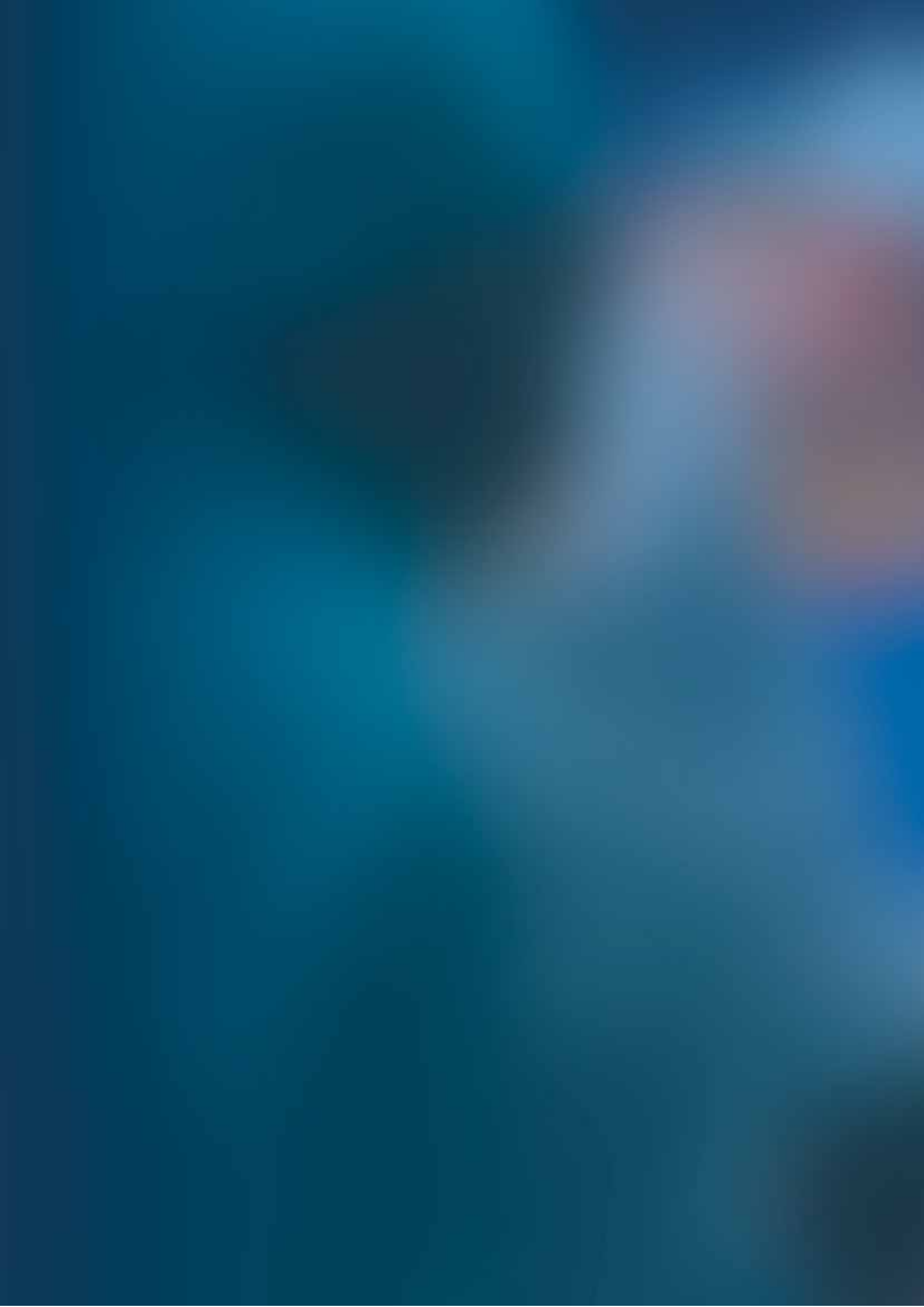
# ANNUAL REPORT 2007/08

## ANNUAL ACCOUNTS AND STATEMENT ON INTERNAL CONTROL 2007/08




# Content

# Statement from the Chair and the

This has been an exciting, yet challenging year for the Trust. Our financial results are the best for many years, achieving a surplus of £1.1m. The number of patients admitted and treated at the Trust saw a growth of over 9% in 2007/08, reflecting increasing demand for complex orthopaedic surgery. At the same time, the Trust has demonstrated improvements in clinical performance including an increased proportion of admissions on the day of procedure, higher day case rates and reduced lengths of stay. The redevelopment of the hospital gained momentum. Work has begun on the redevelopment of the Trust's outpatients' department in Central London and the Trust gained agreement from NHS London to develop an outline business case for a rebuild of the hospital in Stanmore, without having to consider other options. This was very welcome news and gives the Trust the opportunity to develop its services and environment to continue to meet patients' needs and

## AIM OF THE TRUST

"TO BE THE SPECIALIST ORTHOPAEDIC HOSPITAL OF CHOICE BY PROVIDING OUTSTANDING PATIENT CARE, RESEARCH AND EDUCATION".

## Our Values

- Patients first
- Honesty
- Respect
- Excellence
- Trust
- Equality

## Our Staff

All staff make a significant contribution to achieving our Trust aim through responding to patients' needs and expectations and through abiding by our Trust values. Our values were developed by staff during 2007/08 and illustrate who we are and what is important to staff at the Trust.

# Chief Executive

contribute to the local health economy. Our strategic partnerships with UCL and the Strategic Orthopaedic Alliance have meant that we have further developed our research capacity and influenced the Payment by Results tariff for specialist treatment. The Trust made significant progress towards meeting the 18 week referral to treatment target and whilst this remains a challenge, we are confident that we can achieve the target in 2008/09. Our achievements this year have been made possible through the professionalism and commitment of our staff who have responded to the challenges and met increased demand whilst maintaining quality and care of our patients. We thank all our staff for their performance this year.

**Donald Hoodless OBE**
Chairman

**Andrew Woodhead**
Chief Executive

## Profile of the Trust

RNOH is the largest specialist orthopaedic hospital in the UK and regarded as a leader in the field of orthopaedics both in the UK and world-wide. We provide a comprehensive range of neuro-musculoskeletal healthcare, ranging from acute spinal injuries to orthopaedic medicine and specialist rehabilitation for chronic back pain sufferers. The Trust also has a well-established children's and teenage unit. This broad range of neuro-musculoskeletal services is unique within the NHS. The Trust is based on two sites: Stanmore in Middlesex and a Central London outpatients' facility in Bolsover Street. RNOH also plays a major role in teaching – over 20% of all UK orthopaedic surgeons receive training here – and our patients benefit from a team of highly specialised consultants, many of whom are nationally and internationally recognised for their expertise.

RNOH IS THE LARGEST SPECIALIST ORTHOPAEDIC HOSPITAL IN THE UK AND REGARDED AS A LEADER IN THE FIELD OF ORTHOPAEDICS BOTH IN THE UK AND WORLD-WIDE.

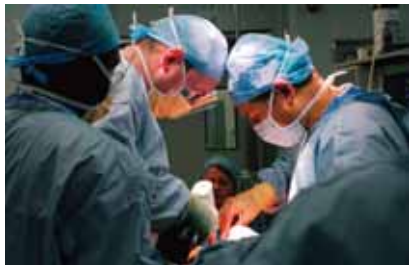

## Redevelopment Bolsover Street

The redevelopment of the Central London outpatients' facility of the Trust at Bolsover Street, London W1 is making good progress. The scheme will provide a state-of-the-art 2,500 sq m outpatients' department for the RNOH as well as private apartments and offices. Phase I of the redevelopment started on site in January 2008 with completion due at the end of 2009. Phasing of the project has meant that the outpatients' department can remain fully operational whilst the new medical facility is being built. The redevelopment of the Trust's Bolsover Street site is critical to improving patient access and provides an opportunity to develop a landmark sustainable, modern and future-proofed facility which will be flexible in its use and offer a quality environment to orthopaedic patients for years to come.

## Redevelopment Stanmore

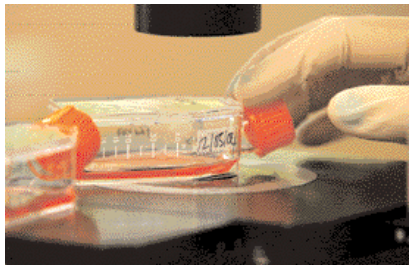
In January 2008, the London Strategic Health Authority agreed that, subject to the approval of a business case, the RNOH can redevelop the Stanmore site to provide new wards, theatres and a range of refurbished areas. This decision showed a vote of confidence in the long-term future of the Trust and gives RNOH the opportunity to plan for redevelopment without having to consider other options. The Trust's outline business case was approved in July 2008. It demonstrates how the development of the Stanmore site will enhance patient care and promote innovation through the Trust's partnerships with UCL and ASPIRE, whilst providing taxpayers with best value for money. The redevelopment will also enable the Trust to meet commissioners' needs by treating more patients and reducing waiting times. The redevelopment is not just about new buildings but gives the Trust an opportunity to modernise working practices, extend the range of services available and create an exemplar centre for the treatment of patients with complex musculoskeletal needs.

THE REDEVELOPMENT IS NOT JUST ABOUT NEW BUILDINGS BUT GIVES THE TRUST AN OPPORTUNITY TO MODERNISE WORKING PRACTICES, EXTEND THE RANGE OF SERVICES AVAILABLE AND CREATE AN EXEMPLAR CENTRE FOR THE TREATMENT OF PATIENTS WITH COMPLEX MUSCULOSKELETAL NEEDS.



## Research and Development

Our clinical effectiveness is enhanced by our working in partnership with University College London and in particular UCL's Institute of Orthopaedic and Musculoskeletal Science which is based on the Stanmore campus. The IOMS, together with the RNOH, has a long track record of innovative research leading to new devices and treatments for some of the most complex orthopaedic and musculoskeletal conditions. As a centre of clinical excellence for complex neuro-musculoskeletal disease and a national tertiary referral centre, the Trust is committed to leading clinical advancements for the benefit of patients through partnership with IOMS and UCL. The redevelopment of the RNOH at Stanmore provides a timely opportunity to consolidate this strong partnership and investment in research to underpin future clinical advances and maintain a lead in neuro-musculoskeletal science and translation into clinical practice. An example of innovation is the development of growing prostheses implanted into children with bone cancer, thereby enabling the growth of a child's leg after the removal of the cancer and avoiding the need for subsequent invasive procedures.



## Research and Development

The Trust has the largest spinal centre in Europe. In collaboration with IOMS, the Trust provides a comprehensive programme of work in spinal cord injury and assistive technology, based in the ASPIRE Centre for Disability Sciences and incorporating the National Centre for Neurospinal Research. The programme has much of its clinical translation through the Functional Assessment and Restoration Service (FARS) at the Trust and works in close collaboration with the ASPIRE charity at Stanmore. The Stanmore Clinical Research Facility (SCRF) has been developed as a collaboration between the Trust and UCL Business Plc. The unit has the ability to conduct clinical studies and trials in specified disease areas, with dedicated facilities and state of the art equipment. The SCRF is focused on neuro-musculoskeletal conditions and contains equipment to allow quantitative patient assessment including quantitative motion analysis. The Trust's track record of research output in areas such as musculoskeletal tumours, spinal surgery, peripheral nerve injury, pain management and paediatric orthopaedics continues and benefits from our clinical research capacity.

## Children's Service

The Trust's children's service continues to grow in strength with the introduction of rotational nursing posts through ITU/HDU, Recovery and the Outpatients' Department, thus providing registered children's nurses along the whole patient pathway. The nursing staff have attended and also presented at conferences in the UK and abroad, sharing their knowledge and promoting the Trust. The refurbishment of the children's ward was completed this year and provides a friendly, well equipped and welcoming ward for patients and their families..

## Sarcoma Medicine

The Bone and Soft Tissue Sarcoma Unit is one of the largest in Europe and is well placed to study the genetics, epigenetics and behaviour of these rare tumours.

## Outpatients' Department

The outpatients' department has had a busy and fulfilling year. At Bolsover Street major building work has begun for the new facilities adjacent to the current location. The nursing department has implemented new ways of working, providing a holistic and high quality service to the patients that attend the Central London site. At Stanmore, there has been an increase in the number of outpatient clinics run throughout the year. Pre-operative assessment is becoming the focus of our patient pathway and the department aims to increase capacity and patient engagement.

## Orthotics

Stanmore Orthotics Centre provides a service to patients from across the UK and overseas and has worked closely with wards and departments at the Trust, as well as PCTs, in the treatment of limb and spinal deformities for more than 50 years. Each patient is assessed and fitted with the appropriate orthotic device to address specific functional needs. The centre's onsite manufacturing unit has continued to provide this year a high standard of specialist orthotic devices such as spinal braces, leg callipers and footwear.

## Specialist Orthopaedic Alliance

RNOH's Chief Executive, Andrew Woodhead, chairs the Specialist Orthopaedic Alliance which exists to enable the RNOH, along with other orthopaedic hospitals, to share best practice and address the challenges that specialist orthopaedic hospitals face to secure the future of patient services as well as research and development.

## Priorities for 2008/09

The Trust has a wide range of priorities and challenges for the forthcoming year. These include:

- Long term financial stability
- Becoming a Foundation Trust
- Increased activity
- Maintaining high quality of patient care
- Redeveloping both sites to enhance the patient experience and continue to provide and develop services which other hospitals cannot provide
- Developing robust relationships with our strategic partners to enhance research and development in our specialist field



## Becoming a Foundation Trust

The Trust has made significant steps towards becoming an NHS Foundation Trust. The 3 month consultation period in 2007 provided valuable feedback on our proposals. The Trust is on track to become a Foundation Trust in 2009. As a Foundation Trust, we will be able to develop a wider range of treatments to meet the needs of our patients who require specialist and complex orthopaedic care, enabling us to maintain our reputation as a leader in the field. Membership is growing steadily and the Trust continues to seek both public and patient members. The membership application form is available on the Trust's website and through the communications department.

## Partnership with ASPIRE

The Trust values its partnership with ASPIRE, which provides comprehensive rehabilitation and reintegration, enabling people with spinal injuries to live more independently. As the training centre is located adjacent to the hospital in Stanmore, patients with spinal injuries are able to move seamlessly between the medical and rehabilitation zones, enabling greater independence and autonomy.

## Working with PCTs

The Trust works with over 80 PCTs across the UK and strives to build on our relationship with them to ensure that our services match the needs of their communities. In response to our asking about their views on the Trust, PCTs have said: "We highly value the working relationship between ourselves and the Trust's commissioning team" "The Trust has a positive image where it is primarily the first choice for patients and GPs for specialist care" "We feel that we have effective and cooperative links with the commissioning team at RNOH".

## RNOH in the news

The Trust continues to develop its relationship with local media who have shown keen interest in the Trust's redevelopment and the journey towards achieving Foundation Trust status.

The Trust gained positive media coverage in 2007/08, including the Independent's article which cited RNOH as one of the top 10 specialist hospitals in the UK and as a leader in the field of orthopaedics.

THE LEVEL OF INCIDENT REPORTING REMAINS HIGH, DEMONSTRATING THAT THERE IS A GOOD SAFETY AWARENESS CULTURE WITHIN THE TRUST.



