# Annual Report
## and Accounts 2007/08

NHS | HEART of ENGLAND NHS Foundation Trust

"Presented to Parliament pursuant to Schedule 7, paragraph 25(4) of the National Health Service Act 2006."

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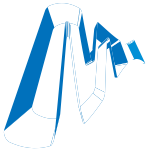

Medical Illustration

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# Contents

# Chairman's Statement

This has been a successful year for the Trust, in which we have overcome considerable challenges. These included the integration with Good Hope Hospital, meeting Government waiting list targets and remaining financially sound. We achieved all these goals. One area of disappointment was our inability to meet the trajectory for the reduction in MRSA set by the Department of Health. Whilst we achieved a significant reduction in bacteraemia, we did not quite meet the ambitious target.

The good working relationship we have with primary care trusts and general practitioners is central to our clinical strategies and we endeavour to work as closely with our primary care partners as possible to ensure a smooth patient journey. We look forward to the outcome of the Darzi review and will go forward with our commissioners to meet any changes it would wish to effect.

The Governing body, the Governors' Consultative Council, performed well in its role to give an objective view of performance issues and take part in working groups to aid new initiatives. Sadly, two of our Governors, Peter Grace and Don Lewis, died this year. Peter Grace was very committed and sat on four of our Trust committees. Elections are underway for a suitable replacement, who will be in place by the end of May. Honorary Alderman, Don Lewis, was the City Council nominee and contributed fully to the deliberations of the Governors' Consultative Council. Both will be sadly missed. I was also very sad to hear of the death of former governor Dan Jones. Dan played Father Christmas on the Children's Ward every Christmas Day for the last 34 years. He was an example to us all with his generosity of spirit and commitment to improving the lives of some of our most unwell and unfortunate children. He will be sadly missed by patients and staff.

It is the job of the Governors to appoint non-executive directors to the Board. Two appointments were made this year, David Bucknell and Professor Chris Ham. David brings with him a wealth of experience in construction and contract management. Chris has advised the Department of Health and World Health Organisation and was awarded a CBE in 2004 in recognition of his services to the NHS.

They replace Professor John Perry and Alaba Okuyiga. John was in post for 11 years and provided invaluable support on selected committees and more recently as Deputy Chairman. Alaba was with the Trust four years and was instrumental in progressing the diversity agenda. I would like to thank them both for their excellent contribution.

Finally, I would like to place on record my thanks to all my Board colleagues and congratulate the executive team and the staff for the professional, efficient and effective way they have worked to deliver safe and high quality care to patients.

**Clive Wilkinson,**
Chairman

11 June 2008

# Chief Executive's Statement

This year has been exceedingly challenging for the Board and particularly our staff. It commenced with the acquisition of Good Hope Hospital in April and the amalgamation of people and services continued throughout the year. The acquisition and integration were accomplished in line with the proposals initially submitted to Monitor, without any significant or unexpected issues arising. The challenge was to deliver this successfully whilst carrying out the day-to-day business of running three large hospitals, delivering quality patient care to agreed targets and within budget. We are justifiably proud of this achievement.

It is now crucial that we move the Trust's performance agenda away from a position of year-on-year stability towards one entirely focused on quality, patient safety and improvement. The Board has reviewed Heart of England's vision and developed plans for the future, which have a strong emphasis on its obligations to the local community. The aim is improve health and wellbeing by collaborating with other public and private sector organisations. By developing links and working together, we can have a greater impact on the community and each individual patient journey. We recognise that in an era of choice, we need to fully understand patients' perceptions and priorities, and allow these to guide the decisions we make. The recently developed 10 year site strategy acknowledges the need to provide creature 'comforts' as well as the most up to date and high quality clinical services.

Heart of England is now one of the largest and most successful Foundation Trusts in the NHS, providing high quality acute care and recognised internationally for its strategic partnerships with primary care. The journey continues as we seek to serve best our local population and work with all our members and governors to improve the quality of life in Birmingham, Solihull and South Staffordshire.

**Mark Goldman,**
Chief Executive

11 June 2008

# Directors' Report

The Board of Directors is chaired by Mr Clive Wilkinson, who was appointed for a four year term commencing 1 April 2006. The Chief Executive is Dr Mark Goldman. Other than the Chairman, there are seven Executive Directors and seven Non-Executive Directors. The Directors do not have material interests in organisations where those organisations or related parties are likely to do business, or are possibly seeking to do business, with Heart of England.

## Executive Board Directors

The voting Executive Directors on the Trust Board are:

Dr Mark Goldman - Chief Executive
Dr Sarah Woolley - Director for Healthcare Governance
Mrs Beccy Fenton - Deputy Chief Executive, Chief Finance Officer and Managing Director
Dr Hugh Rayner - Medical Director for Medicine
Mr Ian Cunliffe - Medical Director for Surgery
Dame Jill Ellison - Director of Nursing (Retired July 2007)
Ms Mandy Coalter - Director of Human Resources and Organisational Development

The non-voting Executive directors who support the Trust Board are:

Mrs Fay Baillie - Acting Director of Nursing
Ms Lisa Dunn - Director of Corporate Affairs
Mr Alan Gurney - Operations Director for Surgery
Mrs Kath Kelly - Operations Director for Medicine
Mr Andrew Laverick - Director of Information and Communications Technology
Mr Adrian Stokes - Director of Finance
Mr John Sellars - Director of Asset Management
Mr Simon Hackwell - Commercial Director

## Changes in Executive Board Membership

Beccy Fenton, Chief Finance Officer and Managing Director, became the Deputy Chief Executive from 1 April 2007. Dr Sarah Woolley became Acting Director of Governance on the Board on 1 April 2007 and was confirmed in post on 7 May 2007. Mr Ian Cunliffe had been in post as Acting Medical Director for Surgery since 1 April 2006 and was confirmed in post on 1 September 2007.

## Non-Executive Board Directors

Non-Executive Directors are appointed for four years and are terminable with one month's notice on either side. The non-executive directors are:

Mr Clive Wilkinson - Chairman
Ms Anna East
Mr David Bucknall (appointed 8 January 2008)
Ms Najma Hafeez
Professor Christopher Ham

Mr Paul Hensel
Mr Alaba Okuyiga (Retired 30 November 2007)
Professor John Perry - Vice Chairman (Retired 31 March 2008)
Mr Richard Samuda
Mr Richard Harris (appointed 1 May 2008)

Professor Christopher Ham was appointed on 1 October 2007 to fill a standing vacancy on the Board. Following the completion of Mr Alaba Okuyiga's term of office as Non-Executive Director on 30 November 2007, Mr David Bucknall was appointed on 8 January 2008. Professor John Perry retired as Non-Executive Director on 31 March 2008 and Mr Richard Harris was appointed on 1 May 2008. Ms Anna East took over the role of Vice Chairman with effect from 1 April 2008.

Further details of the Directors, their remuneration and how they operate are disclosed in Remuneration report on page 56.

## Principal Activities of the Trust

The principal activity of the Trust is the provision of free healthcare to eligible patients. The Trust also provides a very small amount of healthcare to private patients in accordance with the terms of its authorisation. As part of its principal activity, the Trust also trains clinical staff including doctors. Other activities of the Trust include:

## Management Consultancy

Following a number of ad hoc requests to the Trust for help and support, a business plan for a management consultancy arm was developed and in 2008/09 the trading arm will come into formal operation, supported by a website and marketing plan. The key objectives in establishing the consultancy arm are around the learning opportunities this type of work provides for both the Trust and individuals. Any profits generated are earmarked for investment in the Heart of England Academy.

## Research and Development (R&D)

This year has seen the Trust further develop its R&D capability and capacity. Of particular note is the development of MIDRU, which is the main centre for R&D in the Trust, currently being built on the Heartlands site. This is due for completion in Spring 2009. A £250,000 grant from Advantage West Midlands this year focused on the application of materials to help control of infection. An agreement with the University of Warwick was reached to fund the Trust's first professor in obstetrics / reproduction. The Trust has ambitious plans to increase its R&D portfolio but recognises that this is a highly competitive market with a number of powerful established players dominating the receipt of research monies. The Trust will need to collaborate with carefully selected partners and focus on its particular R&D strengths if it is to be successful.

# Risks are reviewed regularly and action

## Review of the Trust's business.

The major headlines over the past year:
Reduced maximum waiting times for outpatients from 11 weeks to five weeks and for inpatients from 20 weeks to 11 weeks.
Achieved 98% target for A&E waiting times with more than 98% of patients seen, treated and either admitted or discharged within four hours.
Delivered full structural integration with Good Hope hospital.
Achieved all financial targets:

- A surplus of £22.4m, £9.6m in excess of the Plan submitted to Monitor.
- Cash flow £18.3m in excess of the planned figure.
- Earnings before interest, tax and depreciation (EBITDA) £3.4m ahead of Plan.
- Return on Assets of 9.6% against 7% planned.

69% of staff would recommend the Trust as an employer.
Achieved Level 3 CNST (Clinical Negligence Scheme for Trusts) across all three sites in obstetrics.
Began building the prestigious £11m MIDRU (Medical Innovation, Development and Research Unit) centre.
Commenced the replacement programme for Patient Administration System (PAS).

Further details of the Trust's business are incorporated in the Operational and Financial Review (OFR) on page 16 of the Annual Report.

## Risks and uncertainties

The Trust operates in an uncertain world and the NHS is changing rapidly, giving rise to many opportunities but also a number of risks and uncertainties. The healthcare market is an increasingly competitive one with growing patient choice about where and how they want to be treated. Against this backdrop, the Governance and Risk Committee continually identify the strategic and operational risks facing the Trust. There are currently twelve strategic risks the Trust must understand and mitigate against. Some of these risks are commercially sensitive. The major ones the Trust can disclose are:

# taken to manage them

| | |
|---|---|
| 1. | **Infection control**<br>Policies and procedures are not fully embedded and complied with within the Trust. |
| 2. | **Patient Flow and Capacity**<br>Capacity model and operational arrangements for managing emergency admissions can result in delayed admissions and discharges. |
| 3. | **Patient Satisfaction**<br>The use of patient satisfaction information is not consistently aligned and focussed on accommodating patient needs, excellent clinical outcomes and reputation. |
| 4. | **Workforce Redesign**<br>Future requirements for workforce and staffing need to meet requirements of service strategy and national policy (eg EWTD). |
| 5. | **Staff Capacity**<br>Workforce planning, recruitment, sickness management, retention and succession planning is not fully adequate to meet the needs of services. |
| 6. | **Effective Decision Making**<br>Inadequate business information / intelligence on which to base timely decisions. |

Risks are reviewed regularly and actions are taken to mitigate and manage risks. The Risk Register for 2008/09 will be presented:

- Quarterly to the Governance and Risk Committee and Trust Board.
- Six monthly to the Audit Committee.

The Board conducts reviews of the the Trust's system of internal controls. Full details of this are incorporated in the Chief Executive's Statement of Internal Control (SIC) starting on page 62.

# The Trust has a very strong cash balance

## Performance and development of the Trust

Details of the development and performance of the Trust's business allied to the Trust's six strategic objectives are incorporated in the OFR.

The Trust has had a strong year from a financial viewpoint, reporting a surplus of £22.4m, £9.6m favourable to the plan. This is due to very strong activity performance while continuing to control costs within flexed plan levels. The Trust received an unexpected bonus with the training income settlement from the SHA being £1.3m ahead of plan. The surplus is also a reflection of effective working capital management with interest receivable of £5.7m being £4.4m above plan. Merger adjustments to the opening Good Hope balance sheet, agreed with external auditors have resulted in depreciation falling £1.7m below plan.

The Trust has a very strong balance sheet with cash balances well ahead of plan. This puts the Trust in a strong position to deliver an ambitious ten year financial strategy and investment plan. The capital plan for 2008 / 09 is £30m in addition to the slippage of 2007 / 08 schemes of £7.5m. This will give the Trust a firm basis on which to further develop and improve patient care.

The Trust has scored a 5 for its financial risk assessed by Monitor. This is the highest score available and is as a result of strong Income and Expenditure (I&E) performance, a high cash balance and a healthy balance sheet.

In line with Monitor's compliance framework, the Trust recently submitted its three year plan. This forecasts continued strong financial performance despite a number of challenges to the Trust. The Trust will lose some clinical activity as an element of end of life care is moved out of secondary care and there are a number of PCT initiatives which will transfer some care into a primary care setting. The Trust is also expanding its Research and Development facilities and is expecting an increase in R&D income over the next three years.

The Trust has ambitious cost improvement plans (CIPs) as well has a wide ranging ten year capital investment programme. Nonetheless growing cash balances are still forecast and all investment will be funded from internal resources.

## Performance Against Key Operational Targets

The Trust operates sophisticated performance reporting systems which highlight achievements as well as focusing on ambitious targets which are not being reached. Details of these targets are disclosed in the OFR.

## Other Information

The Trust has employed a Diversity Manager to provide proactive advice and guidance to us on all equality matters including disability and progress. This is monitored through the Diversity Steering group. We have published our equality schemes which include our approach to disability and we support these through policies such as recruitment


support for people with disabilities. The Trust monitors the workforce disability profile and publishes results. We also seek feedback from disabled employees through our local staff survey.

The Trust proactively involves, consults and engages with workforce on all matters. We have in place formal consultation mechanisms to consult the recognised Trades Unions. We run a monthly team brief system across all three of our major sites that is delivered by the Chief Executive and includes all key corporate matters. We publish our in house magazine 'Heartbeat' and from surveys we know that the vast majority of our staff receive and read this. We also run communication events at key times for staff to attend; for example we ran on site sessions for staff about the Trust's new Site Strategy investment plans which were well attended.

## Statement from Directors

The Directors can confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware and that we, the Directors, have taken all of the steps that we ought to have taken as Directors in order to make ourselves aware of any relevant audit information and to establish that the auditors are aware of that information.

# Background Information

Heart of England is one of the leading foundation trusts in the country, providing general and specialist hospital care for the people of east Birmingham, Solihull, Sutton Coldfield, Tamworth and South Staffordshire.

The Trust prides itself on having services local to its communities. The hospitals include Birmingham Heartlands Hospital, Solihull Hospital, Good Hope Hospital and Birmingham Chest Clinic. There are also a number of smaller satellite units so people can be treated as close to home as possible.

Heartlands Hospital originally developed from Little Bromwich Hospital, a fever hospital and sanatorium on the outskirts of Birmingham. As East Birmingham District General Hospital, it acquired the Marston Green Maternity Hospital and became the first acute trust in Birmingham in 1992. In the following year, it merged with nearby Yardley Green Hospital and acquired Birmingham Chest Clinic in the city centre. Solihull Hospital first opened its doors as a workhouse in 1839 for the poor, including the homeless, sick, aged and those with smallpox and TB. Until 1939 there was no hospital in Solihull. However the circumstances of war turned it into a hospital. The opening of Solihull District General Hospital in 1994 was an important event in Solihull's history as it was the first time the people of the area had a modern purpose-built hospital where all types of treatment, including the care of children, the elderly, and the mentally ill was provided on one site.

Good Hope Hospital began life as a large Victorian house, which was purchased in the spring of 1943 for £5,000 for use as a convalescent home for patients from the Sutton Cottage Hospital. In the early 1950s, during the Cold War, two single story wards were built as a place to evacuate people from Birmingham in the event of a nuclear attack.

Following the merger between Birmingham Heartlands NHS Trust and Solihull Hospital in 1995, Birmingham Heartlands and Solihull NHS Trust was formed. This became Heart of England NHS Foundation Trust in April 2005 when the Trust achieved foundation status. In April 2007, Good Hope Hospital became part of Heart of England, in the first acquisition of its kind in the NHS.

The Trust offers national and regional clinical services, as well as secondary care, emergency and elective practice. As the second largest employer in Birmingham with 10,500 staff, the Hospitals play an important part in the local community. The Trust has a reputation for pushing the boundaries, transforming the way care is delivered and shaping healthcare of the future.


Heart of England NHS
Welcome to
Birmingham Heartlands Hospital

# Operational And Financial Review

## 1. The Year at a Glance

**Mark Goldman, Chief Executive** comments:

*"2007/08 marked an extremely exciting and challenging year for Heart of England NHS Foundation Trust as it moved forward in its first year as a fully integrated organisation, following the acquisition of Good Hope Hospital.*

*"The Trust has been keen to build on its successes of the previous year, one of which was the announcement by the Healthcare Commission in October, that the old Heart of England NHS Foundation Trust had received Excellent for both its Quality of Services and Use of Resources in the Annual Healthcheck for 2006/07.*

*"I am extremely proud of the work undertaken by all staff in the Trust who have contributed to making this another successful year. This was achieved by compliance with national targets as well the transformational changes made in service delivery and development. We recognise that there are still some areas for improvement and look to moving forward with these during the forthcoming year."*

The major headlines:

- Reduced maximum waiting times for outpatients from 11 weeks to five weeks and for inpatients from 20 weeks to 11 weeks.
- Achieved 98% target for A&E waiting times with more than 98% of patients seen, treated and either admitted or discharged within four hours.
- Delivered full structural integration with Good Hope Hospital.
- Achieved all financial targets.
- 69% of staff would recommend us as an employer.
- Achieved Level 3 CNST (Clinical Negligence Scheme for Trusts) across all three sites in obstetrics.
- Began building the prestigious £11m MIDRU (Medical Innovation, Development and Research Unit) and Diabetes Combined Centre.
- Commenced the replacement programme for Patient Administration System (PAS).

## 2 Performance Against Key Targets

The Trust operates sophisticated performance reporting systems which highlight achievements as well as focusing on ambitious targets which are not being reached. Some of the key targets:

**Waiting times -** The Trust achieved reduction in waiting times for patients for all types of appointments. These were some of the most difficult targets ever set by the Department of Health.

In 2007/08 the Trust reduced its maximum waiting times for:

Outpatients from 11 weeks to five weeks.
Inpatients from 20 weeks to 11 weeks.
Diagnostic tests from 13 weeks to five weeks.

This improved access for patients is part of the plan to continually drive up quality standards.

**Day surgery rates** improved dramatically over the past few years, and this trend continued in 2007/08 with rates above 80%.

The Trust continued to maintain its **100% success** rate throughout the year for:

Patients admitted for elective coronary artery revascularisation within three months.
Patients seen in rapid access chest pain clinics within two weeks.
Patients readmitted within 28 days of a cancelled operation.

**The national cancer targets** for patients being seen have all been maintained. This means patients are seen within:

- 14 days for urgent referral for suspected cancer.
- 31 days from diagnosis to treatment of cancer.
- 62 days from urgent referral to treatment.

**Accident and Emergency –** The Trust achieved the 98% target for treating patients within four hours of arrival at hospital.

**Emergency readmission rates** reduced from 10.52% at the end of the last financial year to 9.39% in March 2008.

**Thrombolysis** rates have improved from 67.5% to 80.7% for 2007/08.

**Mortality rates –** The mortality rate for post operative patients dying within 30 days of surgery was 3.75% in 2007/08. The Trust reduced its HSMR (Hospital Standardised Mortality Ratio) from 107.2 last year to less than 100 in December 2007. This is now below the national average.

**Delayed transfers of care -** The Trust over achieved against the national target by reducing its rate to 3.04%.

**Emergency bed days -** The Trust has reduced these by 7.8% since 2003/04.

**Infection Control**

- **MRSA –** despite of missing the challenging 2007/08 target, the Trust managed an

"To be
the centre of
excellence
in the provision of
healthcare and education"

18% reduction in MRSA bacteraemia during the year.

- **Clostridium difficile –** the Trust over achieved against its C.diff target by delivering a 23% reduction from 2006/07.

## 3 Delivering Trust Objectives

As well as delivering against national targets, the Trust has undertaken a programme of work to support the delivery of its mission statement and strategic objectives:

### "To be the centre of excellence in the provision of healthcare and education"

a. We are financially secure
b. We are the local provider of choice
c. We are the recognised employer of choice
d. We provide the highest quality patient care
e. We grow the business for our own and the city's prosperity
f. We continually learn and innovate

**Beccy Fenton, Managing Director and Deputy Chief Executive** reflects:

*"2007/08 has again been a year of considerable achievement. In our first year following the acquisition of Good Hope, we have hit all our national targets with the exception of MRSA, which has still seen an 18% year on year reduction.*

*"Achieving this level of performance has required a huge amount of hard work and dedication to deliver both operational integration and continuous improvement. This year has enabled us to set the foundations for taking forward our ambitious transformation programme and pursuing excellence."*

The following sections illustrate the Trust's progress against the strategic objectives.

# We are financially secure

## a. We are financially secure

**Adrian Stokes, Finance Director** comments:

*"2007/08 has seen the Trust record the strongest position ever achieved with a surplus of £22.4m. At the same time it has been able to invest significantly in service developments, equipment replacement and a larger capital programme with the start of the MIDRU development.*
*"This has been delivered by bringing in a new structure for managing both efficiency and investment. Supported by a newly formed finance function, the organisation has benifitted from completely integrating the best of both from the two previous finance departments."*

The Trust's financial success enables long term planning for the future flexibility and sustainability of the organisation. The surpluses and cash generated over recent years will ensure that the Trust's ambitious site strategy is financed from internal resources. The 10 year plan is sustainable as it has a positive recurrent surplus and cashflows. It also allows flexibility as the estate development is split into three distinct phases.

The finance function has also put in place enabling strategies that ensure the Trust is best placed to maximise potential:

### Investment Appraisal

A standard approach to developing business cases has been introduced to support requests for investments in clinical services, quality assurance, site development, commercial opportunities and service developments. The process of decision-making has been streamlined where possible, including fast-track investment requests for sums less than £100k. Full training in the processes and templates enables robust investment decisions to be made as quickly as possible.

### Business Intelligence

Business Intelligence is the primary source of financial, activity, performance and contract information across the Trust. It provides intuitive reporting for finance staff, managers, and clinicians; giving them easy access to the information they require. The system has been flexible enough to accommodate urgent requirements such as High Impact Intervention monitoring and MRSA root cause analysis. Development of the Business Intelligence application has resulted in the Trust being nominated for the 2008 Best Practice Awards for Leading Innovations in Business Intelligence and Dataware Housing.

