients should spend no more than four hours being treated in the A&E department before being either discharged or admitted; we achieved 98%.
- ✓ With an annual turnover of £218.2 million, the Trust reported a deficit of £11.4 million, meeting its control total of £11.5million.
- ✓ The Trust is on target to meet the new 18 week total waiting time by December 2008.

The Trust did not achieve the following targets:

- ○ Cancelled operations – in 2006/07 929 operations were cancelled on the day of surgery, which represents 2.8% of elective admissions, against a target of less than 1%.
- ○ MRSA infections – there were 42 bacteraemia infections identified in the laboratory, against a target figure of 26 for 2006-07.
- ○ Cancer two-week wait – in 2006/07 99.9% of patients referred with suspected cancer were seen by a specialist within two weeks of GP referral against a target of 100%.

Key Performance Indicators

As part of the Trust's commitment to continual improvement, a series of clinical and non-clinical indicators are in development. A Clinical Standards Executive has been launched which replaces the current Clinical Governance committee. Chaired by Prof Ramsay, the Trust's Medical Director, the committee will ensure that clinical standards are developed and improved throughout the Trust, supporting Standards for Better Health and investigating thoroughly trends and any potential poor practice or areas of clinical concern.

Serious Incidents

In January, an inquest was held into the death of Ahil Islam, a child who died in the care of the paediatric service (then managed by Hertfordshire Partnership NHS Trust). Ahil sustained minor burns and died from staphylococcus aureus septicaemia infection which was not diagnosed until shortly before his death. Following the death of Ahil, the Trust, together with the Hertfordshire Partnership NHS Trust, invited an independent panel of experts to review this incident and review its practices and procedures. A detailed Action Plan has been produced in light of the panel's recommendations. At the inquest the Trust acknowledged that there were failings in the system. We have taken action to reduce the risk of an incident of this kind happening in the future. We have improved communications between transferring hospitals, and we have introduced a Paediatric Early Warning System (PEWS), which enables our staff to closely monitor children and detect any deterioration in their condition as soon as possible.

Service Developments

Radiology Task Force

The collaboration of a multi-disciplinary team has seen the Radiology Task Force successfully reduce waiting times and achieve the required national diagnostic target of 13 weeks for all modalities during the last 12 months. New ways of working within the departments include a new radiologist rota, partial booking of appointments, and validation of waiting lists. We thank the staff within radiology who rose to the challenge to achieve this excellent result.

Orthopaedics Pre-admission Clinics

The Occupational Therapy team is working with the elective Orthopaedic service to see patients who are to undergo hip or knee replacement surgery before admission. This will ensure that if any equipment is required for discharge, it will be provided before admission, with the aim of contributing to the patient experience.

Cardiac Catheter Laboratory Expands Service

In June, heart attack patients began receiving an emergency specialist treatment called 'Primary Angioplasty'. This is a modern keyhole approach to open blocked arteries in the heart; a much more effective treatment than the conventional action using injection of clot-busting drugs. At present this is the only service of its kind in the Eastern region.

Commenting on this new service, Dr David Hackett, lead Cardiologist for the Cardiac Catheter Laboratory said: *"I am very excited by this tremendous local development for patients in west Hertfordshire. This is a modern, effective treatment for heart attacks, and I hope it will help to save many lives."*

Waiting times have been reduced for all planned angiograms in line with national and Trust targets. The laboratory also provides a service for urgent in-patients admitted with acute heart conditions. This group of patients would normally have been referred to a tertiary centre for treatment and would have waited as in-patients for, on average, 14 days.

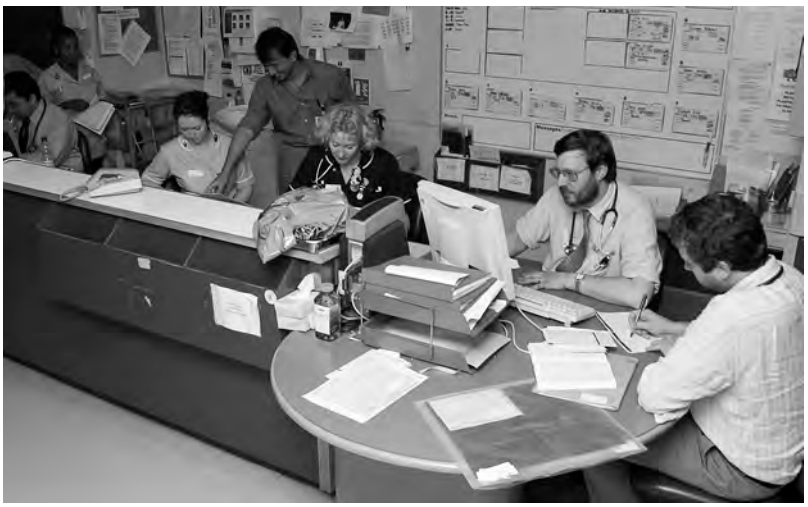
Stroke Units Go From Strength to Strength

The Trust's Stroke Units have both received excellent feedback as part of the National Stroke Sentinel Audit for 2006. The Watford unit was ranked eighth out of 224 units which took part in the survey, and the Hemel unit was placed in the top 25% in the country.

In November 2006, Dr David Collas led a team performing the first primary thrombolysis - a clot-busting injection to alleviate blood clots in the brain in patients who have had a stroke less than three hours before treatment - a treatment which is not offered elsewhere in Bedfordshire, Hertfordshire and Buckinghamshire. Ongoing training for all staff who deal with stroke patients and their families, active research and prompt diagnostic testing are all part of the reason for the Units' success.

Emergency Care Achieves 98% Target

The Trust has made huge progress in meeting the A&E waiting time target. Last year the Trust struggled to achieve 95% performance against the nationally agreed target of 98% of patients seen, treated and discharged or admitted to hospital within four hours of attendance at A&E. Initially supported by the National Support Team and Emergency Care Task Force, a Trust-wide group, with support from PCTs and Adult Care Services, implemented



changes to improve performance, change working practices and improve the patient experience with shorter waits. During the year, the Trust achieved the 98% target with one of the best performances in the Region.

Picture Archiving System Revolutionises Imaging Services

Since July 2006, within the Trust, printed radiology images – film x-rays – have been a thing of the past. The Picture Archiving Communication System (PACS) allows diagnostic images to be available via computer terminals located in every department – meaning that doctors, nurses and other health professionals can view a patient's x-rays across sites, sharing knowledge and expertise at a moment's notice. A major benefit of PACS has been the reduction in reporting turnaround times. In 2006 this was on average seven days, subsequently reduced to three days in 2007 – a major step forward in patient care.

Research and Development (R&D)

West Hertfordshire Hospitals NHS Trust hosts the Hertfordshire Hospitals Research & Development Consortium, responsible for Research Management and Governance for the two acute Trusts in Hertfordshire. During 2006/7, Hertfordshire Hospitals R&D Consortium ran 327 active studies, of which 263 were externally funded. During the year, researchers at the two Trusts produced 229 publications in peer-reviewed journals.

Patient Focus

Patient Focus and Involvement

To ensure that patients continue to be involved and receive an experience that not only meets but also exceeds their physical and emotional needs and expectations, the Trust has developed a Patient Involvement & Experience Strategy in consultation with patients, carers, Trust staff, PCT colleagues, and external bodies. In doing so, the Trust seeks to support ongoing, meaningful involvement and engagement in its work and services.

Infection Control and the Patient Environment
Reducing C. difficile Infections in the Hospital

The Trust has established a research project using a Bowel Management System to assess its effectiveness in reducing the spread of C. difficile spores and infection within the hospital. The project, being led by Prof. Ramsay, Medical Director, has received Department of Health funding.

The Facilities team has joined forces with Infection Control in the battle against hospital-acquired infections by introducing Chlor-Clean. This was introduced to high-risk areas at the beginning of September 2006 and continues to roll out across the Trust. Historically, isolation cleaning has required two cleans, one with detergent followed by chlorine disinfection, however this has not always worked adequately in the past as chlorine and detergent cannot be mixed. Chlor-clean has been developed to solve this problem. This not only reduces the time taken to perform the cleaning process but also improves the efficiency of the disinfection at the same time.

Steamplicity food was introduced at Watford General Hospital in December 2005, with excellent patient feedback. The Steamplicity system allows patients to choose their meal up to an hour before service. The meal is then transported to the ward where it is steam cooked and served to the patient piping hot. The steam cooking method allows the food to retain its nutritional value and appetising presentation.

Patient Environment Action Teams – the Facilities Department continue to do monthly iPEAT inspections on all sites. This system, combined with the monitoring results from wards and departments, has shown an improvement in cleaning standards. The iPEAT visits include patient representatives and cover clinical areas, public spaces and the exterior of our hospitals.

The newly installed Telephonetics system, affectionately known as Vera, offers an automatic answering service that increases the time calls are answered in from 75%-85% in 30 seconds to 100% within four seconds.

Voluntary Services Department

Each week hundreds of volunteers give their time to support the Trust in a wide variety of ways, from helping in outpatients, running the hospital library service, providing volunteer driving services and offering clerical help.

The Women's Royal Voluntary Service (WRVS) and the Leagues of Friends also provide invaluable services and support to the hospitals.

Pat Schofield and Vivienne Payne, the Trust's Voluntary Services Managers, are always looking for extra pairs of hands. If you'd like to know more please contact:

- Vivienne Payne: 01923 217307
- Pat Schofield: 01442 287973

Patients Give Their Views

The Healthcare Commission's National Inpatient Survey for 2006 highlighted that improvements had been made since the 2005 survey in areas such as waiting lists, hospital food, hand washing and the quality of patient information.

The Trust's Chief Nurse is leading the work to address weaknesses found in the survey in areas such as noise at night from hospital staff, cleanliness of wards and bathrooms, patient information, communication and pain management.

The Patients' Panel

The Patients' Panel continues to work with the Trust to add an additional dimension to ongoing patient involvement. This year the Panel has been involved in many local surveys, including one about hand-washing.

Jessie Winyard, Chair of the Patients' Panel, said: *"It has been heart-warming how the Panel has been accepted throughout the Trust and we welcome and value the continued need for our services."*

Complaints

Over the past year, the Quality Assurance Department has received 380 formal complaints, together with 254 informal complaints, queries and questions. Overall compliance against the response time of 20/25 working days is 74% against the standard of 85%, which whilst is an increase on our overall performance last year, continues to be a challenge for the organisation.

Of the 380 formal complaints received and responded to, 24 were re-opened and further investigated. Thirty-five meetings were held with patients and staff within the Trust in order to further resolve concerns raised. During the year, we have also received 17 requests from the Healthcare Commission where complainants have asked for an independent review of their concerns.