## Managing risk and maintaining patient safety

The Trust is committed to the management of risk and this is clearly demonstrated by the progress that has been made during 2007/08. The Trust achieved Level 2 in its NHSLA assessment, one of only 77 Trusts to achieve this. This demonstrated that the Trust has safe working policies and practice and continues to deliver a high standard of patient care in a safe environment. The Trust continues to work closely with the National Patient Safety Agency and has, over the past year, undertaken a mix of training (including a specially designed training course for the Trust Board), director walkabouts and ongoing site surveys to embed a culture which ensures the safety and care of both patients and staff. The Trust encourages reporting on errors, near misses and incidents to enable opportunities for system improvement and to prevent re-occurrence. Feedback in the staff survey indicated that staff saw fewer errors and near misses in the last year. The level of incident reporting remains high, demonstrating that there is a good safety awareness culture within the Trust. The Trust has developed a risk register at directorate level which has

enhanced monitoring and ownership of key risks. The role of risk officer has also been re-introduced across the Trust, providing opportunities for the group to address relevant risk management issues and to share learning.

## Preventing and Controlling Infection

The Trust continues to have some of the lowest infection rates in the country and is committed to maintaining this excellent record e.g. in 2007/08, over 10,000 patients were admitted and operated on at the Trust and no patients contracted MRSA bacteraemia. 350 members of staff attended infection control training in the past year, either as part of their induction to the Trust or their annual update training. In addition to this figure, many staff attended training held on wards. The Trust secured government funding for a six month infection control project champion, aiming to heighten awareness of infection prevention and control issues and to provide tailored training for staff, patients and visitors. Each month focussed on a different area of infection control and prevention and included training, competitions and poster campaigns. The tables summarise the surgical site infections which occurred at the Trust in 2007/08.

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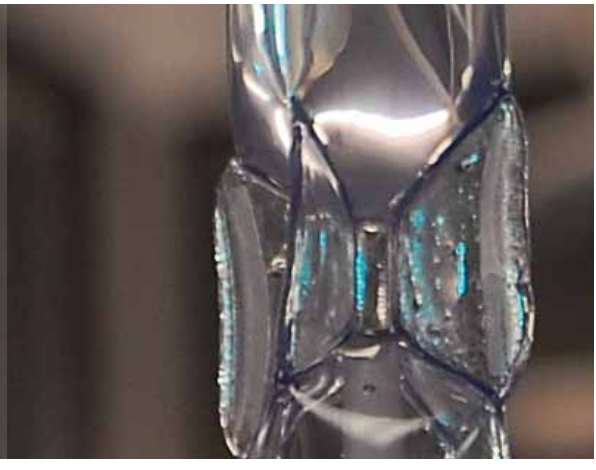

## Surgical Site Infection for Total Hip Replacement 2007/08

The table below illustrates the total number of hip replacements performed by the Trust on a quarterly basis and the number of infections for the period.

| | Apr-Jun 07 | Jul-Sep 07 | Oct-Dec 07 |
|---|---|---|---|
| Number of operations | 120 | 102 | 99 |
| Number of SSI | 0 | 0 | 0 |
| % operations infected | 0.0% | 0.0% | 0.0% |

## Surgical Site Infection for Total Knee Replacement 2007/08

The table below illustrates the total number of hip replacements performed by the Trust on a quarterly basis and the number of infections for the period.

| | Apr-Jun 07 | Jul-Sep 07 | Oct-Dec 07 |
|---|---|---|---|
| Number of operations | 145 | 116 | 89 |
| Number of SSI | 0 | 0 | 0 |
| % operations infected | 0.0% | 0.0% | 0.0% |

## Alert Organisms

The alert organisms reported to the Infection Control Department from April 2007 - March 2008 were as follows:

| Type of organism | Number of cases |
|---|---|
| MRSA bacteraemia | 0 |
| Clostridium difficile | 9 |
| VRE | 1 |
| Acinetobacter | 6 |



## What our patients said …

We survey our patients each year to ensure that they have a positive experience of care at the Trust. Additionally, we now receive feedback on the NHS Choices website – comments have included:

"the surgeon gave my mother so much confidence and the drive to complete her treatment"

"the care was faultless. The nursing staff are amazing and work so hard"

## Information

The Trust has taken part in the NHS Information Assurance exercise. The returns from this exercise have subsequently been reviewed as part of an independent audit commissioned by the London SHA. The outcome of the audit suggests that our overall Information Assurance is "green". The areas where further work is required include embedding Information Governance policies and procedures and improving staff awareness and training. The Trust has developed and is implementing action plans to address these issues. The Trust's Information Governance tool kit score for 2007/08 has significantly improved from last year. The areas of risk include detailed understanding of the information flows, creating a comprehensive asset register of mobile devices that can hold data and rolling out encryption software to safeguard personal identifiable data.

## Working at the Trust

As at 31 March 2008, the Trust employed 1004 staff, 8 fewer than the previous year. This figure may be broken down as follows:

| | |
|---|---|
| Qualified Nursing – | 327 – 32.6% |
| Admin and Clerical/Managers/Estates – | 270 – 26.9% |
| Medical, including Junior Doctors/Night Fellows – | 130 – 12.9% |
| Scientific, Therapeutic and Technical – | 175 – 17.4% |
| Healthcare Assistants – | 102 – 10.2% |

## Education

The wide range of teaching, already provided through the Trust and IOMS, is being consolidated into one comprehensive education facility. This aims to strengthen the relationships between clinicians, academics and scientists, acting as a base to facilitate information exchange. The Trust has continued to be a major contributor to NHS education and training both nationally and regionally.

## Recognising our Staff

The presentation of staff achievement awards is an important event in the staff calendar where colleagues recognise and celebrate the contribution staff have made to the services provided by the Trust. The winners of the awards in 2007 were:

| | |
|---|---|
| Improving the effectiveness of Trust services: | **Colin Waller** |
| Improving the quality of working lives: | **Gill Thurlow** |
| Excellence in risk management: | **The Estates team** |
| Excellence in customer service: | **Pauline Hector** |
| Team of the year: | **The PACS project team** |
| Excellence in leadership and inspiring others: | **Fiona Gow** |
| People's Champion: | **Hazel Mitchell** |

## Involving our Staff

The Trust employs a range of methods for communicating and involving staff. These include Team Brief, Articulate (the staff newsletter) and directors' open forums. Directors gain further insight into the work of the Trust through "back to the floor" days which are highly valued by staff. This year staff were invited to focus groups to discuss the Trust's values and determine how to make them more memorable. These events produced revised values and examples of positive behaviours which will help to embed them. The Trust has a strong relationship with its recognised unions and, as a result, the Joint Staff Management Council is robust with regular attendance by, and extensive contribution from union representatives. The Trust also has a local negotiating committee at which issues relating to medical staff are discussed.

## Annual Staff Survey

The results of the national annual staff survey inform our strategy for improving internal communication and developing our staff. There has been an increase in the number of staff having appraisals and a reduction in their witnessing errors and experiencing work-related injury. There are still areas for concern such as the effectiveness of inter-departmental communication and the level of bullying and harassment experienced by staff. There is more work to be done to tackle these issues effectively and the Trust has compiled an action plan to address key areas.

## Environmental Strategy

The scope of environmental management includes energy management, water consumption, and waste and transport management. The Trust is able to provide some assurance on these items:

- The design of any new build is subjected to the NHS Environmental Assessment Tool (NEAT) which appraises designs for energy performance, water consumption and waste and transport management.

- All new buildings are designed to achieve energy usage between 35-55 Gigajoules per 100 cubic metres.

- Waste management procedures are all in place and the control and disposal of clinical and non clinical waste follows best practice. Relevant staff at all levels are trained in the way they handle all types of waste and random checks are executed on the waste management sub contractor responsible all in accordance with statutory requirements.

- A green transport policy is being prepared.

The Trust also acknowledges the importance of implementing the sustainability and Good Corporate Citizen agenda and, accordingly, it is intended to develop a strategy which will enable the Trust to deliver on this important agenda and monitor progress towards agreed objectives.

## Emergency Preparedness

The Trust is not a dedicated receiving hospital for major incidents due to its unique services. However the Trust may receive patients transferred from other hospitals and is therefore designated as a supporting hospital, for external major incidents. A Major Incident Procedure agreed by the Trust has been designed as a guide for staff to enable them to mount an effective response to any declared major incident. The Major Incident Procedure is set out in two parts. The first part is an overview of our response to manage a major incident internally. The second part of the procedure outlines our role in supporting Trusts who are involved in an external major incident. The procedure is backed up by a series of action cards for specific staff within the Trust who have dedicated responsibilities. Managers within the Trust ensure that the Major Incident Procedure is easily accessible to all staff. The Major Incident Procedure is regularly updated at least annually and when new and updated guidance or legislation is received or whenever the plan is tested.

## Valuing Diversity – our Equality, Diversity and Human Rights Policy

The Trust recognises the value in the diversity of its staff, community and patients. We are committed to creating a culture in which diversity and equality of opportunity are promoted and in which unlawful discrimination is not tolerated in service delivery, decision-making or employment practice. The Trust published its Gender Equality Scheme in April 2007, following consultation with staff and patients. The action plan was incorporated into a combined action plan, along with race and disability equality issues, so that the Trust can monitor and progress its work in these areas. The existing schemes



on race, disability and gender equality are important tools for enhancing our patient-centred services as well as ensuring equality amongst our staff. The Trust's Equality and Diversity policy was revised and now includes guidance on human rights.

## Policy for the employment of people with disabilities

The Trust has applied for re-registration so that it can continue to use the two-tick symbol – positive about disabled people.

# Operating and financial review (OFR) 2007/08 Performance

The Trust maintained its excellent track record in delivering high-quality treatment and care for patients needing complex orthopaedic surgery. Our infection rates were low (zero MRSA, 9 C-Diff cases for the year out of over 10,000 inpatients including private patients) and our results for the National Patient Survey on patient experiences were above average. However, one of the major difficulties continuing to face the RNOH is that over 50% of the building stock is pre 1948 and in need of replacement. This has meant that we have been unable to comply with the Healthcare Commission core standards for better health in relation to the healthcare environment at the Stanmore site. The RNOH has developed an exciting, affordable and deliverable solution to replace its old buildings in Stanmore which will ensure that future generations of NHS patients continue to get access to excellence for the treatment of complex musculoskeletal conditions. We are firmly committed to establishing a new hospital building at Stanmore and are currently in discussion with NHS London about our plans.

Activity levels continued to grow. For example, a total of 9,215 NHS inpatient discharges in the year represented a 10% increase on the previous year. This assisted in making significant progress on delivering the 18 week access target. In March 2008, 91% of non-admitted patients compared to a target of 90% and 69% of admitted patients compared to a target of 85% were treated within 18 weeks. The Trust met the data completeness targets set by the Department of Health designed to support the measurement of performance against these targets. It was clearly a disappointment to not meet the admitted patient care target of 85% and we need to address the capacity constraints we face, particularly in spinal surgery, and ensure we receive accurate and timely patient referral information from other hospitals to allow us to meet this target in 2008/09.

## 2007/08 Financial Performance

The Trust achieved a revenue surplus of £1.1m in 2007/08 following 3 years of deficits. The 2007/08 surplus represents a continuation of the progress achieved in the previous 2 years - the deficit of £3.8m 2004/05 was reduced to a deficit of £0.5m in 2005/06 followed by a deficit of £0.3m in 2006/07.

The 2007/08 financial surplus has been achieved through generating additional income from extra NHS clinical activity whilst holding down the cost of delivering this activity. Capacity levels (mainly in terms of beds and theatres) were managed throughout the year to maximise the financial surplus. The largest growth area was additional NHS income from activity that the Trust needed to do to continue to make progress in delivering national waiting time milestones.

A major transaction that occurred in 2007/08 was the sale of the RNOH Bolsover Street outpatient facility. This site is being leased back whilst the new owner develops the site. When this is completed (estimated in late 2009) we will be leasing back a new outpatient facility within the newly developed site. This sale was completed in December 2007. The accounts record a £0.6m profit on sale net of cost of sales. However there were other impacts of this sale on the income and expenditure position in 2007/08. The Trust incurred £0.2m demolition costs prior to the sale in 2007/08 and there was a further net expenditure of £0.2m relating to the depreciation and amortisation charges impact of the sale and subsequent lease. Therefore, the net one-off income and expenditure benefit in 2007/08 from this sale and new leasing arrangements was £0.2m.

The 2007/08 financial plan was originally set to deliver a surplus of £2.5m and consequently there has been a significant under-achievement against the targeted surplus. This has been caused by lower levels of private patient income and cost improvements than planned. However there were significant increases in private patient income in 2005/06 and 2006/07 and the reduction in 2007/08 only partly off-sets the gains from the previous two years.

The RNOH is now fully exposed to the Payments by Results funding system under which tariffs are set at an average national cost per procedure, adjusted for geographical location. Although some

specialist "top ups" in funding are provided, the cost of delivering increasing complexity of specialist work has been impossible to contain within these national averages in some activity areas. The problem is recognised by the Department of Health and we are working with them, and other specialist providers, on ensuring the funding system properly develops to recognise complexity.

At 31st March 2008 the Trust had a cumulative deficit of £3.5m. The Trust is currently planning to achieve cumulative breakeven in 2010/11. This is seven years after the original year of deficit in 2004/05 and 2007/08 is the first year since this that a surplus has been delivered. NHS statutory duty requirements are to deliver cumulative break even within five years. Therefore the Trust's external auditors have been required to notify the Department of Health of this breach under section 19 of the Audit Commission Act and this has been included in their accounts opinion. The Auditors have not issued a report in the public interest on the financial health of the Trust at this stage. The RNOH considers that the financial plans are now robust and ensure the Trust will not further breach statutory financial duties going forward.

The Trust is set a limit for capital expenditure (the Capital Resource Limit) and achieved this duty in 2007/08. The Trust spent £1.8m on capital schemes in 2007/08. The Trust is also set a cash limit (known as the External Financing Limit) and also complied with this duty in 2007/08. The Trust repaid £13.4m of historic debt in 2007/08 mainly funded by the £9.3m receipt from the sale of the Bolsover St property. A capital loan of £2.1m was drawn down in March 2008 which is fully repayable in March 2009.

The Trust has continued to make significant progress this year in establishing a stronger financial basis on which to build future development and success. We aim to achieve Foundation Trust status by the first quarter of 2009/10 and have developed an Integrated Business Plan and Long Term Financial Model to support this. In 2008/09 we have agreed a plan which generates a £1m surplus for the year and we are already on track to deliver this. This is a major achievement given that the RNOH will no longer receive transitional support for the implementation of the Payment by Results funding regime (£4.8m was received in 2007/08). The projected surplus in the

financial plan agreed with NHS London is £1.5m 200/09 and £2.5m 2010/11 and the key risk to this remains the potential volatility of our income for complex work under the Payments by Results tariff. We will look to ensure our redevelopment proposals secure the long term benefit of operating within a financially stable environment. This will ultimately ensure we make the best possible use of the resources that we attract for the care of our patients, teaching and research.

## 2007/08 Annual Accounts and Statement on Internal Control

The 2007/08 annual accounts have been provided in full as an annex to this annual report. The Trust's Statement on Internal Control explains the Trust's system of internal control and the full statement, signed by the Chief Executive, is included in the annual accounts.

## Better Payment Practice Code

The Better Payment Practice Code requires the Trust to aim to pay all valid non-NHS invoices by the due date, or within 30 days of receipt of goods or valid invoice, whichever is the later. Details of compliance with the code are given in note 7.1 of the Accounts.

## Treatment of Pension Liabilities

Past and present employees are covered by the provisions of the NHS Pensions Scheme. This is described in Note 1.14 in the Annual Accounts and further details on pension entitlements of Directors are given in the Remuneration Report.