### Benefits Realisation

A key element of all business cases is to deliver specific, demonstrable and time bound benefits. This benefit delivery information is captured in a Benefits Realisation Review Plan (BRRP) and is signed off as part of a business case being approved. The BRRP allows

for a transparent process of post investment appraisal and identification of investments that are falling behind in delivering specific benefits on time. The progress against each BRRP is reviewed twice a year as a minimum, where the overall BRRP status report for all investments is presented at the Operations Committee.

## Capacity Planning

A new integrated capacity planning model has been developed. Previously the Trust used separate bed, theatre and outpatient models to help manage capacity and demand. An integrated approach allows an understanding of how changes in one area impact on another. For example, if activity is moved to daycase, the model will calculate the impact on the number of beds required. This new approach makes information more readily available at directorate level, allowing for improved local planning.

## Procurement

The Trust agreed a partnership arrangement with DHL which managed the former in-house logistics service. This will put the Trust at the forefront of the supply chain management in the NHS.

## Summary

Whilst this was successfully introduced in year and has started to deliver benefits, real momentum is yet to be experienced as this will gather as the programmes start to work alongside each other and generate further benefits. The final piece of the jigsaw last year was successfully agreeing a long term financial strategy for the organisation which is unparalleled in the NHS and puts the organisation in an enviable position. The plan for next year is to maximise the value derived from all the enabling strategies and work to ensure that the financial systems and processes continue to add value.

# We are the local provider of choice

## b. We are the local provider of choice

**Hugh Rayner, Medical Director for Medicine,** reflects:

*"The achievements of the last 12 months speak for themselves. However, it is good to review them because, in the daily bustle of hospital activity, it is easy to forget what things used to be like. The Trust is one important part of a whole system of health and social care. Many of the challenges ahead will only be met by us tackling them in partnership with colleagues in primary and social care. Our professional relationships are becoming stronger and firmer as we work and learn together. This gives us a solid foundation for the future."*

Success against this objective is measured in two ways; one is the availability and accessibility to services and the other is through patient feedback.

Over the past year many changes have been made as a result of working closely with patients, carers, visitors, members and local people.

### Communications

The Communications team continued to have a major impact on the Trust's reputation. An average of at least one positive story appeared in the media every day throughout the year, promoting the Trust to local patients and a national audience. A new website was developed and launched to further publicise services and offer helpful information to patients and the public visiting the Hospitals.

The team continued to develop internal communications programmes to support the business. This includes a monthly staff magazine, a patient magazine and targeted campaigns to support key operational messages including infection control.

### Volunteers

The Trust has nearly 500 volunteers which reflect the population it serves. Providing a wide range of services from meeting and greeting to assisting with patient feeding on wards, volunteers make a significant contribution to patient care.

During 2007/08, employment and training opportunities were developed for volunteers, enabling suitable and willing candidates to gain employment both within the Trust and other organisations. Through volunteering, the Trust is helping to address some of the health and unemployment issues within the communities it serves.

### Health Information Centre

The Health Information Centre helped a record 2,000 people in January 2008, including patients and visitors using the Health Information facility at Heartlands. Working with a wide number of specialities across the Trust, the centre has successfully promoted

condition awareness and health promotion campaigns to patients, visitors and staff. An ongoing initiative to take Health Information into the local community has resulted in joint working arrangements with South Birmingham College and Alston Junior Primary School. As part of this collaborative arrangement, promotional stands and materials are taken to the school on a regular basis to promote services to parents, the majority being local residents to the Trust.

Since October 2007, more than 10,000 leaflets have been issued by clinical staff via the Patient Information Database and this facility continues to grow and develop. The Trust has received recognition for its work with its electronic prescription for Cystic Fibrosis patients winning the 'Innovative Information and Communication' award in the West Midlands Regional Final. This project will now go through to the national finals judged in July 2008.

## Patient Advice and Liaison Service (PALS)

A dedicated PALS team works across all sites and during 2007/08 the service has been expanded with volunteers providing help in ward areas. A new scoring system has been devised to show qualitative feedback from patients and carers, graphically enabling directorates to take immediate action. A Net Recommender Index is being introduced on a rolling programme and already this has been identified in the 'Strategy for Customer Experience Information for Health and Social Care', a document produced by PricewaterhouseCoopers for the Department of Health, as an example of best practice for consolidating patient experience into a single instantly understandable measure.

## Marketing

During 2007/08, the Trust developed its new trade mark and has developed a marketing dashboard to inform the business planning process. This provides managers with instant 'real time' information driven through a combination of Dr Foster and internal finance data.

Two new key account manager posts have been developed to work alongside Executive Director and PCT Commissioning leads to establish new ways of working and collaborative arrangements aimed at improving healthcare across the economy.

## Foundation Trust Membership

The Membership team has made significant progress over the last 12 months tripling the number of members that attend the regular health seminars. These are held on a rotational basis across three sites.

The public membership now comprises over 82,500 (public and patients) members which, with staff included, brings the total to more than 90,000. The team is continuing to attract and recruit new members with a target of 100,000 members by the end of 2008/09.

In line with the Constitution, the Trust has held governor elections and is currently establishing a programme of 'Governor Road Shows' so the general public know more

# We are the recognised employer of choice

about their governor. This is supporting an ongoing campaign to improve the public perception of the Trust and engage with local communities on recruitment, key issues and plans. Full details can be found in the Membership report on page 38 of this report.

**Lisa Dunn, Director of Corporate Affairs** says:

*"Involving our patients and members of the public to help us improve and develop our services has enabled us to drive up standards of patient care across our hospitals. We have continued to work with our patient groups to ensure that, as the PPI forums are phased out and LINKs are introduced, we continue to have independent feedback from the wide range of people who use our services."*

### Arts

The Arts programme has gained national recognition, attracting widespread media coverage. During the year it has successfully been expanded and launched at Solihull Hospital and recently commenced at Good Hope Hospital. In addition to providing a wide range of arts involving patients, staff, visitors and the local people, an 'Arts Cart' programme has proved hugely popular with patients and is being delivered by volunteers, providing activities for patients on the wards free of charge.

## c. We are the recognised employer of choice

**Mandy Coalter, Director of Human Resources & Organisational Development** states:

*"2007/08 has been a challenging year post-merger with Good Hope as we brought together staff across the sites and created a new Human Resources team. We have had to manage real challenges such as merging payroll functions, managing sickness absence and getting to grips with our recruitment processes. We have continued to expand and move forward our leadership and management programmes with front-line managers and doctors, giving them the skills to effectively lead their teams. In March 2008, the Trust achieved a 'Top Employer' rating by The Guardian, alongside companies such as John Lewis, Asda and GlaxoSmithKline. This is a major achievement and will enable the Trust to continue to attract and retain the very best employees."*


The challenges in 2007/08 were:

- Getting the basics right in areas such as pay, recruitment and absence management.
- Continuing to develop a 'One Trust' culture and leadership abilities post acquisition of Good Hope.

As part of the integration with Good Hope Hospital, the Trust created a new modern HR function including The People Centre, dedicated to running the large transactional services such as payroll, recruitment, occupational health and bank staff placements. During 2007/08, the NHS HR/Payroll system (ESR) was successfully implemented and has continued to be developed particularly across The People Centre. In 2007, the Trust in-sourced Good Hope Hospital payroll into the People Centre and this seriously affected capacity and performance. A focused performance recovery plan was immediately put in place and has effectively addressed the problems this change presented.

An 'HR process transformation' plan is in place that focuses on using LEAN techniques. This has already helped reduce the time to hire staff from an average of over 15 weeks to 10 weeks. This is being further reduced by the implementation of 'talent pools' of job ready candidates for Nursing and HCA roles.

Sickness absence in the Trust was a concern during 2007/08 as it rose in line with NHS average increases. The Trust has been very proactive in addressing this matter introducing a new Sickness Absence policy, manager training and monthly manager review meetings. A review of the Occupational Health function was taken and the findings from this will be implemented during 2008.

The second local staff survey in October 2007 enabled the trust to measure how successful leaders are in people management as well as how positive the workforce feels:

- 65% of staff are positive about leadership which includes their own direct line manager as well as senior management.
- 74% of staff would recommend the Trust for healthcare treatment.
- 69% would recommend the Trust as an employer.

These results were broken down for each directorate, enabling leaders to track their own performance. There was a direct correlation between how positive staff are about leaders and how positive they are about the Trust overall. These results have been integrated into the performance appraisal process for leaders.

During 2008/09, these results will be compared with performance measures such as patient feedback on the quality of care.

The survey demonstrated improved staff feedback in a number of areas including perception of cleanliness at the Trust, less fear of blame for mistakes and the confidence to speak up and challenge. How managers reward and recognise staff continues to be a challenge and will be a key part of the 2008/09 business plan.

# We provide the highest quality patient care

## d. We provide the highest quality patient care

As well as delivering against the key national targets, the clinical boards of Medicine and Surgery have undertaken a number of key transformation projects.

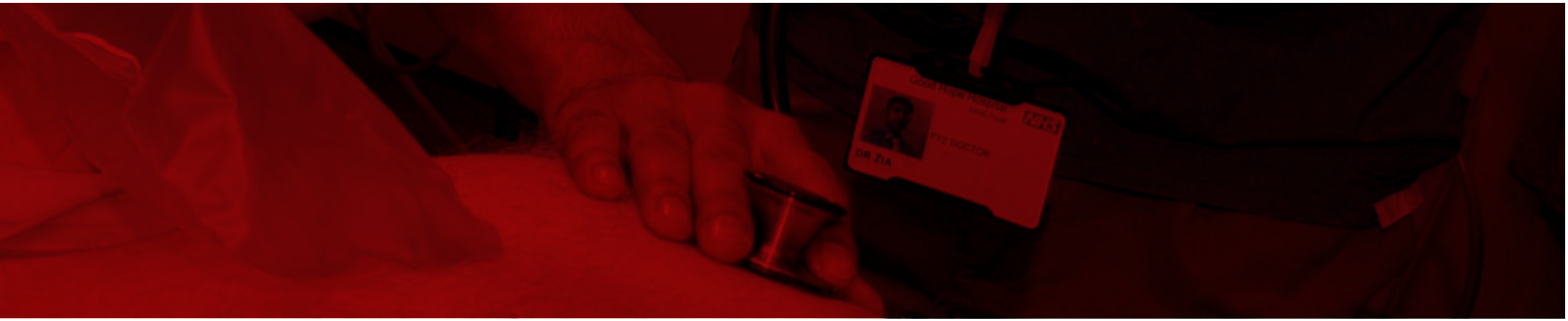
**Kath Kelly, Operations Director for Medicine** reflects:

*"Heart of England is now one of the largest foundation trusts in the country and, with its secure financial grounding and track record of delivering national performance standards, it can compete to be the very best provider and employer of choice. The integration programme for the Medicine Business Unit (MBU) brought with it many opportunities, not least of which being the ability to maximise the potential for each medical speciality creating a combined larger service that is much stronger and more effective than the two parts that precede it.*

*"The MBU invested over £12 million in service development and capital programmes to realise this vision and ensure parity of service delivery across all four sites."*

**Medicine Key Developments:**

- Re-design of patient pathways utilising LEAN methodologies created enhanced services for respiratory patients, frail elderly, stroke patients and ortho-rehab. A more comprehensive programme of transformation is planned for early 2008/09 with a focus on 'world class wards' and improvement to the emergency care pathway.
- Enhanced staffing levels in emergency departments resulting in improved clinical outcomes and a motivated and committed workforce focused on delivering excellence in patient care.
- Paediatric emergency assessment facilities on the Heartlands site opened in the late autumn of 2007, and received positive feedback from the children and families. A truly patient focused and dedicated child friendly facility.
- Enhanced nurse staffing levels across the medical wards to ensure parity of service and high standards of care.
- A programme of refurbishment across the clinical areas saw wards being upgraded, and new and improved resuscitation facilities. A million pound investment on an annual rolling basis ensured medical and scientific equipment was replaced and upgraded.
- Pharmacy services received a stepped programme of investment to deliver ward-based medicine management (in progress) and robotics in dispensing and ETTOs (Electronic To Take Out) and Electronic prescribing on track to deliver over the coming 12 months.
- Laboratory medicine as an integrated facility is now the largest provider in the West



Midlands affording greater commercial opportunities and a reputation to attract staff and develop individuals across a wide spectrum of bio-medical services.

- Enhanced Cancer service across multi-sites and multi-directorates secured ongoing high performance with cancer targets and peer review. The MDT (Multi-disciplinary Team) has maintained and exceeded expectations as part of a wider organisation.
- The acute medical service on the Heartlands site introduced a new acute medical unit investing in medical and nursing teams to re-design a service that delivers timely and effective emergency medical care.
- The bereavement service witnessed real benefits through integration with changes in practice and upgrading of facilities creating exemplar standards of care for our patients and families and a parity of high standards across all three sites.
- The introduction of Isolation facilities on the Heartlands site provided a dedicated nursing and medical environment which contributed to the incremental improvements in our standards of infection control practice and our incidence of C.Diff rates. The development of the infection control service allowed an investment in infection control nurse practitioners across inpatient sites and effective programmes of education, policy and practice which are impacting favourably on incidences of MRSA and other hospital acquired infections.

## Surgery Key Developments

**Alan Gurney, Operations Director for Surgery** summarises:

*"Integration with Good Hope Hospital provided countless opportunities for improvement to services across all three sites. We are delighted that in the first year after the acquisition, the staff within the Surgical Business Unit (SBU) have risen to this challenge and can clearly demonstrate how services have improved for the benefit of both staff and patients.*

*"Across Surgery we embarked upon an ambitious transformation programme and are already seeing the benefits, particularly in Ophthalmology, and Trauma and Orthopaedics. The SBU has reconfigured its meeting structure and established two new committees (safety/quality and workforce/people) to ensure that adequate time is given to these priority areas.*

*"We have achieved the best performance ever reported in respect of day case surgery and have delivered all of our waiting time targets and over performed against our Local Delivery Plan activity plans.*

*"All in all, Surgery has had its best year yet and looks forward to even greater success in the next year and beyond."*

- Selected to be a national pilot site for the 'productive theatre' programme.
- Redesigned cataract pathway using LEAN methodology across all three sites and standardised patient pathway.
- Centralised major arterial surgery to one site and transferred foam sclerotherapy and radiofrequency ablation into a treatment room setting.
- Created a new Surgical Assessment Unit for emergencies at Good Hope and became a National Bowel Screening centre.
- Secured approval for new consultant post in ortho-geriatrics which will enable significant improvements to patients following fractured neck of femur.
- Reduced waiting time for Ultra sound scans from an average of 20 weeks to two weeks.
- Installed a state of the art MRI scanner at Solihull Hospital which will enable fresh blood imaging and eliminate the use of potentially harmful contrast media.
- Developed 24/7 critical care outreach service across all three hospital sites.
- Repatriated work from University Hospital Birmingham to Good Hope Hospital in ENT.
- Introduced state of the art laser treatments at Good Hope and Solihull which enable TURP (Trans Urethral Prostatectomy) operations to take place on a day case basis.
- Introduced a new safeguarding children structure within the organisation include named nurse, doctors and midwife as well as introducing a 24/7 hotline.
- Achieved level 3 CNST as a joint assessment across all three sites in obstetrics.

## Estates

**John Sellars, Director of Asset Management** states:

*"An extensive review of the existing Estate at all three acute sites has been undertaken; this together with the Trust's agreed clinical strategies and its 10 year financial plan have formed the basis for the funding and implementation of a 10 year Estate Strategy. As a result of these reviews, the Trust committed itself to a massive investment including large scale developments which will transform both the way the Hospitals look and operate.*

*"The investment has been targeted to support the Medicine and Surgery strategies to improve patient care and the healing environment. The strategy was endorsed by the Trust Board in March 2008."*

## Care

**Fay Baillie, Acting Director of Nursing** comments:

*"The voice of nurses, midwives and AHPs influences every part of the patient journey. 2007/2008 saw the start of a transformational journey for Nursing following the integration with Good Hope Hospital.*

*"Nursing strengthened its clinical leadership with the appointment of Head Nurses, who have a key role in the quality and safety of care for patients. These posts will enable true ward to board patient safety reviews and reporting, with a real focus on the patient experience. The Heads of Nursing have led a review of the Matron structure, inclusive of the nursing workforce review at Good Hope Hospital, which has seen investment and increase in qualified nurses and support level staff on that site. The new Matron structures will be aligned to the patient pathway which will influence and change the patient journey."*

Corporately, Nursing appointed a Head of Bereavement Services and a Lead Nurse for Tissue Viability. Each key appointment has been in response to patient need, with the roles focusing on specialist training, advice, and improvement of each individual experience. Two part-time Muslim clerics (male and female) have also been appointed to further support and enhance the multi faith service across all Trust sites.

Following the successful use of Electronic Patient Handover at Good Hope Hospital, this system is being adopted at Heartlands and Solihull Hospitals. This will support and assist nursing and other members of the multi-professional team in the management of patient care, with a particular emphasis on infection control alerts for peripheral line removal, MEWS management and Waterlow scoring. This project will continue to develop over the year ahead and ultimately lead to a paperless record.

Nursing successfully launched a new Vision and Strategy for 2008 – 2012, developed to create a standard of care which the public recognises and asks for by name. This standard is known as 'EMBRACE' and to deliver this vision of personalised care the strategy 'Influential Nursing' has three key elements: – leadership, patient focused care and innovation. These collectively will enhance the standards of behaviour, attitude, professional accountability and sustained improvement in patient and family experience. To deliver this, the Trust has approved a Nursing Faculty structure central to the Corporate Nursing Directorate, a virtual faculty for nursing excellence. The faculty team will work closely with the Heads of Nursing to achieve patient centred care.

A number of developments have been key to the delivery of Allied Health Professional (AHP) services with an increase in non medical prescribing, access to diagnostics, and increased scope of practice for assistant level roles. A review of how professional services are delivered has supported the integration of AHP services across the three sites.

## Safety

**Sarah Woolley, Director of Healthcare Governance** says:

*"This year has been all about the integration and alignment of our governance and safety systems for patients. This has required tremendous focus and commitment from the governance teams and clinical colleagues.*

*"The achievement of CNST Level 3 for risk management in our Maternity Services exemplifies this approach and is an outstanding achievement, delivered through a clear focus on achieving safer clinical care for patients."*

As well as the necessary business of achieving compliance with national targets and standards, during 2007/08 the Trust reinvigorated its focus and commitment to quality and safety in every aspect of its service. This is demonstrated by:

- Appointment of a new Patient Safety team, led by the Director of Medical Safety. Projects include SBAR (Situation, Background, Assessment and Recommendation), patient safety executive leadership walk rounds and Global Trigger Tool case note review to assess 'harm'.
- Participation in the NHS Institute for Innovation and Improvement's 'Leading Improvement in Patient Safety' programme.
- A dedicated patient safety and human factors training day held for the Trust Board.
- Development of a "Safety Dashboard", an evolving tool to help the Trust interpret a vast array of information to understand and act upon key safety issues.

Work continued to apply and evolve the safety and governance framework. This featured:

- Development of integrated governance systems and processes across the merged organisation.
- Work to develop 'best of breed' policies and processes to ensure continued provision of safe and effective services. This will be further supported by the implementation of a new framework for policy development during 2008/09.
- Operations Committee and Medicine and Surgery Business Unit risk registers to strengthen the local ownership and management of some of the Trust's key operational risks.
- Significant progress, including financial investment where required, to mitigate key risks in relation to Tissue Viability, Psychiatric Liaison Service, Speech and Language Therapy and Estate / Facilities maintenance programmes.
- Use of LEAN methodology to streamline the current complaints process to enable the organisation to respond appropriately and more efficiently to patient complaints.
- Following high profile national shortcomings in the handling of personal identifiable information, the Trust completed a comprehensive information flow mapping

exercise and took all reasonable steps to ensure secure storage and transfer of personal information.
- Work to evaluate and implement Bedside and Local Guidelines across all three sites led to strengthened collaboration with the Bedside Guidelines partnership with the prospect of increased trust authorship of the guidelines in the future.

This year the Trust anticipates declaring compliance with 42 out of 43 Healthcare standards. This reflects considerable work which has been undertaken during the year to implement the best systems from both former organisations to improve the approach to:

- Infection Control.
- Dignity and Respect.
- Consent for clinical treatment.
- Information on care, treatment and local services.

The Governors' Working Group, eight governors with a special interest in the Trust's interaction with the Healthcare Commission, has continued to learn about and scrutinise the way that the Trust complies with some of the Healthcare Standards. It focused on:

- Infection Control.
- Privacy and Dignity.
- Equality and Diversity.

This innovative approach has enabled the Governors to have a meaningful role in the Trust's annual declaration and has resulted in positive feedback in relation to the healthcare standards considered by the Governors and assurance to the Trust's stakeholders.

This year, the Trust's Maternity Services achieved the highest level of risk accreditation (Level 3) awarded by the Clinical Negligence Scheme for Trusts (CNST) for effective risk management. Less than a year after merger, this is a tremendous accomplishment.

During 2007/08, there were 12 serious patient incidents reported and investigated. In addition during this year the Trust is required to grade incidents of MRSA bacteraemia and cases where Clostridium Difficile appears on the death certificate as serious untoward incidents, however these are investigated and managed in a different way. There were no serious staff incidents and no Health and Safety Executive Enforcement notices served on the Trust.


## e. We grow the business for our own and the City's prosperity

Commenting on the year **Simon Hackwell, Commercial Director** says:

*"This has been a year which has seen the Trust move forward its ambition and thinking in a number of new and exciting areas. Sometimes it is difficult for us to work at the slower pace set by the external environment of the NHS, but for each of our strategic developments we can be assured that they are underpinned by sound commercial thinking and a robust assessment of the market. Having established a number of flagship projects, we need to continue to push hard to make things come to fruition and make our case with funding bodies and partners. We also need to turn up the volume on Research and Development, which is a tough market to succeed in, and begin developing a commercial strategy based around maximising some of our current non NHS income."*

Simon Hackwell joined the Trust as its first Commercial Director in March 2007. The last year has seen the Trust progress a number of important and ground breaking developments and another successful year for the Research and Development unit.

