

SOUTHPORT & ORMKSIRK HOSPITAL NHS TRUST

ACCOUNTS

FOR THE YEAR ENDING 31 MARCH 2005

C E Throp
Director of Finance

FOREWORD TO THE ACCOUNTS

SOUTHPORT & ORMSKIRK HOSPITAL NHS TRUST

These accounts for the year ended 31 March 2005 have been prepared by the Southport & Ormskirk Hospital NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form which the Secretary of State has, with the approval of the Treasury, directed.

Southport & Ormskirk Hospital NHS Trust – Annual Accounts 2004/05

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

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

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

.....**08/07/05**.....Date.....**J Parry**.....Chief Executive

Southport & Ormskirk Hospital NHS Trust – Annual Accounts 2004/05

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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

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

By order of the Board

...08/07/05.....Date.....**J Parry**.....Chief Executive

...08/07/05.....Date.....**C Throp**.....Finance Director

STATEMENT OF INTERNAL CONTROL 2004/5

1. Scope of Responsibility

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

In order to meet my responsibilities as Accountable Officer I have processes in place to ensure good working arrangements with partner organisations and the Strategic Health Authority which include:

- Strategic Health Authority Chief Executive meetings
- Health Economy Meetings
- Choice Strategy Board
- Internal system of Performance Management
- Process of Performance Management with Strategic Health Authority
- Strategic Change Partnership Charter.

2. The purpose of the system of internal control

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

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

The system of internal control has been in place in full in the Southport & Ormskirk NHS Trust for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts.

3. [Capacity to Handle Risk](#)

As Accountable Officer I have overall responsibility for risk management. My Deputy is lead Executive with each Executive Director having a clearly defined objective to manage risk within their area of responsibility. Each Service Group has an identified Risk Lead who works in conjunction with the Head of Risk Management to develop and oversee the risk management process throughout the organisation.

The Southport & Ormskirk Hospital NHS Trust has further developed a risk register. The register assists with the development of an organisation wide risk aware culture and enables risk management decision making to occur as near as practicable to the risk source and for those risks that cannot be dealt with locally to be passed upwards to the appropriate level.

Risk Management, risk assessment and incident reporting is included in the core induction programme for employed staff. Mandatory induction training includes a section on risk management which supports the principles of the National Patients Safety Agency, the promotion of an open and fair blame culture, and identifies the systems/structures in place within the organisation which support the management of risk. This year further training on root cause analysis has been undertaken by staff.

Staff are trained in the operation of the risk management process in general and in the specifics where particularly accountabilities are held.

4. [The Risk and Control Framework](#)

The Southport and Ormskirk Hospital NHS Trust has an embedded risk management culture. The context of risk is described in the Risk Management Strategy. The key elements of the Strategy include:

- Designated responsibilities
- Philosophy
- Risk Management processes which includes the identification, evaluation, analysis, control, review and follow up.
- Training arrangements
- Principal Committees for managing risk, including Terms of Reference

The Southport & Ormskirk Hospital NHS Trust has a comprehensive list of policies which are accessible via the trust intranet, the key ones are:

- Accident Incident & Near Miss Reporting
- Health & Safety

Fire
Security
Major Clinical Incident
Handling of Clinical Negligence Employers and Public Liability Claims
Complaints Procedure

Identified risks are evaluated and graded in accordance with the risk assessment model. Reasonably practicable control measures are introduced. Residual risk is recorded in the risk register.

The Strategic Objectives for the Trust are reflected in the each of the Executive Directors appraisals. These Appraisals are monitored by the Chief Executive using the Trust Appraisal system. The Assurance Framework supports the Strategic Objectives.

Where gaps in assurance are identified action Plans are completed, progress relating to the Assurance Framework is monitored by the Risk Management Strategy Group. The Trust board receives a report on the development of the Framework every six months.

5. [Review of Effectiveness](#)

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The Director of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the internal audit work. Executive Directors within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by:

Trust Board
Risk Management Steering Group
Executive Directors
Head of Risk Management
Clinical Governance Committee
Audit Committee
Internal Audit

A plan to address weakness and ensure continuous improvement is in place.

Where internal control issues are identified the risk management process results in the establishment of a specific action plan to address as far as is practicable the risk

involved. Management and implementation of the action plan is the responsibility of the designated Executive Director. Progress in implementing these action plans is monitored by the Risk Management Department and from this year will be included in the Trust's internal performance management arrangements. Residual risk is recorded in the risk register, which is routinely monitored by the Trust Board.

Internal Audit – provide quarterly reports to the Audit Committee and full reports to the Director of Finance and Information and Line Management. The Audit Committee also receives details of any actions that remain outstanding following the follow up of previous audit work. The Director of Finance and Information also meets with the Audit Manager.

There are no significant internal control issues identified during the year 2004/2005.

Strategically significant risks are highlighted and monitored through the Assurance Framework.