# Audit

The Trust's external auditors are Grant Thornton (UK) LLP, who were appointed by the Audit Commission on a five-year term, beginning in April 2007. PKF (UK) LLP were the external auditors from April 2002 – April 2007. Audit work is required to be conducted in accordance with the Audit Commission's Code of Audit Practice (the Code), which adopts a risk-based, integrated audit model. The Code requires the auditor to report in two areas: the Accounts (i.e. opinions on the financial statements, the Remuneration Report and the Statement on Internal Control); and Use of Resources (i.e. arrangements to achieve Value for Money, otherwise described as economy, efficiency and effectiveness). In 2007/08 the Trust also engaged Grant Thornton to undertake consultancy advice work on the accounting treatment of the Bolsover Street sale and a review of the impact of the Foundation Trust Private Income Cap on the RNOH.

The Code requires appointed auditors to comply with International Standards on Auditing (ISA). Grant Thornton have communicated to those charged with governance (the Audit Committee – see below) that: they are not aware of any relationships that may bear on the independence and objectivity of the audit engagement partner and audit staff which are required to be disclosed under ISA 260; and that they have complied with the Audit Commission's requirements in relation to independence and objectivity.

The cost of the statutory audit services work performed by Grant Thornton in 2007/08 was £172k. Other remuneration to Grant Thornton totalled £10k for consultancy work on the Bolsover Street Sale. In addition the Trust incurred £38k relating to PKF Audit fees for 2006/07 work.

The Trust has an Audit Committee whose purpose is to conclude upon the adequacy and effective operation of the integrated governance, risk management and internal control systems which support the achievement of the Trust's objectives. In order to ensure the Committee's independence and objectivity, its members are drawn exclusively from the Trust's non-executive directors. Mr J Rajput chaired the Committee until October 2007. Mr L Milsted has subsequently chaired this Committee. The other members who have served during the year are Mr M Creeger, Mrs S Laddie, Mrs H Farrow and Mr G Billington. It meets four times a year.

# RNOH Trust Board - 2007/08

**Mr Donald Hoodless OBE**
Chairman

**Mr Andrew Woodhead**
Chief Executive Officer

**Mr Morton Creeger**
Non-executive Director
(Co-Vice Chairman) (to 1st December 2007)

**Mrs Stecia Laddie**
Non-executive Director
(Co-Vice Chairman) (to1st December 2007)

**Professor David Delpy**
Non-executive Director (to September 2007)

**Mr Jagdish Rajput MBE**
Non-executive Director (to 1st December 2007)

**Mrs Helen Farrow**
Non-executive Director (Vice Chairman)

**Mr Anthony Watson**
Non-executive Director (from December 2007)

**Mr Guy Billington**
Non-executive Director (from December 2007)

**Prof Simon Shorvon**
Non-executive Director (from December 2007)

**Mr Laurence Milsted**
Non-executive Director (from December 2007)

**Mr Anthony Palmer**
Director of Nursing (to May 2007)

## RNOH Trust Board - 2007/08

**Mr Rob Hurd**
Director of Finance

**Mr Mark Vaughan**
Director of Human Resources & Corporate Affairs

**Mrs Sheila Puckett**
Director of Operations and Service Improvement

**Dr Saroj Patel**
Director of Information Management and Technology

**Mr Tim Briggs**
Joint Medical Director

**Dr Rhiannon Mitchell**
Joint Medical Director

**Professor Martin Ferguson-Pell**
Director of Research and Development (to August 2007)

**Mrs Kathryn Corder**
Acting Director of Nursing (from May 2007)

## Director Interests

No director or key senior member of staff has reported any interests that are likely to conflict with their role of conducting the business of the Trust. During the year, no director or senior manager or parties related to them has undertaken any material transactions with the Trust. Directors have indicated that as far as they are aware there is no relevant audit information of which the NHS body's auditors are unaware.

# Remuneration Report

## Appointment of the Trust's Directors

The appointment of the Chief Executive is by a panel comprising the Chairman, Medical Director, the Strategic Health Authority and the Chief Executive of Barnet PCT. The appointment is open-ended, subject to three months' notice by either side. Other substantive executive and associate directors are appointed by the Board of Directors on open-ended contracts, subject to three months' notice by either side. Non-executive directors are appointed on a fixed-term basis in accordance with Secretary of State for Health recommendations. The date of appointment (and termination, where appropriate) of each director is shown on the table of salaries.

## Remuneration of Directors

The Remuneration and Terms of Service Committee, in line with NHS guidance, determines remuneration and terms of service for the Chief Executive and other executive and associate directors. The Chairman chairs the Committee and the remaining membership is all the non-executive directors.

The Chief Executive annually agrees personal objectives with each executive and associate director, against which his or her performance is measured in a formal appraisal process. All remuneration is conditional upon satisfactory performance as measured by the appraisal process.

Remuneration of the Chairman and other non-executive directors is determined by the Secretary of State for Health.

Full details of directors' remuneration and pension entitlements are given below. The pension scheme referred to is the NHS Pension Scheme, which is described in Note 1.14 in the Annual Accounts. Details of total management and administration costs are given on page 92.

# Directors' Salary Entitlements 2007/08

| Name and Title | Contract start date | Leaving date, where applicable |
|---|---|---|
| **Mr D Hoodless,** Chairman | 01 November 2002 | |
| **Mr J Rajput**, Non-executive Director | 01 December 2001 | 01 December 2007 |
| **Mrs S Laddie**, Non-executive Director | 01 December 1999 | 01 December 2007 |
| **Prof D Delpy**, Non-executive Director | 01 December 2002 | 01 December 2007 |
| **Mrs H Farrow**, Non-executive Director | 01 December 2005 | |
| **Mr M Creeger**, Non-executive Director | 01 December 1999 | 01 December 2007 |
| **Mr A Watson**, Non-executive Director | 01 December 2007 | |
| **Mr. G Billington**, Non-executive Director | 01 December 2007 | |
| **Prof S Shorvon**, Non-executive Director | 01 December 2007 | |
| **Mr L Milsted**, Non-executive Director | 01 December 2007 | |
| **Mr A Woodhead**, Chief Executive | 16 June 2003 | |
| **Mr T Briggs,** Joint Medical Director | 01 April 2000 | |
| **Mrs. K Corder**, Acting Director of Nursing | 01 May 2007 | |
| **Dr R Mitchell**, Joint Medical Director | 01 April 2005 | |
| **Mrs S Puckett**, Director of Operations and Service Improvement | 16 February 2004 | |
| **Mrs L Perkin** | 15 November 2004 | 13 June 2007 |
| **Mr R Hurd,** Director of Finance | 01 September 2005 | |
| **Mr A Palmer,** Director of Nursing | 01 December 2001 | 01 May 2007 |
| **Mr M Vaughan,** Dir of Human Resources and Corporate Affairs | 01 January 2001 | |
| **Prof M Ferguson-Pell,** Director of Research and Development | 01 June 1999 | 01 August 2007 |
| **Mr M Masters,** Director of Estates & Facilities | 01 December 2003 | |
| **Dr S Patel**, Director of IM&T | 01 March 2005 | |

The benefits in kind relates to a leased car made available for private use.

| | 2007/08 | | | 2006/07 | |
|---|---|---|---|---|---|
| Salary (bands of £5000) £000 | Other Remuneration (bands of £5000) £000 | Benefits in Kind Rounded to the nearest £100 | Salary (bands of £5000) £000 | Other Remuneration (bands of £5000) £000 | Benefits in Kind Rounded to the nearest £100 |
| 20-25 | | | 20-25 | | |
| 0-5 | | | 5-10 | | |
| 0-5 | | | 5-10 | | |
| 0-5 | | | 5-10 | | |
| 5-10 | | | 5-10 | | |
| 0-5 | | | 5-10 | | |
| 0-5 | | | | | |
| 0-5 | | | | | |
| 0-5 | | | | | |
| - | | | | | |
| 125-130 | | | 120-125 | | |
| 25-30 | 145-150 | | 25-30 | 150-155 | |
| 65-70 | | | | | |
| 15-20 | | | 15-20 | | |
| 85-90 | | | 75-80 | | |
| | 20-25 | | 60-65 | 20-25 | |
| 95-100 | | | 90-95 | | |
| 15-20 | | | 95-100 | | |
| 80-85 | | 4500 | 75-80 | | 4,500 |
| 5-10 | | | 10-15 | | |
| 85-90 | | | 80-85 | | |
| 85-90 | | | 80-85 | | |

# Directors' Pension Entitlements 2007/08

| Name and title | Real increase in pension at age 60 (bands of £5000) £000 | Real increase in pension lump sum (bands of £5000) £000 | Total accrued pension at age 60 at 31 March 2008 (bands of £2500) £000 |
|---|---|---|---|
| Mr A Woodhead, Chief Executive | 0-2.5 | 5-7.5 | 30-35 |
| Mr R Hurd Director of Finance | 0-2.5 | 5-7.5 | 15-20 |
| Mrs S Puckett Director of Operations and Service Improvement | 0-2.5 | 5-7.5 | 10-15 |
| Prof M Ferguson-Pell Director of Research and Development | 0-2.5 | 0-2.5 | 0-5 |
| Mr A Palmer Director of Nursing | 0-2.5 | 0-2.5 | 25-30 |
| Mr T Briggs Joint Medical Director | -0-2.5 | -2.5-5 | 45-50 |
| Mr M Vaughan Director of HR & Corporate Affairs | 0-2.5 | 2.5-5 | 15-20 |
| Mr M Masters Director of Estates and Facilities | 0-2.5 | 2.5-5 | 15-20 |
| Mrs K Corder Acting Director of Nursing | 2.5-5 | 10-12.5 | 10-15 |
| Dr S Patel Director of IM&T | 0-2.5 | 2.5-5 | 5-10 |

| Lump sum at age 60 related to accrued pension at 31 March 2008<br><br>(bands of £5000) | Cash Equivalent Transfer Value at 31 March 2008 | Cash Equivalent Transfer Value at 31 March 2007 | Real increase in Cash Equivalent Transfer Value | Employer's Contribution to stakeholder pension |
|---|---|---|---|---|
| £000 | £000 | £000 | £000 | To nearest £100 |
| 105-110 | 525 | 470 | 30 | 0 |
| 55-60 | 195 | 171 | 14 | 0 |
| 30-35 | 209 | 162 | 30 | 0 |
| 5-10 | 31 | 29 | 0 | 0 |
| 85-90 | 403 | 357 | 2 | 0 |
| 135-140 | 699 | 678 | 3 | 0 |
| 55-60 | 259 | 227 | 19 | 0 |
| 45-50 | 193 | 167 | 15 | 0 |
| 40-45 | 196 | 132 | 39 | 0 |
| 15-20 | 99 | 69 | 20 | 0 |

# Independent auditors' report to the Board of Directors of Royal National Orthopaedic Hospital NHS Trust

## Opinion on the financial statements

We have audited the financial statements of Royal National Orthopaedic Hospital NHS Trust for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement, the Statement of Total Recognised Gains and Losses and the related notes (excluding the information regarding the anticipated year of financial recovery as detailed in note 23.1). These financial statements have been prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service set out within them. We have also audited the information in the Remuneration Report that is described as having been audited. This report is made solely to the Board of Directors of Royal National Orthopaedic Hospital 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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Royal National Orthopaedic Hospital NHS Trust and the Trust's directors as a body, for our audit work, for this report, or for the opinions we have formed.

## 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.

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

We report to you our opinion as to whether 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. We report whether the financial statements and the part of the Remuneration Report to be audited have 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. We also report to you whether, in our opinion, the information which comprises the commentary on the financial performance included in the Annual Report, is consistent with the financial statements.

We review whether the directors' Statement on Internal Control reflects compliance with the Department of Health's requirements, set out in 'The Statement on Internal Control 2003/04' issued on 15 September 2003 and the further guidance relating to that Statement issued on 7 April 2006, 2 April 2007, 7 April 2008 and 20 May 2008. We 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 we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, the unaudited part of the Remuneration Report, the Chairman's Statement, Chief Executive's statement and the remaining elements of the Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that:

- the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error; and

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared.

In forming our opinion we 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 our 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 2008 and of its income and expenditure for the year then ended;

- 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; and

- information which comprises the commentary on the financial performance included within the Annual Report is consistent with the financial statements.

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### Directors' Responsibilities

The directors are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Trust's use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Trust for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Trust has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## Qualified conclusion

We have undertaken our audit in accordance with the Code of Audit Practice. In so doing we identified that Royal National Orthopaedic Hospital NHS Trust has not achieved its statutory break even duty in 2007/08 or met its recovery plan for 2007/08. In addition the Trust's estates strategy does not meet the requirements of the Use of Resources criteria.

Having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Royal National Orthopaedic Hospital NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008 except that it did not put in place:

- arrangements to ensure that its spending matches its available resources, and
- arrangements for the management of its asset base.

## Exception Report

Auditors have a duty under the Audit Commission Act 1998 to refer the matter to the Secretary of State if they have a reason to believe that the body, or an officer of the body, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency.

We have referred a matter to the Secretary of State under section 19 of the Audit Commission Act 1998 in relation to the Trust's financial standing and the anticipated year of financial recovery, which means the Trust will be in breach of its statutory duty.

## Certificate

Until the section 19 referral to the Secretary of State is complete we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Grant Thornton UK LLP
Byron House
Cambridge Business Park
Cowley Road
Cambridge
CB4 0WZ
18 June 2008

## 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.

Date **19 June 2008**  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 to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction of the Secretary of State. They are also responsible for safeguarding the assets of the Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Date **19 June 2008**  Chief Executive

Date **19 June 2008**  Director of Finance

# Statement on Internal Control 2007/08 Royal National Orthopaedic Hospital NHS Trust

## 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 Chief Executive I have overall responsibility for having an effective risk management system in place within the Trust and for meeting all statutory requirements and adhering to guidance issued by the Department Of Health in respect of Governance. I am accountable to the Management Board for the implementation of the Risk Management Strategy and make the necessary arrangements to carry out the recommendations that are endorsed by the Royal National Orthopaedic Hospital NHS Trust Board.

The following accountability arrangements are in place:

*Director of Human Resources and Corporate Affairs*
On behalf of the Chief Executive, the Director of Human Resources and Corporate Affairs has delegated responsibility for managing the strategic development and implementation of organisational risk management, non-clinical risk (those risks, which do not have the ability to directly affect patient care or harm the patient).

*Director of Nursing (Acting)*
On behalf of the Chief Executive, the Director of Nursing (Acting) has delegated responsibility for managing the strategic development and implementation of clinical risk management (those risks, which have the ability to affect patient care and may cause harm to the patient) and clinical governance.

*Director of Finance*

On behalf of the Chief Executive, the Director of Finance has delegated responsibility for managing the strategic development and implementation of financial risk management.

The Executive Directors with delegated responsibility sit on the Risk Management Board which is the Board Sub – Committee responsible for monitoring and reviewing the assurance framework and for compiling the Trust risk register. The Risk Management Board has overall responsibility for prioritising and co-ordinating risk management issues. The Directors also meet regularly with the Chief Executive to ensure good communication and that the progress of action plans is closely monitored. Directorate risk registers, as well as a report summarising action target dates to be achieved within the coming month, are forwarded to each director on a monthly basis for review. A copy of each register is forwarded to the Chief Executive.