### Hollier Simulation Centre

An outline business case for a high fidelity simulation centre at Good Hope was approved by the Trust Board. Work is now underway to develop the full business case for this prestigious regional medical and multi-disciplinary training facility. The Trust was successful in attracting funding from the Deanery to pay for a pilot simulation centre which will go live in September 2008. The pilot centre will be located in the Professional Learning Centre at Good Hope Hospital and will begin by training Foundation Year doctors from across Birmingham.

### Management Consultancy

Following a number of ad hoc requests to the Trust for help and support a business plan for a management consultancy arm was developed and in 2008/09 the trading arm will come into formal operation supported by a website and marketing plan. The key objectives in establishing the consultancy arm are around the learning opportunities this type of work provides for both the Trust and individuals in working with other organisations. Any profits generated are earmarked for investment in the Heart of England Academy.

### Research and Development (R&D)

This year has seen the Trust further develop its R&D capability and capacity. Of particular note is the development of MIDRU which is the main centre for R&D in the Trust,

# the city's prosperity

currently being built on the Heartlands site. This is due for completion in Spring 2009. A £250,000 grant from Advantage West Midlands this year focused on the application of materials to help control of infection. An agreement with the University of Warwick was reached to fund the Trust's first professor in obstetrics / reproduction. The Trust has ambitious plans to increase its R&D portfolio but recognises that this is a highly competitive market with a number of powerful established players dominating the receipt of research monies. The Trust will need to collaborate with carefully selected partners and focus on its particular R&D strengths if it is to be successful.

## Radiotherapy

The Trust has taken a close look at the market for radiotherapy and concluded that there is opportunity for growth. Consequently plans are being prepared to develop a Cancer Centre at Solihull which will be home to a new Heart of England radiotherapy service and a new chemotherapy service. Towards the end of 2007/08 the commissioners also conducted their own review of radiotherapy provision in the West Midlands and agreed with the Trust's findings about the need for additional services in the pan Birmingham area. Fortunately, given the analysis and work undertaken to date, this means the Trust is in a strong position to respond to the commissioners' requirements. It is hoped that approval will be given to develop the new facility in Solihull during 2008/09.

## Medipark

In 2007/08 the Trust decided to review the Medipark scheme and in particular its commercial viability. This was completed in December with the Trust Board endorsing its continued commitment to the scheme. An outline application for capital funding has now been submitted to Advantage West Midlands. It is hoped that a funding package can be successfully assembled in 2008/09 so that work can begin thereafter on this major scheme for the Trust.

## Integrated Care Strategy

Heart of England developed its first Integrated Care Strategy which examined the market for primary and community based healthcare and set a direction of travel for the Trust. One of the outcomes of this strategy is the development of an 'Account Management' approach to working with partners in Primary Care Trusts (PCTs). Each PCT now has two Executive Directors to work more closely and develop collaborative proposals for improving patient care.

## The Heart of England Academy

Options have now been developed to help the Trust take forward its Academy concept. This will be its own in-house resource for consultancy and research activities specifically focused on developing leading knowledge of best practice and an understanding of future trends in the provision of healthcare.

## Partnership Working

Over the last year the Trust has formed a number of important partnerships and alliances. The Trust has a new relationship with Vodafone in terms of a corporate

# We continually learn and innovate

'buddy', has signed a strategic alliance with Circle Healthcare and is working with a number of new private sector partners.

## f. We continually learn and innovate

### Organisational Development

The Trust remains committed to the development of its staff and a considerable amount of work has been undertaken.

Continuing to develop leaders at all levels in the Trust has been a major factor in the Organisational Development programme. A new appraisal system for leaders is being cascaded to the top 100 clinical and non clinical leaders. This appraisal system holds leaders to account for their behaviours, performance and delivery. Senior managers, including clinical directors, have completed the Leaders for Excellence in Business programme with a Diploma in Neuro-Linguistic Programming. During 2007/08, 100 front line managers, such as Ward Managers and Estates staff completed the 'ExCell' programme that gives them basic competencies in managing people. The Trust is successfully running a version of ExCell for consultants. Evaluation shows a significant impact of these learning interventions. Leaders are using the skills to bring new teams together, redesign pathways and tackle challenging people problems. 72% of staff say their manager does a good job.

2007 saw the launch of a new 'succession planning' approach to identify the executives, managers and clinical leaders for the future. By working with a company called Fairplace, the Trust has mapped out the leadership traits at Heart of England and a process for identifying talented individuals in the Trust. This programme is managed through a Talent Steering Group reporting to the Executive Team and is championed by the Chief Executive. Following the 2008 appraisal round, identification of talent will begin. Once formally identified, these individuals will have a personalised development plan and coaching on managing their career.

Another significant area of innovation and development is through the use of Information Communications and Technology.

### Information, Communication and Technology

**Andy Laverick, Director of ICT for the Trust** states:

*"Whilst for many years both organisations pioneered innovative Electronic Patient Record systems aiming to deliver real clinical benefit, the merger provided a great opportunity to pool talents and technical skills. We are now beginning to see the benefits of interactive clinical data systems and real time information."*

The year has seen ICT deliver new applications and hardware, responsive to the requirements of clinical teams and the business. These have included:

- Patient Handover – real time data capture to support the clinical teams in ensuring the smooth continuation of patient care and enhanced bed management information.
- Upgraded Electronic Patient Record – delivering the integration of crucial clinical information from all the Trust's sites, easily accessible at the point of care;
- ETTOs (Electronic To Take Out) – summary of patients medication prescribed for discharge.
- Message alerting – the facility to automatically flag key information to support patient and staff safety.
- Commencement of PAS (Patient Administration System) replacement programme with the first phase to implement enterprise - wide scheduling, and delivering DBS (Direct Booking Service) compliance, allowing GPs to directly book hospital outpatient appointments for their patients.
- Real time reporting of patients in A&E to mobile devices to assist management of emergency cases.

In addition to the above applications, the Trust has made considerable investment in the IT infrastructure, introducing a new Storage Area Network (SAN) and virtualised server environment across the Good Hope site, to improve hardware efficiency. The implementation of a wireless infrastructure has supported the increased use of mobile technology including implementing computer on wheels (COWS) into more ward locations and the wider use of hand held devices for clinical data capture.

The centralisation of switchboard services this year provides the platform to progress the convergence of voice and data networks, ensuring the Trust can further exploit the opportunities this offers.

## 4 Conclusion

**Clive Wilkinson, Trust Chairman** concludes:

*"It is a credit to our staff across the whole Trust to have performed so well in our first year as a fully integrated organisation.*

*"There have been challenges over the past 12 months and through the leadership of the Executive Directors, we have managed to overcome many of these. There is still some work to do to ensure that we achieve all of our goals and I am certain that the dedication and commitment of our staff will enable us to do this over the next year.*

*"I would like to express my gratitude once again to all staff for the hard work and support they have given us."*

# Going Concern

After making enquiries, the directors have a reasonable expectation that the Foundation Trust has adequate resources to continue in operational existence for the forseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.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# Membership Report

The Trust serves a population of over 1.3m and has more than 91,000 members from various constituencies.

The three main constituencies are:

1. Public Constituency: members who live in one of the Trust's ten governor zones – see Table 1. Residents of these zones become eligible for public membership when they are over the age of 16.

2. Staff Constituency: members of the Trust staff. All contracted staff are eligible to become members.

3. Patient Constituency: members who are patients of the Trust. Patients who live outside the ten governor zones are eligible for membership if they have had treatment in the previous three years.

The table also shows the minimum number of members, as well the number of governors required, for each constituency.

## Breakdown of Total Members

Public Members: 76,420
Patient Members: 5,626
Staff Members: 9,128
Volunteer Members: 97
Governors: 19

Total Membership:91,290

## Public Membership is broken down as follows:

Age (years)
0-16: 0
17-21: 1,949
22+: 74,471

Ethnicity
White: 53,529
Mixed: 342
Asian/British Asian: 7,890
Black/British Black: 1,940
Other: 12,719

Gender
Male: 32,350
Female: 44,070

## Staff Membership is broken down as follows:

Clinical Staff : 5,701
Non Clinical Staff : 3,427

Heartlands Site : 5,066
Solihull Site : 1,197
Good Hope Site : 2,865

## Patient Membership is broken down as follows:

Age (years)
0-16 : 0
17-21: 156
22+: 5,470

## The membership strategy

There has been a 35% increase in new Public and Patient members after taking into account the extended membership. Our aim is to continue to build this membership to 100,000 and then sustain the membership at this level.

The Trust has recently added Acorn Profiling and Socio-Economic Grouping to its members' database to ensure that the Trust membership is monitored and remains representative. The Trust manages its own database which is linked to the Trust's patient system enabling it to be automatically updated with any changes of addresses.

To assist in addressing the level of engagement with young people and membership numbers the Trust has been successful in attracting a young publicly elected governor. During recent elections,

the Trust held open days across all three sites to encourage younger members to stand for election and engage with the local population. The involvement of local community leaders was also a great asset in getting the message to the harder to reach public members. As a result, the Trust has just had the youngest Governor elected to join the Consultative Council, at the age of 23, along with other newly elected Governors in the age range of 35-50. The recently developed schools programme and the Trust's ambition to become involved with the Academy School Programme will continue to be used to assist in engaging with young people, encouraging membership and higher levels of involvement.

A new Membership Strategy is being developed with Governor involvement which is scheduled to be launched in September 2008. The focus will be to have an even greater membership involvement, with Governors playing a key role in taking the membership forward into the community with surgery style events in different constituencies. This will include roadshows to engage with the local community.

The new strategy delivers a more visible membership with Governors, enabling them to become more involved with local issues that have an effect on the communities' wellbeing. Public Governors will work with the community to help to effect social change.

The Governors and members will also have a greater involvement in Trust focus groups and will become more visible across all three hospital sites. This will include a drive to build and maintain the membership to 100,000 members and ensure it is representative of the constituencies served. Socioeconomic and geographic intelligence will continue to inform the strategy and allow a targeted recruitment campaign going forward.

Patient members live outside of the geographical catchment area but are either patients or patient carers. There has been an increase in patient members and as choice becomes more widely available, this constituency is expected to continue growing.

Staff members remain constant and the goal is to ensure they remain engaged and do not opt out. The Trust will achieve this by encouraging staff members to become champions along with the governors, to recruit new members and to actively raise the profile of the Trust and its services. Engagement of existing members remains a priority and attendance at events and seminars increased fourfold in the last year.

Members wishing to communicate with Governors or Directors should write to:

Company Secretary
Heart of England NHS Foundation Trust
Bordesley Green East
Bordesley Green
Birmingham
B9 5SS

**Table 1**

**Constituencies of the Trust**

| Name of Constituency | Area/Qualification | Minimum number of Members | Number of Council Members |
|---|---|---|---|
| Public Constituency | (a) Birmingham at large (excluding wards below) | 100 | 2 |
| | (b) Birmingham Central (Nechells, Washwood Heath, Sparkbrook, Acocks Green, Bordesley Green, Springfield) | 100 | 5 |
| | (c) Solihull Central (Shirley West, Shirley South, Shirley East, Olton, Lyndon, Elmdon, Silhill, Bickenhill) | 100 | 3 |
| | (d) East Birmingham (South Yardley, Hodge Hill, Shard End, Sheldon, Stechford, Yardley North) | 100 | 3 |
| | (e) Birmingham North (Tyburn, Erdington, Stockland Green, Oscott) | 100 | 3 |
| | (f) Sutton Coldfield (Trinity, Vesey, Four Oaks, New Hall, Streetly) | 100 | 3 |
| | (g) Staffordshire South (Little Aston, Curdworth, Boley Park, Whittington, Chasetown, Fazeley) | 100 | 1 |
| | (h) Tamworth (Glascote, Belgrave, Spital, Bolehall, Trinity) | 100 | 2 |
| | (i) Solihull North (Castle Bromwich, Smith's Wood, Kingshurst and Fordbridge, Chelmsley Wood) | 100 | 3 |
| | (j) Solihull South (Blythe, Dorridge and Hockley Heath, St Alphege, Knowle, Meriden) | 100 | 1 |
| | | | Total 26 |
| Patient Constituency | Patients and Patient Carers as defined in the Constitution | 50 | 2 |
| Medical and Dental Practitioners Staff Class | As defined in paragraph 7.3.4 of the Constitution | 50 | 1 |
| Nurses and Midwives Staff Class | As defined in paragraph 7.3.5 of the Constitution | 100 | 2 |
| Other Health Professional Staff Class | As defined in paragraph 7.3.6 of the Constitution | 100 | 1 |
| Other Staff Class | As defined in paragraph 7.3.7 of the Constitution | 100 | 1 |

# Governors' Consultative Council

There are 44 Governors serving the Trust, who were appointed for a three year period and are eligible for re-election or reappointment for a further three years. The Governors are appointed as follows:

- 26 public Governors, by ballot of members.
- 5 staff Governors, by ballot of Trust staff.
- 11 stakeholder Governors, by appointment.
- 2 patient Governors, by ballot of members.

The Governors do not have material interests in organisations where those organisations or related parties are likely to do business, or are possibly seeking to do business, with Heart of England. You can access a register of Governors' interests by writing to:

Company Secretary
Heart of England NHS Foundation Trust
Heartlands Hospital
Bordesley Green East
Bordesley Green
Birmingham
B9 5SS

Two elections were held during 2007/08. The first was held in July 2007 to appoint Governors to represent the enlarged constituency of the newly merged Trust. The second was held in March 2008 to elect Governors to those public constituencies whose Governors had already served their first three year term.

The Governors' Consultative Council in place during the financial year is set out in the Table opposite:

The Governors' Consultative Council is responsible for representing the interests of NHS foundation trust members and stakeholder organisations in the governance of the Trust and exercises certain statutory powers such as the appointment of non-executive directors and the external auditor. It meets at least four times each year and a record of Governors' attendance is maintained.

The Constitution provides for a report to the Governors in the event that any individual Governor does not attend two consecutive Governors' Consultative Council meetings without good reason.

| Constituency | Governor's Name | Date of appointment | End of first term of office | Maximum period of office |
|---|---|---|---|---|
| Public: Birmingham at large | Mr Roy Gillard | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham at large | Mrs Julie Keogh | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham Central | Dr Syed Raza Hussain | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham Central | Mr John Jebbett | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham Central | Mr David O'Leary | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham Central | Mrs Pam Sumner | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham Central | Mrs Irene Wright | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham East | Mrs Olympia Cargill | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham East | Mr Mohammed Zubair Khan | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Birmingham East | Mr Dan Jones (now deceased) | 03-Oct-06 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull Central | Mr John Foster | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull Central | Mrs Frances Linn | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull Central | Mr Peter Grace (now deceased) | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull North | Mrs Valerie Egan | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull North | Mr Tony Whittle | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull North | Ms Ann Brierley | 01-Aug -07 | 31-Mar-08 | 31-Mar-11 |
| Public: Solihull South | Mrs Sheila Blomer | 01-Apr-05 | 31-Mar-11 | 31-Mar-14 |
| Public: Tamworth | Ms Barbara Hayward | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Tamworth | Mr Richard Hughes | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Staffordshire South | Mr Victor Palmer | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Birmingham North | Mr Allen Matty (resigned November 2007) vacant thereafter | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |

| | | | | |
|---|---|---|---|---|
| Public: Birmingham North | Ms Marion Thompson | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Birmingham North | Mr Thomas Webster | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Sutton Coldfield | Dr Mike Cooper | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Sutton Coldfield | Ms Carole Edwards | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Public: Sutton Coldfield | Ms Bethan Ilett | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Patient | Mr Alec Weight | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Patient | Mrs Jean Weight | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Staff: AHP, Technician or Clinical Support Worker | Mr Martin Collard | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Staff: Ancillary, Admin, Volunteer or Management | Mr Andrew Clements | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Staff: Medical & Dental | Dr Paul Dodson | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Staff: Nursing, Midwifery & Healthcare Assistant | Mrs Maureen Garland | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Staff: Nursing, Midwifery & Healthcare Assistant | Mrs Catherine Wilson | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Stakeholder:Birmingham Chamber of Commerce | Mr Aftab Chughtai | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Stakeholder: Solihull Chamber of Commerce | Mr Roy Shields | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Stakeholder: Birmingham Eastern & North PCT | Dr Qulsom Fazil | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Stakeholder: Stepping Stones | Ms Jeanette Mulcare | 03-Oct-06 | 02-Oct-09 | 02-Oct-12 |
| Stakeholder: Solihull Metropolitan BC | Mrs Kate Wild | 15-May-07 | 15-May-10 | 15-May-13 |
| Stakeholder: South Staffs PCT | Ms Yvonne Sawbridge | 01-Aug-07 | 31-Jul-10 | 31-Jul-13 |
| Stakeholder: Joint Lichfield & Tamworth Borough Council | Councillor Ian Lewin | 01-Sep-07 | 31-Aug-10 | 30-Aug-13 |
| Stakeholder: Birmingham City University | Professor Ian Blair | 01-Sep-07 | 31-Aug-10 | 31-Aug-13 |
| Stakeholder: University of Birmingham | Ms Helen Parker | 03-Jan-08 | 02-Jan-11 | 02-Jan-14 |
| Stakeholder: Birmingham City Council | Councillor Alderman Don Lewis (now deceased) | 01-Apr-05 | 31-Mar-08 | 31-Mar-11 |
| Stakeholder: Solihull Care Trust | Vacancy | | | |

The Trust's Constitution describes the processes intended to ensure a successful and constructive relationship between the Governors' Consultative Council and the Board of Directors. It emphasises the importance of informal and formal communication, and confirms the formal arrangements for communication within the Trust. It suggests an approach to informal communications, and sets out the formal arrangements for resolving conflicts between the Governors' Consultative Council and the board of directors. The Constitution is available on the Trust's website and is available for inspection at the Trust's offices.

In accordance with Clause B1.4 of the Monitor Code of Governance, the statement of rules and responsibilities of governors will be set out at the front of the Governors' Handbook which is due to be completed in 2008.

# Board of Directors

The Board of Directors is chaired by Mr Clive Wilkinson, who was appointed for a four year term commencing 1 April 2006. The Chief Executive is Dr Mark Goldman. Other than the Chairman there are seven Executive Directors and seven Non-Executive Directors. The Directors do not have material interests in organisations where those organisations or related parties are likely to do business, or are possibly seeking to do business, with Heart of England.

You can access a register of Directors' interests by writing to:

Company Secretary
Heart of England NHS Foundation Trust
Heartlands Hospital
Bordesley Green East
Bordesley Green
Birmingham
B9 5SS

Following consultation in February 2006, Monitor issued a final version of the NHS Foundation Trust Code of Governance in October 2006 for implementation. The Code applies with effect from 1st April 2006. The Code is issued as best practice advice and is not mandatory however the Code imposes disclosure requirements on NHS foundation trusts. The Board of Directors considers that throughout the year it was fully compliant with the Principles of the NHS Foundation Trust Code of Governance. Any exceptions to the Code are set out fully in this Report with the respective paragraph of the Code's provisions.

The Board has not appointed a senior independent director (Monitor Code Clause A3.3). Members and Governors have direct access to all members of the Board. In addition to direct access on request, all the members of the Board are invited to attend every Governors' Consultative Council meeting and participate fully in discussion with members of the Council. Members of the Board or Trust senior managers who might have issues, where contact through the normal channels with Chairman, Chief Executive or Finance Director is inappropriate, have right of direct access to the Chairman of the Audit Committee and the Vice Chairman.

The Board meets every month and, additionally, ad hoc as necessary. A formal schedule of matters specifically reserved for decision by the Board of Directors was adopted by the Board on 29 August 2006. This schedule is available on the Trust's website. The board delegates other matters to the Executive Directors and other senior management. The Directors are given accurate timely and clear information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues. The Directors have a range of skills and experience and each brings independent judgement and considerable knowledge to the Board's discussions and determinations. This range of skills and experience ensures balance, completeness and appropriateness to the requirements of the Trust. The attendance of Directors at Board and Committee meetings is set out on page 49.

Trust Board committees include the Nominations Committee, Audit Committee and Remuneration Committee. Their terms of reference are available on the Trust's website and are available for inspection at the Trust's offices.

## Nominations Committee

Members: Clive Wilkinson (Chair)
Mark Goldman (CEO)
Anna East (NED)

The Nominations Committee of the board undertakes to:

- Review the structure, size and composition of the board and make recommendations with regard to any changes.
- Give full consideration to succession planning.
- Evaluate the balance of skills, knowledge and experience in relation to the appointment of both executive and non-executive directors.
- Identify and nominate suitable candidates to fill executive director vacancies.

In the case of Non-Executive Director vacancies including the chair, the relevant information is passed to the Governors' Consultative Council Appointments Committee so that it can then incorporate the information into its deliberations. The Governors' Consultative Council Appointments Committee is then responsible for the identification and nomination of Non-Executive Directors, including the Chairman, and for making recommendations to the Governors' Consultative Council as to their terms and conditions of employment.

In the case of Executive Director vacancies, the Nominations Committee draws up the job description and person specification, and undertakes the recruitment process and then makes a recommendation to the Appointments Committee of the Trust Board which may accept or reject the recommendation. It is for the Non-Executive Directors to appoint and remove the chief executive and such an appointment requires the approval of the Governors' Consultative Council.

## Audit Committee

Members: Richard Samuda (Chair)
All other Non-Executive Directors

The work of the Audit Committee is to:

- Review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the Trust's activities (both clinical and non-clinical), that supports the achievement of the Trust's objectives.
- Ensure that there is an effective internal audit function established by management that provides appropriate independent assurance to the Audit Committee, Governance and Risk Committee, Chief Executive and Board
- Consider and make recommendations to Audit Appointments Committee of the Governors Consultative Council in relation to the appointment, re-appointment and removal of the Trust's External Auditor and to oversee the relationship with the External Auditor.
- Monitor the integrity of the financial statements of the Trust, reviewing significant financial reporting issues and judgements which they contain

- Review significant returns to regulators and any financial information contained in certain other documents.