Our Staff

The Trust's staff are its most precious resource. They work tirelessly, often above and beyond the call of duty, to provide high quality patient care.

The annual staff awards ceremony proved a great success, with particular tributes to long-standing volunteers who support the work of staff across the Trust.

Tight controls have been in place regarding staff recruitment and the Trust has been successful in its recruitment in most staff groups. Turnover of staff has remained constant at around 14%.

The Trust currently offers subsidised places for staff within the two on-site nurseries at Watford and St Albans. A Salary Sacrifice Scheme has just been approved by the Inland Revenue enabling users to benefit from tax savings on these fees. This scheme is an alternative to the Childcare Voucher Scheme where staff are able to save money on any type of childcare fees. Staff also have access to an Emergency Nanny who can be called out when regular childcare has broken down, and discounts and limited subsidies are available in local holiday playschemes. All staff going on maternity leave receive individual support with regard to their entitlements and their return to work, and regular childcare information sessions are held across all sites.

Following detailed research with staff, in January the Board endorsed a comprehensive internal communications strategy, designed to deliver effective two-way communication of the Trust's vision and to increase awareness of what is expected of staff, and where energy should be focused to meet goals. This includes a monthly team briefing, the development of a communications review group and a review of the intranet. The Trust also has an active Joint Consultative Committee which meets monthly.

A Staff Support Pack will shortly be available detailing all sources of support that staff can access in relation to their work.

The Electronic Staff Record (ESR) System went live in the Trust in September 2006 following 10 months of hard work in preparation for implementation. ESR is a single, national integrated payroll and HR system, replacing 29 payroll systems and 38 HR systems across every NHS organisation in the country. ESR will be a hugely valuable asset for the Trust, making better quality information readily available, preventing duplication of data input and allowing staff to move across to new employers within the NHS family with their existing records. The operational costs of ESR are being met by the Department of Health until April 2008.

The Trust provides in-house Occupational Health services, which are available to all staff and which are supplemented by a confidential counselling service.

The Trust is committed not only to ensuring that all of its services are accessible, appropriate and fair, but also to recruiting a diverse workforce, matching the diversity of the local population and being capable of understanding the needs and culture of patients within the communities it serves. The Trust aims to maintain a balance between the needs and well being of the organisation, its employees, the community and its stakeholders, committed to treating everyone with respect and dignity and to delivering equality of opportunity for all staff, patients and other service users.

In 2005 the Trust published an Equalities Framework that incorporates our Race Equality Scheme and Action Plan, and in 2006 the Disability Equality Scheme and Action Plan was published. The Trust is now developing a Gender Equality Scheme and Action Plan, which will be published over the coming months. In November 2006 the Trust was re-assessed in connection with the Disability 'Two Ticks' Symbol. The Disability Symbol is a sign that the Trust has a commitment to meeting the needs of disabled employees.

A Vision for the future

In March 2003 – following a 12 month period of engagement and discussion involving doctors, nurses and other clinicians along with a wide range of local people – the NHS in Bedfordshire and Hertfordshire set out its vision for improving local healthcare and creating a health service fit for the 21st century. The vision proposed the separation of planned healthcare from emergency healthcare, the centralisation of specialist and complex health services in fewer hospitals and argued for the delivery of more healthcare outside of hospital settings. This was published in a document called ***Investing in Your Health*** which then became the subject of public consultation.

Most of the assumptions that underpinned *Investing in Your Health* remain valid today:

- The move to two main hospital sites is strongly supported by doctors, nurses and other clinicians and remains the key to improving the quality of care and maintaining sustainable acute hospital services.
- For many medical conditions the shift of care into the community and out of major hospitals is taking place across the NHS and there is increasing evidence that preventing unnecessary or inappropriate hospital admissions benefits patients.
- In west Hertfordshire the rationale for focusing services on the Watford site remains as strong as ever.
- The separation of planned and emergency surgery will be key to reducing waiting times even more.

But since the ***Investing in Your Health*** decisions in 2003 some things have changed as healthcare delivery has evolved or moved on. Patients are spending less time in hospital and more services are now being delivered safely and effectively in the community, closer to where people live.

Delivering a Healthy Future

During 2006, the Trust launched a consultation, known as ***Delivering a Healthy Future***, regarding some interim plans to change services ahead of those proposed in ***Investing in Your Health***. The proposals centred around the centralisation of planned surgery to the St Albans City Hospital or Hemel Hempstead General Hospital site, pending the construction of the Independent Sector Treatment Centre (the Surgicentre) on the Hemel site, and highlighted the Trust's plans to centralise emergency care to the Watford General Hospital site, as outlined in ***Investing in Your Health***, ahead of the planned timeframe.

Throughout the 100-day consultation process the Trust heard the views, ideas and concerns of patients, residents and other interested parties.

Review of Acute Services in Hertfordshire

In November 2006 the Hertfordshire PCTs launched the pre-consultation phase of a review into acute service in Hertfordshire; part of an Eastern Region-wide review of acute services. The PCT together with West Hertfordshire Hospitals NHS Trust and East and North Hertfordshire NHS Trust are currently consulting on a variety of issues concerning the future of acute healthcare in Hertfordshire.

The main changes proposed for west Hertfordshire involve:

- A new style birthing centre for Hemel Hempstead
- The future of children's emergency care in west Hertfordshire
- The future of children's planned day care and day surgery in west Hertfordshire

- The location of the proposed west Hertfordshire surgicentre

The original ***Investing in Your Health*** decision to locate acute hospital services for west Hertfordshire at Watford General Hospital is now under development within the context of the Watford Health Campus.

The West Hertfordshire Surgicentre

The local NHS joined the Department of Health's Independent Sector Treatment Centre (ISTC) programme to look at locating a Surgicentre in Hemel Hempsted. The key objectives of the ISTC programme are to provide the NHS with additional resource and capacity, help to drive innovation in service delivery, increase accessibility and offer greater choice to patients. Clinicenta was appointed as the preferred bidder with regard to the local ISTC scheme.

In recent discussions between the Strategic Health Authority, the PCT and Clinicenta it has become clear that the proposed Surgicentre at Hemel Hempstead Hospital would be more expensive than initially expected. As a result, and taking into account other factors, it is therefore intended that the provision of elective care in west Hertfordshire now largely be procured from the NHS.

In 2006, following the ***Delivering a Healthy Future*** public consultation, the West Hertfordshire Hospitals NHS Trust Board made an interim decision to locate planned care services at St Albans City Hospital until the new Surgicentre at Hemel Hempstead Hospital was expected to be completed.

However, as the Surgicentre is no longer going to be provided through the ISTC programme, it is sensible and appropriate to review the options of providing a Trust-run elective care centre for west Hertfordshire at either Hemel Hempstead or St Albans, to consult on these options.

Acute Admissions Unit

A major part of planning for the future will be the development of the Acute Admissions Unit on the Watford site. This unit will act to fast track emergency patients (medical, surgical and gynaecology) for assessment, diagnosis and treatment, with an emphasis on discharging patients quickly to the community, avoiding admission or limiting their length of stay in hospital by ensuring minimal delays for diagnostic tests.

Investing in Your Health: Private Finance Initiative Status

The Trust is developing its Outline Business Case (OBC) to support its application for the redevelopment of Watford General Hospital. Currently, the Trust plans to submit the OBC to the East of England Strategic Health Authority and the Department of Health. The new west Hertfordshire Acute Hospital at Watford sits within the proposed Watford Health Campus.

The Watford Health Campus – a Sustainable Future

The proposal to develop the Watford Health Campus (WHC) continues to go from strength to strength. This unique partnership will see the redevelopment of a 26.5-hectare site in west Watford creating, amongst other facilities, a new acute hospital for west Hertfordshire.

The vision is to transform west Watford through creating a unique partnership that will deliver improved healthcare, a more sustainable community, better transport links and enhanced leisure opportunities for west Hertfordshire.

The WHC partnership has prepared a masterplan for the redevelopment of the site which aims to house a new acute hospital for west Hertfordshire, key worker and

private housing, business incubator units, and a newly developed football stadium.

The Government's design advisors, the Commission for Architecture and the Built Environment (CABE) reviewed the project earlier this year and said: *"We applaud the key stakeholders for their aspiration…The Masterplan is realistic, robust and well considered,… we are delighted to see that a hospital is being treated as part of a town."*

The WHC has huge potential for delivering a new highly sustainable transport infrastructure along with significant improvements in utility consumption. Energy efficiency is becoming an ever more important issue and the WHC will use a combined heat and power plant (Tri-Gen) providing electricity, heat and cooling for the entire site. Water conservation is also high on the environmental agenda for the WHC and innovative measures such as using rainwater from the hospital's roof to water the football club's pitch, to flush its toilets and to clean the stands are being designed.

The site's business, leisure and community stakeholders have come together to lead this project. By combining their strengths and pre-existing investment plans, the partners aim to achieve their shared goal of transforming west Watford and better serving west Hertfordshire. The nine organisations behind the Watford Health Campus are:

- East of England Strategic Health Authority
- East of England Development Agency
- Hertfordshire County Council
- Hertfordshire Partnership NHS Trust
- Hertfordshire Prosperity
- Watford Borough Council
- West Hertfordshire Primary Care Trust
- Watford Football Club
- West Hertfordshire Hospitals NHS Trust

watford health campus

Pre-planning consultation took place in May 2007, with a launch sponsored by Claire Ward MP at Portcullis House, Westminster. A planning application for the Masterplan was submitted to Watford Borough Council in July 2007.

www.watfordhealthcampus.org

Clinical Assessment and Treatment Services (CATS) and Commissioning Changes

On October 2006 the new West Hertfordshire Primary Care Trust came into being, subsuming Watford and Three Rivers PCT, Dacorum PCT, St Albans and Harpenden PCT and Hertsmere PCT.

One of the Government aims is to provide treatment for patients as locally as possible and reduce pressures on secondary care. The concept of primary care-led triage and assessment services has been developed to achieve this aim. Within the NHS in west Hertfordshire a version of this system has been operational for some time whereby physiotherapists reviewed Orthopaedic referrals and sought to manage them without the need for onward transmission.

PCTs within west Hertfordshire sought bids for a number of different specialists, for which the Trust, in partnership with primary care colleagues, was awarded preferred bidder status in the majority of cases.

The new Hertfordshire PCT undertook a review of all CATS proposals at the end of November 2006, following which a number of bids are now being taken forward.