Processes are in place by which the Trust works with the SHA and partner organisations. For example the quarterly General Performance Monitoring Meetings are attended and the framework implemented. Meetings are also attended where there is representation from the Trust and the SHA, such as the CEO groups, HR Director groups and Director of Finance groups. The SLA negotiating meetings involve PCTs as well as local commissioners such as NSCAG. The redevelopment team arranges stakeholder meetings which also involve PCTs.

## 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 the Royal National Orthopaedic Hospital NHS Trust for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts. An assurance framework has been established which is designed and operating to meet the requirements of the 2004/05 SIC and provide reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the organisation. The framework was initially approved by the Board during July 2006 and is reviewed annually. The assurance framework is reviewed by the Risk Management Board at every meeting (every eight weeks) and also by the Board in conjunction with the minutes from the Risk Management Board every two months. Internal audit have examined evidence held to support controls in place to mitigate principal risks identified and have confirmed that sufficient evidence is held to confirm arrangements in place.

## 3. Capacity to Handle Risk

There is a Board approved strategy for risk management which is reviewed annually (last review March 2008). The organisation's senior management has defined and documented its strategy for managing risks, including objectives for, and its commitment to, risk management. The risk management strategy is relevant to the organisation's strategic context and its goals, objectives and the nature of its business.

The risk management strategy provides details of the authority which staff have to manage risk. The authority which individuals have is appropriate to their level and training. Training is available to all staff by attending formal in-house sessions, and also by arranging with the Risk Manager the provision of workplace training sessions.

A summary of the strategy is provided to staff during their induction and the entire document has been distributed to all wards/departments and is also available on the Trust's website.

## 4. The Risk and Control Framework

A risk management process, based on the requirements of AS/NZS 4360; 1999 and covering all risks, has been developed. A number of key indicators are being used to demonstrate performance. The system of risk management is monitored and reviewed by management and the Board in order to learn and make improvements to the system.

Systems have been developed to systematically identify, record, assess and analyse risks. Risk must be controlled. The Trust follows three stages in its management of risk:

*Stage One – Risk Identification*
This involves examining all sources of risk from the perspective of all stakeholders, both internal and external. Hazards can be systematically identified using a number of sources:

**Internal**
Hazard spotting
Inspections
Audits
Risk assessments
Unions
Backlog maintenance
Brainstorming workshops
Control self assessments
Controls assurance baseline self assessments
Patient satisfaction surveys
Process analysis
Public perceptions of the NHS
Risk profiling exercises
Surveys
SWOT analysis
Training evaluation forms
Whistle-blowing

**External**
Coroner reports
Media
National reports
New legislation/guidance
NPSA survey
Assessments by external bodies

*Incident, complaints and claims reporting*

It should be noted that the above lists are not exhaustive, and that not one particular method of identification will be sufficient to address all the hazards faced by the RNOH, therefore a combination of methods is required to ensure that there are no gaps in hazard identification.

*Stage Two – Risk Evaluation*

The evaluation of risk is undertaken on economic, social or legal grounds and incorporates some form of assessment to quantify the level of risk the Trust, its staff and service users are subjected to, in the performance of its role as a healthcare provider.

The Risk Manager is responsible for developing and reviewing the risk register and for ensuring that the Board is aware of all high level risks.

*Stage Three – Risk Control*

Risk control involves considering one or more of the following:

- Risk avoidance
- Risk retention with knowledge
- Risk retention without knowledge
- Risk transfer
- Risk reduction

Risk management is becoming embedded in the activity of the organisation as individuals' awareness and competency is increased through training, consultation, two-way communication and by learning through the example of others.

The Trust has taken part in the NHS Information Assurance exercise. The returns from this exercise have subsequently been audited by Capgemini as part of an independent audit commissioned by the London SHA. The outcome of the audit suggests that our overall Information Assurance is green. The areas where further work is required include embedding information governance policies and procedures and improving staff awareness and training. The Trust has developed and is implementing action plans to address these issues. The Trust's Information Governance tool kit score for 2007/08 has significantly improved from last year. The areas of risk include detailed understanding of the information flows, creating a comprehensive

asset register of mobile devices that can hold data and rolling out encryption software to safeguard personal identifiable data.

To facilitate the development of a holistic approach to the management of risk within the Royal National Orthopaedic Hospital, Safeguard, an integrated risk management database was purchased in November 2004. Safeguard is central to the integration of the risk management strategy throughout the organisation. The Trust purchased the following components (incidents, risk, training, PALS, litigation, complaints) to assist with the implementation of the risk management strategy throughout the organisation and to ensure that a holistic approach to risk is achievable.

Safeguard encourages good risk management practice, meeting the needs of the assurance framework and clinical governance. With comprehensive analytical tools, Safeguard highlights trends and risks that may lead to large financial claims being brought against the organisation.

The following has being achieved this year:

- On a monthly basis the executive team receive a copy of their directorate current and accepted risk register as well as a report detailing the target dates which are to be achieved during the coming month. The Chief Executive receives a copy of all risk registers.

- Training has continued for members of the executive team on the risk module.

- Departmental risk registers are being developed.

- A risk register workshop has been held for operational managers to facilitate the review of their risk register.

- Work has continued on the implementation of e-reporting throughout the Trust.

- A new version of Safeguard has been installed.

- Incident summary reports are forwarded automatically to each ward and department on a weekly basis.

The Board has developed an assurance framework which identifies the principal risks to the Trust meeting its principal objectives. The assurance framework also maps out the key controls in place to manage these risks. The Board has also identified how it has gained sufficient assurance regarding the effectiveness of these key controls. Where gaps in controls have been suggested, an action plan has been developed and responsibility for implementing actions has been assigned to a member of the Executive Team. The current assurance framework identifies a number of areas where there are gaps in controls and assurances. For each gap, actions have been agreed in order to minimise the risk. Gaps that have been highlighted include the following:

## Principal objective

Capital investment to improve:

- Patient and staff environment
- Health and safety compliance
- Investment required to sustain business activity
- Energy and sustainability agenda
- Risk management
- Backlog maintenance
- Fire precautions

## Gaps in controls

- Standards For Better Healthcare (C20 (A & B) & 21, not met)
- A high level of backlog maintenance is estimated for the site, as indicated in the Trust's Estates Strategy. Addressing this issue is dependent on the redevelopment of the site.
- Trust prosecuted by the HSE following a steam incident (2005) Date of prosecution – 10th September 2007. Trust pleaded guilty and incurred a fine.
- Enforcement notice from the London Fire And Emergency Planning Authority (December 2005)
- Failure to recruit a Fire And Security Officer.

## Action Plan and Implementation Date

Examples of actions to be taken:

- The reason for non-compliance relates to the inherent design of the buildings and estate. Many of these issues cannot be fully addressed until the site is redeveloped. SHA have decided to pursue Stanmore total development as the preferred option. Scheme to be undertaken in phases with an anticipated completion date of 2011
- Prioritise risks and seek funding from Capital Planning for projects to be undertaken
- Trust Board invited to attend the site to discuss priorities for the coming financial year in light of re-development. Action plan to be developed (May 2008)

## Board Lead

**Mark Masters** Director of Estates and Facilities

## Principal objective

- Develop and implement a robust recruitment and retention strategy

## Gaps in controls

- Poor transport links.
- Uncertainty of future redevelopment.
- Poor quality accommodation on-site
- Low appraisal and PDP take up
- Perceived pressure on staff and high stress levels
- High level of perceived bullying and harassment
- Inflexibility of pay framework i.e. Agenda For Change
- Management development programme requires further development
- No agreed plan for compliance with European Working Time Directive (EWTD) 2009

## Action Plan and Implementation Date

Examples of actions to be taken:

- Continue to monitor vacancy/turnover, sickness and overall number levels on a monthly basis
- Update the Workforce Plan and Strategy to include plans for OBC
- Approximately 60% of staff have received an appraisal. Aiming for 70% by March 2008 (June 2008)
- Agree EWTD plan (October 2008)

## Board Lead

**Mark Vaughan** Director of Human Resources and Corporate Affairs

## Principal objective

- Effective governance arrangements that reflect current Trust business

## Gaps in controls

- Limited local risk registers
- Lack of knowledge and understanding leads to a lack of engagement in management of risk
- Not full Trustwide engagement with risk management processes
- No asset register of mobile devices
- No encryption software to safeguard personal identifiable data

## Action Plan and Implementation Date

Examples of actions to be taken:

- All senior managers to attend mandatory training (October 2008)
- Temporary Safeguard manager to be trained to progress work relating to database (May 2008)

- Link the assurance framework with the corporate risk register and Standards for Better Health as well as the top ten targets – develop a report template. (November 2008)
- Implement encryption systems (June 2009)
- Undertake an information mapping exercise (September 2008)

## Board Lead

**Mark Vaughan** Director Of Human Resources and Corporate Affairs
**Kathryn Corder** Acting Director Of Nursing
**Saroj Patel** Director of IM&T

## Principal objective

- To be an effective and efficient provider of orthopaedic and musculo-skeletal services

## Gaps in controls

- Data collection and monitoring systems (Safeguard risk management database)
- Standards For Better Healthcare – C13, C21 – Not met
- Produce a strategy for networking
- On-going care arrangements following patient discharge need to be examined critically

## Action Plan and Implementation Date

Examples of actions to be taken:

- Produce a strategy for networking to ensure that staff are facilitated in experiencing active participation in appropriate clinical networks and professional development opportunities with others outside the Trust. (June 2006 – not yet completed)
- Strengthen relationships with Commissioners (Ongoing)
- Implement and monitor Trust's infection control action plan (Ongoing)

## Board Lead

**Kathryn Corder** Acting Director of Nursing
**Sheila Puckett** Director of Operations and Service Improvement
**Nan Mitchell/Tim Briggs** Joint Medical Directors

## Principal objective

- To achieve financial balance and maintain liquidity

## Gaps in controls

- Explicit annual budget holder sign-off
- Budget holder training
- More sophisticated forecasting based on inpatient cases booked for the remainder of the financial year
- Detailed budget setting process and service development and business case approval process not in place

## Action Plan and Implementation Date

Examples of actions to be taken:

- Continue to collaborate with the Specialist Orthopaedic Alliance and DOH regarding resolving payment by results issues. (On-going)
- Ensure all PCT contracts signed and information/billing flows delivered in line with national timetables - on-going quarterly national timetable

## Board Lead

**Rob Hurd** Director of Finance

## Principal objective

- Develop and implement the modernisation plan – bringing about changes in clinical practice and organisation to increase productivity. Begin to implement new model of care

## Gaps in controls

- Ad hoc reporting to Board. There is no robust framework in place, but there has been an increase in performance reporting to the Board regarding outcomes e.g. length of stay, cancellations

## Action Plan and Implementation Date

Examples of actions to be taken:

- Modernisation initiatives have been brought together in the Clinical System Improvement Plan. Implement action plan, monitor and review. (Ongoing)
- Continue to develop the Clinical Development Programme (Ongoing)

## Board Lead

**Sheila Pucket**t Director of Operations and Service Improvement

## Principal objective

- To achieve full compliance with the national waiting list targets

## Gaps in controls

- Individuals failing to fully comply with Trust policies and procedures

## Action Plan and Implementation Date

Examples of actions to be taken:

- Project team to work through implementation of 18 week pathway by 2008 (Part of Clinical System Improvement Plan – CSIP)
- Work with PCTs to ensure agreements are reached about activity needed and unit targets. (March 2008)
- 18 week data validation to be completed

## Board Lead

**Sheila Puckett** Director of Operations and Service Improvement

## Principal objective

- Develop and implement a cohesive and integrated IM&T Strategy

## Gaps in controls

- Lack of development and training of IT staff, so more reliance on external suppliers/contractors than there should be
- Security is poor (Refer to OT Technical Infrastructure Review October 2005)
- No disaster recovery/business continuity plan in place

## Action Plan and Implementation Date

Examples of actions to be taken:

- Continue to seek approval of process and funding from Board (Ongoing)
- Document long-term technical strategy

## Board Lead

**Saroj Patel** Director Of IM&T

## Principal objective

- Redevelopment of the RNOH Stanmore campus to provide a modern healthcare building

## Gaps in controls

- Outline Business Case not approved by SHA
- Continue to lobby centrally to get tariff at a realistic rate
- DOH testing affordability/scope of all PFI schemes

## Action Plan and Implementation Date

Examples of actions to be taken:

- Continue to work with SHA, address affordability issues (Ongoing)
- Gain support for revised scheme from PCT's, UCL, Institute.
- Develop joint academic strategy with UCL

Public stakeholders are involved in managing risks which impact on them through the User And Public Involvement Group.

The Trust has developed a risk register, which is used in conjunction with the assurance framework. It is envisaged that these tools will enable the Trust to continue to develop a holistic approach to the management of risk. Where possible, the Trust aims to involve and consult with all relevant stakeholders, both internal and external when managing risk.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure that all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments into 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 for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself 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 comments made by the external and internal auditors, the Strategic Health Authority, Workforce Planning/Workforce Development Confederation, Department Of Health, staff opinion surveys, the Modernisation Agency, and self-assessment against the Standards for Better Healthcare.

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

The risk management structure within the Trust is reviewed annually as part of the review of the risk management strategy. The aim of the risk management structure is to integrate the Trust's risk management structure to ensure a supportive and comprehensive risk management organisational structure. The Risk Management Board is responsible for co-ordinating the Trust's risk management strategy and is the over-arching committee. This committee has overall responsibility for co-ordinating and prioritising all risk management issues. As part of the process, it receives information from the following groups:

- Clinical Governance Board
- Finance & Performance Committee
- Audit Committee
- IM&T Board

The Risk Management Board ensures that the Board is kept fully informed of all significant risks and their management.

The Audit Committee has reviewed its terms of reference to ensure that all risks are considered, not merely financial risks. This committee will also be reviewing the Trust's risk register and assurance framework, and this information will be considered when developing future internal audit plans.

Internal Audit has concluded that, for the identified principal risks covered by its work, the Board has full assurance that the system of internal control is designed to meet the organisation's objectives and controls are consistently applied in all the areas reviewed.
A number of significant control issues have been identified and addressed this year as detailed below:

## Significant Control Issue – Core standard C13 (B) of Standards for Better Health not met

### Element One

Valid consent, including those who have communication or language support needs, is obtained by suitably qualified staff for all treatments, procedures (including post-mortem) and investigations in accordance with the Reference Guide to Consent for Examination or Treatment (Department of Health 2001), Families and post mortems: a code of practice (Department of Health 2003) and Code of Practice to the Mental Capacity Act 2005 (Department of Constitutional Affairs 2007).

### Actions taken to date

The actions required to ensure compliance include the provision of consent training for nursing staff and for staff who take clinical photographs or video recordings. To write a policy or procedure for staff to follow when obtaining consent about the sharing of personal information which includes staff checking patients' understanding about their choices to disclosure of their personal data. To provide

information to patients attending outpatients about what information is recorded in their records and when their health records are accessed. Work has commenced to ensure that these actions are implemented.

## Significant Control Issue – Core standard C20 (a & b) of Standards for Better Health not met

### C20 (a)

### Element One

The healthcare organisation effectively manages the health, safety and environment risks to patients, staff and visitors, including by meeting the relevant health and safety at work and fire legislation, The management of Health, Safety and Welfare Issues for NHS staff (NHS Employers 2005) and the Disability Discrimination Act.

(Adequate levels of assurance for this standard can be provided by level 2 and above of the NHSLA's Risk Management Standards for Acute Trusts, however, due to the condition of the estate, the Trust is continuing to declare this standard as non-compliant).