All non audit work by the external auditors is proposed to the Audit Committee by the Finance Director. It is formally considered and, where appropriate, ratified by the committee. The Trust places reliance on the external auditors own internal processes and procedures to ensure auditor objectivity and independence is safeguarded.

## Remuneration Committee

A full report from this committee is set out on page 56.

## Changes in Board Membership

Beccy Fenton, Chief Finance Officer and Managing Director, became the Deputy Chief Executive from 1 April 2007. Dr Sarah Woolley became Acting Director of Governance on the Board on 1 April 2007 and was confirmed in post on 7 May 2007. Mr Ian Cunliffe had been in post as Acting Medical Director for Surgery since 1 April 2006 and was confirmed in post on 1 September 2007.

## Executive Board Directors

The voting Executive Directors on the Trust Board are:
Dr Mark Goldman Chief Executive
Dr Sarah Woolley, Director for Healthcare Governance
Mrs Beccy Fenton, Deputy Chief Executive, Chief Finance Officer and Managing Director
Dr Hugh Rayner, Medical Director for Medicine
Mr Ian Cunliffe, Medical Director for Surgery (Appointed 1 September 2007)
Dame Jill Ellison, Director of Nursing (Retired July 2007)
Ms Mandy Coalter, Director of Human Resources and Organisational Development

The non-voting Executive Directors who support the Trust Board are:
Mrs Fay Baillie, Director of Nursing (Acting, since 1 October 2006)
Ms Lisa Dunn, Director of Corporate Affairs
Mr Alan Gurney, Operations Director for Surgery
Mrs Kath Kelly, Operations Director for Medicine
Mr Andrew Laverick, Director of Information and Communications Technology
Mr Adrian Stokes, Director of Finance
Mr John Sellars, Director of Asset Management
Mr Simon Hackwell, Commercial Director

## Non-Executive Board Directors

Non-Executive Directors are appointed for four years and are terminable with one month's notice on either side. The non-executive directors are:
Mr Clive Wilkinson, Chairman
Mr David Bucknall (Appointed 8 January 2008)
Ms Anna East (Vice Chairman appointed 1 April 2008, appointed as a Non-Executive

Director in July 2005)
Ms Najma Hafeez (Appointed 1 April 2007)
Professor Christopher Ham (Appointed 1 October 2007)
Mr Richard Harris (Appointed 1 May 2008)
Mr Paul Hensel (Appointed 1 August 2005)
Mr Alaba Okuyiga (Retired 30 November 2007)
Professor John Perry Vice Chairman (Retired 31 March 2008)
Mr Richard Samuda (Appointed June 2006)

Professor Christopher Ham was appointed on 1 October 2007 to fill a standing vacancy on the board. Following the completion of Mr Alaba Okuyiga's term of office as Non-Executive director on 30 November 2007, Mr David Bucknall was appointed on 8 January 2008. Professor John Perry retired as Non-Executive Director on 31 March 2008 and Mr Richard Harris was appointed on 1 May 2008. Ms Anna East took over the role of Vice Chairman with effect from 1 April 2008.

**Directors' Attendance At Meetings:**

| | Trust Board | | Audit Committee | | Remuneration Committee | | Nominations Committee | |
|---|---|---|---|---|---|---|---|---|
| | Thirteen meetings in year | | Eight meetings in year | | Two meetings in year | | Four meetings in year | |
| Director | Attended | Relevant Number | Attended | Relevant Number | Attended | Relevant Number | Attended | Relevant Number |
| Clive Wilkinson | 13 | 13 | N/A | 0 | 2 | 2 | 4 | 4 |
| Mark Goldman | 12 | 13 | N/A | 0 | N/A | 0 | 3 | 4 |
| Beccy Fenton | 9 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| Sarah Woolley | 11 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| Mandy Coalter | 12 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| Hugh Rayner | 11 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| Ian Cunliffe | 11 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| Fay Baillie | 12 | 13 | N/A | 0 | N/A | 0 | N/A | 0 |
| David Bucknall | 4 | 4 | 2 | 2 | 0 | 1 | N/A | 0 |
| Anna East | 11 | 13 | 7 | 8 | 1 | 2 | 2 | 2 |
| Najma Hafeez | 9 | 13 | 4 | 8 | 1 | 2 | N/A | 0 |
| Christopher Ham | 6 | 6 | 3 | 3 | 2 | 2 | N/A | 0 |
| Paul Hensel | 9 | 13 | 4 | 8 | 2 | 2 | N/A | 0 |
| Alaba Okuyiga | 7 | 8 | 5 | 6 | N/A | 0 | N/A | 0 |
| John Perry | 10 | 13 | 6 | 8 | 2 | 2 | 3 | 3 |
| Richard Samuda | 12 | 13 | 7 | 8 | 2 | 2 | N/A | 0 |
| | | | | | | | | |
| Attendance Rate | | 85.03% | | 74.51% | | 80.00% | | 92.31% |

## Performance of the Board and its Committees

As part of the Board's Effectiveness Programme, an independent consultant has recently been appointed to carry out a review of the Board's information provision, the workings of the sub-committees and the Board itself to give assurance as to the Board's effectiveness.

## Board Member's profiles

### Mr Clive Wilkinson, Chairman

Clive Wilkinson has held this post since February 2001 when he was appointed by the Strategic Health Authority. Mr Wilkinson's term ended on 31 March 2006. After applying for the position of Chairman again, Mr Wilkinson was selected through a process of open competition to continue as Chairman for a four year period commencing 1 April 2006. Previously Mr Wilkinson was Chairman of the NHS Executive West Midlands Region from 1997 to 2001, Chairman of Wolverhampton Healthcare NHS Trust from 1994 to 1997 and Chairman of Sandwell Health Authority from 1986 to 1994. He was also a member of the Audit Commission from 1986 to 1996 and a Non Executive Director of the Financial Services Authority from 2005 to 2007.

Mr Wilkinson was a Birmingham City Councillor from 1970 to 1984. Mr Wilkinson is also Chairman of the Civic Housing Association, a Trustee of Bournville Village Trust and a former member of the Department of Health's Audit Committee.

### Dr Mark Goldman, Chief Executive

Mark Goldman has been Chief Executive of Heart of England Foundation Trust since 2001. Mark qualified in medicine and became Senior Lecturer in Surgery at the University of Birmingham in 1985. His special interest is Vascular Surgery and he was an NHS consultant from 1985-2001.

Mark became involved early in Clinical Management and was appointed Medical Director to the then Birmingham Heartlands Acute Trust in 1993. Mark was a member of the Modernisation Team which constructed the 10 year NHS plan.

Mark has been involved in developing and leading clinical services as well as leading major organisational change as the hospital has achieved first Trust status then Foundation Trust status and along the way has acquired two other local hospitals to become one of the largest and most successful NHS foundation trusts.

From November 2005 until March 2007, Mark was also Chief Executive of Good Hope Hospital and succeeded in turning around a deficit of £6m to a surplus of £1.7m. In April 2007 the Trust completed the first ever acquisition by a Foundation Trust of a failing NHS Trust.
Heart of England was named as Acute Healthcare Organisation of the year in 2006 by the Health Service Journal. It has also received international recognition and Beacon site status for its partnership work with local primary care trusts on community based chronic disease management.

## Mrs Beccy Fenton, Deputy Chief Executive (From 1 April 2007), Chief Finance Officer and Managing Director

Beccy is the Deputy Chief Executive, Managing Director (MD) and Chief Finance Officer (CFO) at Heart of England NHS Foundation Trust. She has worked in the NHS for 12 years.
As Managing Director, Beccy provides day to day leadership on the running of the three main hospital sites, leads on site strategy, is responsible for the Trust's business planning and performance management framework and has recently established the Trust's new Transformation Programme.

As CFO, she leads the Commercial Strategy and via her Finance Director is responsible for all the financial duties of the Trust. Previously, as Finance Director, she restructured the Finance department, introduced new financial reporting systems, revised the Trust Board and directorate financial reporting and redesigned the Trust's Business Planning and Performance Management processes. She has always had a close working relationship with the clinical teams to ensure delivery of significant year on year cost and efficiency savings, and delivering recurrent financial position in 2004/05 which enabled the Trust to be successful in its application for Foundation Trust on 1 April 2005.

Beccy gained a Masters Degree in Engineering Sciences from Oxford University in 1992. She then joined Coopers and Lybrand where she qualified as a Chartered Accountant before moving to the NHS.

## Dr Hugh Rayner, Medical Director for Medicine

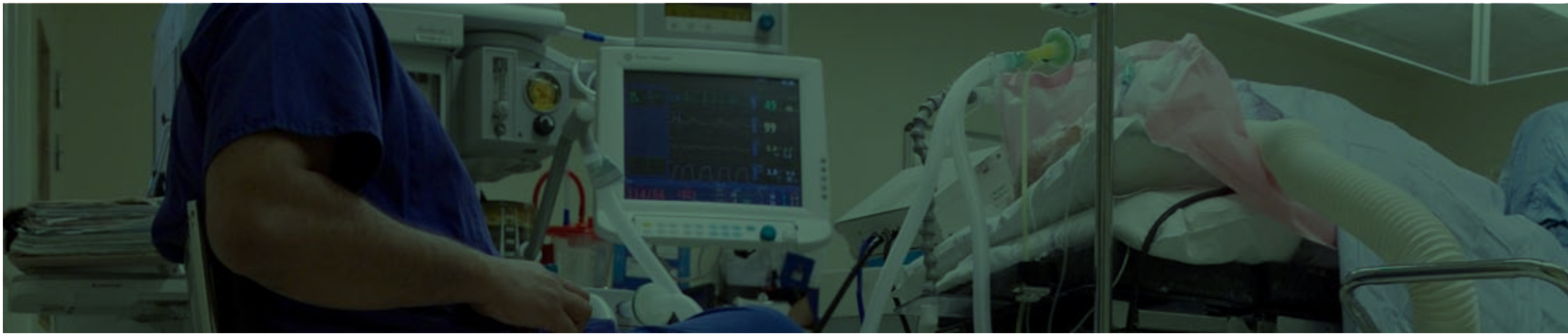
Hugh Rayner was appointed as a Consultant Nephrologist at the Trust in May 1993, having graduated from Cambridge University and the London Hospital Medical School. He trained in medicine and nephrology in Norwich, London, Nottingham, Leeds and Melbourne, Australia. He became Clinical Director for Acute Medicine at Heartlands Hospital in 1996 and then Trust Medical Director for Medicine in 2000.

Dr Rayner has taken a leading role in the 'Working Together for Health' initiative within East Birmingham and Solihull, having visited Kaiser Permanente in Northern California in 2003. He is also country investigator for the Dialysis Outcomes in Practice Pattern Study, a worldwide study of haemodialysis treatment for kidney failure.

## Mr Ian Cunliffe Medical Director for Surgery

Ian Cunliffe is a Consultant Ophthalmologist who has worked for the Trust for 10 years. Ian trained in Sheffield, Cambridge, and New Zealand, where he completed a clinical fellowship. Ian's specialist area of interest within ophthalmology is Glaucoma.

Ian has been Clinical Director for Ophthalmology for three years and worked with the Modernisation Agency on its pilot project for clinical governance. He has also spent six months as Associate Medical Director for surgery before taking this post in April 2006. Ian's role is to be responsible for the whole of the board of surgery and he also still practices clinically as an ophthalmologist.



**Ms Mandy Coalter, Director of Human Resources and Organisational Development**

Prior to Mandy Coalter's appointment in July 2006, she was Corporate Director of Human Resources and Organisational Development at Doncaster Council for four years. During her time with the Council she introduced a radical new approach to service delivery and new organisational values which delivered significant service and cost improvements. Ms Coalter spent eight years at City of York Council prior to Doncaster, working in a variety of roles, including working on Local Government Reorganisation and spending two years managing the Education Human Resources Service for the city's schools.

Ms Coalter is a law graduate and a Fellow of the Chartered Institute of Personnel and Development.

**Sarah Woolley, Director of Governance and Standards**

Sarah was appointed as Director of Governance and Standards in May 2007 and is responsible for leading the Trust's patient and organisational safety agendas. She has held a number of posts over the last five years at Heart of England within the fields of safety, risk management and governance and has played a leading role in developing the Trust's approach to safety.

Prior to this, Sarah trained as a clinical biochemist in the West Midlands, undertaking analytical and diagnostic services to support clinical care for patients.

Before joining the NHS, Sarah worked as a research scientist at Manchester University, investigating the mechanism of Chronic Myeloid Leukaemia. Sarah graduated from Manchester University in 1992 and then when onto complete a doctorate in biochemistry at Birmingham University.

**Anna East, Vice Chairman**

Anna East was formerly Head of Group Legal and Company Secretary at Britannic Group plc and Halfords Group plc and has also practised as a Solicitor at Eversheds. She is currently a Director of Dudley Building Society and Vice Chair of Dowell's Trust Housing Association. She chairs the Governance and Risk Committee and is a member of the Remuneration and Audit Committees.

Anna was appointed as Non Executive Director in July 2005 and as Vice Chairman in April 2008.

**Ms Najma Hafeez, Non-Executive Director**

Najma Hafeez is Managing Director of Russell Excel, a firm of international consultants specialising in management training, education, communication and leadership skills, human resources and change management. Ms Hafeez was the youngest and first Muslim woman elected to Birmingham City Council in 1983. During her years in office,

she held several senior positions including Chair of Education, Chair of Social Services, Chair of Community Affairs and Chair of Euro-Cities Network.

As an elected member and member of the executive team of Birmingham City Council, Ms Hafeez was involved in the development of Birmingham City's regeneration programme, including the building of the International Convention Centre, Brindley Place, Millennium Point and other key projects, all of which have revitalised the city and its economic and commercial potential.

**Mr Paul Hensel, Non-Executive Director**

Paul Hensel is an IT professional with 35 years' experience in the development and provision of IT systems. His early career encompassed roles with Dunlop, GKN, Chubb and West Midlands Regional Health Authority.

Mr Hensel, together with his brother, started his own business in 1980 to exploit the emerging power of small scale computers. This company eventually became a leading supplier of software to the worldwide mobile telecommunications industries, particularly in South Africa and Europe and was acquired by CMG/Logica in 2003. Mr Hensel was appointed as a Non-Executive Director to the Heart of England NHS Foundation Trust Board in August 2005 and is the non-executive lead for IT issues.

**Mr Richard Samuda, Non-Executive Director**

Richard Samuda has over 20 years' experience specialising in management consultancy as an advisory partner in KPMG.
He is a Chartered Accountant with a wealth of business experience dealing with major private and public sector clients. He is also Chairman of Horton Estates, one of the largest private property companies outside London.

**Professor Chris Ham, Non-Executive Director**

Chris Ham is professor of health policy and management at the University of Birmingham. He has held posts at the universities of Leeds and Bristol and the King's Fund, and from 2000-2004 worked on secondment as director of the strategy unit in the Department of Health.
Chris is an expert on the financing and delivery of health care both in the UK and internationally and is the author or editor of 18 books and numerous papers and articles on health policy. He has advised the World Bank, the World Health Organisation, and the health departments of New Zealand and Sweden, and in the UK has served as a consultant to the Audit Commission, the British Medical Association, the NHS Confederation, and the House of Commons Health Committee.

Chris is a Fellow of the Royal Society of Medicine, a founding Fellow of the Academy of Medical Sciences, and an Honorary Fellow of the Royal College of Physicians. He was awarded a CBE in 2004 for services to the NHS. Chris is a governor of The Health

Foundation, a trustee of the Canadian Health Services Research Foundation, and a trustee of The New Health Network.

**Mr David Bucknall, Non-Executive Director**

From the early 1960s, David led the transformation of Bucknall Austin from a small local Quantity Surveying Company into a successful plc, providing management services in the construction and property sector.

He then retired on the sale to Citex in 1998 and took up a series of non-executive positions. He returned in 2003 to head up the purchase of the business from administration. He was part of the team leading the firm back into the marketplace – co-ordinating the merger with Rider Hunt and Levett and Bailey in 2007 to create the Rider Levett Bucknall Global Practice.

As an indication of real commitment to regional regeneration in the mid-80s, Bucknall Austin purchased a derelict 20,000 sq.ft. canal side factory in Scotland Street, on the West Side of Birmingham. This was converted into open plan workspace. The project won the RICS Regeneration Award and acted as a catalyst for the now burgeoning Convention Quarter.

David has always encouraged Innovation and Best Practice. He chairs the Birmingham Foundation – a leading People Regeneration Charity. He is also a member of the Birmingham Best Practice Club and a board member of both the West Midlands Centre for Constructing Excellence and the RICS Business Development Board.

**Mr Richard Harris, Non-Executive Director**

Richard Harris was appointed as a Non-Executive Director on 1 May 2008. He is a Chartered Accountant and spent eight years as a partner with Price Waterhouse, followed by 11 years in senior finance roles, reporting to the main board finance directors with GKN plc and then with Brambles Industries plc, both then FTSE100 companies. He brings to the Board a mixture of finance and business experience encompassing the management of large and complex projects, treasury management, taxation, investment appraisal, acquisitions and divestments, risk management, governance and accounting.

He is a trustee of the Birmingham Community Foundation, a governor of the RSA Tipton Academy and a trustee of the pension fund of NCH, the UK's largest children's charity. He served for eight years as governor of North East Worcestershire Further Education College, including time as chair of its Finance Committee.

# Remuneration Report

## Role of the Remuneration Committee

The Remuneration Committee is mandated to review the appraisal of the Executive Directors and decide their remuneration and allowances and the other terms and conditions of office and to keep under review executive director development and succession planning. The Committee meets without the Chief Executive present to perform the same role in respect of that post. The Non-Executive Directors, sitting as the Remuneration Committee, also appoint or remove the Chief Executive and are joined by the Chief Executive to appoint or remove the executive directors. The Remuneration Committee reports to the Trust Board.

The Committee met twice in the financial year on 21 December 2007 and 21 January 2008. All relevant Committee members attended with the exception of Anna East who gave apologies on 21 December and David Bucknall and Najma Hafeez who gave apologies on 21 January.

## Composition of the Remuneration Committee

The membership of the Remuneration Committee is as follows:
Mr C Wilkinson – Chairman
Mr David Bucknall – Non-Executive Director
Mrs A East – Non-Executive Director
Ms Najma Hafeez – Non-Executive Director
Prof. Chris Ham – Non-Executive Director
Mr Richard Harris – Non-Executive Director
Mr P Hensel – Non-Executive Director
Mr R Samuda – Non-Executive Director

## Remuneration Policy

The Remuneration Committee determines the remuneration policies and practices with the aim of attracting, motivating and retaining high calibre directors who will deliver success for the Trust and high levels of patient care and customer service.

All appointments as Executive Directors are made as permanent appointments and will only be terminated on resignation of the employee or a fundamental breach of their employment contract. As an exception to the Monitor Code of Governance Clause C.2.1, the Trust has not appointed Chief Executive and Executive Directors with fixed terms. Such "rolling fixed term" contracts are expensive to terminate and were abandoned by the NHS as a matter of policy some time ago for that very reason. The insecurity of tenure, particularly in the case of the Chief Executive whose appointment is to be confirmed by the Governors' Consultative Council, will not support the recruitment and retention of candidates of the highest calibre required. Appraisal processes, employment policies and terms and conditions of appointment are in place to deal with the possibility of suboptimal performance and its consequences.

## Executive Directors' Remuneration

Remuneration packages for Executive Directors consist of a salary and pension contributions.

Salaries are reviewed annually with reference to the NHS Boardroom Pay Report published by Income Data Services (IDS). There are no performance related elements to remunerations. Performance is judged and reviewed as part of the annual appraisal and personal development review process in line with Trust policies.

The table following shows the salaries and allowances that have been awarded to the Executive Directors who have served the Trust throughout the year.

| Name and Title | Salary (bands of £5000) £000 | Other Remuneration (bands of £5000) £000 |
|---|---|---|
| Mark Goldman (Chief Executive) | 225-230 | |
| Beccy Fenton (Deputy Chief Executive, Chief Financial Officer and Managing Director) | 160-165 | |
| Dame Jill Ellison (Nursing Director –resigned July 2007) | 25-30 | |
| Hugh Rayner (Medical Director Medicine) | 40-45 | 125-130 |
| Ian Cunliffe (Medical Director Surgery) | 35-40 | 110-115 |
| Fay Baillie (Acting Nursing Director) | 80-85 | |
| Sarah Woolley (Director of Healthcare Governance from 07.05.07) | 130-135 | |
| Mandy Coalter (HR and OD Director) | 130-135 | |

All of the Executive Directors have a six month notice period for termination included in their contracts and there is no provision for compensation for early termination in their contracts. A payment for compensation for loss of office has been made to the former Nursing Director.

There were no amounts payable to third parties for the services of the executive directors and they received no benefits in kind (2006/07 nil).