Practice Based Commissioning

The Trust has begun to establish positive relationships with the emerging Practice Based Commissioning Groups being set up across west Hertfordshire. By working with PBC Groups the Trust will be able to ensure that it has a firm understanding of the commissioning intentions of GPs and be able to adapt it's services to the changing needs of the local community.

Health and Safety Policy and Developments

The Trust Board is committed to ensuring compliance with Health and Safety legislation, and to ensuring the Health, Safety and Welfare of its employees through commitment of resources and the application of best Health and Safety practice. This will be achieved through a sound organisational structure, undertaking effective planning, and addressing the identification of hazards, assessments of risk and appropriate control measures. The duty of establishing the organisation and arrangements to carry out the Trust's Health & Safety Policy is the responsibility of the Chief Executive, and is delegated to the Director of Human Resources.

Energy Policy

The Trust is committed to energy management, which reduces operating costs and helps to protect the global environment. Its Energy Policy sets standards of materials, plant and building fabric, together with target levels of lighting and room temperatures, establishing responsibility of procurer, provider, business centre and service departments in recognising the different age, usage and configuration of spatial environments.

The Trust already encourages car share schemes, offering lower-rate parking charges to staff that car share and an inter-site car share scheme is advertised on the intranet.

A Carbon Trust survey has been carried out and a series of energy saving schemes are being proposed on a spend to save basis. The Trust is working towards membership of the EU Emissions Trading Scheme.

The Trust's estate development plans, including the Watford Health Campus, seek to be as energy efficient as possible.

Finance Review of the Year

Statement of Internal Control

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.

As Accountable Officer I have put in place arrangements to review the individual objectives of the Executive Directors through both one-to-one sessions and weekly meetings with the Director team. This enables me to review progress with the key strategic plans and to hold Directors to account. These processes also enable the team to develop and strengthen its focus across the organisation which has been a significant contributing factor to the delivery of this 2006/07 control total.

The 2006/07 financial year has been extremely challenging for the Trust. Much has been done which provides a firm foundation from which to build for the future. Whilst most of the actions have been driven internally, a significant degree of external advice, support and encouragement has been provided by the Strategic Health Authority and the West Hertfordshire PCT. The Trust has worked hard at establishing good working arrangements with both the SHA and PCT over the year and I believe we have identified the key areas of common purpose that will enable us to work as a health economy to deliver the improvements in service that are required locally.

We have made good progress with building relationships with the newly emerging Practice Based Commissioning Groups and will continue the build on these into 2007/08.

The Trust continues to work with the County Overview and Scrutiny Committee (OSC) and has built upon the previous good relationships during 2006/07. The Trust attends the OSC meetings on a regular basis as well as participating in the health topic group.

I continue to be directly involved with the work of the Health Campus in Watford. This significant development involves partner organisations from a wide spectrum of interests including Watford Borough Council, Watford Football Club and the East of England Development Agency. All partner agencies are committed to achieving a successful development which will significantly improve the local environment and provide new hospital facilities for the whole of west Hertfordshire.

The Trust has many established and effective arrangements for working with the wider stakeholder communities, including patients and carers. We enhanced these during the consultation on Delivering a Health Future by running two successful Citizens Juries. As a consequence of the large numbers of people that contributed to the consultation, we now have a large number of interested local people who we intend to use as part of the development work on establishing the Board of Governors when we make our application for Foundation Trust status.

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 has been in place in West Hertfordshire Hospitals NHS Trust for the year ending 31 March 2007 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 Chief Nurse/Director of Patient Services, Quality and Risk has specific responsibility for leading the risk management process. This responsibility is discharged throughout the organisation

through the Trust's Assistant Director of Patient Services, 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 Trust's 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.

Divisional performance is reviewed regularly across a range of key indicators, including the identification and management of risk. At a strategic level the Board has reviewed the reporting arrangements for strategic risks and the requirement that this process links directly to the Assurance Framework. Strategic risks and the Assurance Framework are now reviewed monthly by the Directors, included in the monthly Performance Report to the Board and discussed by the Board at its monthly meetings in public. Within 2006/07 the Board has established a new Assurance Committee that takes the lead for strategic overview and scrutiny of risk management across the organisation.

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 Assistant Director of Patient Services, Quality & Risk for noting and action.

Additionally, the National Patient Safety Agency Regional Manager communicates directly with the Assistant Director of Patient Services, Quality and 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. I also learn from the 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 regularly and I have regular meetings with colleagues from the SHA. 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 Assurance and Audit Committees. The Trust has reviewed its governance arrangements during the year. It has reduced the number of Trust Board sub committees. These now take on the scrutiny and strategic overview function and report to the Board. A number of Executive Groups have been established focusing on the operational aspects of the Trust's business and reporting to the Trust Board sub committees. Significantly, as far as the risk and control framework is concerned, the Risk Management Group provides the appropriate focus and control and has had the support of the following Executive Groups:

- Clinical Standards Executive
- Environment and Facilities
- Health & Safety
- Emergency Planning
- Operations

Through this structure significant risks are identified, evaluated and controlled. There is an emphasis on ensuring that risk

identification and management is embedded within the Divisional structures. Through the Divisional risk leads, organisational systems and processes for risk identification, scoring, recording and mitigation are undertaken and overseen by the Assistant Director of Patient Services, Quality and Risk.

The Business Planning process 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.

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. Performance reports on the management of risk are provided on a six monthly basis to the Assurance Committee.

Building on the improvements made on the incident reporting procedure during 2005/6, the Trust now provides the Risk Management Group with a quarterly analysis of key themes extrapolated from incident reporting data held on its Risk Management Database. Where there are issues of concern arising from this report which cannot be resolved by the Risk Management Group these are escalated to the Assurance Committee. This process ensures that the Assurance Committee can advise the Board of significant issues that create a risk to the Trust as well as providing the Board with the necessary assurance that the risk management systems and processes are being effectively managed. The Trust plans to implement a paperless incident reporting system during 2007/8.

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:

- Integrated approach to reviewing strategic risk
- Improved monitoring performance of strategic risk management
- Continued regular performance audit of the Trust's Risk Management Database

The Trust's strategic objectives have now been aligned with '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 domains has been assigned and monitoring of compliance is ongoing. The Trust has made significant progress in meeting the core standards compared to our 2005/6 Declaration. 'The Trust declared compliance with 42 standards out of 44 for it's 2006/7 declaration.

The Trust has reached the "Practice Plus" level of the Improving Working Lives standard.

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 four years and plays an active part in the Trust. The Panel is linked into a wide range of committees, meetings and projects within the Trust, including iPEAT inspections and reviewing all patient information and questionnaires to ensure it is 'user friendly' before being published.

The Patients' Panel together with the PPI Forum members and patient representatives have been involved in the Investing in Your Health (IiYH) project team in respect of the new Watford Health Campus. By attending the Internal Hospital User Groups (IHUGS) and Health Impact Assessments the Trust has ensured their involvement in the planning of the future hospital. The Panel has also been involved in the Delivering a Healthy Future consultation process.

The Patient Experience Group

The Patient Experience Group has now merged with the new Patient Involvement and Experience Group and is now chaired by the Chief Nurse/Director of Patient Services, Quality and Risk. Membership includes PALS, Patient & Public Involvement, Patients Affairs, Patient & Public Involvement Forum, Modern Matrons, Spiritual & Pastoral Care Coordinator, Quality & Risk, Infection Control, Facilities and Voluntary Services. 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 oversees them.

The Acute Trust PPI Forum

The Acute Trust PPI Forum has been active within the Trust since 2003 and has eleven members to date. The Trust continues to support and work closely with the Forum. The Head of Patient Services is the main Trust link, liaising with the PPI Forum Support Officer from the Community Development Agency to meet with the Trust Chair and myself, 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 to the Board. The Forum holds regular public meetings across the three hospital sites to which various members of the Trust and the SHA have spoken.

The Forum is currently linked into iPEAT visits, Think Clean Day, the Patient Involvement and Experience Group (PEG) and all public consultations undertaken by the Trust.

PPI Forum members, using their statutory rights, also visit the Trust to undertake both announced and unannounced monitoring visits.

The Trust is committed to its continued involvement in the Early Adopters Programme as part of the implementation of Local Involvement Networks (LINk).

As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations

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. The 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 the Clinical Negligence Scheme for Trusts (CNST), National Health Service Litigation Authority (NHSLA) Risk Management Standards, 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 Group. 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. This mechanism ensures that risks are fed up to the Board through the organisational structure in place within the Trust. 'The Forum Chair is formally invited to the Board.

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

The Audit Committee

The Audit Committee has reported 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. I attend meetings on a regular basis.

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 Assistant Director of Patient Services, Quality

and Risk ensuring that appropriate issues are escalated to the Audit Committee from the Risk Management Group. This Committee ensures that audit plans are drawn up with full consideration of all risks as detailed within the Trust Risk Register.

The Assurance Committee

The Trust Assurance Committee is responsible for scrutinising and seeking assurance that co-ordinated risk management activities across all areas of Trust remain effective. It is responsible for advising the Board on matters affecting the compliance of organisational systems and processes set up to maintain the effectiveness and efficiency of the Trust, ensuring the reliability of internal and external reporting and assisting with compliance with legal obligations and regulations. The Assurance Committee considers all formal reports to external bodies before they are issued. It also considers the risk register on a regular basis.

The Assurance 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 Assurance 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 me 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 Group and other appropriate Executive Groups chaired by the Executive Directors. The Trust identifies through these Groups organisational risks. Where it is not possible to respond appropriately to the risks identified Executive Groups will report these exceptions to the Assurance Committee for review and advice.

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 agreed with the East of England Strategic Health Authority (SHA) a control total Income and Expenditure (I&E) deficit for 2006/07 of £11.5m. Against this, the Trust achieved a deficit of £11.4m. The Trust has agreed with the SHA that it will achieve an I&E surplus of £5m for the 2007/08 financial year. To achieve this the Trust has undertaken the following:

- Put in place a Board-approved action plan to strengthen the financial and governance arrangements of the Trust, including the issuing of a new Trust Governance document incorporating updated Standing Orders, Standing Financial Instructions and Scheme of Delegation.
- Following public consultation, put in place an accelerated programme to rationalise the services provided on each hospital site ahead of the major hospital rebuilding scheme on the Watford site, which will be completed in 2014.
- Set up a Turnaround Team under the leadership of a Turnaround Director, supported by dedicated staff, to identify and implement workstreams designed to maximise income, clinical efficiency, non-clinical efficiency and the alignment of staff to tasks. This work is well advanced as evidenced by the Trust reducing its deficit from £26.8m in 2005/06 to £11.4m in 2006/07. Further work by this team will underpin the move to a £5m surplus by the end of 2007/08.
- Continued to work on the outline business case for the major hospital rebuilding scheme on the Watford site due for completion in 2014. This scheme will help to ensure the longer-term viability of the Trust.