### Element Two

The healthcare organisation provides a secure environment which protects patients, staff, visitors and their property, and the physical assets of the organisation.

(Adequate levels of assurance for this standard can be provided by level 2 and above of the NHSLA's Risk Management Standards for Acute Trusts, however due to the condition of the estate the Trust is continuing to declare this standard as non-compliant).

## C20 (b)

### Element One

The healthcare organisation provides services in environments that are supportive of patient privacy and confidentiality, including the provision of single sex facilities and accommodation.

### Actions taken to date

*Fire backlog maintenance:*
The Trust has significant backlog maintenance requirements as indicated in the Trust's Estates Strategy and a significant element of this relates to fire safety. The Trust invests a proportion of its Capital Resource Limit on fire safety improvements. However the inherent design of the buildings and estate restrict the Trust from ever being fully fire compliant until the site redevelopment is completed. The Trust has developed a strategic overview, with fire engineering consultants, and agreed a programme of works with the London Fire and Emergency Planning Authority. This programme will enable the Trust to systematically reduce fire backlog year on year on a risk basis.

### Actions taken to date

*Security*
The Trust has invested significant amounts in improving security management and has carried out the following actions:

- Installed access control for all main entrances to wards
- CCTV at the Main Gate
- Personal alarms for staff
- Improvement to external lighting
- Handling of Patient Valuables Policy approved by Trust Board
- Two senior members of staff trained as Local Security Management Specialists (LSMS)
- Installed ward safes to all wards
- Reviewed and updated patients' valuables record book

The reason for not reporting fully met relates to the inherent design weaknesses as well as the fabric of the buildings and estate. A good example of this is the main hospital thoroughfare with approximately fourteen points of potential entry. These design issues cannot be fully addressed until site redevelopment.

The action plan to meet compliance with this standard is the redevelopment of the Trust, which is awaiting approval of its OBC.

## Significant Control Issue – Core standard C21 of Standards for Better Health not met

### Element One

The healthcare organisation has taken steps to provide care in well designed and well maintained environments in accordance with Building notes and Health Technical Memorandum, the Disability Discrimination Act 1995 and the Disability Discrimination Act 2005 and associated practice.

### Element Two

Care is provided in clean environments in accordance with the national specification for cleanliness in the NHS (National Patient Safety Agency, 2007) and the relevant requirements of the Health Act 2006 Code of Practice for the Prevention and Control of Health Care Associated Infections (Department of Health, 2006).

*Well designed? (Not Met)*
61% of the RNOH buildings are over 60 years old. The accepted method of assessing if buildings and facilities are well designed is by assessing their functional suitability. This describes how effectively a site, building or part of a building supports the delivery of a specific service. The criteria used in such assessments include space relationships, amenity, location, environmental conditions and overall effectiveness. The following table assesses the site:

**Functional Suitability**

| | |
|---|---|
| Condition A (Very satisfactory) | 3% |
| Condition B (Satisfactory) | 30% |
| Condition C (Major change needed) | 30% |
| Condition D (Unacceptable in present condition) | 18% |
| Condition DX (Nothing but a total rebuild or relocation will suffice) | 19% |

This clearly shows that 67% of the site is not suitable for modern healthcare and is therefore not well designed. The main wards and three of the Trust's operating theatres are rated as category DX. Two good examples of poor design are:

- The main link corridor for the wards is on a steep gradient, making patient moves very difficult. Tugs have to tow patients from the theatres after operations.

- Patients are exposed to the elements when being transferred to the Rehabilitation ward from the main ward complex as there is no covered walkway.

*Well Maintained? (Not Met)*

The future of the RNOH was in the past uncertain and this led to minimal investment in maintenance and capital expenditure. The majority of buildings have performed their useful working life and replacement would be more cost effective than refurbishment. This is reflected in the high level of backlog maintenance, as identified in the Estates Strategy.

## Actions taken to date

The action plan to meet compliance with this standard is the redevelopment of the Trust, which is at OBC stage in the Capital Investment Process.

## Significant Control Issue - Financial Situation

During the year the financial position of the Trust remained a cause for concern. However, real progress has been made in addressing the underlying financial position. The deficit was reduced from £3.793m in 2004/05 to £0.462m by the end of 2005/06 and to £0.315m by the end of 2006/07. In 2007/08 the Trust delivered a surplus of £1.109m compared to a planned surplus of £2.504m.

Therefore, at 31st March 2008 the Trust had a cumulative deficit of £3.5m. The Trust is currently planning to achieve cumulative breakeven in 2010/11. This is seven years after the original year of deficit in 2004/05 and 2007/08 is the first year since this that a surplus has been delivered. NHS statutory duty requirements are to deliver cumulative breakeven within five years. Therefore the Trust's external auditors have been required to notify the Department of Health of this breach under section 19 of the Audit Commission Act and this has been included in their accounts opinion. The Auditors have not issued a report in the public interest on the financial health of the Trust at this stage. The RNOH considers that the financial plans are now robust and ensure the Trust will not further breach statutory financial duties going forward.

### Actions Taken to Date

The turnaround in the financial position has been achieved through:

- Implementing a strong financial planning culture
- Implementing a performance management framework that integrates clinical, financial, activity and workforce monitoring and is linked to strengthening the role of Clinical Directors
- Delivery of a challenging cost improvement programme which included a review of every service and department within the hospital
- Achieving a transparent financial understanding of how the RNOH's services fare under the changing funding landscape of Payment by Results

The improvement has been delivered despite being in the implementation period of the new Payments by Results (PbR), a major financial issue for the RNOH.

In 2002/03, the RNOH was a two star Trust with a track record of meeting financial duties. However, this was often achieved through restricting capital investment and other one off initiatives such as funding for waiting list initiatives to support other Trusts with waiting list pressures (e.g. the London Patient Choice Project). A long-term plan for sustained investment in building, equipment and IT infrastructure, combined with a strong underlying financial position, was not possible during this period due to uncertainty around the future site development plans and underlying financial pressures having to be managed on an ad-hoc basis each year. The weakness in the underlying financial position at that time was exposed when, in 2004/05, waiting list activity initiatives that had historically provided significant financial contribution were no longer available and the Trust incurred a significant deficit of £3.8m.

## National Reference costs

The National Reference Costs Index score for the RNOH in 2006/07 was 158. On this basis the Trust could be viewed as a "high cost" provider. However, it has been recognised by the National Casemix Office, the Department of Health's PbR team and other benchmarking organisations that the Trust's highly specialised and complex orthopaedic activity is not always reflected in the current Health Resource Group (HRG) structure on which national tariffs and reference cost measurements are based. As a result over 50% of the Trust's clinical services are excluded from standard national average tariffs and subject to either local tariffs or separate specialist tariffs. 15% of the Trust's complex work remains categorised into a generic "other" orthopaedic HRG within reference costs because national coding algorithms are not developed sufficiently to allocate these activities to an appropriate HRG.

## Impact of Payment by Results (PbR)

Whilst it is recognised that the impact of PbR has added a very real risk to the financial position of the Trust since 2004/05, it is also useful to note that, if the effect of PbR is excluded, the underlying financial position would improve significantly. The impact of PbR has been mitigated through generating additional income from clinical activity to improve access times whilst holding down the cost of delivering this activity through ensuring that optimum capacity levels (mainly in terms of beds and theatres) are maintained during the year.

The full effect of Payment by Results (PbR) could potentially have reduced income for current activity levels by £5.1m per annum from 2008/09. The Department of Health (DH) has been providing transitional financial support and therefore, the impact of PbR has been limited in the period 2004/05 to 2007/08. In 2008/09 the Trust loses its transitional relief, but has now agreed changes in the structure of the tariff which could potentially offset at least £4m of the £5.1m reduction. These changes include the exclusion of activity containing highly specialist spinal, shoulder and soft tissue sarcoma work from the national tariff so that separate local tariffs can be agreed with PCTs and the application of specialist tariff top ups to designated specialist centres.

The Trust is collaborating with four other specialist orthopaedic Trusts, all of which face similar issues. The RNOH, Royal Orthopaedic Hospital (Birmingham), Robert Jones and Agnes Hunt Orthopaedic Hospital (Oswestry), Nuffield Orthopaedic Centre (Oxford) and Wrightington Hospital (Wigan) have jointly addressed the impact of PbR with the DH. The Trusts successfully made the case that the current proposed tariffs are unrealistic. They believe that there are robust arguments for the need to extend the scope of the financial uplift for specialist orthopaedic activity.

The Trust is keen to continue to address this position through working collaboratively with the DH and other specialist Trusts to reduce the impact of PbR such that transitional support can be replaced by a robust tariff in the longer term.

Whilst collaborative work on a robust tariff continues, this financial risk provides a further driver for the Trust to optimise the use of clinical facilities and capacity and hence maximise the benefits that the Payments by Results funding regime offers as it is developed over the next few years.

## Balance sheet and cash position

In terms of the RNOH's balance sheet and cash position, the Trust has carried significant capital and cash "brokerage" for a number of years. More recently, the I&E deficits incurred in 2004/05–2006/07 meant that the Trust had to agree further cash brokerage to offset the pressure this has put on working capital. Until 2006/07 the Trust received a significant amount of cash brokerage from the SHA. However, these historic cash shortfalls have been largely cleared in 2007/08 by using the RNOH's Bolsover Street land sale receipt. In 2007/08 the Trust repaid 2007/08 PDC and intends to clear all remaining borrowing in 2008/09. This will leave the RNOH's balance sheet in a suitably sustainable position for Foundation Trust status from April 2009 onwards.

## Future financial plans

The RNOH's financial plans show that even with only relatively modest cost improvement assumptions and activity growth levels that have been agreed with PCTs, the improved financial position can be sustained. The Trust recognises that the PbR funding environment exposes specialist Trusts to more risk than many other hospitals.

The Trust now has a track record, however, of working with DH on tariff issues and experience of patient level costing. The Trust is well placed throughout the organisation from front line clinicians to Board level in understanding which services make and lose money under tariff. Therefore the Trust, as it has done last year and this financial year, can adjust business plans to deal with tariff changes in a responsive way. As the Trust moves into more detailed planning from 2008 and beyond, this will now be supported by a stronger understanding of service line reporting across the organisation and, therefore, beyond the individual large problem areas the Trust has focused on in the past.

Overall, this sustained underlying financial strength will put the Trust in good stead to finance infrastructure redevelopment plans in an affordable way.

Through a programme of modernisation and cost management, the Trust has now secured a position of delivering a surplus. However, this position will not be sustainable within the current fabric of estate at the Stanmore site outlined in the previous section. This is because a strategy based purely on utilising internally generated cash for capital is not sustainable given the scale of investment required into the estate. Clinical services, research and education cannot effectively and safely continue to be delivered on the current site without investment in the infrastructure. Therefore, fundamentally, the financial risks of doing nothing are that the Trust would no longer be able to continue to provide these services and, therefore, generate the necessary operating income. However, the Trust can utilise surpluses from sustained productivity improvements (driven by activity growth and efficient high quality patient care) to offset the increase in capital charges or equivalents from the proposed major site investment and reconfiguration. Therefore a key management action to address this area is the agreement of a comprehensive site redevelopment plan. This has been taken forward through an Outline Business Case for the redevelopment of the Stanmore site which has been submitted to the SHA in April 2008. NHS London approved this Outline Business Case in July 2008 and the Trust will now prepare a Full Business Case for the redevelopment of the Stanmore site.

The Statement of Internal Control for 2006/07 highlighted two additional significant control issues; namely the HSE Improvement Notice and the LFEPA Enforcement Notice. The following action has been taken relating to each issue:

## HSE Improvement Notice

On 10th September 2007 the Trust was prosecuted by the HSE and found guilty. A fine was imposed. The Trust continues to work towards embedding the risk management safety culture within the estates department and significant improvements have been realised.

## LFEPA Enforcement Notice

The Trust continues to work closely with the LFEPA in developing, agreeing and implementing annual fire safety action plans. To facilitate the progression of this work, a Fire Safety Officer has been seconded for two days per week.

Date **19 June 2008**  Chief Executive

# Income and Expenditure Account for the Year Ended 31 March 2008

| | NOTE | 2007/08 £000 | 2006/07 £000 |
|---|---|---|---|
| Income from activities | 3 | **76,033** | 68,997 |
| Other operating income | 4 | **8,070** | 6,632 |
| Operating expenses | 5 | **(81,668)** | (74,060) |
| OPERATING SURPLUS | | **2,435** | 1,569 |
| Profit/(loss) on disposal of fixed assets | 8 | **566** | (1) |
| SURPLUS BEFORE INTEREST | | **3,001** | 1,568 |
| Interest receivable | | **331** | 133 |
| Interest payable | 9 | **(4)** | (16) |
| Other finance costs - unwinding of discount | 16 | **(12)** | (13) |
| SURPLUS FOR THE FINANCIAL YEAR | | **3,316** | 1,672 |
| Public Dividend Capital dividends payable | | **(2,207)** | (1,987) |
| RETAINED SURPLUS/(DEFICIT) FOR THE YEAR | | **1,109** | (315) |

The notes on pages 5 to 37 form part of these accounts.
All income and expenditure is derived from continuing operations.

# Balance Sheet as at 31 March 2008

| | NOTE | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 10 | **157** | 114 |
| Tangible assets | 11 | **70,100** | 79,729 |
| Investments | 141 | **-** | - |
| | | **70,257** | 79,843 |
| **CURRENT ASSETS** | | | |
| Stocks and work in progress | 12 | **2,040** | 1,145 |
| Debtors | 13 | **10,472** | 10,003 |
| Investments | 14.2 | **-** | - |
| Cash at bank and in hand | 18.3 | **935** | 233 |
| | | **13,447** | 11,381 |
| **CREDITORS:** Amounts falling due within one year | 15 | **(9,841)** | (10,442) |
| **NET CURRENT ASSETS** | | **3,606** | 939 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **73,863** | 80,782 |
| **CREDITORS:** Amounts falling due after more than one year | 15 | **-** | - |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 16 | **(630)** | (696) |
| **TOTAL ASSETS EMPLOYED** | | **73,233** | 80,086 |
| **FINANCED BY:** | | | |
| **TAXPAYERS' EQUITY** | | | |
| Public dividend capital | 22 | **28,608** | 41,983 |
| Revaluation reserve | 17 | **30,455** | 33,267 |
| Donated asset reserve | 17 | **11,742** | 11,054 |
| Government grant reserve | 17 | **-** | - |
| Other reserves | 17 | **-** | - |
| Income and expenditure reserve | 17 | **2,428** | (6,218) |
| **TOTAL TAXPAYERS' EQUITY** | | **73,233** | 80,086 |

The financial statements on pages 1-37 were approved by the Board on 19 June 2008 and signed on its behalf by:

Signed:  (Chief Executive) Date: **19 June 2008**

# Statement Of Total Recognised Gains And Losses For The Year Ended 31 March 2008

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Surplus/(deficit) for the financial year before dividend payments | 3,316 | 1,672 |
| Fixed asset impairment losses | - | - |
| Unrealised surplus/(deficit) on fixed asset revaluations/indexation | 5,639 | 5,686 |
| Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets | 146 | 133 |
| Defined benefit scheme actuarial gains/(losses) | - | - |
| Additions/(reductions) in "other reserves" | - | - |
| **Total recognised gains and losses for the financial year** | 9,101 | 7,491 |
| Prior period adjustment | - | - |
| **Total gains and losses recognised in the financial year** | 9,101 | 7,491 |

# Cash Flow Statement For The Year Ended 31 March 2008

| | NOTE | 2007/08 £000 | 2006/07 £000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net cash inflow from operating activities** | 18.1 | **8,254** | 2,607 |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:** | | | |
| Interest received | | **331** | 133 |
| Interest paid | | **(1)** | (16) |
| **Net cash inflow from returns on investments and servicing of finance** | | **330** | 117 |
| **CAPITAL EXPENDITURE** | | | |
| (Payments) to acquire tangible fixed assets | | **(3,591)** | (2,597) |
| Receipts from sale of tangible fixed assets | | **9,261** | 1,415 |
| (Payments) to acquire intangible assets | | **(70)** | (35) |
| **Net cash inflow/(outflow) from capital expenditure** | | **5,600** | (1,217) |
| **DIVIDENDS PAID** | | **(2,207)** | (1,987) |
| **Net cash inflow/(outflow) before management of liquid resources and financing** | | **11,977** | (480) |
| **MANAGEMENT OF LIQUID RESOURCES** | | | |
| **Net cash inflow/(outflow) from management of liquid resources** | | **-** | - |
| **Net cash inflow/(outflow) before financing** | | **11,977** | (480) |
| **FINANCING** | | | |
| Public dividend capital received | | **392** | 506 |
| Public dividend capital repaid (not previously accrued) | | **(13,767)** | - |
| Loans received from DH | | **6,400** | - |
| Loans repaid to DH | | **(4,300)** | - |
| **Net cash (outflow)/inflow from financing** | | **(11,275)** | 506 |
| **Increase in cash** | | **702** | 26 |

# 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. When a spell of patient treatment starts in one period and is completed in a subsequent period, the value of measurable activity is accrued in the period of that activity. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

## 1.4 Intangible fixed assets

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

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

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

## 1.5 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.

## Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. They are restated to current value 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 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.