## Executive Directors' Pension benefits

| Name | Real increase in pension at age 60 | Real increase in lump sum at age 60 | Total accrued pension at age 60 at 31 March 2008 | Lump sum at age 60 related to accrued pension at 31 March 2008 | Cash Equivalent Transfer Value at 31 March 2008 | Cash Equivalent Transfer Value at 31 March 2007 | Real Increase in Cash Equivalent Transfer Value |
|---|---|---|---|---|---|---|---|
| | (bands of £2500) £000 | (bands of £2500) £000 | (bands of £5,000) £000 | (bands of £5000) £000 | £000 | £000 | £000 |
| Mark Goldman | 17.5-20.0 | 52.5-55.0 | 95-100 | 285-290 | 1,703 | 1,335 | 234 |
| Beccy Fenton | 0.0-2.5 | 2.5-5.0 | 15-20 | 45-50 | 180 | 154 | 16 |
| Dame Jill Ellison | 0.0-2.5 | 5.0-7.5 | 35-40 | 110-115 | 622 | 553 | 39 |
| Fay Baillie | 2.5-5.0 | 10.0-12.5 | 25-30 | 80-85 | 426 | 346 | 49 |
| Ian Cunliffe | 7.5-10.0 | 22.5-25.0 | 40-45 | 125-130 | 580 | 445 | 86 |
| Sarah Woolley | 2.5-5.0 | 12.5-15.0 | 15-20 | 50-55 | 173 | 115 | 35 |
| Hugh Rayner | 0.0-2.5 | 5.0-7.5 | 35-40 | 105-110 | 579 | 521 | 31 |
| Mandy Coalter | 17.5-20.0 | 55.0-57.5 | 15-20 | 55-60 | 193 | 5 | 131 |

## Non-Executive Directors Remuneration and Appointment

Non-Executive Directors are appointed for four years, and are terminable with one month's notice on either side. The Non-Executive Directors are appointed following interview by a sub-committee of the Governors' Consultative Council.

Non-Executive Directors fees are determined by the Governors Consultative Council. The Governors' Consultative Council does not currently consult external professional advisers to market test the remuneration levels of the Chairman and other Non-Executive Directors but this is under review (Monitor Code Clause E.2.3). The current recommendations made to the Council are based on independent advice and guidance as issued from time to time by appropriate bodies such as the National Health Service Appointments Commission in relation to National Health Service trusts or the NHS Confederation (Foundation Trust Network) which provides benchmarked and externally validated guidance relevant to foundation trusts.

| Name and Title | Salary (bands of £5000) £000 | First Appointment date | Notice period | Unexpired term of contract |
|---|---|---|---|---|
| Clive Wilkinson (Chairman) | 45-50 | 01 December 2001 | 1 month | 2 years |
| Richard Samuda (Non Executive Director) | 15-20 | 14 June 2006 | 1 month | 2 years, 3 months |
| Alaba Okuyiga (Non Executive Director retired 30 November 2007)) | 5-10 | 01 December 2003 | N/A | N/A |
| Professor John Perry (Non Executive Director retired 30 March 2008) | 10-15 | 01 December 1997 | N/A | N/A |
| Anna East (Deputy Chairman and Non Executive Director) | 15-20 | 01 July 2005 | 1 month | 1 year, 3 months |
| Najma Hafeez (Non Executive Director) | 10-15 | 01 April 2007 | 1 month | 3 years |
| Chris Ham (Non Executive Director) | 5-10 | 01 October 2007 | 1 month | 3 years, 6 months |
| David Bucknall (Non Executive Director) | 0-5 | 08 January 2008 | 1 month | 3 years, 9 months |
| Paul Hensel (Non Executive Director) | 10-15 | 01 August 2005 | 1 month | 1 years, 4 months |

The table below shows the salaries and allowances that have been paid to the Non- Executive Directors who have served the Trust during the year and the date of their first appointment. The Non-Executive Directors do not receive pensionable remuneration.
There were no amounts payable to third parties for the services of the Non-Executive D irectors and they received no benefits in kind (2006/07 nil).

Mark Goldman
Chief Executive

11 June 2008

# Statement of Accounting Officer's Responsibilities

Statement of the chief executive's responsibilities as the Accounting Officer of Heart of England NHS Foundation Trust

The National Health Service Act 2006 states that the Chief Executive is the Accounting Officer of the NHS Foundation Trust. The relevant responsibilities of Accounting Officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the accounting officers' Memorandum issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

Under the National Health Service Act 2006, Monitor has directed Heart of England NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Heart of England NHS Foundation Trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the NHS foundation trust Financial Reporting Manual and in particular to:

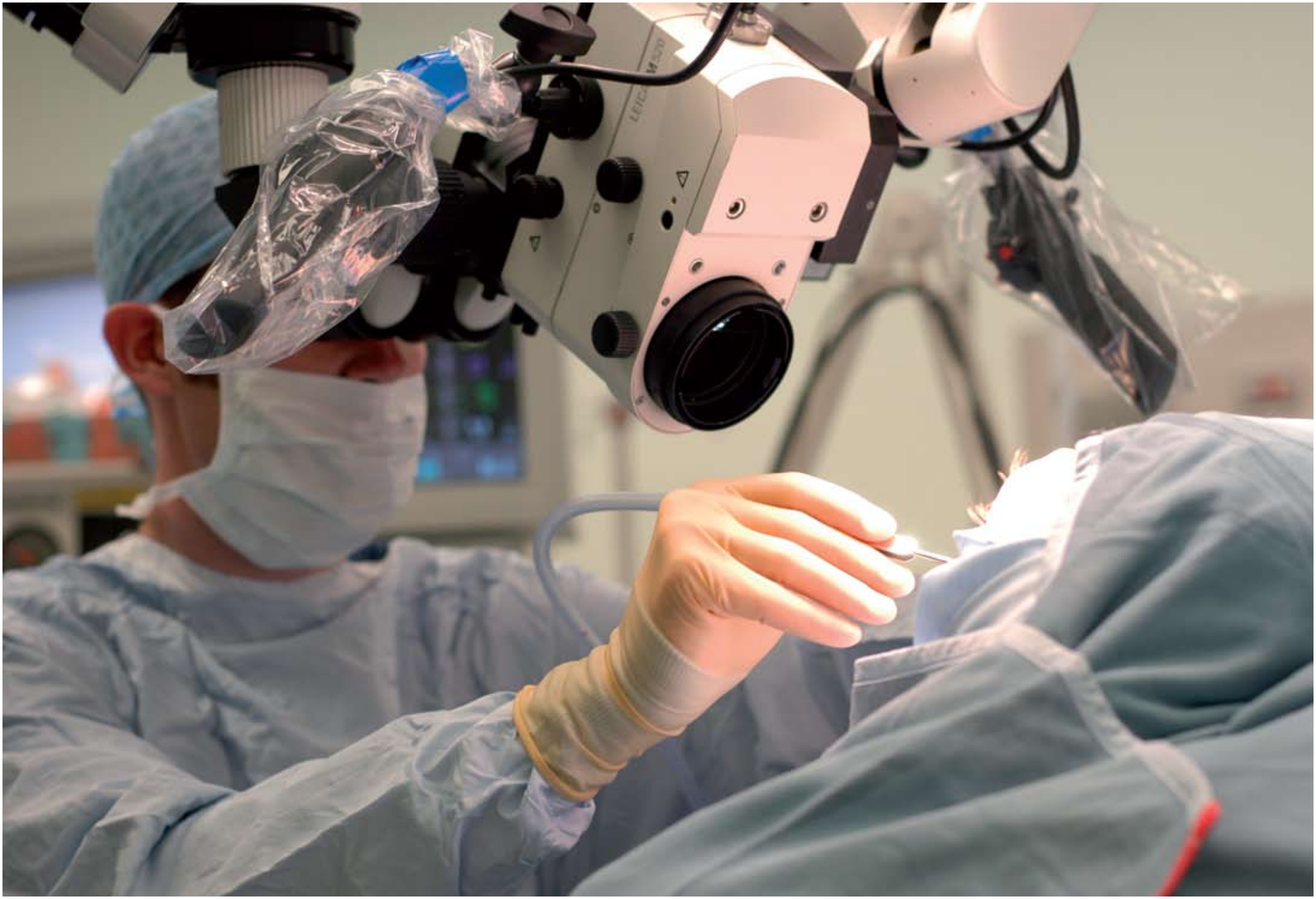
- Observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis.
- Make judgments and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the NHS foundation trust Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements.
- Prepare the financial statements on a going concern basis.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS Foundation Trust and to enable him/her to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is also responsible for safeguarding the assets of the NHS Foundation Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor's NHS Foundation Trust Accounting Officer Memorandum.

Mark Goldman
Chief Executive

Date: 11 June 2008



# Statement on Internal Control

## Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS Foundation Trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the NHS Foundation Trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

## 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 policies, aims and objectives of Heart of England NHS Foundation Trust.
- 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 Heart of England NHS Foundation Trust for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts.

## Capacity to handle risk

Heart of England NHS Foundation Trust has a Trust Board approved Risk Management Strategy, Policy and Procedure and these provide explicit guidance for all staff concerning:

- leadership and accountability.
- roles and responsibilities for managing risks.
- processes for risk management.
- risk management training.

The Risk Management Strategy and Policy sets out the Trust's approach to risk by defining the structures for the management and ownership of risk at all levels of the organisation. It includes everyone's responsibilities for handling risk.

The Strategy and Policy clearly details that as Accounting Officer, I have overall responsibility for the Trust's risk management programme and to ensure that it operates effectively. I have delegated operational responsibility for risk management to the Director of Governance and Standards. She is supported by the Executive Directors, who are accountable and responsible for overseeing risk management activities within their individual areas of responsibility.

The Healthcare Governance Directorate has dedicated staff with specialist risk management expertise that work with the Trust's directorates and departments to implement risk management. Risk management training and guidance is provided to staff in a manner appropriate to their authority and duties. It forms a component of the Trust's induction programme and the Healthcare Governance Directorate provides a range of training to staff at all levels across the organisation.

Heart of England Foundation Trust has effective processes in place to ensure that it is easy for staff to raise issues of concern, to identify risks, report incidents and near misses and to be informed of progress on relevant issues. Review and assurance mechanisms are in place so that lessons can be learned. Sharing of good practice and learning from our mistakes are important processes for making improvements to patient and staff safety.

## The risk and control framework

The Trust's Risk Management Strategy describes the risk management framework which is based upon a four step cycle as follows:

- Risk identification.
- Risk prioritisation.
- Risk control/treatment.
- Risk review.

The Trust's risk register process represents the physical output from the risk management procedure outlined above. It forms the key tool for defining the Trust's appetite for risk. It is used to manage and escalate all risks (strategic, operational and financial).

Risk management at Heart of England Foundation Trust is a continuous dynamic process embedded within the management activities of the Trust. All directorates, departments and staff adopt this systematic approach for the operational implementation of risk management Trust wide and locally. The Trust requires all directorates and departments to conduct a formal review of their risk management process and risk register status on a quarterly basis.

The Risk Management Strategy describes the way in which public stakeholders are involved in managing risks which impact upon them. The Trust engages its stakeholders through the following forums:

- Board of Governors.
- Patient and Public Involvement Forums.
- Overview and Scrutiny Committees.
- Patient/ Customer Surveys.
- Patient Focus Groups.
- Foundation Trust Membership.
- Meetings with Commissioners.

The Trust's Risk Management Strategy describes risk management as integral to the Trust's business planning processes and the Assurance Framework provides a method for monitoring that planned management action is mitigating risks to achieve the Trust's key objectives. The Assurance Framework maps strategic risks identified, to not achieving trust objectives, to controls and assurance mechanisms. It supports the annual Statement on Internal Control (SIC).

The Trust has had its Assurance Framework in place since March 2004 and it is revised on an annual basis. Throughout the year it is reviewed quarterly by the Governance and Risk Committee and Trust Board.

The Trust Board is responsible for overseeing the delivery of the Risk Management Strategy and it is supported by the work of its subcommittees. The Board has delegated its risk management responsibilities to the Governance and Risk Committee and gains independent assurance on the effectiveness of the operation of its risk management processes through the work of Internal Audit.

## Review of economy, efficiency and effective use of resources

The Corporate Business Plan represents the principle mechanism which the Board uses to review economy, efficiency and effective use of resources. This sets an annual delivery plan, which is aligned to the Trust's strategic objectives. As Accounting Officer, I have overall accountability for delivery of this plan and am supported by the executive directors who have delegated accountability and responsibility for delivery of specific targets and performance objectives. These are formally reviewed and monitored on a monthly basis by the Trust Board and executive directors. Independent assurance on the use of resources is provided through the Trust's internal audit programme, Audit Committee and external agencies such as Monitor, External Audit and the Healthcare Commission.

The Trust has a policy framework in place to guide staff on the appropriate use of resources through its Standing Orders, Financial Instructions, Human Resources and Governance policies. This policy framework is operationalised through the Trust's budgetary and general management processes, business case processes for new developments and core financial processes such as purchasing.

## Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the NHS foundation trust who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. 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, the Audit Committee and Governance and Risk Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Assurance Framework and the Trust's risk management system provide me with evidence that the effectiveness of controls to manage the risks to the Trust achieving its principal objectives have been reviewed. The Trust undertakes regular surveys of its patients, staff and other stakeholders to gather views on the Trust. My review is also informed by the work of external assessors including:

- Healthcare Commission Healthcare Standards and Annual Health check.
- Monitor Quarterly Reporting.
- Health and Safety Executive.
- NHS Litigation Authority assessment of Risk Management Standards.
- Dr Foster.
- The Patient Environment Action Team.
- External Audit.
- Peer Reviews.
- The Head of Internal Audit's Opinion.

Each level of management, including the Board, reviews the risks and controls for which it is responsible. I, together with the Board will monitor the implementation through the robust risk reporting structures, defined in the Risk Management Strategy and the Assurance Framework.

Meeting the Healthcare Core Standards Self-Assessment is part of the Trust's system of internal control. Heart of England NHS Foundation Trust has undertaken a full self assessment of

compliance against the Healthcare Standards to support its declaration.

The Trust is compliant with 42 out of 43 standards and is declaring "Not Met" with core standard C11b: Mandatory Training. Details of this disclosure are at on page 68.

Heart of England NHS Foundation Trust has done its reasonable best to assess and achieve compliance with the changes introduced to these standards in November 2007, and has made significant investment and improvement in both areas during 2007/08. A planned programme of activity will ensure compliance during 2008/09.

## Information Risks and Data Losses

Monitor has requested that the Trust report on risks and data losses in respect of confidential (patient identifiable) information.

The Trust has always had a work programme in place which has been managed through the Information Governance Toolkit. In March 2008 the Trust achieved Green status 73%. The information Governance Committee oversees and monitors the work programme. The Committee is chaired by the Director of Governance and Standards who is the Caldicott Guardian and Board lead for information governance.

In December 2007 the Trust reviewed its security systems to safeguard bulk transfers of person-identifiable data, and completed a more detailed information flow mapping and risk assessment exercise for non-bulk transfers of person-identifiable data. This exercise confirmed that the vast majority of data transfers were secure. Where security risks were identified risk control plans were immediately put in place and there is a continuous programme of review in place via the Trust's Information Governance Toolkit assurance system.

Information security incidents are managed as part of the Trust's routine information governance management processes and reported via well established Trust risk management procedures. No SUIs were identified in 2007/08 since the DH guidance was released in February 2008.

## NHS Pension Scheme

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

## Significant Control Issues

I am assured that by applying these processes referred to above and in maintaining and reviewing the effectiveness of the system of internal control, significant control issues are identified, that have or could seriously impact upon the delivery of the Trust's principal objectives.

The Trust has identified one area where a significant control issue has arisen in the financial year. The Internal Audit team were unable to provide any assurance to me with regard to the control environment in place during the year over the area of Payroll.

This has arisen against a background of considerable change in this area of the organisation. Firstly, the Trust introduced the new NHS payroll system (ESR) in April 2007. Then in the summer of 2007 took on the Good Hope payroll, post acquisition, which had previously been outsourced to another NHS organisation. This increased the number of monthly pay transactions from 8,000 to 14,000. As a result, Payroll have experienced significant service difficulties over the period under review.

The internal audit report highlighted 4 high risk and 36 medium level risks which have been agreed and addressed in a management action plan. Significant progress has been made over recent months to address the issues in Payroll and I am happy to say that all high level risks have been addressed and backlogs of staff queries have been cleared. Action plans to address three quarters of medium level risks have now been implemented and all medium level risk recommendations will be actioned by the summer.

I am assured that there are other areas of the Trust's control environment which mitigate against the risks identified in the payroll audit. As such I am confident that financial transactions and balances in respect of payroll are materially accurate.

I believe that the actions taken by Trust senior management to resolve the issues in payroll will, in time, result in the sort of payroll service expected of a leading edge employer.

I believe that the Statement on Internal Control is a balanced reflection of the actual control position.

**Mark Goldman**
**Chief Executive**

11 June 2008

(On behalf of the Trust Board)

**C11b: Healthcare organisations ensure that staff concerned with all aspects of the provision of healthcare participate in mandatory training programmes.**

**Reasons for declaring "Not met"**

Whilst there has been significant development and improvement of the Trust's approach towards mandatory training during 07/08, there are three factors which have impacted upon the Trust ability to declare compliance with this standard. In summary these are:

- The new NHSLA standards, launched in April 2007 but not formally incorporated into the Healthcare Standards until November 2007, have considerablely widened the scope of what must be considered as mandatory training.
- Ongoing operational merger of staff, systems and processes has complicated the way in which mandatory training has been identified throughout 07/08. Whilst local processes have continued, there has been no centralised system to monitor and provide assurance of the effectiveness of these processes.
- In previous years, the Healthcare Commission have accepted NHSLA accreditation as evidence of compliance with relevant core standards. This year it can only be used as evidence if the accreditation inspection has taken place in year.

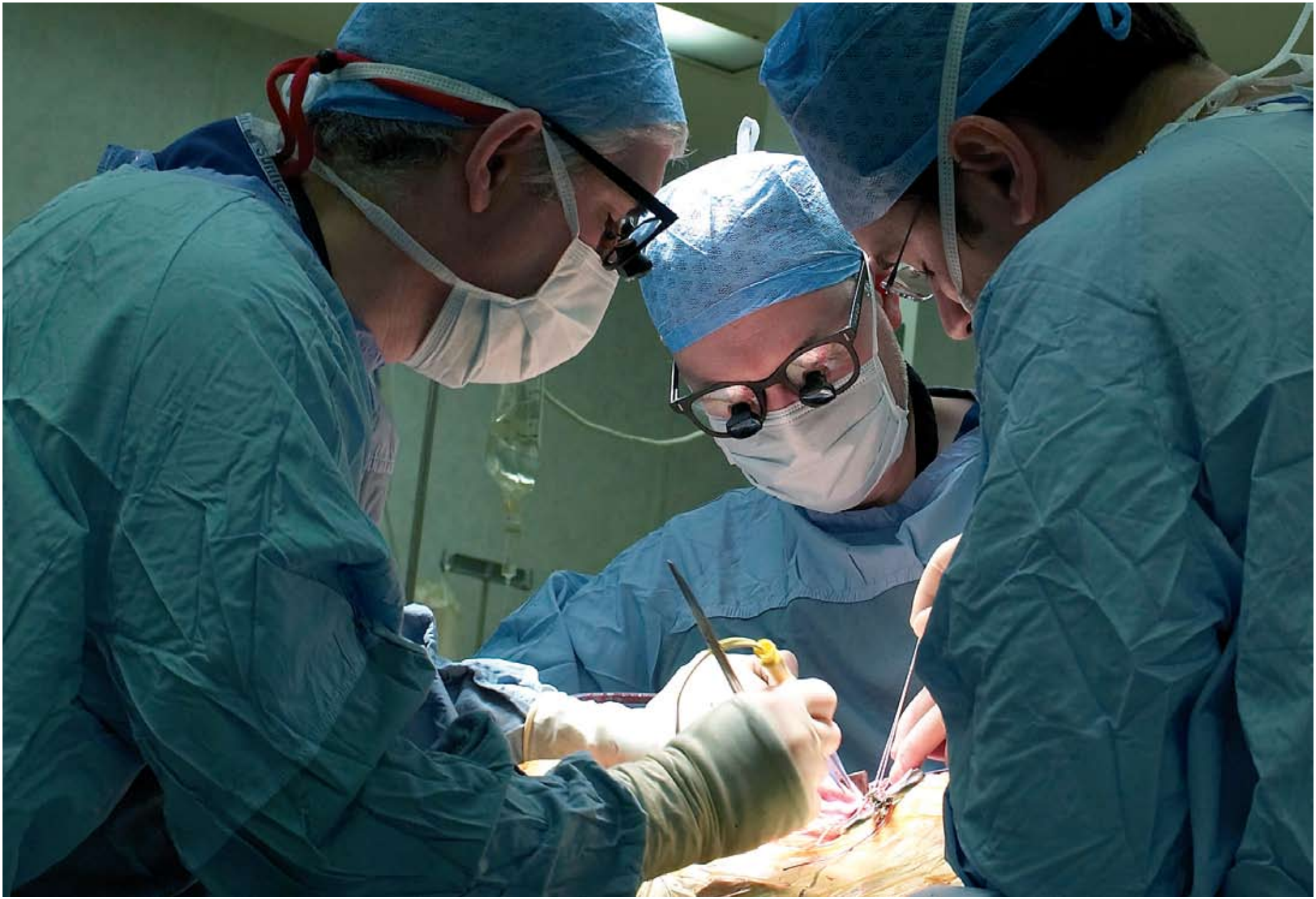
**Actions Planned or taken:**

**Actions completed:**

- Development of Core Training Policy to strengthen Trust approach to the identification, implementation and monitoring of mandatory training.
- Risk assessment and training needs analyses completed for all areas identified by the Trust as mandatory and policies updated in line with Core Training Policy.
- Development of Core Mandatory Training Group which has defined responsibilities for monitoring and providing assurance in relation to mandatory training.
- Development and implementation of a revised corporate induction programme, including the introduction of a second day for clinical staff, to include more aspects of mandatory training.
- Revised local induction policy.

**Action to be taken**

- Continued implementation of the Core Training Policy and supporting training needs analyses.
- Development of dedicated mandatory training days to facilitate delivery of wider aspects of mandatory training.
- Retrospective population of OLM with training records dating back to April 08.
- Implementation of OLM training record system linked to the Electronic Staff Record. This will allow monitoring of individuals and key staff groups, of mandatory training.
- Simulation Centre in development at Good Hope Hospital to provide simulated training to whole teams.