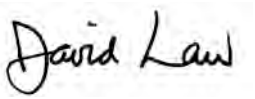
The Trust has not been able to declare compliance in two of the Standards for Better Health – C22a & c and C23. Both these fall within the public health domain. With respect to C22 the Trust has specifically highlighted that arrangements are not formally defined within the organisation. There has not been, until recently, the relevant partnership group in place within the region for the Trust to work with. Consequently joint plans have not been put in place. However, links are being established with

key stakeholders and the Trust has established a Partnership Group led by an Executive Director to facilitate improved partnership working in order to ensure compliance of this standard in the future.

With respect to C23, although there has been a lot of work undertaken in the Trust to meet the requirement to put in place disease prevention and health promotion programmes, it is recognized that the Trust needs to undertake a baseline assessment and identify the gaps in order to establish a comprehensive Trust wide public health strategy. Once this has been undertaken the Trust will be compliant.

Following a Trust Board decision on 16 November 2006 to centralise acute services at Watford General Hospital and planned surgery at St Albans City Hospital, the Trust received a legal challenge against the decisions taken. It was agreed the Trust could implement service changes that could be reversed, pending the outcome of a judicial review (JR). The Trust won the JR and subsequent appeal in the High Court.

All 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.



David Law
Chief Executive

Financial Disclosure

The Trust failed to break even on its income and expenditure account in 2006/2007, reporting a deficit of £11.4m. This, however, was slightly below the Strategic Health Authorities (SHA) target of £11.5m and compares favourably with the overspend of £26.8m in 2005/2006.

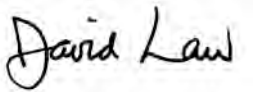
Actions taken to achieve this much-improved position included:

- Strengthened financial management support, in particular the appointment of two Divisional Finance Director posts to work with the Divisions
- Increased operational support with the appointment of two Divisional Operations Directors
- Turnaround team in post all year with additional Project Managers.
- Fortnightly Project Management Office (PMO) review meetings between the Chief Executive and the teams within the Divisions.
- Delivery of £10m in recurring savings.

For 2007/2008 the Trust has agreed a target of £5m surplus. This will be achieved through:

- Continuation of the PMO review process
- Dedicated savings work streams
- Continuation of the controls on pay and non-pay spend
- Establishment of a Business Support Unit to manage the Clinical Service Level Agreements and achievement of access targets
- Accelerating the restructuring of the Trust's services and the best use of current site and facilities.

The strategic risks are reviewed on a continual basis to ensure that potential gaps in control and / or assurance are managed effectively with action plans to address them.



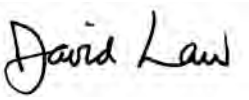
Date: 20 June 2007

David Law
Chief Executive

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.



David Law
Chief Executive

Statement of Directors' Responsibilities in Respect of The Accounts

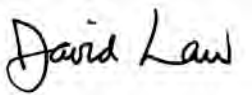
The directors are required under the National Health Service Act 2006 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure of 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 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



Date: 20 June 2007

David Law
Chief Executive

Date: 20 June 2007

Phil Bradley
Deputy Director of Finance

Annual Report 2006/2007: Financial Review

"The Trust continues to work hard and collaboratively with the Strategic Health Authority and the Primary Care Trusts in implementing cost savings targeted at reducing the Trust's month-on-month deficit"

Introduction

The Trust, like others in the NHS, continues to face many and varied challenges, the most notable of which are the balancing of the financial position and the achievement of long-term financial stability; meeting the ever growing needs, demands and expectations of patients; the delivery of high quality healthcare and the implementation of government initiatives to drive forward improvements in current performance standards; and the delivery of healthcare and the implementation of funding flows within the NHS.

As in previous years the local Primary Care Trusts continued to be the prime funders of the services provided by the Trust. Eighty per cent plus of the Trust's income from the PCTs is via the Payment by Results (PbR) regime with the remainder being via the historic block payment route.

The local PCTs removed £7m of activity from the baseline income for the Trust as part of their Turnaround Plan and demand management controls. However, activity did not reduce to the expected levels of the PCT, and in March 2007 the PCT agreed to pay £9m for this additional activity. This has been made recurring in 2007/2008.

The financial difficulties facing the Trust and the wider Hertfordshire health economy are widely recognised and for 2006 / 2007 the Bedfordshire and Hertfordshire Strategic Health Authority (SHA) set a target of an £11.5m deficit control total, "authorised overspend", for the Trust and this has been achieved with a reported deficit of £11.4m. Whilst this represents a continued worsening of the cumulative deficit position, achieving the control total has been a major achievement. The Department of Health has confirmed that, of the cumulative deficit of £53m, only the £11.4m deficit relating to 2006/07 will be required to be repaid from future surpluses.

During 2006/07 there was a change in the financial regime for NHS Trusts with the issue of Public Dividend Capital to finance Trust deficits being replaced with interest-bearing loans. To cover the 2006/07 deficit the Trust obtained a loan of £11.2m from the NHS Bank which is repayable over five years. Interest is charged at 5.45% p.a.

The Delivering a Healthy Future Strategy forms a fundamental part of the Trust's financial/organisational recovery.

The Trust is currently waiting to hear the outcome of the Acute Services Review that has been carried out across Hertfordshire. This may affect the services provided by the Trust in future years with a corresponding affect on income. There is likely to be no impact until Watford becomes the main acute site for the Trust.

Turnaround Team

Following the December 2005 Pricewaterhouse Coopers (PwC) review and completion of a Turnaround Plan for the Trust, the Trust has employed an experienced Turnaround Director to drive through the plans and work streams identified in the PwC document. In addition, Project Managers have been brought in to support the Turnaround within the Divisions.

Each Division was set a Turnaround Target and developed work streams to achieve its target. Performance against these work streams was then monitored fortnightly at the Performance Management Office (PMO) review meetings where the Chief Executive and his senior team met the Senior Team from each Division.

Budgets were removed from the Divisions at individual Cost Centre Account Code Level and actual achievement was reported fortnightly to the Trust and SHA.

Over £10m was removed at cost centre level, and pay and non-pay under spends across the Trust generated a further £5m of savings, therefore achieving the £15m savings target and the Trust's £11.5m overspend 'control total'.

The Trust recognises that there remains room for improvement and that there are many difficult decisions to be taken in the future to achieve its desired position.

The Trust continues to work hard and collaboratively with the SHA and PCTs in implementing cost savings targeted at reducing the Trust's month-on-month deficit, and making plans to get back into monthly balance in 2007/2008.

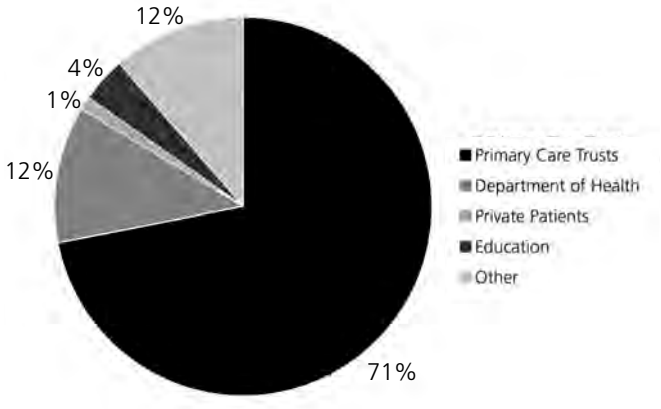
Date: 20 June 2007

Phil Bradley
Deputy Director of Finance

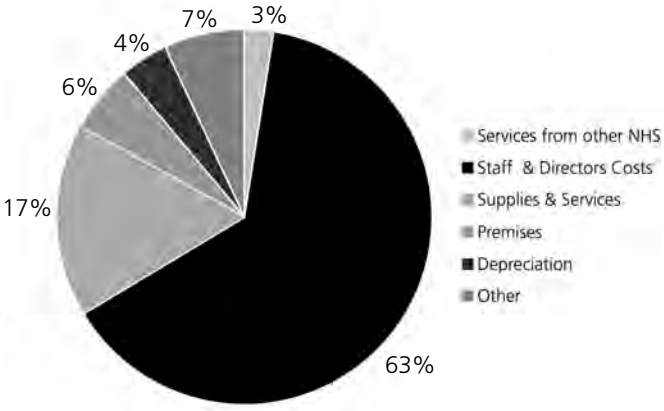
Date: 20 June 2007

David Law
Chief Executive

Sources of Income 2006/07



Where we spend our money



Better Payments Practice Code

Details of compliance with the code are given in note 6 (page 35) to the accounts.

Pay

The Trust applied the nationally agreed pay increase to all staff and therefore complied with the Secretary of State's requirement that pay increases for managers overall should not exceed 3.6%. The pay increase was a phased award of 1% from April 2006 and a further 1.2% from November 2006. The Trust has a well established Joint Consultative Committee, which provides a monthly forum for managers and staff side representatives to discuss and agree any changes to working arrangements or terms and conditions of employment.

Audit Services

The Audit Commission is appointed as the Trust's External Auditors. Audit fees per 2006/07 accounts were £281,000. There were no further assurance or other audit services.

The Trust's Committees

During 2006/07 the Trust reviewed the Board sub committee structure. In October the Board approved a document setting out the governance arrangements for the Trust, together with a revised committee structure. The Risk Management, Clinical Governance, Human Resources and Information Governance Committees were replaced with a single Assurance Committee.

Audit Committee

Membership: Martin Saunders (Chairman), Robin Douglas, Mahdi Hasan

Remit: The Audit Committee shall provide the Board with a means of independent and objective review of:

- Financial and information systems
- Financial and information reporting
- Compliance with law, NHS guidance and codes of conduct
- Internal controls and risk management
- Compliance with Controls Assurance Standards
- Counter Fraud Policies and Procedures

Finance and Performance Committee

Membership: Professor Thomas Hanahoe (Chairman), Robin Douglas, Martin Saunders, Colin Gordon, David Law, Stephen Day, Professor Graham Ramsay, Nick Evans, Sarah Shaw

Remit: To ensure that the Trust has sound financial and clinical performance systems that assess the current financial performance and plans for the future; that risks are assessed regularly and that the Trust has adequate plans, processes and systems for minimising risk; that financial and clinical outcomes are reviewed regularly against targets and that in light of those outcomes appropriate action is taken; that there is a robust, forward looking financial strategy that addresses the known and anticipated medium and longer term issues.