Challenges for the year 2005 2006 have been identified and included below

- Payment by results
- Agenda for Change
- Financial Position and Recovery Plan
- Contracting Strategy
- European Working Time Directive
- Access Targets

Signed: **J Parry**
..... **CHIEF EXECUTIVE**

Date: **08/07/05**
..... **(on behalf of the Trust Board)**

Independent Auditors' Report to the Directors of the Board of Southport and Ormskirk Hospital NHS Trust

We have audited the financial statements on pages 1 to 43, except that the scope of our opinion excludes the anticipated financial year of recovery in Note 23.1 on Page 34.

This report is made solely to Southport and Ormskirk Hospital NHS Trust's Board, as a body, in accordance with section 2 of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Southport and Ormskirk Hospital NHS Trust's Board those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Southport and Ormskirk Hospital NHS Trust and Southport and Ormskirk Hospital NHS Trust's Board as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for the preparation of the financial statements in accordance with directions issued by the Secretary of State. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view of the state of affairs of the Trust and its income and expenditure for the year, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

We review whether the Directors' statement on internal control reflects compliance with the Department of Health's guidance 'The Statement on Internal Control 2003/2004' issued on 15 September 2003 and further guidance issued on 5 April 2005. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, 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. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

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

Our opinion relates only to historical financial information. It does not extend to the prospective information reported in 'anticipated year of financial recovery' in Note 23.1 on page 34. We did not undertake any procedures in respect of this entry.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of Southport and Ormskirk Hospital NHS Trust as at 31 March 2005 and of its income and expenditure for the year then ended in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

The maintenance and integrity of Southport and Ormskirk Hospital NHS Trust's web site 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 web site

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

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Name: KPMG LLP

Date: 8 July 2005
Address: St James Square
Manchester
M2 6DS

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 March 2005**

	NOTE	£000	2003/04 £000
Income from activities	3	109,587	102,520
Other operating income	4	10,636	10,290
Operating expenses	5-7	<u>(117,191)</u>	<u>(109,202)</u>
OPERATING SURPLUS		3,032	3,608
Cost of fundamental reorganisation/restructuring		0	0
Profit (loss) on disposal of fixed assets	8	<u>91</u>	<u>(25)</u>
SURPLUS BEFORE INTEREST		3,123	3,583
Interest receivable		224	126
Interest payable	9	0	(1)
Other finance costs - unwinding of discount		(32)	(36)
Other finance costs - change in discount rate on provisions		<u>0</u>	<u>0</u>
SURPLUS FOR THE FINANCIAL YEAR		3,315	3,672
Public Dividend Capital dividends payable		<u>(4,504)</u>	<u>(3,671)</u>
RETAINED DEFICIT FOR THE YEAR		<u><u>(1,189)</u></u>	<u><u>1</u></u>

The notes on pages 6 to 43 form part of these accounts.

All income and expenditure is derived from continuing operations.

**NOTE TO THE INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR
ENDED
31 March 2005**

	£000
Retained deficit for the year	(1,189)
Financial support included in retained deficit for the year - NHS Bank	0
Financial support included in retained deficit for the year - Internally Generated	9,372
Retained deficit for the year excluding financial support	<u>(10,561)</u>

The Trust received £9.372m in planned support from Cheshire & Merseyside Strategic Health Authority. This support came via Southport & Formby PCT.

**BALANCE SHEET AS AT
31 March 2005**

	NOTE	£000	31 March 2004 £000
FIXED ASSETS			
Intangible assets	10	0	0
Tangible assets	11	151,108	120,694
Investments	14.1	0	0
		<u>151,108</u>	<u>120,694</u>
CURRENT ASSETS			
Stocks and work in progress	12	2,034	1,962
Debtors	13	8,705	7,862
Investments	14.2	0	0
Cash at bank and in hand	18.3	340	326
		<u>11,079</u>	<u>10,150</u>
CREDITORS: Amounts falling due within one year	15	<u>(10,521)</u>	<u>(6,225)</u>
NET CURRENT ASSETS (LIABILITIES)		558	3,925
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>151,666</u>	<u>124,619</u>
CREDITORS: Amounts falling due after more than one year	15	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	16	(1,899)	(1,796)
TOTAL ASSETS EMPLOYED		<u><u>149,767</u></u>	<u><u>122,823</u></u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	22	98,375	89,865
Revaluation reserve	17	49,593	30,430
Donated asset reserve	17	928	909
Government grant reserve	17	267	267
Other reserves	17	0	0
Income and expenditure reserve	17	604	1,352
TOTAL TAXPAYERS EQUITY		<u>149,767</u>	<u>122,823</u>

The notes on pages 6 to 43 form part of these accounts.

Signed:**J Parry**.....(Chief Executive)

Date:**08/07/05**.....