# Independent Auditor's Report

## Independent Auditors' Report to the Board of Governors of Heart of England NHS Foundation Trust

We have audited the financial statements of Heart of England NHS Foundation Trust for the year ended 31 March 2008 which comprise the Income and Expenditure Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cashflow Statement and the related notes[1]. These financial statements have been prepared in accordance with the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

## Respective Responsibilities of Directors and Auditors

The Foundation Trust is responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with directions issued by the Independent Regulator of Foundation Trusts ("Monitor") under the National Health Service Act 2006. Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant statute, the Audit Code for NHS Foundation Trusts issued by Monitor and International Standards on Auditing (UK and Ireland).

This report, including the opinion, is made solely to the Board of Governors of Heart of England NHS Foundation Trust in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006 (the Act) and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the directions issued by Monitor under the National Health Service Act 2006. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review which is cross-referenced from the Business Review section of the Directors' Report.

We review whether the Accounting Officer's statement on internal control 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 Accounting Officer's statement on internal control covers all risks and controls. We are also not

required to form an opinion on the effectiveness of the NHS Foundation Trust's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises the sections containing: the Chairman's Statement, Chief Executive's Statement, Directors' Report, Background Information, Operating and Financial Review, Going Concern statement, Membership Report, Governors' Consultative Council information, Board of Directors information and the unaudited elements of the Directors' Remuneration Report. 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.

In addition we report to you if, in our opinion, the NHS Foundation Trust has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

## Basis of audit opinion

We conducted our audit in accordance with section 62 and Schedule 10 of the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by Monitor, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the NHS Foundation Trust in the preparation of the financial statements, and of whether the accounting policies are appropriate to the NHS Foundation 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 and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the NHS Foundation Trust Financial Reporting Manual, of the state of affairs of Heart of England NHS Foundation Trust as at 31 March 2008 and of its income and expenditure for the year then ended;

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 and the directions made thereunder by Monitor; and

- the information given in the Directors' Report is consistent with the financial statements.

## Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of Chapter 5 of Part 2 to the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts issued by Monitor.

PricewaterhouseCoopers LLP

16 June 2008

PricewaterhouseCoopers LLP
Cornwall Court
19, Cornwall Street
Birmingham
B3 2DT

(a) The maintenance and integrity of the Heart of England NHS Foundation Trust website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Foreword to the Accounts

These accounts for the year ended 31 March 2008 have been prepared by Heart of England NHS Foundation Trust in accordance with paragraphs 24 and 25 of Schedule 7 to the 2006 Act.

**Mark Goldman**
Chief Executive

11 June 2008

# The Accounts

YEAR TO 31 MARCH 2008

# Accounting Policies

## A Basis of Preparation of Accounts

Monitor has directed that the financial statements of NHS Foundation Trusts should meet the accounting requirements of the NHS Foundation Trust Financial Reporting Manual which should be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2007/08 NHS Foundation Trust Financial Reporting Manual issued by Monitor. The accounting policies contained in that manual follow UK Generally Accepted Accounting Practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS Foundation Trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

## B Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of tangible fixed assets at their value to the business by reference to their current costs. NHS Foundation Trusts, in compliance with HM Treasury's Financial Reporting Manual, are not required to comply with the FRS3 requirements to report 'earnings per share' or historical profits and losses.

## C 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' where they meet all the following conditions:

a. The sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements approved.

b. The former activities have ceased entirely.

c. The sale or termination has a material effect on the nature and focus of the reporting NHS Foundation Trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the NHS foundation trusts continuing operations

d. The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial purposes.

Operations not satisfying all these conditions are classified as continuing.

## D Income Recognition

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

## E Expenditure

Expenditure is accounted for by applying the accruals convention.

## F Intangible Fixed Assets

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

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

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

## G 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

- 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.

- 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. 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. A three yearly interim valuation is also carried out.

Professional valuations are carried out by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. An interim valuation has been carried out as at 31 March 2008 and its results have been reflected in the financial statements.

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.

Assets in the course of construction are valued at cost and were valued by professional valuers as part of the five year or three-yearly valuation or when they are brought into use.

The accounting treatment of revaluations requires the assets to be restated at their revalued amounts and any accumulated depreciation is eliminated. Where the value of the accumulated depreciation is greater than the difference in the net book value and the revalued amount, a negative cost revaluation is generated. This does not indicate an impairment.

Residual interests in off-balance sheet Private Finance Initiative properties are included in tangible fixed assets as assets under construction and payments on account where the PFI contract specifies the amount, or nil value at which the assets will be transferred to the Trust at the end of the contract. The residual interest is built up, on an actuarial basis, during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected fair value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance. The District Valuer should provide an estimate of the anticipated fair value of the assets on the same basis as the District Valuer values the NHS Trust's estate.

Operational equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at net recoverable amount.

**Depreciation, Amortisation and Impairments**

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

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Trust, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the NHS Foundation Trust's professional valuers. Leaseholds are depreciated over the primary lease term.

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

In assessing estimated useful economic lives, consideration is given to any contractual arrangements and operational requirements relating to particular assets. Unless otherwise determined by operational requirements, the depreciation periods for the principal categories of tangible assets are, in general, as follows:

| | |
|---|---|
| - plant & machinery | 5-15 years |
| - transport equipment | 7 years |
| - information technology | 5 years |
| - furniture & fittings | 5-10 years |
| - dwellings | up to 58 years per District Valuers valuation |
| - other buildings | up to 58 years per District Valuers valuation |

Fixed asset impairment resulting from losses of economic benefits are charged to the income and expenditure account. All other impairments are taken to the revaluation reserve and reported in the statement of total recognised gains and losses to the extent that there is a balance on the revaluation reserve in respect of that asset.

## H 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 net book value of the asset is transferred from the donated asset reserve to the Income and Expenditure Reserve.

## I Government Grants

Government grants are grants from Government bodies other than income from primary care trusts for the provision of services. Grants from the Department of Health, including those for achieving three star status, are accounted for as Government grants as are grants from the Big Lottery Fund. Where the Government grant is used to fund revenue expenditure it is taken to the Income and Expenditure account to match that expenditure. Where the grant is used to fund capital expenditure the grant is held as deferred income and released to the income and expenditure account over the life of the asset on a basis consistent with the depreciation of the asset.

## J Private Finance Initiative (PFI) Transactions

The NHS follows HM Treasury's technical Note 1 (Revised) "How to Account for PFI Transactions" which provides definitive guidance for the application of application note F to FRS 5.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the trust has contributed to land and buildings, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the income and expenditure account. Where, at the end of the PFI contract, a property reverts to the trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

Where the balance of risks and rewards of ownership of the PFI property are borne by the trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

## K 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.

## L 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 and
    - 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 which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Where possible the Trust discloses the total amount of research and development expenditure charged in the income and expenditure account separately.

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

## M Cash, Bank and Overdrafts

Cash, bank and overdraft balances are recorded at the current values of those balances in the NHS Foundation Trust's cashbook. These balances exclude monies held in the NHS Foundation Trust's bank account belonging to patients. Account balances are only set off where a formal agreement has been made with the bank to do so. In all other cases overdrafts are disclosed within creditors. Interest earned on bank accounts and interest charged on overdrafts is recorded as, respectively, "interest receivable" and "interest payable" in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods they relate to.

## N 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.

### 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.

## O Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 22 where an inflow of economic benefit is probable. Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed in note 22 unless the probability of a transfer is remote. Contingent liabilities are defined as:

Possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

Present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of obligation cannot be measured with sufficient reliability.

## P Pension Costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the NHS Foundation Trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme under FRS17.

Employers pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. 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.

## Q 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.

## R Foreign Exchange

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

## S 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 29 to the accounts.

## T Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS Foundation 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.

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

PDC is a type of public sector equity finance based on the excess of assets over liabilities i.e. the net assets of a public benefit corporation.

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 relevant net assets of the NHS Foundation Trust.

Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant net assets.

## V Other reserves

Other reserves are created to account for the following:
- Any differences between the value of fixed assets taken over by the NHS trust at inception and the corresponding figure in the opening capital debt;.
- Subsequent transfers of assets for nil consideration after the NHS Trust has been set up where, in error, those assets were not transferred at the NHS Trust inception.

## W Losses and Special Payments

Losses and Special Payments are charged to the relevant functional headings on a cash 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)

## X Investments

Investments in subsidiary undertakings, associates and joint ventures are treated as fixed asset investments and valued at market value. Fixed asset investments are reviewed annually for impairments.

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. These assets, and other current assets, are valued at cost less any amounts written off to represent any impairments in value, and are reviewed annually for impairments.

## Y Corporation Tax

NHS Foundation Trusts are potentially liable to corporation tax in certain circumstances. A review of other operating income is performed annually to assess any potential liability in conjunction with guidance on the HMR&C website. As a result of this review it is concluded that the Trust does not have a corporation tax liability in 2007/08.

## Z FRS 6 Acquisitions and Mergers

As of 8 April 2007 Good Hope Hospital NHS Trust merged with Heart of England NHS Foundation Trust. All transfers between entities within the Whole of Government Accounts (WGA) boundary are 'Machinery of Government' changes; that is to say that this can only be treated as a merger transaction. Therefore in accounting for this merger we have applied the principles of FRS 6.

The relevant objective of this FRS is: to ensure that merger accounting is used only for those business combinations that are not, in substance, the acquisition of one entity by another but the formation of a new reporting entity as a substantially equal partnership where no party is dominant. Key requirement of this standard is to ensure the uniformity of accounting policies so that comparative information is harmonised.

In effect this has resulted in the re-statement of the opening balance sheet at 1 April 2007 to include both entities reflecting the above principles and all comparative information in the accounts. Where prior year information has been re-stated to reflect FRS 6 this is indicated at the top of columns affected in these accounts.


THE VIKING
WOLVERHAMPTON

# Income and expenditure account year to 31 March 2008

| | NOTE | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|---|
| **Income from activities** | 2 | **425,815** | **397,030** |
| **Other operating income** | 4 | **45,545** | **39,715** |
| **Operating expenses** | 5-7 | **(443,041)** | **(419,741)** |
| **OPERATING SURPLUS** | | **28,319** | **17,004** |
| Profit (loss) on disposal of fixed assets | 8 | **(77)** | **(212)** |
| **SURPLUS BEFORE INTEREST** | | **28,242** | **16,792** |
| Interest receivable | 9 | **5,660** | **2,610** |
| Interest payable | 9 | **(160)** | **0** |
| Other finance costs | | **(4)** | **(16)** |
| **SURPLUS FOR THE FINANCIAL YEAR** | | **33,738** | **19,386** |
| Public Dividend Capital dividends payable | | **(11,339)** | **(11,097)** |
| **RETAINED SURPLUS FOR THE YEAR** | | **22,399** | **8,289** |

All income and expenditure is derived from continuing operations.

# Balance sheet as at:

| | NOTE | 31 March 2008 £000 | As restated 31 March 2007 £000 |
|---|---|---|---|
| **FIXED ASSETS** | | | |
| Intangible assets | 10 | **2,758** | **3,289** |
| Tangible assets | 11 | **343,532** | **316,772** |
| | | **346,290** | **320,061** |
| **CURRENT ASSETS** | | | |
| Stocks and work in progress | 12 | **4,750** | **5,583** |
| Debtors | 13 | **21,516** | **27,927** |
| Investments | 14 | **30,359** | **20,000** |
| Cash at bank and in hand | 19.3 | **30,017** | **7,402** |
| | | **86,642** | **60,912** |
| **CREDITORS:** Amounts falling due within one year | 15 | **(42,149)** | **(32,569)** |
| **NET CURRENT ASSETS (LIABILITIES)** | | **44,493** | **28,343** |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **390,783** | **348,404** |
| **CREDITORS:** Amounts falling due after more than one year | 15 | **(1,654)** | **0** |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | 16 | **(5,135)** | **(8,387)** |
| **TOTAL ASSETS EMPLOYED** | | **383,994** | **340,017** |
| **FINANCED BY:** | | | |
| **TAXPAYERS' EQUITY** | | | |
| Public dividend capital | 23 | **209,694** | **209,707** |
| Revaluation reserve | 17 | **146,163** | **123,909** |
| Donated asset reserve | 17 | **2,623** | **3,286** |
| Other reserves | 17 | **(169)** | **(169)** |
| Income and expenditure reserve | 17 | **25,683** | **3,284** |
| **TOTAL TAXPAYERS' EQUITY** | | **383,994** | **340,017** |

Mark Goldman
Chief Executive

Date: 11 June 2008

# Statement Of Total Recognised Gains And Losses
# Year To 31 March 2008

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Surplus (deficit) for the financial year before dividend payments | **33,738** | **19,386** |
| Fixed asset impairment losses | **(4,073)** | **(3,291)** |
| Unrealised surplus/(deficit) on fixed asset revaluations/indexation | **24,959** | **7,507** |
| Increases in the donated asset reserve due to receipt of donated financed assets | **158** | **321** |
| Reductions in the donated asset reserve due to the depreciation, impairment and disposal of donated financed assets | **(816)** | **(980)** |
| **Total recognised gains and losses for the financial year** | **53,966** | **22,943** |

# Cash Flow Statement
# Year To 31 March 2008

| | NOTE | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **Net cash inflow/(outflow) from operating activities** | 19.1 | 60,413 | 42,209 |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:** | | | |
| Interest received | | 5,433 | 2,598 |
| Interest element of finance lease rental payments | | (160) | 0 |
| **Net cash inflow/(outflow) from returns on investments and servicing of finance** | | 5,273 | 2,598 |
| **CAPITAL EXPENDITURE** | | | |
| Payments to acquire tangible fixed assets | | (21,459) | (14,407) |
| Payments to acquire intangible fixed assets | | (58) | (1,119) |
| **Net cash inflow/(outflow) from capital expenditure** | | (21,517) | (15,526) |
| **DIVIDENDS PAID** | | (11,339) | (11,097) |
| **Net cash inflow/(outflow) before management of liquid resources and financing** | | 32,830 | 18,184 |
| **MANAGEMENT OF LIQUID RESOURCES** | | | |
| Purchase of current asset investments | | (596,359) | (440,900) |
| Sale of current asset investments | | 586,000 | 432,400 |
| **Net cash inflow/(outflow) from management of liquid resources** | | (10,359) | (8,500) |
| **Net cash inflow/(outflow) before financing** | | 22,471 | 9,684 |
| **FINANCING** | | | |
| Public dividend capital received | | 5,500 | 1,855 |
| Public dividend capital repaid (not previously accrued) | | (5,513) | (4,885) |
| Other loans repaid | | 0 | 0 |
| Other capital receipts | | 157 | 143 |
| **Net cash inflow/(outflow) from financing** | | 144 | (2,887) |
| **Increase/(decrease) in cash** | | 22,615 | 6,797 |

# Notes to the Accounts

## 1. Segmental Analysis

The following information segments the results of the trust by:

- Research activities
- Healthcare activities, being all the other activities of the Trust

| | Healthcare 2007/08 £000 | Healthcare 2006/07 £000 | Research 2007/08 £000 | Research 2006/07 £000 | **Total 2007/08 £000** | **As restated Total 2006/07 £000** |
|---|---|---|---|---|---|---|
| INCOME | 468,876 | 434,045 | 2,484 | 2,700 | **471,360** | **436,745** |
| SURPLUS/ (DEFICIT) | | | | | | |
| Segment surplus/(deficit) | 28,242 | 16,792 | 0 | 0 | **28,242** | **16,792** |
| Common costs | 0 | 0 | 0 | 0 | **0** | **0** |
| Surplus/(deficit) before interest | 28,242 | 16,792 | 0 | 0 | **28,242** | **16,792** |
| NET ASSETS: | | | | | | |
| Segment net assets | 382,396 | 338,419 | 1,598 | 1,598 | **383,994** | **340,017** |

## 2. Income from Activities

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Primary Care Trusts | **385,578** | **369,917** |
| NHS Trusts | **501** | **893** |
| Foundation Trusts | **0** | **35** |
| Strategic Health Authorities | **410** | **394** |
| Local Authories | **553** | **623** |
| Department of Health | **34,346** | **22,438** |
| NHS Other | **1,413** | **0** |
| Non NHS: | | |
| - Private Patients | **563** | **336** |
| - Overseas patients (non-reciprocal) | **83** | **100** |
| - Road Traffic Act | **2,368** | **2,174** |
| - Other | **0** | **120** |
| **TOTAL** | **425,815** | **397,030** |

Road Traffic Act income is subject to a provision for doubtful debts of 7.8% to reflect expected rates of collection.

### 2.1 Mandatory and non-mandatory split of income from activities

Of the total income from activities, £422,731k is mandatory and £3,084k is non-mandatory income.

## 3. Private patient cap

The private patient cap has not been exceeded in 2007/8

| | 2007/08 | As restated Base Year |
|---|---|---|
| Private patient income (£'000) | **562** | **506** |
| Total patient related income (£'000) | **425,683** | **257,459** |
| Proportion (%) | **0.13%** | **0.20%** |

## 4. Other Operating Income

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Education, training and research | **20,188** | **17,448** |
| Charitable and other contributions to expenditure | **0** | **190** |
| Transfers from donated asset reserve | **816** | **980** |
| Services to other bodies | **15,233** | **10,947** |
| Other income | **9,308** | **10,150** |
| TOTAL | **45,545** | **39,715** |

## 5. Operating Expenses

### 5.1 Operating expenses comprise:

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Services from other NHS Trusts | **0** | **1,453** |
| Services from other NHS bodies | **0** | **403** |
| Services from Foundation Trusts | **0** | **0** |
| Purchase of healthcare from non NHS bodies | **0** | **175** |
| Directors' costs | **1,498** | **1,521** |
| Staff costs | **292,503** | **273,156** |
| Drug costs | **27,712** | **25,588** |
| Supplies and services - clinical | **41,945** | **37,386** |
| Supplies and services - general | **13,660** | **12,388** |
| Establishment | **5,006** | **4,229** |
| Research & Development | **1,287** | **1,511** |
| Transport | **913** | **670** |
| Premises | **17,847** | **14,957** |
| Bad debts | **1,897** | **4,210** |
| Depreciation and amortisation | **18,132** | **19,837** |
| Fixed asset impairments | **401** | **5,513** |
| Audit fees | **166** | **204** |
| Other auditor's remuneration | **6** | **88** |
| Clinical negligence | **5,695** | **5,862** |
| Other | **14,373** | **10,590** |
| TOTAL | **443,041** | **419,741** |

Of the audit fee, £166k relates to audit services statutory audit work, £0k for additional services provided by the auditors and £0k for audit related regulatory reporting. Other auditor's remuneration of £6k consists of VAT advice in respect of a new build.

The research and development value includes £982k of staff costs. All of the research and development expenditure is current year expenditure.

## 5.2 Operating leases

### 5.2/1 Operating expenses include:

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Hire of plant and machinery | 0 | 0 |
| Other operating lease rentals | 760 | 886 |
| TOTAL | 760 | 886 |

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

| | Land and buildings | | Other leases | |
|---|---|---|---|---|
| | 2007/08 £000 | As restated 2006/07 £000 | 2007/08 £000 | As restated 2006/07 £000 |
| Operating leases which expire: | | | | |
| Within 1 year | 0 | 0 | 18 | 7 |
| Between 1 and 5 years | 0 | 76 | 478 | 420 |
| After 5 years | 0 | 0 | 231 | 215 |
| TOTAL | 0 | 76 | 727 | 642 |

### 5.3 Salary and Pension entitlements of senior managers

A) Remuneration

| Name and Title | 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 |
| Mark Goldman (Chief Executive) | 225-230 | 0 | 0 | 185-190 | 0 | 0 |
| Beccy Fenton (Chief Finance Officer and Managing Director) | 160-165 | 0 | 0 | 150-155 | 0 | 0 |
| Fay Baillie (Acting Nursing Director w.e.f. 9-10-06) | 80-85 | 0 | 0 | 35-40 | 0 | 0 |
| Dame Jill Ellison (Nursing Director up to 31-7-07) | 25-30 | 0 | 0 | 80-85 | 0 | 0 |
| Mandy Coalter (HR Director w.e.f. 24-07-06) | 130-135 | 0 | 0 | 65-70 | 0 | 0 |
| Anne Gynane (Acting Human Resources Director 2006/7) | n/a | n/a | n/a | 20-25 | 0 | 0 |
| Rowland Hopkinson (Deputy Chief Executive & Medical Director 2006/7) | n/a | n/a | n/a | 40-45 | 175-180 | 0 |
| Hugh Rayner (Medical Director Medicine) | 40-45 | 125-130 | 0 | 40-45 | 135-140 | 0 |
| Ian Cunliffe (Medical Director Surgery) | 35-40 | 110-115 | 0 | 40-45 | 90-95 | 0 |
| Sarah Woolley (Director of Healthcare Governance w.e.f. 7-5-07) | 130-135 | 0 | 0 | n/a | n/a | n/a |
| Clive Wilkinson (Chairman) | 45-50 | 0 | 0 | 45-50 | 0 | 0 |
| Bernard Spittle (Vice Chairman 2006/7) | n/a | n/a | n/a | 10-15 | 0 | 0 |
| Alaba Okuyiga (Non Executive Director up to 30-11-07) | 5-10 | 0 | 0 | 10-15 | 0 | 0 |
| John Perry (Non Executive Director) | 10-15 | 0 | 0 | 10-15 | 0 | 0 |
| Anna East (Non Executive Director) | 15-20 | 0 | 0 | 10-15 | 0 | 0 |
| Richard Samuda (Non Executive Director) | 15-20 | 0 | 0 | 10-15 | 0 | 0 |
| Denise Friend (Non Executive Director 2006/7) | n/a | n/a | n/a | 0-5 | 0 | 0 |
| Paul Hensel (Non Executive Director) | 10-15 | 0 | 0 | 10-15 | 0 | 0 |
| Najma Hafeez (Non Executive Director) | 10-15 | 0 | 0 | n/a | n/a | n/a |
| Chris Ham (Non Executive Director) | 5-10 | 0 | 0 | n/a | n/a | n/a |
| David Bucknall (Non Executive Director w.e.f 1-1-08) | 0-5 | 0 | 0 | n/a | n/a | n/a |

Other remuneration reflects salary paid to Medical Directors for their posts as Clinical Directors.