Remuneration Committee

Membership: Professor Thomas Hanahoe (Chairman), Mahdi Hasan, Katherine Charter

Remit: To advise the Trust Board on the appropriate levels of remuneration and terms of employment for the Chief Executive and other Executive Directors of the Trust, including the Medical Director in respect of his/her Management contract.

To approve on behalf of the Trust Board the recommendations of the Discretionary Points Committees in relation to:

- Consultants / Associate Specialists
- Staff Grades
- Nurses / Midwifes
- Allied Health Professionals

Assurance Committee

Membership: Robin Douglas (Chairman), Mahdi Hasan, Katherine Charter, David Law, Professor Graham Ramsay, Gary Etheridge, Nick Evans, Sarah Childerstone

Remit: To ensure that the Board has a sound assessment of risk and that the Trust has adequate plans, processes and systems for minimising risk.

Investing In Your Health Project Board

Membership: Robin Douglas (Chairman), Martin Saunders Gary Etheridge, Graham Ramsay, Sarah Shaw, Sarah Childerstone, Stephen Day, External representatives

Remit: Provide leadership and a clear strategic direction for the Projects forming the West Herts IiYH Programme, making clear decisions regarding the strategic direction of each of the Projects including but not limited to the resource commitment, objectives, priorities, risk profile and Project deliverables.

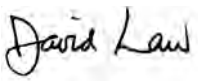
Remuneration Report 2006 - 2007

I have pleasure in presenting the Remuneration Report for the West Hertfordshire Hospitals NHS Trust for 2006/07.

This report outlines the executive appointments procedures and the salaries and pension benefits of the senior managers in tables A and B.

Executive Appointments

The Chief Executive and other Executive Directors are appointed by the Trust in accordance with Department of Health (DoH) guidelines and local policies. The appointments are substantive and may be terminated in accordance with statutory provisions and local policies. The Chairman and Non-Executive Directors are appointed by the Secretary of State for Health for a fixed term.



Date: 20 June 2007

David Law
Chief Executive

Notes to the Pension Benefits disclosure, Table B and the following three paragraphs, relate to the Directors Pensions note on page 27.

Non-Executive Members' Pensions

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

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV

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

Declaration of Interests

The Trust Board has taken all necessary steps to ensure that it is aware of any relevant audit information, and to ensure that the Trust's auditors have been made aware of all such relevant audit information of which the Trust's auditors are unaware.

Name	Declaration Noted by the Board	Interest Declared
Professor Thomas Hanahoe	April 2007	- Governor North Herts College of Further Education
Martin Saunders	April 2007	- Member Hertfordshire County Council - Member Hertsmere Borough Council - Director City Acre Property Investment Trust Ltd and Subsidiary Companies - Governor Aldenham School - Governor The Purcell School
Robin Douglas	April 2007	- Vice Chair of the Health and Social - Care Advisory Service - Chair of The Who Cares? Trust - Independent consultant in public services via Douglas Consulting - National Advisor to the Local Govt Leadership Centre and Coach with the NHS Institute
Colin Gordon	April 2007	
Mahdi Hasan	April 2007	
Katherine Charter	April 2007	- Nil return
David Law	April 2007	- Nil return
Professor Graham Ramsay	April 2007	- Editor in Chief PACT Multimedia Intensive Care Educational Programme - Founder/Executive Committee Member Surviving Sepsis Campaign - Consultant & Adviser to Respironics Inc - Consultant to Edwards Lifesciences
Gary Etheridge	April 2007	- Nil return
Nick Evans	April 2007	- Treasurer St. Mary's Church, Hornsey Rise, London N19 and Upper Holloway Parochial Church Council
Sarah Shaw	April 2007	- Nil return
Sarah Childerstone	April 2007	- Married to Regional Director of BUPA Care Homes covering South East England - Vice Chair of the Council of the Tavistock Institute of Human Relations in London

Directors Remuneration

Name	Title	Date	2006-07 SALARY (bands of £5,000) £	2006-07 Other Renumeration (bands of £5,000) £	2006-07 Benefits in kind (rounded to the nearest £00) £	2005-06 SALARY (bands of £5,000) £	2005-06 Other Renumeration (bands of £5,000) £	2005-06 Benefits in kind (rounded to the nearest £00) £
T. Hanahoe (V)	Chairman		20-25	0	0	5-10	0	0
D. Law (V)	Chief Executive		120-125	0	25	115-120	0	21
S. Namdarkhan (V)	Non-Executive	left May '06	0-5	0	0	5-10	0	0
R. Douglas (V)	Non-Executive		5-10	0	0	10-15	0	0
A. Bernard (Wright) (V)	Non-Executive	left April '06	0-5	0	0	5-10	0	0
M. Saunders (V)	Non-Executive		5-10	0	0	5-10	0	0
J. Wright (V)	Non-Executive	left April '06	0-5	0	0	5-10	0	0
C. Gordon (V)	Non-Executive	comm July '06	0-5	0	0	0	0	0
K. Charter (V)	Non-Executive	comm Oct '06	0-5	0	0	0	0	0
M. Hasan (V)	Non-Executive	comm July '06	0-5	0	0	0	0	0
C. Hughes (V)	Director of Finance	left Aug '06	30-35	0	0	90-95	0	29
P. Bradley (V)	Acting Director of Finance	Aug - Oct '06	15-20	0	0	0	0	0
S.Hogg (V)	Interim Director of Finance	Nov - Dec '06	25-30	0	0	0	0	0
R.Dunworth (V)	Interim Director of Finance	comm Jan '07	55-60	0	0	0	0	0
G. Etheridge (V)	Director of Nursing		80-85	0	28	80-85	0	23
N. Evans (V)	Director of Business Development		85-90	0	43	0	0	0
R. Rawlinson	Interim Director of Human Resources	left Jun '06	30-35	0	0	0	0	0
S Childerstone	Director of Human Resources	comm Sept '06	45-50	0	37	0	0	0
S. Colbert	Director of Estates & Facilities	left Feb '07	85-90*	0	0	70-75	0	0
P. Mosley	Acting Director of Estates & Facilities	comm Feb '07	5-10	0	0	5-10	0	0
S. Shaw	Director of Planning		80-85	0	37	75-80	0	22
I. Campbell (V)	Director of Operations	left Sept '06	50-55	0	0	5-10	0	0
N. Chatten	Director of Operations	comm Jan '07	20-25	0	0	0	0	0
G. Ramsey (V)	Medical Director		155-160	0	55	0	0	0

* Includes 3 months salary in lieu of notice.

During the year the Trust agreed a settlement with a former Director in respect of loss of office, the gross cost of which was £153k.

V - voting member

Directors Pensions

	Real increase in pension at 60 (bands of £2,500)	Real increase in pension lump sum at ages 60 (bands of £2,500)	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000)	Lump sum at age 60 related to accrued pension at 31 March 2007 (bands of £5,000)	Cash Equivalent Transfer Value at 31 March 2007	Cash Equivalent Transfer Value at 31 March 2006	Real increase in Cash Equivalent Transfer Value	Employer's contribution to stakeholder pension
D. Law	0-2.5	2.5-5	30-35	100-105	468,945	434,922	34	0
C. Hughes	0-2.5	0-2.5	25-30	85-90	392,454	346,693	46	0
P. Bradley	0-2.5	0-2.5	25-30	75-80	323,984	263,991	60	0
G. Etheridge	0-2.5	0-2.5	20-25	65-70	278,480	259,319	19	0
N. Evans	0-2.5	0-2.5	35-40	110-115	634,793	608,191	27	0
S Childerstone	0-2.5	0-2.5	20-25	60-65	357,987	326,204	32	0
S. Colbert	0-2.5	0-2.5	0-5	5-10	30,442	18,442	12	0
P. Mosley	0-2.5	0-2.5	25-30	75-80	407,440	354,290	53	0
S. Shaw	0-2.5	2.5-5	5-10	20-25	74,452	61,642	13	0
I. Campbell	0-2.5	5-7.5	35-40	105-110	608,513	512,309	96	0

Letter of Representation

From: West Hertfordshire Hospitals NHS Trust
Trust Offices, Hemel Hempstead General Hospital
Hillfield Road, Hemel Hempstead Hertfordshire HP2 4AD

To: Mr Rob Murray
District Auditor, Audit Commission, 1st and 2nd Floors
Sheffield House, Lytton Way, Off Gates Way
Stevenage Hertfordshire SG1 3HB

Re: West Hertfordshire Hospitals NHS Trust Financial Statements for the 12 Months Ended 31st March 2007

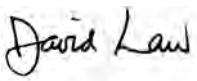
Dear Mr Murray,

We confirm to the best of our knowledge and belief, having made appropriate enquiries of other directors and officers of the Trust, the representations given to you in connection with your audit of the financial statements for the 12 months ended 31st March 2007. In particular we confirm:

- that we accept our collective responsibility for the accounts and have approved the accounts
- that all accounting records have been made available to you for the purpose of your audit and that all transactions undertaken by the Trust have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Board meetings, have been made available to you.
- that the financial statements have been prepared on a going concern basis and that there are no concerns regarding the Trust's ability to continue as a going concern for at least the next twelve months.
- that the Trust has carried out a formal review of its accounting policies as per FRS 18 and made any appropriate changes.
- that all provisions have been identified and accounted for in accordance with FRS 12.
- that the provision for bad debts is based upon a robust assessment of the likelihood of non-payment and that there are no known bad debts other than those already provided for in the financial statements.
- that all impairments to fixed assets have been identified and accounted for in compliance with the guidance issued by the Department of Health and FRS 11.
- that there are no material transactions with related parties other than those which have been properly recorded and disclosed in the financial statements. No income accrual has been made for Partially Completed Patient Spells as at 31st March 2007 valued at £1.185m. as this is not considered to be material in the overall context of the Trust's financial position.
- that there are no known intangible assets, including software licences, patents, trade marks licences or custodies over intellectual property rights, other than those recorded in the financial statements.
- that there have been no disposals of fixed assets during the year other than those recorded in the financial statements.
- that there are no significant contingent liabilities other than those disclosed in the notes to the accounts.
- that there is no significant pending litigation, proceedings or claims other than those disclosed in the notes to the accounts.
- that the Trust has not entered into any pooled budget agreements.
- that, other than disclosed in the accounts, no significant post balance sheet events have occurred which would require adjustment to, or disclosure in, the accounts.
- that the Trust has well-developed plans for service re-configuration which will re-provide all emergency services on one chosen site. During the next twelve months the commencement of this work may materially affect the carrying value of assets reflected in the financial statements.
- that there are no instances of non-compliance with laws or regulations which would require adjustment to, or disclosure in, the accounts.
- that a formal review of the effectiveness of the Trust's system of internal control has been carried out which has enabled the Trust to make the necessary disclosures in line with guidance issued by the Department of Health.
- that there are no known significant instances ofirregularities, including fraud, other than those already disclosed to the auditors.
- that the Trust's register of interests is complete and up-to-date in respect of directors and senior staff, and that the Trust has ensured that all directors and key managers are aware of the requirements to declare all interests relevant to the Trust, including interests of families, partners and entities controlled by them.