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.

### 1.6 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. Leaseholds are depreciated over the primary lease term.

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.

### 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

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed. Gains and losses on revaluations are also taken to the Government grant reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government grant reserve to the Income and Expenditure account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Reserve.

### 1.8 Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress, but are accrued as debtors when the activity can be reliably measured.

## 1.9 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. NHS Trusts are unable to disclose the total amount of research and development expenditure charged in the income and expenditure account because some research and development activity cannot be separated from patient care activity.

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

## 1.10 Provisions

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

### Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases, the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 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 2007/08 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

### Non-clinical risk pooling

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

## 1.11 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at: www.pensions.nhsbsa.nhs.uk. 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. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme. The cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows:

a) full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the Scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings.

b) FRS17 accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.
The valuation of the Scheme liability as at 31 March 2008 is based on detailed membership data as at 31 March 2006 (the latest

midpoint) updated to 31 March 2008 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

### Scheme provisions as at 31 March 2008

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 year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

For early retirements other than those due to ill health, the additional pension liabilities are 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, the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

### Scheme provisions from 1 April 2008

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website: www.pensions.nhsbsa.nhs.uk.

### 1.12 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.

### 1.13 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.

### 1.14 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 28 to the accounts.

### 1.15 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS Trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the

Income and Expenditure Account on a straight-line basis over the term of the lease.

### 1.16 Public Dividend Capital (PDC) and PDC Dividend

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

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calulated as a simple average of opening and closing relevant net assets. A note 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.

### 1.17 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, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### 1.18 EU Emissions Trading Scheme

The Trust does not currently participate in the EU emissions trading scheme.

## 2 Segmental analysis

The Trust has nothing to report in this section.

## 3 Income from Activities

| | | 2007/08 | 2006/07 As restated |
|---|---|---|---|
| | | £000 | £000 |
| Strategic Health Authorities* | *1 | **4,106** | - |
| NHS Trusts | | **-** | 31 |
| Primary Care Trusts* | *2/3 | **55,766** | 46,849 |
| Foundation Trusts | | **-** | - |
| Local Authorities | | **187** | - |
| Department of Health | | **9,694** | 13,387 |
| NHS Other | | **-** | - |
| Non NHS: | | | |
| - Private patients | | **5,562** | 6,970 |
| - Overseas patients (non-reciprocal) | | **-** | - |
| - Road Traffic Act | | **-** | 152 |
| - Injury cost recovery | | **168** | - |
| - Other | | **550** | 1,608 |
| | | **76,033** | 68,997 |

*1. Income from SHAs represents the income from the National Commissioning Group, hosted by London SHA. In the prior year, the NCG was hosted by the Department of Health and this income for 2006/07 is shown on the Department of Health line.

*2. Income from PCTs for 2007/08 includes an accrual for part-completed spells at 31 March 2008 for spinal services.

*3. Includes £4,279,000 income from Barnet PCT to offset the impairment of the Trust's Bolsover Street properties to open market value prior to disposal. The cost of the impairment has been charged to operating expenses.

## 4 Other Operating Income

| | 2007/08 | 2006/07 |
|---|---|---|
| | £000 | £000 |
| Patient transport services | 54 | 99 |
| Education, training and research | 4,164 | 4,192 |
| Charitable and other contributions to expenditure | 25 | 13 |
| Transfers from donated asset reserve | 372 | 324 |
| Transfers from government grant reserve | - | - |
| Non-patient care services to other bodies | 778 | 585 |
| Income Generation | 19 | 13 |
| Other income | 2,658 | 1,406 |
| | 8,070 | 6,632 |

## 5 Operating Expenses

### 5.1 Operating expenses comprise:

| | 2007/08 | 2006/07 |
|---|---|---|
| | £000 | £000 |
| Services from other NHS Trusts | 498 | 2,015 |
| Services from PCTs | - | - |
| Services from other NHS bodies | - | - |
| Services from Foundation Trusts | 44 | 164 |
| Purchase of healthcare from non NHS bodies | 79 | 93 |
| Directors' costs | 783 | 787 |
| Staff costs | 41,476 | 40,355 |
| Supplies and services - clinical | 20,040 | 18,549 |
| Supplies and services - general | 4,333 | 3,429 |
| Consultancy services | 565 | 669 |
| Establishment | 657 | 655 |
| Transport | 1,332 | 566 |
| Premises | 2,433 | 2,244 |
| Bad debts | 308 | 90 |
| Depreciation | 2,940 | 2,630 |
| Amortisation | 27 | 20 |
| Fixed asset impairments and reversals* | 4,279 | - |
| Audit fees | 172 | 177 |
| Other auditor's remuneration | 10 | - |
| Clinical negligence | 444 | 382 |
| Redundancy costs | - | - |
| Other | 1,248 | 1,235 |
| | 81,668 | 74,060 |

* Impairment expense represents the impairment of the Trust's Bolsover Street properties to open market value prior to disposal. More details are disclosed at note 11.

## 5.2 Operating leases

### 5.2/1 Operating expenses include:

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Hire of plant and machinery | **315** | 178 |
| Other operating lease rentals | **1,673** | 1,234 |
| | **1,988** | 1,412 |

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

| | Land and buildings | | Other leases | |
|---|---|---|---|---|
| | **2007/08 £000** | 2006/07 £000 | **2007/08 £000** | 2006/07 £000 |
| Operating leases which expire: | | | | |
| Within 1 year | **69** | 69 | **102** | 102 |
| Between 1 and 5 years | **554** | 554 | **472** | 472 |
| After 5 years | **-** | 0 | **-** | 275 |
| | **623** | 623 | **574** | 849 |

## 6 Staff costs and numbers

### 6.1 Staff costs

| | 2007/08 | | | 2006/07 |
|---|---|---|---|---|
| | Total | Permanently Employed | Other | |
| | £000 | £000 | £000 | £000 |
| Salaries and wages | 35,713 | 32,519 | 3,194 | 34,870 |
| Social Security Costs | 2,932 | 2,932 | - | 2,877 |
| Employer contributions to NHS Pension Scheme | 3,618 | 3,618 | - | 3,532 |
| Other pension costs | - | - | - | - |
| | 42,263 | 39,069 | 3,194 | 41,279 |

### 6.2 Average number of persons employed

| | 2007/08 | | | 2006/07 |
|---|---|---|---|---|
| | Total Number | Permanently Employed Number | Other Number | Number |
| Medical and dental | 128 | 124 | 4 | 127 |
| Ambulance staff | - | - | - | - |
| Administration and estates | 285 | 271 | 14 | 275 |
| Healthcare assistants and other support staff | 83 | 83 | - | - |
| Nursing, midwifery and health visiting staff | 344 | 299 | 45 | 429 |
| Nursing, midwifery and health visiting learners | - | - | - | - |
| Scientific, therapeutic and technical staff | 172 | 162 | 10 | 158 |
| Social care staff | 2 | 2 | - | 2 |
| Other | 3 | 3 | - | - |
| Total | 1,017 | 944 | 73 | 991 |

## 6.3 Management costs

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Management costs | **3,603** | 3,624 |
| Income | **84,103** | 75,629 |

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

## 6.4 Retirements due to ill-health

During 2007/08 there was one (2006/07: one) early retirement from the Trust on the grounds of ill-health. The estimated additional pension liabilities of this ill-health retirement will be £41k (£3k). The cost of this ill-health retirement will be borne by the NHS Business Services Authority - Pensions Division.

## 7 Better Payment Practice Code

### 7.1 Better Payment Practice Code - measure of compliance

| | 2007/08 Number | £000 |
|---|---|---|
| Total Non-NHS trade invoices paid in the year | **18,293** | **33,775** |
| Total Non NHS trade invoices paid within target | **3,556** | **9,979** |
| Percentage of Non-NHS trade invoices paid within target | **19%** | **30%** |
| | | |
| Total NHS trade invoices paid in the year | **724** | **6,954** |
| Total NHS trade invoices paid within target | **99** | **1,143** |
| Percentage of NHS trade invoices paid within target | **14%** | **16%** |

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.

### 7.2 The Late Payment of Commercial Debts (Interest) Act 1998

| | **2007/08 £000** | 2006/07 £000 |
|---|---|---|
| Amounts included within Interest Payable (Note 9) arising from claims made under this legislation | **-** | 16 |
| Compensation paid to cover debt recovery costs under this legislation | **-** | - |

## 8 Profit/(Loss) on Disposal of Fixed Assets

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

| | **2007/08** | 2006/07 |
|---|---|---|
| | **£000** | £000 |
| Profit on disposal of land and buildings | **566** | - |
| (Loss) on disposal of land and buildings | **-** | (4) |
| Profits on disposal of plant and equipment | **-** | 3 |
| | **566** | (1) |

The profit on disposal of tangible fixed assets is derived from the sale of the Trust's Central London clinic properties. More details of this transaction are disclosed at Note 11

## 9 Interest Payable

| | **2007/08** | 2006/07 |
|---|---|---|
| | **£000** | £000 |
| Finance leases | **-** | - |
| Late payment of commercial debt | **-** | 16 |
| Loans | **-** | - |
| Other | **4** | - |
| | **4** | 16 |

## 10 Intangible Fixed Assets

| | Software licences | Total |
|---|---|---|
| | £000 | £000 |
| Gross cost at 1 April 2007 | 134 | 134 |
| Indexation | - | - |
| Impairments | - | - |
| Reclassifications | - | - |
| Revaluation | - | - |
| Additions purchased | 70 | 70 |
| Additions donated | - | - |
| Additions government granted | - | - |
| Disposals | - | - |
| **Gross cost at 31 March 2008** | **204** | **204** |
| | | |
| Amortisation at 1 April 2007 | 20 | 20 |
| Indexation | | - |
| Impairments | - | - |
| Reversal of impairments | - | - |
| Reclassifications | - | - |
| Revaluation | - | - |
| Charged during the year | 27 | 27 |
| Disposals | - | - |
| **Amortisation at 31 March 2008** | **47** | **47** |
| | | |
| **Net book value** | | |
| - Purchased at 1 April 2007 | 114 | 114 |
| - Donated at 1 April 2007 | - | - |
| - Government granted at 1 April 2007 | - | - |
| **- Total at 1 April 2007** | **114** | **114** |
| | | |
| - Purchased at 31 March 2008 | 157 | 157 |
| - Donated at 31 March 2008 | - | - |
| - Government granted at 31 March 2008 | - | - |
| **- Total at 31 March 2008** | **157** | **157** |

## 11 Tangible Fixed Assets

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

| | Land | Buildings excluding dwellings |
|---|---|---|
| | **£000** | **£000** |
| Cost or valuation at 1 April 2007 | 22,892 | 44,699 |
| Additions purchased | - | 1,172 |
| Additions donated | - | 146 |
| Additions government granted - | - | - |
| Impairments | - | - |
| Reclassifications | - | 875 |
| Indexation | 1,245 | 4,035 |
| Revaluation | - | - |
| Disposals | (8,448) | (1,969) |
| **Cost or Valuation at 31 March 2008** | **15,689** | **48,958** |
| | | |
| Depreciation at 1 April 2007 | - | - |
| Charged during the year | 50 | 2,035 |
| Impairments | 2,377 | 1,902 |
| Reversal of Impairments | - | - |
| Reclassifications | - | - |
| Indexation | 8 | 310 |
| Revaluation | - | - |
| Disposals | (199) | (638) |
| **Depreciation at 31 March 2008** | **2,236** | **3,609** |
| | | |
| **Net book value** | | |
| - Purchased at 1 April 2007 | 22,892 | 33,778 |
| - Donated at 1 April 2007 | - | 10,921 |
| - Government granted at 1 April 2007 | - | - |
| **- Total at 1 April 2007** | **22,892** | **44,699** |
| | | |
| - Purchased at 31 March 2008 | 13,453 | 33,607 |
| - Donated at 31 March 2008 | - | 11,742 |
| - Government granted at 31 March 2008 | - | - |
| **- Total at 31 March 2008** | **13,453** | **45,349** |

| 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** |
| 7,005 | 2,869 | 10,304 | - | 1,351 | - | 89,120 |
| 3 | - | 175 | - | 268 | 3 | 1,621 |
| - | - | - | - | - | - | 146 |
| - | - | - | - | | - | - |
| - | - | - | - | - | - | - |
| - | (2,651) | (284) | - | 2,027 | 33 | - |
| 620 | 49 | 276 | - | - | - | 6,225 |
| - | - | - | - | - | - | - |
| - | (236) | - | - | - | - | (10,653) |
| **7,628** | **31** | **10,471** | **-** | **3,646** | **36** | **86,459** |
| - | - | 8,648 | - | 743 | - | 9,391 |
| 236 | - | 185 | - | 432 | 2 | 2,940 |
| - | - | - | - | - | - | 4,279 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | - |
| 36 | - | 232 | - | - | - | 586 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | (837) |
| **272** | **-** | **9,065** | **-** | **1,175** | **2** | **16,359** |
| 7,005 | 2,869 | 1,523 | - | 608 | - | 68,675 |
| - | - | 133 | - | - | - | 11,054 |
| - | - | - | - | - | - | - |
| **7,005** | **2,869** | **1,656** | **-** | **608** | **-** | **79,729** |
| 7,356 | 31 | 1,406 | - | 2,471 | 34 | 58,358 |
| - | - | - | - | - | - | 11,742 |
| - | - | - | - | - | - | - |
| **7,356** | **31** | **1,406** | **-** | **2,471** | **34** | **70,100** |

11.1 **Tangible Fixed Assets (contd)**

Of the totals at 31 March 2008, £nil related to land valued at open market value and £nil related to buildings valued at open market value and £nil related to dwellings valued at open market value.