## 5.3 Salary and Pension entitlements of senior managers

B) Pension Benefits

| Name and title | Real increase in pension at age 60 (bands of £2500) £000 | Real increase in lump sum at age 60 (bands of £2500) £000 | Total accrued pension at age 60 at 31 March 2008 (bands of £5,000) £000 | Lump sum at age 60 related to accrued pension at 31 March 2008 (bands of £5000) £000 | Cash Equivalent Transfer Value at 31 March 2008 £000 | Cash Equivalent Transfer Value at 31 March 2007 £000 | Real Increase in Cash Equivalent Transfer Value £000 | Employers Contribution to Stakeholder Pension To nearest £100 |
|---|---|---|---|---|---|---|---|---|
| Mark Goldman (Chief Executive) | 17.5-20 | 52.5-55 | 95-100 | 285-290 | 1,703 | 1,335 | 234 | 0 |
| Beccy Fenton (Chief Finance Officer and Managing Director) | 0-2.5 | 2.5-5 | 15-20 | 45-50 | 180 | 154 | 16 | 0 |
| Dame Jill Ellison (Nursing Director) | 0-2.5 | 5-7.5 | 35-40 | 110-115 | 622 | 553 | 39 | 0 |
| Faye Baillie (Acting Nurse Director) | 2.5-5 | 10-12.5 | 25-30 | 80-85 | 426 | 346 | 49 | 0 |
| Mandy Coalter (HR Director) | 17.5-20 | 55-57.5 | 15-20 | 55-60 | 193 | 5 | 131 | 0 |
| Ian Cunliffe (Medical Director Surgery) | 7.5-10 | 22.5-25 | 40-45 | 125-130 | 580 | 445 | 86 | 0 |
| Hugh Rayner (Medical Director Medicine) | 0-2.5 | 5-7.5 | 35-40 | 105-110 | 579 | 521 | 31 | 0 |
| Sarah Woolley (Director of Healthcare Governance w.e.f. 7.5.07) | 2.5-5 | 12.5-15 | 15-20 | 50-55 | 173 | 115 | 35 | 0 |

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

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2004-05 the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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

## 6. Staff costs and numbers

### 6.1 Staff costs

| | Total | Permanently Employed | Other | As restated 2006/07 |
|---|---|---|---|---|
| | **£000** | £000 | £000 | **£000** |
| Salaries and wages | **249,221** | 238,927 | 10,294 | **232,663** |
| Social Security Costs | **18,600** | 18,600 | 0 | **17,789** |
| Employer contributions to NHSPA | **26,032** | 26,032 | 0 | **24,402** |
| | **293,853** | 283,559 | 10,294 | **274,854** |

### 6.2 Average number of persons employed

| | Total Number | Permanently Employed Number | Other Number | As restated 2006/07 Number |
|---|---|---|---|---|
| Medical and dental staff | **876** | 876 | 0 | **819** |
| Administration and estates staff | **1,814** | 1,814 | 0 | **1,806** |
| Healthcare assistants and other support staff | **1,288** | 1,288 | 0 | **862** |
| Nursing, midwifery and health visiting staff | **2,721** | 2,721 | 0 | **2,841** |
| Nursing, midwifery and health visiting learners staff | **0** | 0 | 0 | **18** |
| Scientific, therapeutic and technical staff | **1,149** | 1,149 | 0 | **1,097** |
| Bank and Agency staff | **245** | 0 | 245 | **227** |
| Other staff | **0** | 0 | 0 | **188** |
| Total | **8,093** | 7,848 | 245 | **7,858** |

### 6.3 Employee benefits

There were no employee benefits in 2007/8 or 2006/7.

### 6.4 Management costs

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Management costs | **18,360** | **16,695** |
| Income | **471,360** | **436,745** |
| Percentage (%) | **3.90** | **3.82** |

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

### 6.5 Retirements due to ill-health

During 2007/08 there were 9 (2006/7, 12) early retirements from the trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £522k (2006/7, £440k). The cost of these ill-health retirements will be borne by the NHS Pensions Agency.

## 7. Better Payment Practice Code

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

| | Number 2007/08 | Value 2007/08 | As restated Number 2006/07 | Value 2006/07 |
|---|---|---|---|---|
| Total bills paid in the year (£000's) | 134,484 | 131,026 | 139,417 | 128,361 |
| Total bills paid within target | 122,710 | 118,521 | 126,304 | 117,182 |
| Percentage of bills paid within target | 91% | 90% | 91% | 91% |

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 a valid invoice, whichever is later.

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

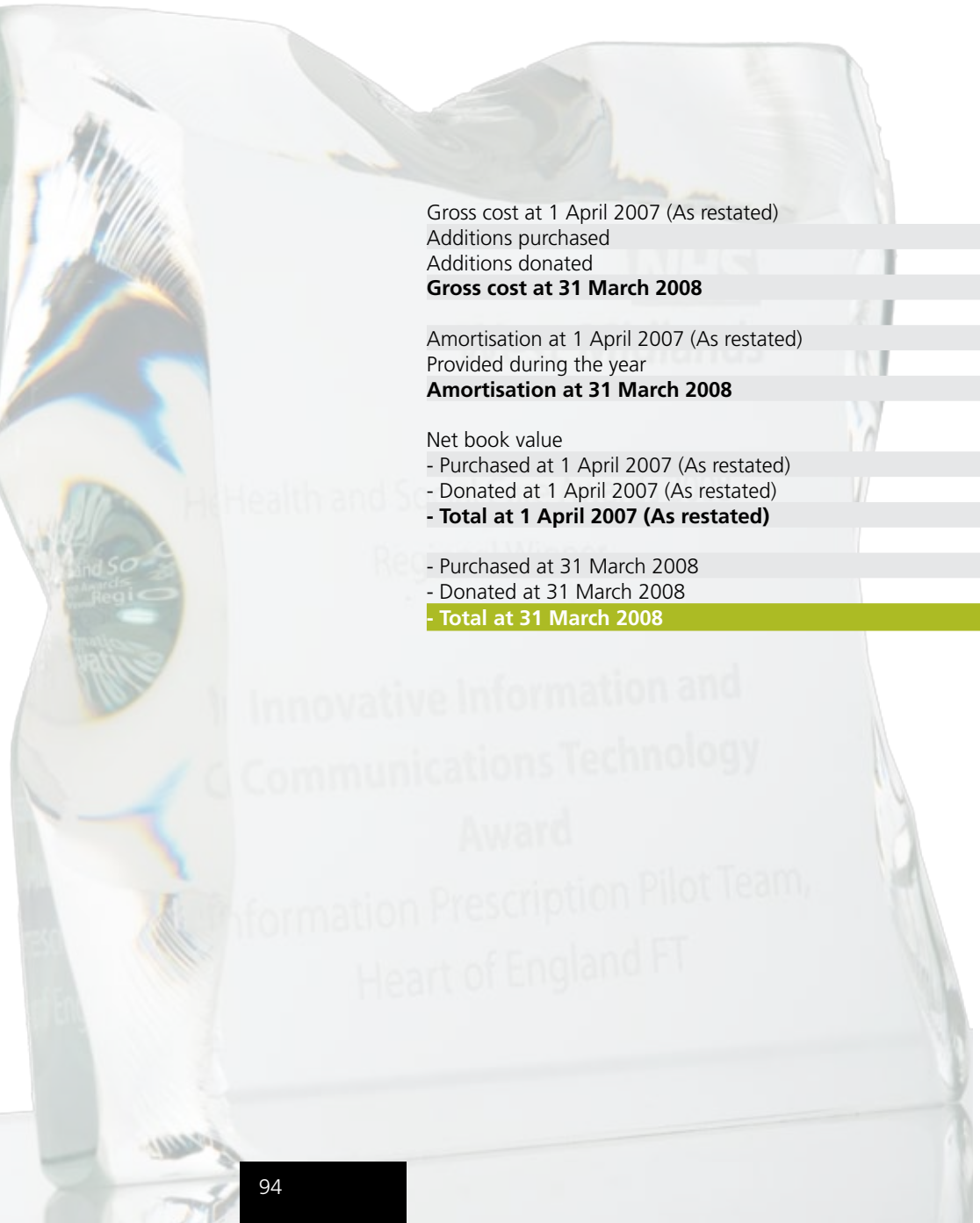
There was a loss on diposal of fixed assets of £77k in 2007/08 (2006/07 £212k), all of which was on non-protected assets.

## 9. Interest Payable and Receivable

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Interest Receivable | 5,660 | 2,610 |
| Loans from the Foundation Trust Financing Facility | 0 | 0 |
| Commercial loans | 0 | 0 |
| Overdrafts | 0 | 0 |
| Finance leases | (160) | 0 |
| Other | 0 | 0 |
| | 5,500 | 2,610 |

The interest receivable arose from interest earned in the main current account or surplus placed in commercial deposit accounts and on the National Loans Account for periods not exceeding three months.

## 10. Intangible Fixed Assets



| | Software Licences | Total |
|---|---|---|
| | £000 | £000 |
| Gross cost at 1 April 2007 (As restated) | 3,869 | 3,869 |
| Additions purchased | 58 | 58 |
| Additions donated | 18 | 18 |
| **Gross cost at 31 March 2008** | **3,945** | **3,945** |
| | | |
| Amortisation at 1 April 2007 (As restated) | 580 | 580 |
| Provided during the year | 607 | 607 |
| **Amortisation at 31 March 2008** | **1,187** | **1,187** |
| | | |
| Net book value | | |
| - Purchased at 1 April 2007 (As restated) | 3,284 | 3,284 |
| - Donated at 1 April 2007 (As restated) | 5 | 5 |
| **- Total at 1 April 2007 (As restated)** | **3,289** | **3,289** |
| | | |
| - Purchased at 31 March 2008 | 2,738 | 2,738 |
| - Donated at 31 March 2008 | 20 | 20 |
| **- Total at 31 March 2008** | **2,758** | **2,758** |

## 11. Tangible Fixed Assets

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

| | Land | Buildings excluding dwellings | Dwellings | Assets under construction and payments on account* | Plant and Machinery | Transport Equipment | Information Technology | Furniture & fittings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Cost or valuation at 1 April 2007 (As restated) | 68,514 | 235,583 | 3,933 | 3,714 | 71,413 | 815 | 23,626 | 9,617 | 417,215 |
| Additions purchased | 0 | 6,411 | 0 | 9,231 | 5,259 | 147 | 2,656 | 33 | 23,737 |
| Additions donated | 0 | 14 | 0 | 0 | 42 | 0 | 71 | 12 | 139 |
| Impairments | (1,683) | (2,390) | 0 | 0 | 0 | 0 | 0 | 0 | (4,073) |
| Reclassifications | 0 | 2,096 | 0 | (3,243) | 913 | 0 | 96 | 138 | 0 |
| Other in year revaluation | 3,784 | (12,594) | 1,166 | 0 | 0 | 0 | 0 | 0 | (7,644) |
| Disposals | 0 | 0 | 0 | 0 | (2,747) | 0 | 0 | 0 | (2,747) |
| **At 31 March 2008** | **70,615** | **229,120** | **5,099** | **9,702** | **74,880** | **962** | **26,449** | **9,800** | **426,627** |
| Depreciation at 1 April 2007 (As restated) | 0 | 21,265 | 432 | 0 | 50,657 | 623 | 18,862 | 8,604 | 100,443 |
| Provided during the year | 0 | 10,269 | 236 | 0 | 4,783 | 36 | 1,826 | 375 | 17,525 |
| Impairments | 0 | 401 | 0 | 0 | 0 | 0 | 0 | 0 | 401 |
| Reversal of Impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other in year revaluation | 0 | (31,935) | (668) | 0 | 0 | 0 | 0 | 0 | (32,603) |
| Disposals | 0 | 0 | 0 | 0 | (2,671) | 0 | 0 | 0 | (2,671) |
| **Depreciation at 31 March 2008** | **0** | **0** | **0** | **0** | **52,769** | **659** | **20,688** | **8,979** | **83,095** |
| **Net book value** | | | | | | | | | |
| - Purchased at 1 April 2007 (As restated) | 68,514 | 213,193 | 3,015 | 3,714 | 17,273 | 192 | 4,758 | 994 | 311,653 |
| - Donated at 1 April 2007 (As restated) | 0 | 1,125 | 486 | 0 | 3,483 | 0 | 6 | 19 | 5,119 |
| **Total at 1 April 2007 (As restated)** | **68,514** | **214,318** | **3,501** | **3,714** | **20,756** | **192** | **4,764** | **1,013** | **316,772** |
| - Purchased at 31 March 2008 | 70,615 | 228,016 | 4,621 | 9,702 | 20,346 | 303 | 5,691 | 801 | 340,095 |
| - Donated at 31 March 2008 | 0 | 1,104 | 478 | 0 | 1,765 | 0 | 70 | 20 | 3,437 |
| **Total at 31 March 2008** | **70,615** | **229,120** | **5,099** | **9,702** | **22,111** | **303** | **5,761** | **821** | **343,532** |

The opening balances for fixed asset buildings as at 1st April 2007 contain balances for both Good Hope and HEFT. Prior to the merger, Good Hope Hospitals NHS Trust accounted for fixed asset on a current cost basis using annual indexation and quinquennial valuations. Heart of England NHS Trust has in line with its accounting policies held its assets at current cost and revalued assets on an interim and quinquennial basis. Therefore there are differences in the valuation basis for these assets in opening balances for cost. The Trust has had an interim valuation in 2007/08 therefore as at the 31st March 2008 all assets are held upon the same valuation basis as identified in accounting policies.

Of the totals at 31 March 2008, £0k related to land valued at open market value and £0k related to buildings valued at open market value and £0k related to dwellings valued at open market value.

The Trust holds one building extension under a finance lease. Its gross cost is £1,875k (31 March 2007 nil). Depreciation charged in the year was £52k (2006/07 nil). Its net book value at 31 March 2008 is £1,823k (31 March 2007 nil).

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

| | 31 March 2008 £000 | As restated 31 March 2007 £000 |
|---|---|---|
| Freehold | 302,655 | 283,282 |
| Long leasehold | 2,179 | 2,691 |
| Short leasehold | 0 | 0 |
| **TOTAL** | **304,834** | **285,973** |

| | £000 | £000 |
|---|---|---|
| Protected assets | 239,556 | 157,272 |
| Non-Protected assets | 65,278 | 128,701 |
| **TOTAL** | **304,834** | **285,973** |

## 12. Stocks and Work in Progress

| | 31 March 2008 £000 | As restated 31 March 2007 £000 |
|---|---|---|
| Raw materials and consumables | 4,750 | 5,583 |
| Work-in-progress | 0 | 0 |
| Finished goods | 0 | 0 |
| **TOTAL** | **4,750** | **5,583** |

## 13. Debtors

| | 31 March 2008 £000 | As restated 31 March 2007 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| NHS debtors | **15,932** | **23,704** |
| Provision for irrecoverable debts | **(7,248)** | **(6,213)** |
| Other prepayments and accrued income | **5,394** | **4,439** |
| Other debtors | **6,042** | **4,927** |
| **Sub Total** | **20,120** | **26,857** |
| **Amounts falling due after more than one year:** | | |
| Provision for irrecoverable debts | **(778)** | **(323)** |
| Other debtors | **2,174** | **1,393** |
| **Sub Total** | **1,396** | **1,070** |
| **TOTAL** | **21,516** | **27,927** |

There were no prepaid pension contributions at 31 March 2008 (or at 31 March 2007).

## 14. Investments

| | NLA Investments £000 | RBOS Treasury reserve £000 | Total £000 |
|---|---|---|---|
| Cost at 1 April 2007 | 20,000 | 0 | 20,000 |
| Additions | 521,000 | 75,359 | 596,359 |
| Disposals | (541,000) | (45,000) | (586,000) |
| **Cost at 31 March 2008** | **0** | **30,359** | **30,359** |

## 15. Creditors

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

| | 31 March 2008 £000 | As restated 31 March 2007 £000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Payments received on account | **0** | **8** |
| NHS creditors | **9,393** | **7,895** |
| Non - NHS trade creditors - revenue - other | **0** | **1,587** |
| Non - NHS trade creditors - capital | **4,815** | **2,730** |
| Tax and social security costs | **124** | **221** |
| Other creditors | **482** | **405** |
| Obligations under Finance Leases | **191** | **0** |
| Accruals and deferred income | **27,144** | **19,723** |
| **Sub Total** | **42,149** | **32,569** |
| **Amounts falling due after more than one year:** | | |
| NHS creditors | **0** | **0** |
| Obligations under Finance Leases | **1,654** | **0** |
| **Sub Total** | **1,654** | **0** |
| **TOTAL** | **43,803** | **32,569** |

NHS creditors include:
£0k for payments due in future years under arrangements to buy out the liability for 0 early retirements over 5 years; and
£0k outstanding pensions contributions at 31 March 2008.

### 15.2 Finance Lease Commitments

| Finance Lease Obligations: | 31 March 2008 £000 | 31 March 2007 £000 |
|---|---|---|
| - within one year | 191 | 0 |
| - between one and five years | 764 | 0 |
| - after five years | 2,292 | 0 |
| Subtotal | 3,247 | 0 |
| Finance charges allocated to future periods | (1,402) | 0 |
| Net obligation | 1,845 | 0 |

## 16. Provisions for liabilities and charges

| | Pensions relating to other staff | Legal claims | Agenda for change | Other | **Total** |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | **£000** |
| At 1 April 2007 (as restated) | 1,980 | 519 | 1,123 | 4,765 | **8,387** |
| Change in the discount rate | 0 | 0 | 0 | 0 | **0** |
| Arising during the year | 180 | 133 | 733 | 1,615 | **2,661** |
| Utilised during the year | (276) | (55) | (999) | (1,293) | **(2,623)** |
| Reversed unused | 0 | (362) | 0 | (2,932) | **(3,294)** |
| Unwinding of discount | 4 | 0 | 0 | 0 | **4** |
| At 31 March 2008 | 1,888 | 235 | 857 | 2,155 | **5,135** |

**Expected timing of cashflows:**

| | | | | | |
|---|---|---|---|---|---|
| Within one year | 154 | 235 | 857 | 2,155 | **3,401** |
| Between one and five years | 595 | 0 | 0 | 0 | **595** |
| After five years | 1,139 | 0 | 0 | 0 | **1,139** |
| | 1,888 | 235 | 857 | 2,155 | **5,135** |

£34,308k (£19,616k, 2006/7) is included in the provisions of the NHS Litigation Authority at 31/3/2008 in respect of clinical negligence liabilities of the Trust.
£9,513k (£3,584k, 2006/7) is included in the provisions of the NHS Litigation Authority at 31/3/2008 in respect of the existing liabilities scheme of the Trust.
Other provisions includes a figure relating to a legal dispute with an external contractor, a redundancy provision and a provision relating to land rent.

## 17. Movements on Reserves

Movements on reserves in the year comprised the following:

| | Revaluation Reserve £000 | Donated Asset Reserve £000 | Other reserves £000 | Income and Expenditure Reserve £000 | **Total £000** |
|---|---|---|---|---|---|
| At 1 April 2007 as previously stated | 123,909 | 3,286 | (169) | 3,284 | **130,310** |
| Opening Balance Adjustments | 0 | 0 | | 0 | **0** |
| At 1 April 2007 as restated | 123,909 | 3,286 | (169) | 3,284 | **130,310** |
| Transfer from the income and expenditure account | | | | 22,399 | **22,399** |
| Fixed asset impairments | (4,073) | 0 | | | **(4,073)** |
| Surplus on other revaluations/indexation of fixed assets | 24,959 | 0 | | | **24,959** |
| Receipt of donated assets | 0 | 158 | | | **158** |
| Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated assets | 0 | (816) | | | **(816)** |
| Transfer of realised profits/(losses) to the income and expenditure reserve | 0 | (5) | | 0 | **(5)** |
| Other transfers between reserves | 1,368 | 0 | 0 | 0 | **1,368** |
| At 31 March 2008 | 146,163 | 2,623 | (169) | 25,683 | **174,300** |

## 18. Movement in taxpayers equity

| | **2007/08 £'000** | **As restated 2006/07 £'000** |
|---|---|---|
| At 1 April 2007 as previously stated | 340,017 | 335,073 |
| Opening Balance Adjustments | 0 | (3,855) |
| At 1 April 2007 as restated | 340,017 | 331,218 |
| Surplus/ (deficit) for the financial year | 33,738 | 19,386 |
| Fixed Asset Impairments | 0 | (3,291) |
| Surplus on revaluations/indexation of fixed assets | 20,886 | 7,507 |
| Public Dividend capital dividends | (11,339) | (11,097) |
| New public dividend capital received | 5,500 | 1,855 |
| Public Dividend Capital repaid in year | (5,513) | (4,885) |
| Additions/ (reductions) in donated asset reserve | (663) | (655) |
| Additions/ (reductions) in other reserves | 1,368 | (21) |
| Taxpayers equity at 31 March 2008 | 383,994 | 340,017 |

## 19. Notes to the cash flow Statement

### 19. 1 Reconciliation of operating surplus to net cash flow from operating activities:

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Total operating surplus (deficit) | 28,319 | 17,004 |
| Depreciation and amortisation charge | 18,132 | 19,837 |
| Fixed asset impairments and reversals | 401 | 5,513 |
| Transfer from donated asset reserve | (816) | (980) |
| (Increase)/decrease in stocks | 833 | 151 |
| (Increase)/decrease in debtors | 6,787 | (2,001) |
| Increase/(decrease) in creditors | 7,348 | 2,068 |
| Increase/(decrease) in provisions | (591) | 617 |
| Net cash inflow/(outflow) from operating activities before restructuring costs | 60,413 | 42,209 |
| Payments in respect of fundamental reorganisation/restructuring | 0 | 0 |
| Net cash inflow from operating activities | 60,413 | 42,209 |

### 19.2 Reconciliation of net cash flow to movement in net funds

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Increase/(decrease) in cash in the period | 22,615 | 6,797 |
| Cash inflow from new debt | 0 | 0 |
| Cash outflow from debt repaid and finance lease capital payments | 0 | 0 |
| Cash (inflow)/outflow from (decrease)/increase in liquid resources | 10,359 | 8,500 |
| Change in net funds resulting from cashflows | 32,974 | 15,297 |
| Non - cash changes in debt | 0 | 0 |
| Net funds at 1 April 2007 (As restated) | 27,402 | 12,105 |
| Net funds at 31 March 2008 | 60,376 | 27,402 |

### 19.3 Analysis of changes in net funds

| | Cash £000 | Investments £000 |
|---|---|---|
| At 1 April 2007 (as restated) | **7,402** | **20,000** |
| Changes in year | **22,615** | **10,359** |
| At 31 March 2008 | **30,017** | **30,359** |

## 20. Capital Commitments

Commitments under capital expenditure contracts at the balance sheet date were £13,410k (£4,091k at 31 March 2007).