This letter has been discussed and approved by the Trust Audit Committee at its meeting held on 20th June 2007.

Yours sincerely,



Date: 20 June 2007

David Law
Chief Executive

Date: 20 June 2007

Martin Saunders
Audit Committee Chairman

Auditors Report

Independent auditor's report to the Directors of the Board of West Hertfordshire 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 2007 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies 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 opinions 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 2003/4'* issued on 15 September 2003 and further guidance on 7 April 2006 and 2 April 2007.

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.

I read other information contained in the Annual Report, and consider whether it is consistent with audited financial statements. This other information comprises only the Foreword, the unaudited part of the Remuneration Report, the Chairman's Statement and the Operating and Financial Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and Internationals Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, on 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration report to be audited are free 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 2007 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.

Date: 22 June 2007

Rob Murray
Engagement Lead

(Officer of the Audit Commission), Sheffield House, Lytton Way, Stevenage, Hertfordshire, SG1 3HB

Annual Accounts 2006 - 2007

These accounts for the year ended 31 March 2007 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 2007

	NOTE	2006/07 £000	2005/06 £000
Income from activities	2	**186,888**	174,664
Other operating income	3	**31,360**	34,535
Operating expenses	4	**(221,894)**	(227,496)
OPERATING DEFICIT		**(3,646)**	(18,297)
Loss on disposal of fixed assets	7	**(2)**	(389)
DEFICIT BEFORE INTEREST		**(3,648)**	(18,686)
Interest receivable		**408**	578
Interest payable	8	**(19)**	(33)
Other finance costs - unwinding of discount	15	**(128)**	(131)
Other finance costs - change in discount rate on provisions		**0**	(667)
DEFICIT FOR THE FINANCIAL YEAR		**(3,387)**	(18,939)
Public Dividend Capital dividends payable		**(8,026)**	(7,846)
RETAINED DEFICIT FOR THE YEAR		**(11,413)**	(26,785)

All income and expenditure is derived from continuing operations.

Note to the Income and Expenditure Account for the year ended 31 March 2007

	31 March 2007 £000	31 March 2006 £000
etained deficit for the year	**(11,413)**	(26,785)
inancial support included in retained surplus/(deficit) for the year -	**0**	0
inancial support included in retained surplus/(deficit) for the year - nternally Generated	**0**	0
etained deficit for the year excluding financial support	**(11,413)**	(26,785)

In 2005/06 the retained deficit for the year included a reduction in income of £10,512k made under the NHS Resource Accounting Budget which required a deficit taken from one year to be resourced from the following year's income.

In 2006/07 the provision of financial support has been replaced by a regime of loans and deposits with the Department of Health. Details of loans received from the Department of Health can be found in note 14.2 to the accounts.

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

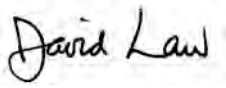
	2006/07 £000	2005/06 £000
Deficit for the financial year before dividend payments	**(3,387)**	(18,939)
Unrealised surplus on fixed asset revaluations/indexation	**15,736**	7,063
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed	**154**	25
Total recognised gains and losses for the financial year	**12,503**	(11,851)

Balance Sheet as at 31 March 2007

	NOTE	31 March £000	31 March £000
FIXED ASSETS			
Intangible assets	9	**3,648**	602
Tangible assets	10	**235,400**	223,517
		239,048	224,119
CURRENT ASSETS			
Stocks	11	**2,932**	3,189
Debtors	12	**10,862**	16,633
Cash at bank and in hand	17.3	**121**	227
		13,915	20,049
CREDITORS: Amounts falling due within one year	14	**(19,255)**	(32,424)
NET CURRENT LIABILITIES		**(5,340)**	(12,375)
TOTAL ASSETS LESS CURRENT LIABILITIES		**233,708**	211,744
CREDITORS: Amounts falling due after more than one year	14	**(8,960)**	(7)
PROVISIONS FOR LIABILITIES AND CHARGES	15	**(10,706)**	(9,200)
TOTAL ASSETS EMPLOYED		**214,042**	202,537
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	21	**159,889**	152,547
Revaluation reserve	16	**100,202**	85,290
Donated asset reserve	16	**1,967**	2,021
Income and expenditure reserve	16	**(48,016)**	(37,321)
TOTAL TAXPAYERS' EQUITY		**214,042**	202,537

Date: 20 June 2007

Phil Bradley
Deputy Director of Finance



Date: 20 June 2007

David Law
Chief Executive

Cash Flow Statement for the year ended March 2007

	NOTE	2006/07 £000	2005/06 £000
OPERATING ACTIVITIES			
Net cash outflow from operating activities	17.1	**(342)**	(4,535)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		**413**	567
Interest paid		**(36)**	(1)
Net cash inflow from returns on investments and servicing of		**377**	566
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		**(7,635)**	(7,148)
Payments to acquire intangible assets		**(3,078)**	(32)
Receipts from sale of tangible fixed assets		**162**	4,096
Net cash outflow from capital expenditure		**(10,551)**	(3,084)
DIVIDENDS PAID		**(8,026)**	(7,846)
Net cash outflow before financing		**(18,542)**	(14,899)
FINANCING			
Public dividend capital received		**18,542**	14,899
Public dividend capital repaid (not previously accrued)		**(11,200)**	0
Loans received from DH		**11,200**	0
Net cash inflow from financing		**18,542**	14,899
Increase/(decrease) in cash		**0**	0

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. The accounting policies contained in that manual follow UK generally accepted accounting practice and HM Treasury's Government Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS. 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 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. This is not the case for Partially Completed Spells which the Trust do not accrue for.

1.4. Intangible fixed assets

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

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. 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 in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years 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 Revenue and Customs 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 scheduled for imminent closure and subsequent disposal.

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. 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 indexes 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, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income may be paid by the Trust's main commissioner using funding provided by the NHS Bank. The Trust had no such impairments during 2006/07.

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. 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. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.10. Research and development

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

- there is a clearly defined project;
- the related expenditure is separately identifiable;
- the outcome of the project has been assessed with reasonable certainty as to:
  - its technical feasibility;
  - its resulting in a product or service which will eventually be brought into use;
- 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.

1.11. Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the 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 16.

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 2006/07 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

Non-clinical risk pooling

The Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme 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.

1.12. Pension costs

Past and present employees are covered by the provisions of the NHS Pensions 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 NHS 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 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 Business Service Authority - Pensions Division website at www.nhspa.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 members can make contributions to enhance their employee pension benefits. The benefits payable relate directly to the value of the investments made.

1.13. 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.

1.14. 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.

1.15. 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.

1.16. 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.

1.17. Leases

For Operating Leases the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease. The Trust currently has no Finance Leases.

1.18. Public Dividend Capital (PDC) and PDC Dividend

Public Dividend Capital (PDC) 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 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 calulated as a simple average of opening and closing relevant net assets. Note 22.2 to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

1.19. 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 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.20. EU Emissions Trading Scheme

The Trust is not currently a member of the EU Emissions Trading Scheme.

2. Income form Activites

	2006/07	2005/06
	£000	£000
Primary Care Trusts	158,061	162,485
Local Authorities	153	112
Department of Health	25,450	8,560
Non NHS:		
- Private patients	2,132	2,192
- Overseas patients (non-reciprocal)	338	418
- Road Traffic Act	730	868
- Other	24	29
	186,888	174,664

Road Traffic Act income is subject to a provision for doubtful debts of 9.1% to reflect expected rates of collection.

3. Other Operating Income

	2006/07	2005/06
	£000	£000
Education, training and research	8,321	9,764
Charitable and other contributions to expenditur	0	15
Transfers from donated asset reserve	314	692
Income Generation	2,424	3,066
Other income	20,301	20,998
	31,360	34,535

Income Generation comprises income from the Pharmaceutical Packaging Assembly Service of £1,522k, staff accommodation £343k, car parking £375k, and other income generation of £184k.

Other income comprises Estates services of £463k, services provided to other Hertfordshire Trusts £8,614k, services provided to other NHS bodies £4,047k, other Regional Income £2,106k, and miscellaneous income £5,071k.

With effect from 1st October 2006, the management of the Burns and Plastics services at the Mount Vernon Hospital transferred to the Royal Free Hospital NHS Trust. Income relating to these services in 2005/06 was £12,348k for a full year, and in 2006/07 £6,461k for six months and is included under various headings under both Income from Activities and Other Operating Income.

With effect from 1st October 2006, the management of the Acute Paediatric Services at the Watford General General Hospital transferred to the Trust from the Hertfordshire Partnership Trust. The income for 2006/07 for 6 months was £3,471k and is included under various headings under both Income from Activities and Other Operating Income.

4.2. Operating Expenses

4.1. Operating expenses comprise:	2006/07	2005/06
	£000	£000
Services from other NHS Trusts	5,802	6,198
Services from other NHS bodies	77	49
Directors' costs	779	682
Staff costs	141,333	145,802
Supplies and services - clinical	29,538	30,973
Supplies and services - general	7,722	7,379
Establishment	3,673	4,209
Transport	31	44
Premises	13,065	13,753
Bad debts	149	203
Depreciation	9,185	8,367
Amortisation	213	84
Audit fees	281	241
Clinical negligence	3,818	4,048
Redundancy costs	34	0
Other	6,194	5,464
	221,894	227,496

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

With effect from 1st October 2006, the management of the Burns and Plastics Services at the Mount Vernon Hospital transferred to the Royal Free Hospital NHS Trust. Expenditure relating to these services in 2005/06 was £7,673k for a full year and in 2006/07 £3,542k for 6 months and is included under various headings above.

With effect from 1st October 2006, the management of the Acute Paediatric Services at the Watford General Hospital transferred to the Trust from the Hertfordshire Partnership Trust. Expenditure relating to these services in 2006/07 was £3,048k for 6 months and is included under various headings above.