During the year ended 31 March 2008, the Trust completed the sale of its Central London property and clinic at Bolsover Street. Prior to the sale, the Valuation Office Agency revalued the property to its assessed value at the date the contracts were signed. The value in aggregate of the Bolsover Street properties fell from £13,860k to £9,581k giving rise to an impairment charge of £4,279k which is shown in note 5 (operating expenses). Both the impairment and the disposal at the new value are shown on the note 11.1 table. After revaluation, the profit on disposal was £566k.

The Trust is leasing the clinic from the developers during redevelopment, and a new clinic is being built for the Trust on the same site which the Trust will lease on completion.

### Finance leases and hire purchase contracts

No assets were held under finance leases or hire purchase contracts at 31 March 2008 (31 March 2007 £nil).

11.2 **The net book value of land, buildings and dwellings at 31 March 2008 comprises:**

| | **31 March 2008** | 31 March 2007 |
|---|---|---|
| | **£000** | £000 |
| Freehold | **66,158** | 67,994 |
| Long leasehold | **-** | 6,602 |
| Short leasehold | **-** | - |
| TOTAL | **66,158** | 74,596 |

## 12 Stocks and Work in Progress

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| Raw materials and consumables | **2,040** | 1,145 |
| Work-in-progress | **-** | - |
| Finished goods | **-** | - |
| TOTAL | **2,040** | 1,145 |

## 13 Debtors

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| NHS debtors | **5,352** | 5,130 |
| Provision for irrecoverable debts | **(392)** | (236) |
| Other prepayments and accrued income | **2,482** | 2,734 |
| Other debtors | **3,030** | 2,374 |
| **Sub Total** | **10,472** | 10,002 |
| **Amounts falling due after more than one year:** | | |
| NHS debtors | **-** | - |
| Provision for irrecoverable debts | **-** | - |
| Other prepayments and accrued income | **-** | - |
| Other debtors | **-** | 1 |
| **Sub Total** | **-** | 1 |
| TOTAL | **10,472** | 10,003 |

There were no prepaid pension contributions at 31 March 2008 (31 March 2007, nil)

## 14 Investments

## 14.1 Fixed Asset Investments

At 31 March 2008, the Trust held no fixed asset investments (31 March 2007, nil).

## 14.2 Current Asset Investments

At 31 March 2008, the Trust held no current asset investments (31 March 2007, nil).

## 15 Creditors

## 15.1 Creditors at the balance sheet date are made up of:

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Bank overdrafts | - | - |
| Current instalments due on loans | 2,100 | - |
| Interest payable | 3 | - |
| Payments received on account | - | - |
| NHS creditors | 4,609 | 2,950 |
| Non - NHS trade creditors - revenue | 469 | 1,720 |
| Non - NHS trade creditors - capital | 260 | 2,084 |
| Tax | 12 | 612 |
| Social security costs | 8 | 415 |
| Obligations under finance leases and hire purchase contracts | - | - |
| Other creditors | 85 | 494 |
| Accruals and deferred income | 2,295 | 2,167 |
| **Sub Total** | 9,841 | 10,442 |
| **Amounts falling due after more than one year:** | | |
| Long - term loans | - | - |
| Obligations under finance leases and hire purchase contracts | - | - |
| NHS creditors | - | - |
| Other | - | - |
| **Sub Total** | - | - |
| **TOTAL** | 9,841 | 10,442 |

NHS creditors includes £263k received from Barnet PCT in respect of 2008/09 activity. This receipt has not been recognised as income in the 2007/08 income and expenditure account. Other creditors includes £1k outstanding pensions contributions at 31 March 2008 (31 March 2007 £445k).

## 15.2 Loans [and other long-term financial liabilities]

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| Amounts falling due: | | |
| In one year or less | **2,100** | - |
| Between one and two years | **-** | - |
| Between two and five years | **-** | - |
| Over 5 years | **-** | - |
| TOTAL | **2,100** | - |

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| Wholly repayable within five years | **2,100** | - |
| Wholly repayable after five years, not by instalments | **-** | - |
| Wholly or partially repayable after five years, by instalments | **-** | - |
| TOTAL | **2,100** | - |

## 15.3 Finance lease obligations

The Trust had no obligations under finance leases at 31 March 2008 (31 March 2007, nil).

## 15.4 Finance Lease Commitments

The Trust had no finance lease commitments at 31 March 2008 (31 March 2007, nil).

## 16 Provisions for liabilities and charges

| | |
|---|---|
| At 1 April 2007 | |
| Arising during the year | |
| Utilised during the year | |
| Reversed unused | |
| Unwinding of discount | |
| **At 31 March 2008** | |
| **Expected timing of cashflows:** | |
| Within one year | |
| Between one and five years | |
| After five years | |

The provision for pension costs provides for enhancement of pension entitlements of early retirees. It is based on the present value of the Trust's annual contribution projected in accordance with average life expectancy tables published by the Government Actuary.

The provision for legal claims relates to claims made by staff and others which are covered by the LPTS scheme referred to in note 1.10. The amounts are based on assessments by the NHS Litigation Authority up to the Trust's policy excess (usually £10k) in the case of each claim. Potential additional liabilities up to the policy excess, where successful claims exceed the NHSLA's estimate, are disclosed as contingent liabilities in note 21.

| Pensions relating to former directors | Pensions relating to other staff | Legal claims | Restructurings | Other | **Total** |
|---|---|---|---|---|---|
| £000 | £000 | £000 | £000 | £000 | **£000** |
| 619 | - | 77 | - | - | 696 |
| 15 | - | 8 | - | - | 23 |
| (49) | - | (8) | - | - | (57) |
| - | - | (44) | - | - | (44) |
| 12 | - | - | - | - | 12 |
| **597** | **-** | **33** | **-** | **-** | **630** |
| 50 | - | 33 | - | - | **83** |
| 200 | - | - | - | - | **200** |
| 347 | - | - | - | - | 347 |

£5,193k is included in the provisions of the NHS Litigation Authority at 31 March 2008 in respect of clinical negligence liabilities of the NHS Trust (31 March 2007 £4,374k).

## 17 Movements on Reserves

Movements on reserves in the year comprised the following:

| | |
|---|---|
| At 1 April 2007 | |
| Transfer from the income and expenditure account | |
| Fixed asset impairments | |
| Surplus/(deficit) on other revaluations/indexation of fixed/current assets | |
| Transfer of realised profits/(losses) to the income and expenditure reserve | |
| Receipt of donated/government granted assets | |
| Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets | |
| Other transfers between reserves | |
| Other movements on reserves [specify] | |
| Reserves eliminated on dissolution | |
| At 31 March 2008 | |

The transfer of realised profits from the revaluation reserve to the income and expenditure reserve represents the balance accumulated on the revaluation reserve (as a result of periodic revaluation and indexation) in respect of assets disposed of in 2007/08. £7,146k of this transfer relates to sale of the land and buildings at Bolsover Street, the Trust's Central London clinic. This transaction is described in more detail in note 11. The remainder relates to other asset disposals.

| Revaluation | Donated Asset Reserve | Government Grant Reserve | Other Reserves | Income and Expenditure Reserve | **Total** |
|---|---|---|---|---|---|
| £000 | £000 | £000 | £000 | £000 | **£000** |
| 33,267 | 11,054 | - | - | (6,218) | **38,103** |
| | | | | 1,109 | **1,109** |
| - | - | - | - | - | **-** |
| 4,725 | 914 | - | - | - | **5,639** |
| (7,537) | - | - | - | 7,537 | **-** |
| - | 146 | - | - | - | **146** |
| - | (372) | - | - | - | **(372)** |
| - | - | - | - | - | **-** |
| - | - | - | - | - | **-** |
| - | - | - | - | - | **-** |
| **30,455** | **11,742** | **-** | **-** | **2,428** | **44,625** |

## 18 Notes to the Cash Flow Statement

### 18.1 Reconciliation of operating surplus to net cash flow from operating activities:

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Total operating surplus/(deficit) | **2,435** | 1,569 |
| Depreciation and amortisation charge | **2,967** | 2,650 |
| Fixed asset impairments and reversals | **4,279** | - |
| Transfer from donated asset reserve | **(372)** | (324) |
| Transfer from the government grant reserve | **-** | - |
| (Increase)/decrease in stocks | **(895)** | (68) |
| (Increase)/decrease in debtors | **(323)** | (854) |
| Increase/(decrease) in creditors | **241** | (293) |
| Increase/(decrease) in provisions | **(78)** | (73) |
| Net cash inflow/(outflow) from operating activities before restructuring costs | **8,254** | 2,607 |
| Payments in respect of fundamental reorganisation/restructuring | **-** | - |
| **Net cash inflow from operating activities** | **8,254** | 2,607 |

### 18.2 Reconciliation of net cash flow to movement in net debt

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Increase/(decrease) in cash in the period | **702** | 26 |
| Cash (inflow) from new debt | **(6,400)** | - |
| Cash outflow from debt repaid and finance lease capital payments | **4,300** | - |
| Cash (inflow)/outflow from (decrease)/increase in liquid resources | **-** | - |
| Change in net debt resulting from cash flows | **(1,398)** | 26 |
| Non - cash changes in debt | **-** | - |
| Net debt at 1 April 2007 | **233** | 207 |
| **Net debt at 31 March 2008** | **(1,165)** | 233 |

## 18.3 Analysis of changes in net debt

| | At 1 April 2007 | Cash Transfered (to)/from other NHS bodies | Other cash changes in year | Non-cash changes in year | **At 31 March 2008** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| OPG cash at bank | 180 | - | 632 | | **812** |
| Commercial cash at bank and in hand | 53 | - | 70 | | **123** |
| Bank overdraft | - | - | - | | **-** |
| Loan from DH due within one year | - | - | (2,100) | - | **(2,100)** |
| Other debt due within one year | - | - | - | - | **-** |
| Loan from DH due after one year | - | - | - | - | **-** |
| Other debt due after one year | - | - | - | - | **-** |
| Finance leases | - | - | - | - | **-** |
| Current asset investments | - | - | - | - | **-** |
| | **233** | **-** | **(1,398)** | **-** | **(1,165)** |

## 19 Capital Commitments

Commitments under capital expenditure contracts at 31 March 2008 were £2k (31 March 2007 £103k).

## 20 Post Balance Sheet Events

There have been no post-balance sheet events having a material effect on the accounts.

## 21 Contingencies

| | **2007/08** | 2006/07 |
|---|---|---|
| | **£000** | £000 |
| Contingent liabilities | **(7)** | (7) |
| Amounts recoverable against contingent liabilities | **-** | - |
| **Net value of contingent liabiliies** | **(7)** | (7) |
| Contingent Assets | - | - |

The contingent liability represents the Trust's potential additional liability for claims against which the Trust is insured under the LTPS scheme (see note 16), in the event that a settlement, where liability is established, exceeds the NHS Litigation Authority estimate. However, the Trust's maximum liability in any case cannot exceed the policy excess.

## 22 Movement in Public Dividend Capital

| | 2007/08 £000 | 2006/07 £000 |
|---|---|---|
| Public Dividend Capital as at 1 April 2007 | **41,983** | 41,477 |
| New Public Dividend Capital received (including transfers from dissolved NHS Trusts) | **392** | 506 |
| Public Dividend Capital repaid in year | **(13,767)** | - |
| Public Dividend Capital written off | **-** | - |
| Public Dividend Capital issued as originating capital on new establishment | **-** | - |
| Public Dividend Capital transferred to Foundation Trust | **-** | - |
| Other movements in Public Dividend Capital in year | **-** | - |
| **Public Dividend Capital as at 31 March 2008** | **28,608** | 41,983 |

During 2007/08, the Trust repaid £13,767k of public dividend capital which was received in previous years under brokerage principles. The public dividend capital was required by the Trust to support capital expenditure and also to meet cash shortages arising from income and expenditure deficits

## 23 Financial Performance Targets

### 23.1 Breakeven Performance

The Trust's breakeven performance for 2007/08 is as follows:

| | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Turnover | 60,532 | 61,278 | 71,035 | 75,629 | 84,103 |
| Retained surplus/(deficit) for the year | - | (3,793) | (462) | (315) | 1,109 |
| Adjustment for: | | | | | |
| - Timing/non-cash impacting distortions | | | | | |
| - Use of pre - 1.4.97 surpluses [FDL(97)24 Agreements] | - | - | - | - | - |
| -2004/05 Prior Period Adjustment (relating to 1997/98 to 2003/04) | - | | | | |
| -2005/06 Prior Period Adjustment (relating to 1997/98 to 2004/05) | - | - | | | |
| -2006/07 Prior Period Adjustment (relating to 1997/98 to 2005/06) | - | - | - | | |
| 2007/08 Prior Period Adjustment (relating to 197/98 to 2006/07) | - | - | - | - | |
| -Other agreed adjustments | - | - | - | - | - |
| Break-even in-year position | - | (3,793) | (462) | (315) | 1,109 |
| Break-even cumulative position | 24 | (3,769) | (4,231) | (4,546) | (3,437) |
| The Trust's recovery plan, approved by the SHA aims to achieve break-even in 2010/11. | | | | | 2011 |
| Materiality test (I.e. is it equal to or less than 0.5%?): | | | | | |
| -Break-even in-year position as a percentage of turnover | 0.00% | -6.19% | -0.65% | -0.42% | 1.32% |
| -Break-even cumulative position as a percentage of turnover | 0.04% | (6.15%) | (5.96%) | (6.01%) | (4.09%) |

## 23.2 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 £2,207k, bears to the average relevant net assets of £64,766k, that is 3.4%.

The 3.5% return was calculated on a projected asset base which assumed the sale in 2006/07 of the Trust's Central London clinic and other property at Bolsover Street. In fact this sale was concluded in 2007/08, so the opening asset base was higher than than that used to calculate the dividend. If the sale had been concluded in 2006/07 this would have reduced the average relevant net assets to £58,183k, which would have given a capital cost absorption rate of 3.8%.

## 23.3 External financing

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

| | £000 | **2007/08 £000** | 2006/07 £000 |
|---|---|---|---|
| External financing limit | | **(9,608)** | 480 |
| Cash flow financing | (11,977) | | 480 |
| Finance leases taken out in the year | - | | - |
| Other capital receipts | - | | - |
| External financing requirement | | **(11,977)** | 480 |
| **Undershoot** | | **2,369** | - |

## 23.4 Capital Resource Limit

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

| | **2007/08** | 2006/07 |
|---|---|---|
| | **£000** | £000 |
| Gross capital expenditure | **1,837** | 4,770 |
| Less: book value of assets disposed of | **(9,816)** | (1,364) |
| Plus: loss on disposal of donated assets | **-** | - |
| Less: capital grants | **-** | - |
| Less: donations towards the acquisition of fixed assets | **(146)** | (133) |
| Charge against the capital resource limit | **(8,125)** | 3,273 |
| Capital resource limit | **(6,870)** | 4,394 |
| **Underspend against the capital resource limit** | **1,255** | 1,121 |

## 24 Related Party Transactions

The Royal National Orthopaedic Hospital NHS Trust is a body corporate established by order of the Secretary of State for Health..

Mr. Ben Taylor, who was a consultant spinal surgeon to the Trust, but left the Trust in October 2007, declared that his partner was a minority shareholder, director and employee of OrthoExpress Ltd. During the year ended 31 March 2008, the Trust purchased goods to the value of £543k from OrthoExpress Ltd. At no time during Mr Taylor's employment by the Trust did he directly order or purchase goods, or authorise the ordering or purchase of goods on behalf of the Trust from OrthoExpress Ltd. At 31 March 2008, the Trust owed OrthoExpress Ltd. £13k for goods purchased on credit.