## 21. Post Balance Sheet Events

There are no significant post balance sheet events.

## 22. Contingencies

The NHS litigation authority has identified a contingent liability of £98k relating to LTPS claims.

The Trust made a commercial decision during the financial year to opt out of a contract. The Trust tested the open market and opted to procure its own solution. The Trust's view is that the open market solution is functionally stronger and will offer more flexibility in the future. Crucially, the Trust believes that the open market solution offers better value for money than the original option.

There is a possibility that the Trust may incur an abortive fee ( a fine, in effect) in relation to opting out of the original option. This fine could amount to as much as £3.7m and if paid would have to be charged to the Income and Expenditure Account.

## 23. Movement in Public Dividend Capital

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Public Dividend Capital as at 1 April 2007 (As restated) | **209,707** | **212,737** |
| New public dividend capital received | **5,500** | **1,855** |
| Public Dividend Capital repaid in year | **(5,513)** | **(4,885)** |
| Public Dividend Capital as at 31 March 2008 | **209,694** | **209,707** |

## 24. Related Party Transactions

During the year none of the Board members, governors, key management or parties related to them have undertaken any material transactions with the Trust.

There are no other related party transactions in the year. See Note 34 for an analysis of the relationship with Heartlands Education Centre Ltd.

## 25. Private Finance Transactions (PFI)

The Trust has entered into two PFI contracts PFI1 with BHE Heartlands Ltd and PFI2 with EnerG Combined Power Ltd. PFI1 (a 25 year contract) commenced in August 2005 to provide a new main entrance and retail facility at the Heartlands Hospital site. PFI2 (a 15 year contract) commenced in August 2007 for the provision of energy management services at Heartlands Hospital. These contracts are both treated as being off-balance sheet by the Trust following a review of the contracts based on Treasury Taskforce Technical Note 1 "How to account for PFI transactions" which interprets FRS 5 "Reporting the substance of transactions" issued by the Accounting Standards Board.

The annual unitary payments of £28k (PFI1) and £832k (PFI2) made by the operator are included in the income and expenditure account on an accruals basis. There is a payment mechanism that allows for deductions to be made to the unitary payment where the quality standards set out in the contract are not met. The total charge made in 2007/08 was £860k (2006/07 £46k).

## 26. Pooled Budgets

The Trust has no pooled budgets.

## 27. Financial Instruments

FRS 25, 26 and 29, 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.

The NHS Foundation Trust is not exposed to significant financial risk factors arising from financial instruments. The continuing service provider relationship that the NHS Foundation Trust has with local Primary Care Trusts and the way those Primary Care Trusts are financed, means that the NHS Foundation Trust is not exposed to the degree of financial risk faced by business entities. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Foundation Trust in undertaking its activities.

### Market Risk

Market risk is the possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements. The NHS Foundation Trust's transactions are undertaken in sterling and so it is not exposed to foreign exchange risk. It holds no signifcant investments other than short-tem bank deposits. Other than cash balances, the NHS Foundation Trust's financial assets and liabilities carry nil or fixed rates of interest and the NHS Foundation Trust's income and operating cashflows are substantially independent of changes in market interest rates.

### Credit risk

Credit risk is the possibility that other parties might fail to pay amounts due to the NHS Foundation Trust. Credit risk arises from deposits with banks and financial institutions as well as credit exposures to the NHS Foundation Trust's commissioners and other debtors. Surplus operating cash is only invested with banks and financial institutions that are rated independently with a minimum score of A1 (Standard and Poor's), P-1 (Moody's) or F1 (Fitch). The NHS Foundation Trust's net operating costs are incurred largely under annual service agreements with local primary care trusts, which are financed from resources voted annually by Parliament. An analysis of the ageing of debtors and provision for impairments can be found at note 13 'Debtors'

## Liquidity risk

Liquidity risk is the possibility that the NHS Foundation trust might not have funds available to meet its commitments to make payments. Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. NHS foundation trusts are required to comply with the Prudential Borrowing Code made by Monitor, the Independent Regulator of Foundation Trusts, and further details of the NHS Foundation Trust's compliance can be found at note 32 'Prudential Borrowing Code'.

### 28.1 Financial assets

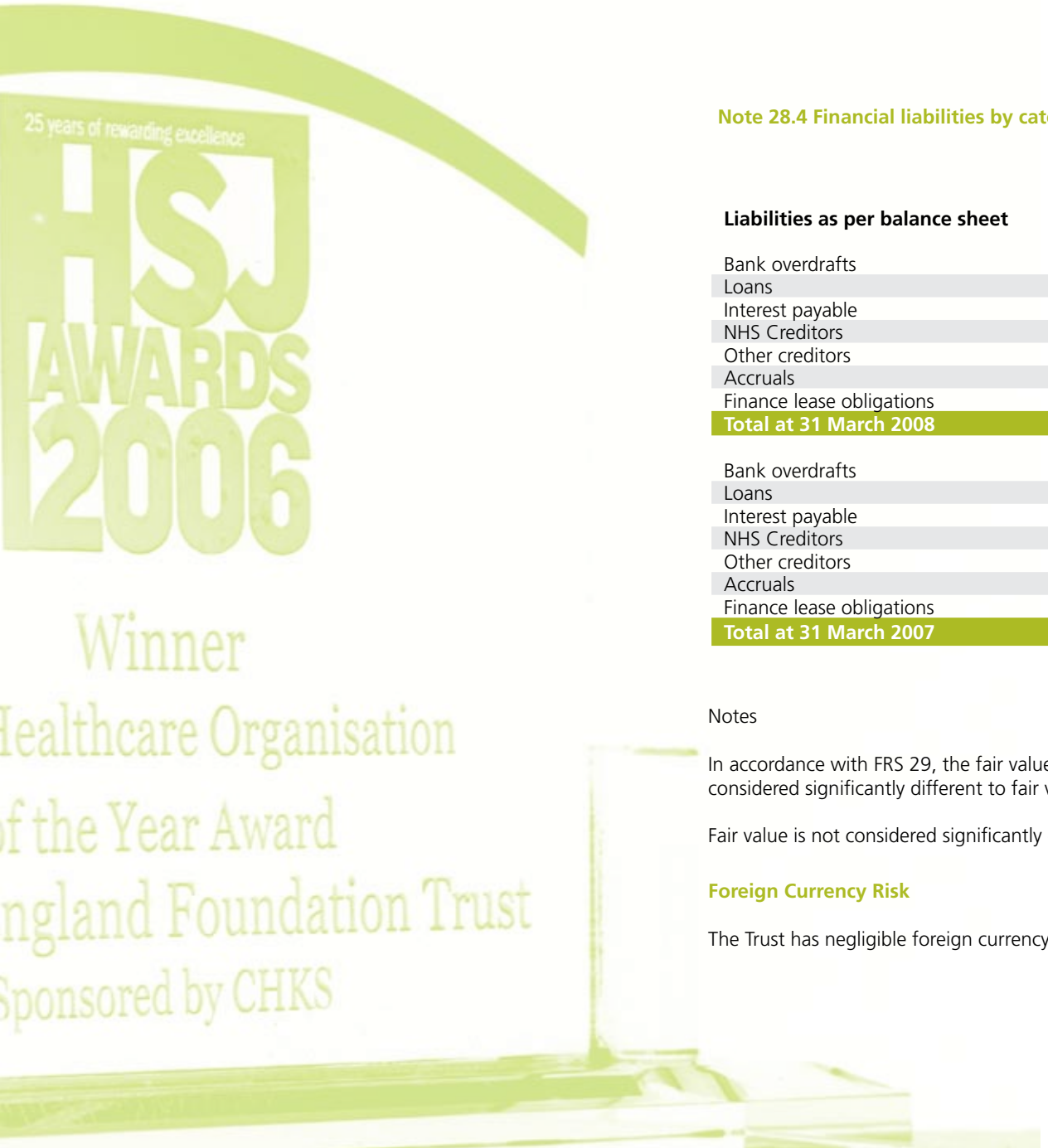
| Currency | Total | Floating rate |
|---|---|---|
| | £000 | £000 |
| At 31 March 2008 | | |
| Denominated in £ Sterling | 30,010 | 30,010 |
| Other | 0 | 0 |
| **Gross financial assets** | **30,010** | **30,010** |
| | | |
| At 31 March 2007 | | |
| Denominated in £ Sterling | 7,407 | 7,407 |
| Other | 0 | 0 |
| **Gross financial assets** | **7,407** | **7,407** |

### 28.2 Financial Liabilities

| Currency | Total | Floating rate |
|---|---|---|
| | £000 | £000 |
| At 31 March 2008 | | |
| Denominated in £ Sterling | 0 | 0 |
| Other | 0 | 0 |
| **Gross financial liabilities** | **0** | **0** |
| | | |
| At 31 March 2007 | | |
| Denominated in £ Sterling | 0 | 0 |
| Other | 0 | 0 |
| **Gross financial liabilities** | **0** | **0** |

### Note 28.3 Financial assets by category

| Assets as per balance sheet | Total | Loans and receivables | Assets at fair value through the I&E * | Held to maturity | Available-for-sale |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| Fixed asset investments | 0 | 0 | 0 | 0 | 0 |
| NHS Debtors (net of provision for irrecoverable debts) | 10,110 | 10,110 | 0 | 0 | 0 |
| Accrued income | 1,258 | 1,258 | 0 | 0 | 0 |
| Other debtors | 6,013 | 6,013 | 0 | 0 | 0 |
| Current asset investments | 30,359 | 0 | 0 | 0 | 30,359 |
| Cash at bank and in hand | 30,017 | 30,017 | 0 | 0 | 0 |
| **Total at 31 March 2008** | **77,757** | **47,398** | **0** | **0** | **0** |
| | | | | | |
| Fixed asset investments | 0 | 0 | 0 | 0 | 0 |
| NHS Debtors (net of provision for irrecoverable debts) | 18,669 | 18,669 | 0 | 0 | 0 |
| Accrued income | 152 | 152 | 0 | 0 | 0 |
| Other debtors | 4,819 | 4,819 | 0 | 0 | 0 |
| Current asset investments | 20,000 | 0 | 0 | 0 | 20,000 |
| Cash at bank and in hand | 7,402 | 7,402 | 0 | 0 | 0 |
| **Total at 31 March 2007** | **51,042** | **31,042** | **0** | **0** | **20,000** |




## Note 28.4 Financial liabilities by category

| | Total | Other financial liabilities | Liabilities at fair value through the I&E |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Liabilities as per balance sheet** | | | |
| Bank overdrafts | 0 | 0 | 0 |
| Loans | 0 | 0 | 0 |
| Interest payable | 0 | 0 | 0 |
| NHS Creditors | (9,393) | (9,393) | 0 |
| Other creditors | (5,297) | (5,297) | 0 |
| Accruals | (21,559) | (21,559) | 0 |
| Finance lease obligations | (1,845) | (1,845) | 0 |
| **Total at 31 March 2008** | **(38,094)** | **(38,094)** | **0** |
| Bank overdrafts | 0 | 0 | 0 |
| Loans | 0 | 0 | 0 |
| Interest payable | 0 | 0 | 0 |
| NHS Creditors | (7,895) | (7,895) | 0 |
| Other creditors | (4,722) | (4,722) | 0 |
| Accruals | (14,866) | (14,866) | 0 |
| Finance lease obligations | 0 | 0 | 0 |
| **Total at 31 March 2007** | **(27,483)** | **(27,483)** | **0** |

Notes

In accordance with FRS 29, the fair value of short term financial assets and liabilities (held at amortised cost) are not considered significantly different to fair value.

Fair value is not considered significantly different to book value for the long term financial liabilities.

### Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

## 28.5 Fair Values

Set out below is a comparison, by category, of book values and fair values of the Trust's financial assets and liabilities as at 31 March 2008.

| | Book Value £000 | Fair Value £000 | Basis of fair valuation |
|---|---|---|---|
| **Financial assets** | | | |
| Debtors over 1 year: | | | |
| - Agreements with commissioners to cover creditors and provisions | 0 | 0 | Note a |
| Investments | 30,359 | 30,359 | |
| **Total** | **30,359** | **30,359** | |
| **Financial liabilities** | | | |
| Overdraft | | | |
| Creditors over 1 year: | | | |
| - Finance leases | (1,654) | (1,654) | Note b |
| Provisions under contract | (5,135) | (5,135) | Note c |
| Loans | 0 | 0 | |
| **Total** | **(6,789)** | **(6,789)** | |

## 28.6 Maturity of financial liabilities

| | 2007/08 £000 | As restated 2006/07 £000 |
|---|---|---|
| Less than one year | **(3,593)** | **(3,146)** |
| In more than one year but not more than two years | **(340)** | **(137)** |
| In more than two years but not more than five years | **(1,018)** | **(411)** |
| In more than five years | **(1,838)** | **(4,693)** |
| **Total** | **(6,789)** | **(8,387)** |

Notes

a These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract, and their related interest charge/ unwinding of discount. In line with note c, below, fair value is not significantly different from book value.

b To obtain fair value, cash flows have been discounted at prevailing market interest rates for finance leases for a similar term.

c Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 2.2% in real terms.

## 29. Third Party Assets

The Trust held £10k (£11k 2006/7) cash at bank and in hand at 31/03/08 which relates to monies held by the Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

## 30. 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 | 13,011 | 0 | 6,473 | 0 |
| Balances with local authorities | 399 | 0 | 38 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 2,918 | 0 | 2,915 | 0 |
| Balances with p ublic corporations and trading funds | 3 | 0 | 5 | 0 |
| Balances with bodies external to government | 0 | 0 | 0 | 0 |
| At 31 March 2008 | 16,331 | 0 | 9,431 | 0 |
| | | | | |
| Balances with other Central Government Bodies | 21,037 | 0 | 4,886 | 0 |
| Balances with local authorities | 433 | 0 | 0 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 2,707 | 0 | 3,318 | 0 |
| Balances with public corporations and trading funds | 53 | 0 | 79 | 0 |
| Balances with bodies external to government | 158 | 0 | 0 | 0 |
| At 31 March 2007 | 24,388 | 0 | 8,283 | 0 |

## 31. Losses and Special Payments

There were 307 cases of losses and special payments totalling £200k approved during 2007/2008. These are the cash payments made during the year and are not calculated on an accruals basis. In addition, bad or irrecoverable debts were written off totalling £62k (233 cases) in the year as a result of a cleanse of the debtors ledger.

There were no cases in the current or prior year where the net payment exceeded £100,000.

## 32. Prudential Borrowing Code

The Trust is required to comply with the Prudential Borrowing Code set out by Monitor. The Trust is required to comply and remain within a prudential borrowing limit. This is made up of 2 elements:

- the maximum cumulative amount of long-term borrowing. This is set by reference to the five ratio tests set out in the code. The financial risk rating set under Monitor's Compliance Framework determines one of the ratios and therefore can impact on the long term borrowing limit.
- the amount of working capital facility approved by Monitor.

Further information in the Prudential Borrowing Code and Compliance framework can be found on the website of Monitor, the Independent Regulator of Foundation trusts.

The Trust has a prudential borrowing limit set by Monitor of £127.8m, including an £30m working capital facility. The Trust has not borrowed in 2007/8.

## 33. Merger with Good Hope Hospital NHS Trust

As of 8 April 2007 Good Hope Hospital NHS Trust merged with Heart of England NHS Foundation Trust. All transfers between entities within the Whole of Government Accounts (WGA) boundary are 'Machinery of Government' changes; that is to say that this can only be treated as a merger transaction. Therefore in accounting for this merger the Trust has applied the principles of FRS 6.

Effectively this means that all of the current year's I&E and statement of total recognised gains and losses (STRGL) is in relation to the merged entity. FRS6 and the FT FReM require that the current year's income and expenditure account and Statement of Total Recognised Gains and Losses should be analysed between pre-merger amounts for the NHS foundation trust and NHS trust respectively and post-merger amounts for the combined NHS foundation trust. In view of the fact that the pre-merger period is only 7 days of the 2007/08 financial year, a decision has been taken that the cost of obtaining this information would outweigh the benefits of providing it.

For the prior year the I&E is analysed as follows:

| | HEFT £'000 | Good Hope £'000 | Adjust £'000 | Combined £'000 |
|---|---|---|---|---|
| Income from activities | 271,579 | 124,742 | 709 | 397,030 |
| Other operating income | 32,103 | 9,097 | (1,485) | 39,715 |
| Operating expenses | (290,061) | (128,992) | (688) | (419,741) |
| OPERATING SURPLUS | 13,621 | 4,847 | (1,464) | 17,004 |
| Profit (loss) on disposal of fixed assets | (106) | (106) | 0 | (212) |
| SURPLUS BEFORE INTEREST | 13,515 | 4,741 | (1,464) | 16,792 |
| Interest receivable | 2,047 | 563 | 0 | 2,610 |
| Other finance costs | (14) | (2) | 0 | (16) |
| SURPLUS FOR THE FINANCIAL YEAR | 15,548 | 5,302 | (1,464) | 19,386 |
| Public Dividend Capital dividends payable | (7,479) | (3,618) | 0 | (11,097) |
| RETAINED SURPLUS FOR THE YEAR | 8,069 | 1,684 | (1,464) | 8,289 |

For the prior year the STRGL is analysed as follows:

| | HEFT £'000 | Good Hope £'000 | Adjust £'000 | Combined £'000 |
|---|---|---|---|---|
| Surplus (deficit) for the financial year before dividend payments | 15,548 | 5,302 | (1,464) | 19,386 |
| Fixed asset impairment losses | 0 | (3,291) | 0 | (3,291) |
| Unrealised surplus/(deficit) on fixed asset revaluations/indexation | 0 | 7,507 | 0 | 7,507 |
| Increases in the donated asset reserve due to receipt of donated financed assets | 178 | 143 | 0 | 321 |
| Reductions in the donated asset reserve due to the depreciation, impairment and disposal of donated financed assets | (606) | 0 | (374) | (980) |
| **Total recognised gains and losses for the financial year** | 15,120 | 9,661 | (1,838) | 22,943 |

The Trust acquired the net assets of Good Hope NHS Trust on 8th April 2007 and nil consideration was paid. However, as part of the legal agreement with the Secretary of State, the Trust has taken on the balance of Public Dividend Capital in Good Hope NHS Trust's balance sheet at the date of the merger, totalling £84.5 million. This outstanding liability represents the effective consideration in exchange for the net assets of Good Hope NHS Trust at the date of merger.

The net assets of the organisation at the effective date of the merger was as follows:

| | HEFT £'000 | Good Hope £'000 | Adjust £'000 | Combined £'000 |
|---|---|---|---|---|
| **FIXED ASSETS** | | | | |
| Intangible assets | 1,864 | 1,425 | 0 | 3,289 |
| Tangible assets | 219,778 | 99,167 | (2,173) | 316,772 |
| | 221,642 | 100,592 | (2,173) | 320,061 |
| **CURRENT ASSETS** | | | | |
| Stocks and work in progress | 3,977 | 1,606 | 0 | 5,583 |
| Debtors | 15,713 | 11,982 | 232 | 27,927 |
| Investments | 20,000 | 0 | 0 | 20,000 |
| Cash at bank and in hand | 7,063 | 339 | 0 | 7,402 |
| | 46,753 | 13,927 | 232 | 60,912 |
| **CREDITORS: Amounts falling due within one year** | (27,965) | (4,931) | 327 | (32,569) |
| **NET CURRENT ASSETS (LIABILITIES)** | 18,778 | 8,996 | 569 | 28,343 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | 240,430 | 109,588 | (1,614) | 348,404 |
| **PROVISIONS FOR LIABILITIES AND CHARGES** | (1,729) | (6,808) | 150 | (8,387) |
| **TOTAL ASSETS EMPLOYED** | 238,701 | 102,780 | (1,464) | 340,017 |

The significant changes to net assets at Good Hope to achieve consistency of accounting policies are as follows:

a) An adjustment to the remaining useful life of some tangible fixed assets resulting in a decrease in asset value of £2,173k.

b) The recognition of partially completed spells at Good Hope Hospital increasing debtors by £709k.

c) The elimination of inter entity balances resulting in offsetting decreases in debtors and creditors of £327k.

d) A change in the accounting for provisions resulting in an offsetting £150k restatement of debtors and provisions.

The opening reserves of the merged entity have been adjusted to reflect the changes noted above resulting in an overall reduction in opening I&E reserves of £1,464k.

## 34. Subsidiary relationships

In applying the principles of FRS 2 Heart of England Foundation Trust has a subsidiary relationship with Heartlands Education Centre Limited (HECL). The net assets of the company are not deemed material to the group position, and therefore is not consolidated into group accounts and no group accounts are prepared. The following table sets out the net assets of the company in relation to Heart of England Foundation Trust and the company's net profit results.

| | 2007/08 | 2006/07 |
|---|---|---|
| | £000 | £000 |
| HECL net assets | (144) | (161) |
| HEFT net assets | 384,023 | 340,017 |
| % | -0.04% | -0.05% |
| | | |
| HECL net profit | 16 | (75) |
| HEFT net profit | 22,428 | 8,289 |
| % | 0.07% | -0.91% |