4.2. Operating leases

4.2/1.Operating expenses include:

	2006/07 £000	2005/06 £000
Other operating lease rentals	**886**	1,178
	886	1,178

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

	Land and buildings		Other leases	
	2006/07 £000	2005/06 £000	**2006/07 £000**	2005/06 £000
Operating leases which expire:				
Within 1 year	**0**	0	**192**	220
Between 1 and 5 years	**0**	0	**687**	649
After 5 years	**27**	27	**25**	176
	27	27	**904**	1,045

5. Staff costs and numbers

5.1. Staff costs

	2006/07 Total	Permanently Employed	Other	2005/06
	£000	**£000**	**£000**	£000
Salaries and wages	**120,243**	110,266	9,977	124,500
Social Security Costs	**9,788**	9,385	403	9,252
Employer contributions to NHS Pension Scheme	**12,964**	12,430	534	12,681
	142,995	**132,081**	**10,914**	146,433

Staff costs above exclude non-executive directors.

The above costs exclude capitalised staff costs totalling £172k (2005/06: £174k).

"Other" staff costs relate to agency /bank staff.

5.2. Average number of persons employed

	2006/07 Total	Permanently Employed	Other	2005/06
	Number	**Number**	**Number**	Number
Medical and dental	**513**	484	29	507
Administration and estates	**937**	844	93	1,013
Healthcare assistants and other support staff	**583**	583	0	570
Nursing, midwifery and health visiting staff	**1,260**	1,142	118	1,297
Nursing, midwifery and health visiting learners	**5**	5	0	5
Scientific, therapeutic and technical staff	**395**	367	28	465
Other	**34**	29	5	9
Total	**3,727**	**3,454**	**0** **273**	**3,866**

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

	2006/07 £000	2005/06 £000
Management costs	**11,568**	10,009
Income	**218,248**	209,199
Percentage of Management Costs to turnover	**5.27%**	4.81%

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 2006/07 there were 8 (2005/06: 7) early retirements from the NHS Trust on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £402k (2005/06: £194k). The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.

6. Better Payment Practice Code

6.1. Better Payment Practice Code - measure of compliance

	2006/07 Number	2006/07 £000
Total Non-NHS trade invoices paid in the year	**64,096**	**59,761**
Total Non NHS trade invoices paid within target	**13,576**	**19,046**
Percentage of Non-NHS trade invoices paid within target	**21%**	**32%**
Total NHS trade invoices paid in the year	**3,329**	**25,076**
Total NHS trade invoices paid within target	**616**	**9,485**
Percentage of NHS trade invoices paid within target	**19%**	**38%**

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 2006/07 the Trust extended creditor payment terms to assist in the management of cashflows which were negatively affected by the Income and Expenditure Account deficit.

6.2. The Late Payment of Commercial Debts (intrest) Act 1998

	2006/07 £000	2005/06 £000
Amounts included within Interest Payable (Note 8) arising from claims made under this legislation	**4**	33

7. Loss on Disposal of Fixed Assets

	2006/07 £000	2005/06 £000
Loss on disposal of plant and equipment	**(2)**	(389)

8. Interest Payable

	2006/07 £000	2005/06 £000
Late payment of commercial debt	**4**	33
Loans	**15**	0
	19	33

9. Intangible Fixed Assets

	Software licences	Licenses and trademarks	Patents	Development expenditure	Total
	£000	**£000**	**£000**	**£000**	**£000**
Gross cost at 1 April 2006	779	0	0	0	779
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	376	0	0	0	376
Other revaluation	0	0	0	0	0
Additions purchased	2,883	0	0	0	2,883
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 2007	**4,038**	**0**	**0**	**0**	**4,038**
Amortisation at 1 April 2006	177	0	0	0	177
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	213	0	0	0	213
Disposals	0	0	0	0	0
Amortisation at 31 March 2007	**390**	**0**	**0**	**0**	**390**
Net book value					
- Purchased at 1 April 2006	602	0	0	0	602
- Donated at 1 April 2006	0	0	0	0	0
- Government granted at 1 April 2006	0	0	0	0	0
- Total at 1 April 2006	**602**	**0**	**0**	**0**	**602**
- Purchased at 31 March 2007	3,648	0	0	0	3,648
- Donated at 31 March 2007	0	0	0	0	0
- Government granted at 31 March 2007	0	0	0	0	0
- Total at 31 March 2007	**3,648**	**0**	**0**	**0**	**3,648**

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 2006	86,732	105,966	9,278	8,534	18,979	178	6,989	3,960	240,616
Additions purchased	0	605	0	3,914	948	0	325	0	5,792
Additions donated	0	0	0	0	154	0	0	0	154
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	429	22	(1,249)	209	0	213	0	(376)
Indexation	4,957	8,592	752	618	524	5	0	271	15,719
Other in year revaluation	0	381	0	0	0	0	0	0	381
Disposals	0	(161)	0	0	(758)	0	0	0	(919)
Cost or Valuation at 31 March 2007	**91,689**	**115,812**	**10,052**	**11,817**	**20,056**	**183**	**7,527**	**4,231**	**261,367**
Depreciation at 1 April 2006	0	0	0	0	12,254	128	3,839	878	17,099
Charged during the year	0	5,791	312	0	1,737	25	1,028	292	9,185
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	0	0	0	339	4	0	21	364
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(681)	0	0	0	(681)
Depreciation at 31 March 2007	**0**	**5,791**	**312**	**0**	**13,649**	**157**	**4,867**	**1,191**	**25,967**
Net book value									
- Purchased at 1 April 2006	86,732	105,215	9,278	8,516	5,722	23	3,139	2,871	221,496
- Donated at 1 April 2006	0	751	0	18	1,003	27	11	211	2,021
- Government granted at 1 April 2006	0	0	0	0	0	0	0	0	0
- Total at 1 April 2006	**86,732**	**105,966**	**9,278**	**8,534**	**6,725**	**50**	**3,150**	**3,082**	**223,517**
- Purchased at 31 March 2007	91,689	109,271	9,740	11,812	5,437	5	2,651	2,828	233,433
- Donated at 31 March 2007	0	750	0	5	970	21	9	212	1,967
- Government granted at 31 March 2007	0	0	0	0	0	0	0	0	0
- Total at 31 March 2007	**91,689**	**110,021**	**9,740**	**11,817**	**6,407**	**26**	**2,660**	**3,040**	**235,400**

Of the totals at 31 March 2007, £757k 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 2007comprises:

	31 March 2007 £000	31 March 2006 £000
Freehold	211,450	201,976
TOTAL	**211,450**	201,976

11. Stocks

	31 March 2007 £000	31 March 2006 £000
Raw materials and consumables	2,932	3,189
TOTAL	**2,932**	3,189

12. Debtors

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
NHS debtors	**5,305**	10,206
Provision for irrecoverable debts	**(325)**	(376)
Other prepayments and accrued income	**1,229**	2,353
Other debtors	**3,968**	3,608
Sub Total	**10,177**	15,791
Amounts falling due after more than one year:		
NHS debtors	**372**	387
Other debtors	**313**	455
Sub Total	**685**	842
TOTAL	**10,862**	16,633

NHS Debtors falling due after more than one year of £372k (2005/06: £387k) relate to back-to-back debtors for payments made in respect of early retirement and injury benefit claims, primarily with the West Hertfordshire Primary Care Trust.

Other Debtors falling due after more than one year of £313k (2005/06: £455k) relate to Road Traffic Accident claims administered by the Compensation Recovery Unit.

13. Investments

The Trust has no Fixed Asset or Current Asset Investments.

14. Creditors

14.1. Creditors at the balance sheet date are made up of:

	31 March 2007 £000	31 March 2006 £000
Amounts falling due within one year:		
Bank overdrafts	**121**	227
Current instalments due on loans	**2,240**	0
Interest payable	**15**	32
NHS creditors	**6,612**	10,345
Non - NHS trade creditors - revenue	**1,392**	3,827
Non - NHS trade creditors - capital	**965**	3,001
Tax	**176**	2,000
Social security costs	**7**	1,582
Other creditors	**2,396**	2,593
Accruals and deferred income	**5,331**	8,817
Sub Total	**19,255**	32,424
Amounts falling due after more than one year:		
Long - term loans	**8,960**	0
NHS creditors	**0**	7
Sub Total	**8,960**	7
TOTAL	**28,215**	32,431

14.2. Loans

	31 March 2007 £000	31 March 2006 £000
Amounts falling due:		
In one year or less	**2,240**	0
Between one and two years	**2,240**	0
Between two and five years	**6,720**	0
TOTAL	**11,200**	0

	31 March 2007 £000	31 March 2006 £000
Wholly repayable within five years	**11,200**	0
TOTAL	**11,200**	0

14.3. Finance lease obligations and Commitments

The Trust has no Finance Lease obligations or commitments.

15. Provisions for liabilities and charges

	Pensions relating to former £000	Pensions relating to other £000	Legal claims £000	Restructurings £000	Other £000	**Total £000**
At 1 April 2006	0	6,890	0	0	2,310	**9,200**
Arising during the year	0	135	0	0	2,569	**2,704**
Utilised during the year	0	(492)	0	0	(834)	**(1,326)**
Reversed unused	0	0	0	0	0	**0**
Unwinding of discount	0	117	0	0	11	**128**
At 31 March 2007	0	6,650	0	0	4,056	**10,706**
Expected timing of cashflows:						
Within one year	0	505	0	0	3,545	**4,050**
Between one and five years	0	2,719	0	0	178	**2,897**
After five years	0	3,426	0	0	333	**3,759**

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.

(i) £545k (2005/06: £565k) 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) £3,211k (2005/06: £1,745k) back-pay (to 1st October 2004) for staff currently being assimilated under the NHS salary review, Agenda for Change, including those already assimilated but subject to formal review. The expected timing of cashflows is based upon information currently to hand but could be subject to minor variations.

(iii) £300k (2005/06: £0k) staff compensation claims.

£32,215k is included in the provisions of the NHS Litigation Authority at 31 March 2007 in respect of clinical negligence liabilities of the NHS Trust 31 March 2006 £22,403k).