Other than as disclosed above, no member of the Board of Directors or other member of the key management staff or parties related to them has undertaken any material transactions with the Trust during the course of the year ended 31 March 2008.

The Department of Health is regarded as a related party. During the year ended 31 March 2008, the Trust had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. £1m has been determined as the materiality threshold for disclosure of transactions in aggregate with each entity. These entities are listed below:

| | **Income from Related Party 2007/08 £m** | Income from Related Party 2006/07 £m | **Expenditure with Related Party 2007/08 £m** | Expenditure with Related Party 2006/07 £m |
|---|---|---|---|---|
| Department of Health, hosting NCG 2006/07 | **11.5** | 15.4 | | |
| London SHA, hosting NCG 2007/08 (NC London SHA 2006/07) | **6.4** | 1.9 | | |
| Barnet PCT | **8.8** | 4.1 | | |
| W Sussex PCT, hosting S Thames spinal consortium 2006/07 | **0.0** | 2.9 | | |
| Bedfordshire PCT | **1.3** | 1.7 | | |
| Brent PCT | **1.7** | 1.7 | | |
| Camden PCT | **1.1** | 0.8 | | |
| Eastern & Coastal Kent PCT | **1.0** | 1.0 | | |
| Enfield PCT | **1.5** | 1.2 | | |
| Hampshire PCT | **1.1** | 1.1 | | |
| Harrow PCT | **2.6** | 2.2 | | |
| Haringey PCT | **1.0** | 0.9 | | |
| Hillingdon PCT | **1.2** | 1.2 | | |
| Tower Hamlets PCT | **1.4** | 3.7 | | |
| South East Essex PCT, hosting N Thames spinal consortium 2007/08 | **7.3** | 3.7 | | |
| Suffolk PCT | **0.0** | 1.3 | | |
| Surrey PCT | **1.3** | 1.2 | | |
| West Kent PCT, hosting S Thames Spinal consortium 2007/08 | **4.0** | 1.1 | | |
| West Hertfordshire PCT | **5.1** | 0.0 | | |
| E&N Hertfordshire PCT, hosting N Thames spinal consortium 2006/07 | **2.1** | 8.0 | | |
| University College London NHS Foundation Trust | | | **1.8** | 1.6 |
| Barnet & Chase Farm Hospitals NHS Trust | | | **1.2** | 1.1 |
| NHS Business Services Authority | | | **1.0** | 0.9 |

## 24 Related Party Transactions (continued)

The Special Trustees of the Royal National Orthopaedic Hospital, whose financial statements are published separately, exists to administer endowment and other charitable funds in the interests of the RNOH NHS Trust, its staff and its patients. In the year ended 31 March 2008, the Special Trustees provided financial support to the NHS activities of the Trust totalling £322,355 (2006/07: £419,516). In addition, the Special Trustees reimbursed the Trust £90,915 (2006/07: £43,684) in respect of financial and other administrative duties undertaken on behalf of the Special Trustees by staff employed by the Trust.

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.

## 25 Private Finance Transactions

### 25.1 PFI schemes deemed to be off-balance sheet

The Trust has no PFI schemes deemed to be off-balance sheet.

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

The Trust has no PFI schemes deemed to be on-balance sheet.

## 26 Pooled Budgets

The Trust played no part in projects financed by pooled budgets during 2007/08.

## 27 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.

### Liquidity risk

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

### Interest-Rate Risk

Only the Trust's cash at bank (financial assets) carries a variable rate 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:

## 27.1 Financial Assets

| Currency | Total<br>£000 | Floating rate<br>£000 |
|---|---|---|
| At 31 March 2008 | | |
| Sterling | 935 | 935 |
| Other | - | - |
| **Gross financial assets** | **935** | **935** |
| At 31 March 2007 | | |
| Sterling | 233 | 233 |
| Other | - | - |
| **Gross financial assets** | **233** | **233** |

## 27.2 Financial Liabilities

| Currency | Total<br>£000 | Floating rate<br>£000 |
|---|---|---|
| At 31 March 2008 | | |
| Sterling | 0.00% | 0 |
| Other | - | - |
| **Gross financial liabilities** | **-** | **-** |
| At 31 March 2007 | | |
| Sterling | - | - |
| Other | - | - |
| **Gross financial liabilities** | **-** | **-** |

| Fixed rate | Non-interest bearing | Fixed rate Weighted average interest rate | Weighted average period for which fixed | Non-interest bearing Weighted average term |
|---|---|---|---|---|
| £000 | £000 | % | Years | Years |
| - | - | 0.00% | 0 | 0 |
| - | - | 0.00% | 0 | 0 |
| - | - | | | |
| - | - | 0.00% | 0 | 0 |
| - | - | 0.00% | 0 | 0 |
| - | - | | | |

| Fixed rate | Non-interest bearing | Fixed rate Weighted average interest rate | Weighted average period for which fixed | Non-interest bearing Weighted average term |
|---|---|---|---|---|
| £000 | £000 | % | Years | Years |
| | 0 | | | |
| - | - | 0.00% | 0 | 0 |
| - | - | | | |
| - | - | 2.20% | 0 | 0 |
| - | - | 0.00% | 0 | 0 |
| - | - | | | |

## 27.3 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 2008.

| | Book Value | Fair Value |
|---|---|---|
| | £000 | £000 |
| **Financial assets** | | |
| Cash | 935 | 935 |
| Debtors over 1 year: | | |
| -Agreements with commissioners to cover creditors and provisions | - | - |
| Investments | - | - |
| **Total** | 935 | 935 |
| | | |
| **Financial liabilities** | | |
| Overdraft | - | - |
| Creditors over 1 year: | | |
| -Finance leases | - | - |
| Provisions under contract | - | - |
| Loans | (2,100) | (2,100) |
| **Total** | (2,100) | (2,100) |

The £2,100k loan is a capital expenditure loan from the Secretary of State for Health repayable during 2008/09. This loan is not disclosed at note 27.2 to be consistent with the Trust's treatment of other financial liabilities falling due within one year, in accordance with FRS13.

## 28 Third Party Assets

The Trust did not hold any cash at bank or in hand at 31 March 2008 (31 March 2007, £nil) on behalf of patients.

## 29 Intra-Government and Other Balances

| | Debtors: amounts falling due within one year | Debtors: amounts falling due after more than one year | Creditors: amounts falling due within one year | Creditors: amounts falling due after more than one year |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| Balances with other Central Government Bodies | 5,098 | - | 3,347 | - |
| Balances with Local Authorities | 236 | - | - | - |
| Balances with NHS Trusts and Foundation Trusts | 254 | - | 1,259 | - |
| Balances with Public Corporations and Trading Funds | - | - | 79 | - |
| Balances with bodies external to government | 4,884 | - | 5,156 | - |
| **At 31 March 2008** | **10,472** | **-** | **9,841** | **-** |
| Balances with other Central Government Bodies | 4,942 | - | 1,445 | - |
| Balances with Local Authorities | 25 | - | - | - |
| Balances with NHS Trusts and Foundation Trusts | 188 | - | 1,774 | - |
| Balances with Public Corporations and Trading Funds | - | - | 91 | - |
| Balances with bodies external to government | 4,847 | 1 | 7,132 | - |
| At 31 March 2007 | **10,002** | **1** | **10,442** | |

## 30 Losses and Special Payments

There were 22 cases of losses and special payments (2006/07: 168 cases) totalling £116,785 (2006/07: £182,676) approved during 2007/08. Of these, 13 were bad debts mostly several years old, where debt collection procedures had been exhausted.

There were no clinical negligence cases where the net payment exceeded £100,000 (2006/07, none).

There were no fraud cases where the net payment exceeded £100,000 (2006/07, none).

There were no personal injury cases where the net payment exceeded £100,000 (2006/07, none).

There were no compensation under legal obligation cases where the net payment exceeded £100,000 (2006/07 none).

There were no fruitless payment cases where the net payment exceeded £100,000 (2006/07, none).

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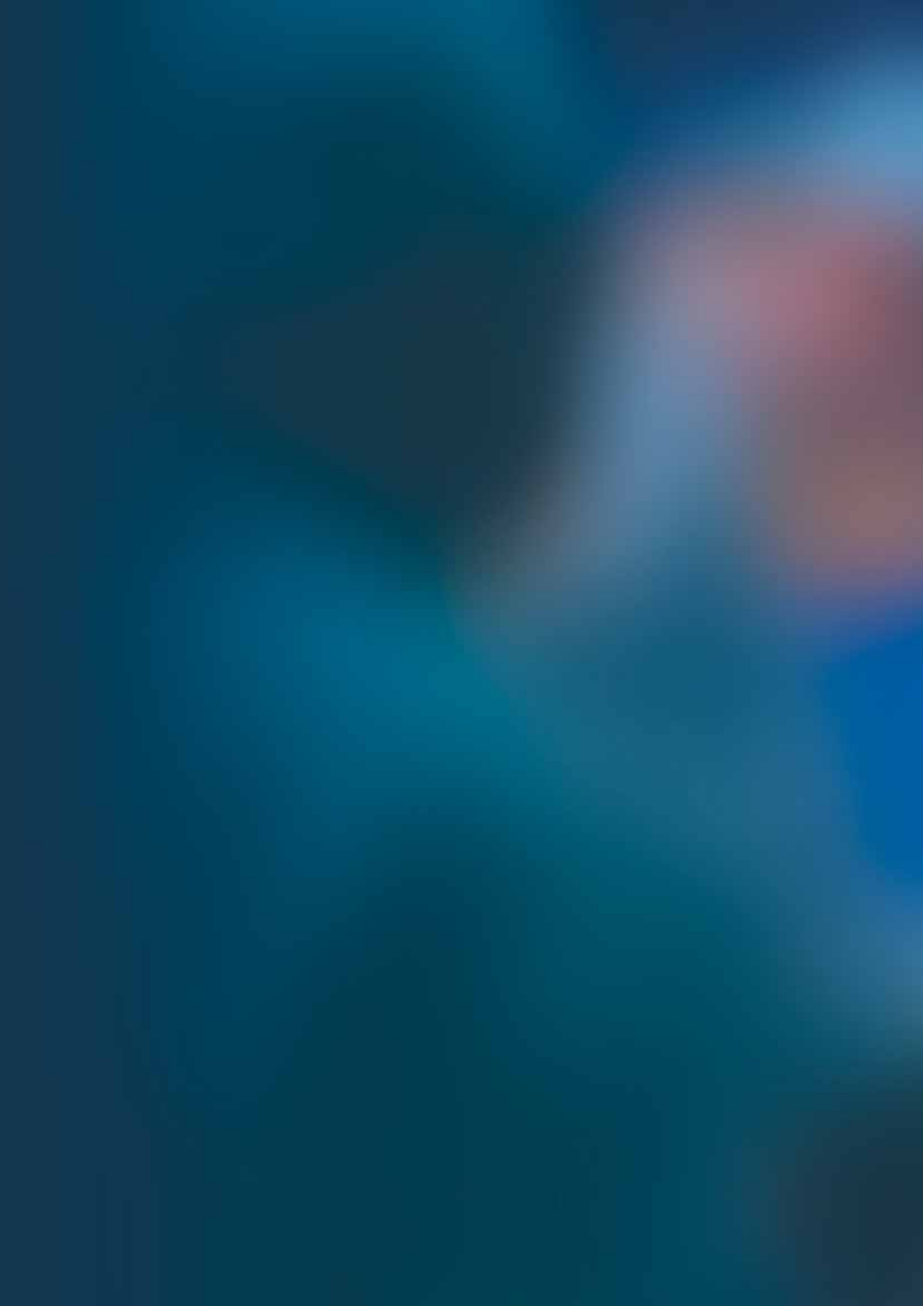

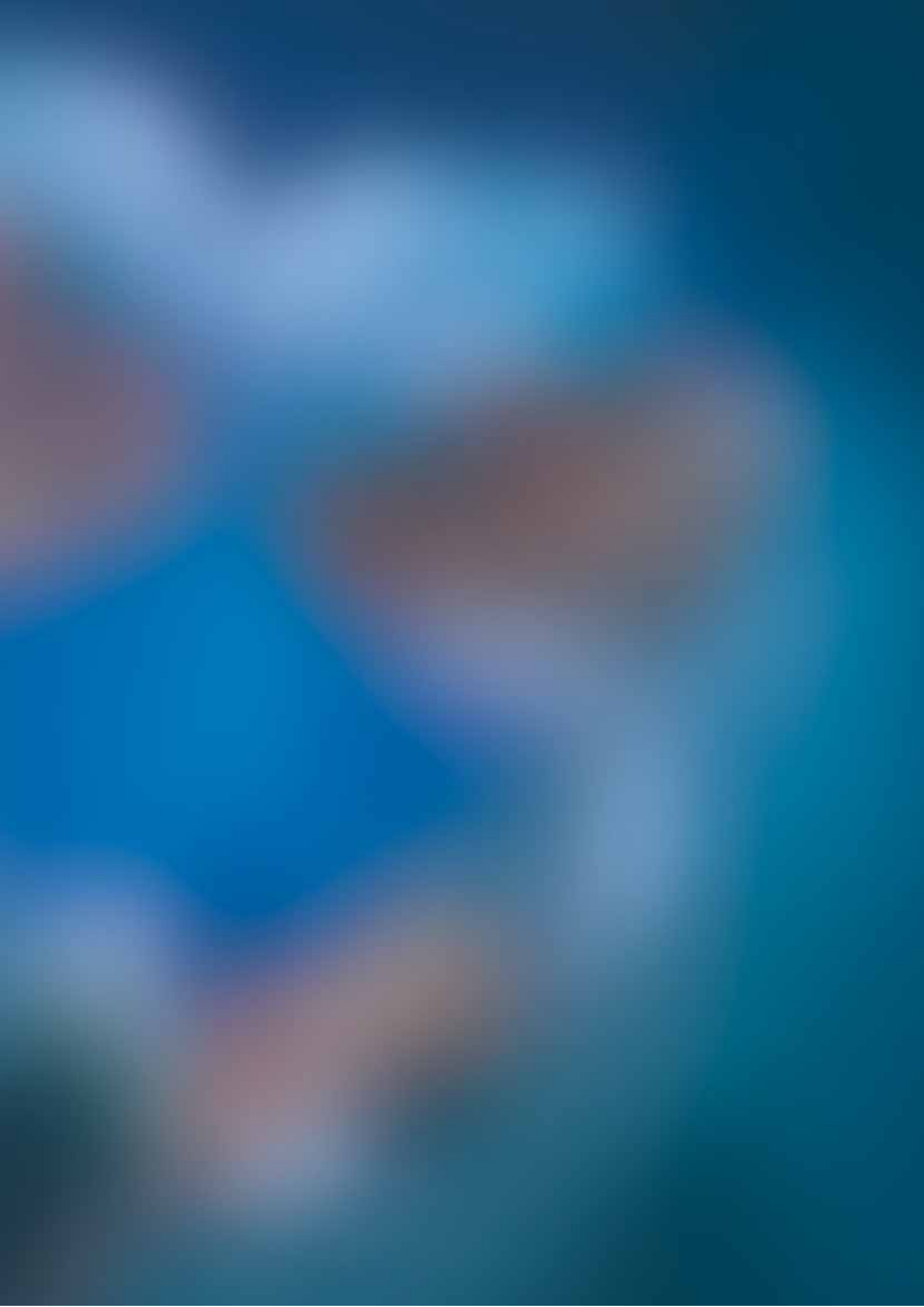

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