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 2006 as previously stated	85,290	2,021	0	0	(37,321)	**49,990**
Transfer from the income and expenditure account	0	0	0	0	(11,413)	**(11,413)**
Surplus on revaluations/indexation of fixed assets	15,630	106	0	0	0	**15,736**
Transfer of realised profits/(losses) to the Income and Expenditure Reserve	(1)	0	0	0	1	**0**
Receipt of donated/government granted assets	0	154	0	0	0	**154**
Transfers to the Income and Expenditure account for depreciation and disposal of donated assets	0	(314)	0	0	0	**(314)**
Other transfers between reserves	(717)	0	0	0	717	**0**
At 31 March 2007	**100,202**	**1,967**	**0**	**0**	(48,016)	**54,153**

17. Notes to the cash flow Statement

17.1. Reconciliation of operating surplus to net cash flow from operating activities:

	2006/07 £000	2005/06 £000
Total operating deficit	**(3,646)**	(18,297)
Depreciation and amortisation charge	**9,398**	8,451
Transfer from donated asset reserve	**(314)**	(692)
Decrease in stocks	**257**	132
Decrease in debtors	**5,842**	2,718
Increase/(decrease) in creditors	**(13,257)**	1,929
Increase in provisions	**1,378**	1,224
Net cash outflow from operating activities	**(342)**	(4,535)

17.2. Reconciliation of net cash flow to movement in net debt

	2006/07 £000	2005/06 £000
Increase/(decrease) in cash in the period	**0**	0
Cash inflow from new debt	**(11,200)**	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 cash flows	**(11,200)**	0
Non - cash changes in debt	**0**	2,372
Net debt at 1 April 2006	**0**	(2,372)
Net debt at 31 March 2007	**(11,200)**	0

17.3. Analysis of changes in net debt

	At 1 April 2006 £000	Cash Transferred (to)/from other NHS bodies £000	Other cash changes in year £000	Non-cash changes in year £000	**At 31 March 2007 £000**
OPG cash at bank	100	0	(100)	0	**0**
Commercial cash at bank and in hand	127	0	(6)	0	**121**
Bank overdraft	(227)	0	106	0	**(121)**
Loan from DH due within one year	0	0	(2,240)	0	**(2,240)**
Loan from DH due after one year	0	0	(8,960)	0	**(8,960)**
	0	**0**	**(11,200)**	**0**	**(11,200)**

18. Capital Commitments

Commitments under capital expenditure contracts at 31 March 2007 were £428k (31 March 2006 £5,154k).

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.

20. Contingencies

	2006/07	2005/06
	£000	£000
Contingent liabilities (gross value)	(65)	(133)
Value of contingent liabilities	(65)	(133)

The Trust has contingent liabilities of £65k (2005/06: £133k) relating to staff injury and public liability claims. These have been calculated by the NHS Litigation Authority using probability factors.

21. Movement in Public Dividend Capital

	2006/07	2005/06
	£000	£000
Public Dividend Capital as at 1 April 2006	152,547	137,648
New Public Dividend Capital received (including transfers from dissolved NHS Trust	18,542	14,899
Public Dividend Capital repaid in year	(11,200)	0
Public Dividend Capital as at 31 March 2007	159,889	152,547

22. Financial Performance Targets

22.1. Breakeven Performance

The Trust's breakeven performance for 2006/07 is as follows:

	2000/01 £000	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000	2005/06 £000	2006/07 £000
Turnover	163,440	173,576	210,257	215,098	236,706	209,199	218,248
Retained surplus/(deficit) for the year	17	(11,487)	11,668	(4,652)	(9,978)	(26,785)	(11,413)
Other agreed adjustments:							
- RAB adjustment	0	0	0	0	321	14,111	26,785
Break-even in year position	17	(11,487)	11,668	(4,652)	(9,657)	(12,674)	15,372
Break-even cumulative position	17	(11,470)	198	(4,454)	(14,111)	(26,785)	(11,413)
Materiality test (i.e. is it equal to or less than 0.5%):							
- Break-even in-year position as a percentage of turnover	0.01%	(6.62%)	5.55%	(2.16%)	(4.08%)	(6.06%)	7.04%
- Break-even cumulative position as a percentage of turnove	0.01%	(6.61%)	0.09%	(2.07%)	(5.96%)	(12.80%)	(5.23%)

Notes:

1. The East of England SHA has formally agreed that the deficits incurred within 2004/05 and 2005/06 were repaid in the following financial year through reduced PCT purchasing power. In addition, an option to recalibrate has been implemented, which elimates the cumulative deficit for 2003/04, and therefore the Trust's duty to break-even over a rolling 3 year period now commences from the 2006/07 financial year in which a deficit of £11,413m was incurred.
2. The Trust has implemented a Turnaround Plan in 2006/07 which has substantially reduced the Income and Expenditure account deficit. This plan will be further developed during 2007/08 in order to achieve an Income and Expenditure account surplus for the year of £5m, which is the control total agreed with the East of England Strategic Health Authority (SHA).
3. The Trust and the SHA believe that major service re-configuration is the only opportunity to achieve recurring financial balance. This will require additional capital funds from the SHA to re-provide all emergency services on one chosen site. Consultation with the public and other stakeholders has been completed, and an Outline Business Case for the changes will be presented to the SHA early in 2007/08. Although the consultation process is subject to Judicial Review, the Trust has the permission of the Court to proceed with service re-configuration which could subsequently be reversed if required.

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 £8,026k, bears to the average relevant net assets of £206,246k 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 not permitted to undershoot.

	2006/07	2005/06
	£000	£000
External financing limit	18,542	14,899
External financing requirement	18,542	14,899
Undershoot/(overshoot)	0	0

22.4. Capital Resource Limit

The Trust is given a capital resource limit which it is not permitted to overspend

	2006/07	2005/06
	£000	£000
Gross capital expenditure	8,829	8,705
Less: book value of assets disposed of	(238)	(4,488)
Plus: loss on disposal of donated assets	0	0
Less: donations towards the acquisition of fixed assets	(154)	(25)
Charge against the capital resource limit	8,437	4,192
Capital resource limit	9,298	7,784
Underspend against the capital resource limit	861	3,592

The 2006/07 underspend relates to partially completed capital projects, to be completed in April/May 2007.

23. Related Party Transactions

The Trust is a body corporate established by order of the Secretary of State for Health.

During the year the following Board Members or parties related to them have undertaken material transactions with West Hertfordshire Hospitals NHS Trust.

	Payments to Related Party £	Receipts from Related £	Amounts owed to Related Party £	Amounts due from Related £
2006/07				
Non-Executive Directors				
Martin Saunders - Herts County Council	12,617	193,877	0	13,080
- Aldenham School	0	300	0	0
Colin Gordon - University Of Hertfordshire	68,614	33,635	53,939	3,706
Executive Directors				
Nicholas Chatten - Nicholas Chatten Consultar	20,650	0	20,650	0
Prof Graham Ramsay - Respironics Inc	4,243	0	0	0
- Edwards Lifesciences	37,695	0	859	0
	143,819	227,812	75,448	16,786

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 Department. These entities are listed below:

	Payments to Related Party £	Receipts from Related £	Amounts owed to Related Party £	Amounts due from Related £
2006/07				
NHS Executive				
Health General Cash	8,026,000	18,542,000	0	0
Trusts				
The Hillingdon Hospital	2,011,145	2,916,494	558,928	244,946
East & North Herts	3,612,272	7,689,357	496,820	417,828
Beds & Herts Ambulance	1,077,708	(4,896)	143	0
Herts Partnership	1,791,408	9,623,713	412,315	120,499
PCT's				
Barnet PCT	0	1,363,799	45,407	0
Brent PCT	0	1,520,485	95,042	0
Ealing PCT	0	2,346,318	37,416	0
Harrow PCT	107,208	3,939,548	53,870	0
Hillingdon PCT	0	8,111,783	0	474,021
Luton PCT	0	2,580,011	234,036	0
West Hertfordshire PCT	1,278,231	185,867,784	2,096,465	2,723,761
Health Authorities				
East of England SHA	185,058	1,797,085	110,671	375,793
National Blood	2,346,422	0	13,120	0
NHS Logistics	5,480,217	0	77,152	0
Other Bodies				
Customs & Excise	0	4,062,846	0	0
NHS Professionals	1,708,676	32,848	144,757	2,778
Inland Revenue	40,753,483	0	0	0
NHSPA	19,827,583	0	143,604	0
Eastern Deanery	0	6,592,401	0	0
Department of Health	23,325,406	59,503,217	0	981,416
NHS Litigation Authority	4,116,963	50	149	50
	115,647,780	316,484,843	4,519,895	5,341,092

The Trust has also received revenue and capital payments from a number of charitable funds, certain of 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 NHS Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, the NHS Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The NHS Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS 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 should be shown gross. Any amount expected in reimbursement against a provision (and included in debtors) should be separately disclosed.

Liquidity risk

The NHS 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

75% 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

			Fixed rate				Non-interest
	Total	Floating rate	Fixed rate	Non-interest bearing	Weighted average interest rate	Weighted average period for which fixed	Weighted average term
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling	493	121	372	0	0.00%	5	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	**493**	**121**	**372**	**0**			
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**			

24.2. Financial Liabilities

			Fixed rate				Non-interest
	Total	Floating rate	Fixed rate	Non-interest bearing	Weighted average interest	Weighted average period for	Weighted average term
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2007							
Sterling	181,915	121	21,905	159,889	0.00%	5	0
Other	0	0	0	0	0.00%	0	0
Gross financial liabilities	**181,915**	**121**	**21,905**	**159,889**			
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**			

The Trust's non-interest bearing financial liabilities consist of provisions for early retirement liabilities and Public Dividend Capital (PDC). The PDC is of unlimited term.

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 NHS Trust's financial assets and liabilities as at 31 March 2007.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	121	121	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	372	372	Note a
Total	493	493	
Financial liabilities			
Overdraft	(121)	(121)	
Provisions under contract	(10,705)	(10,705)	Note b
Loan	(11,200)	(11,200)	Note c
Public dividend capital	(159,889)	(159,889)	Note d
Total	(181,915)	(181,915)	

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. Fair value is not significantly different from book value.

b. Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 3.5% in real terms.

c. Loan is the full value in the balance sheet and is equal to 'fair value'.

d. PDC is the full value in the balance sheet and is equal to 'fair value'.

25. Third Party Assets

The Trust held £3k cash at bank and in hand at 31 March 2007 (£1k - at 31 March 2006) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure 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	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	4,505	372	2,938	8,960
Balances with Local Authorities	106	0	0	0
Balances with NHS Trusts and Foundation Trusts	797	0	3,523	0
Balances with Public Corporations and Trading Funds	3	0	151	0
Balances with bodies external to government	4,766	313	12,643	0
At 31 March 2007	**10,177**	**685**	**19,255**	**8,960**
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	15,791	842	32,424	7

27. Losses and Special Payments

There were 39 cases of losses and special payments (2005/06: 142 cases) totalling £655,929 (2005/06: £144,613) paid during 2006/07.

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Published September 2007

Designed by the West Hertfordshire Hospitals NHS Trust Medical Illustration Department