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 March 2005**

	£000	2003/04 £000
Surplus for the financial year before dividend payments	3,315	3,672
Fixed asset impairment losses	0	0
Unrealised surplus on fixed asset revaluations/indexation	19,660	8,455
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	90	6
Reductions in the donated asset and government grant reserve due to the depreciation, impairment and disposal of donated and government grant financed assets	(127)	(179)
Additions/(reductions) in "other reserves"	0	0
Total recognised gains and losses for the financial year	22,938	11,954
Prior period adjustment	0	0
Total gains and losses recognised in the financial year	22,938	11,954

The notes on pages 6 to 43 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2005

	NOTE	£000	2003/04 £000
OPERATING ACTIVITIES			
Net cash inflow from operating activities	18.1	10,773	7,657
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		206	123
Interest paid		0	(1)
Interest element of finance leases		0	0
		<u>206</u>	<u>122</u>
Net cash inflow from returns on investments and servicing of finance		206	122
CAPITAL EXPENDITURE			
(Payments) to acquire tangible fixed assets		(15,646)	(19,295)
Receipts from sale of tangible fixed assets		675	5,951
(Payments) to acquire intangible assets		0	0
Receipts from sale of intangible assets		0	0
(Payments to acquire)/receipts from sale of fixed asset investments		0	0
		<u>(14,971)</u>	<u>(13,344)</u>
Net cash outflow from capital expenditure		(14,971)	(13,344)
DIVIDENDS PAID			
		(4,504)	(3,671)
		<u>(4,504)</u>	<u>(3,671)</u>
Net cash outflow before management of liquid resources and financing		(8,496)	(9,236)
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of current asset investments		0	0
Sale of current asset investments		0	0
		<u>0</u>	<u>0</u>
Net cash inflow/(outflow) from management of liquid resources		0	0
		<u>0</u>	<u>0</u>
Net cash outflow before financing		(8,496)	(9,236)
FINANCING			
Public dividend capital received		9,588	19,319
Public dividend capital repaid (not previously accrued)		(1,078)	(10,080)
Public dividend capital repaid (accrued in prior period)		0	0
Loans received		0	0
Loans repaid		0	0
Other capital receipts		0	0
Capital element of finance lease rental payments		0	0
Cash transferred (to)/from other NHS bodies		0	0
		<u>8,510</u>	<u>9,239</u>
Net cash inflow from financing		8,510	9,239
		<u>8,510</u>	<u>9,239</u>
Increase in cash	18.2	14	3
		<u>14</u>	<u>3</u>

The notes on pages 6 to 43 form part of these accounts.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS trusts Manual for Accounts which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2004/05 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Resource Accounting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

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

1.4 Intangible fixed assets

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

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

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

1.5 Tangible fixed assets

Capitalisation

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

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

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

Valuation

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

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

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

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

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

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

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

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

Depreciation, amortisation and impairments

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

Assets in the course of construction 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 District Valuer. Leaseholds are depreciated over the primary lease term.

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

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

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

Where, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income may be paid by the Trust's main commissioner using funding provided by the NHS Bank.

1.6 Donated fixed assets

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

1.7 Government Grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed.

1.8 Private Finance Initiative (PFI) transactions

There were no PFI transactions.

1.9 Stocks and work-in-progress

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

1.10 Research and development

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

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

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

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

1.11 Provisions

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is material, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5% in real terms.

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS Trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 16.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2004/05 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

Non-clinical risk pooling

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

1.12 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. As a consequence it is not possible for the Trust to identify its share of the underlying scheme assets and liabilities. Therefore the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2004-05 was £7,383,555 (2003-04 £3,503,289).

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. Employers contribution rates are 14%, these contributions are currently being reviewed as part of the investigation as at 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employer's pension cost contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2004-05 were set at 14% of pensionable pay (2003-04 - 14%). Until 2002-03 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-04 the additional funding was retained as a Central Budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-05 this funding has been devolved in full to NHS Pension Scheme employers and the employers' contribution rate has risen to 14%. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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

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

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

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

1.13 Liquid resources

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

1.14 Value Added Tax

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

1.15 Foreign Exchange

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

1.16 Third Party Assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 28 to the accounts.

1.17 Leases

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

1.18 Public Dividend Capital (PDC) and PDC Dividend

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

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. For 2004-05 the average carrying amount of assets is calculated before the national revaluation figures are applied on 31 March 2005. A note to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

1.19 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)

2 SEGMENTAL ANALYSIS

The Trust has one business segment only.

3. Income from Activities

	£000	2003/04 £000
Strategic Health Authorities	0	0
NHS Trusts	355	66
Primary Care Trusts*	107,439	100,906
Foundation Trusts	0	0
Local Authorities	0	0
Department of Health	50	0
NHS Other	22	0
Non NHS:		
- Private Patients	426	408
- Overseas patients (non-reciprocal)	1	0
- Road Traffic Act	1,262	1,114
- Other	32	26
	<u>109,587</u>	<u>102,520</u>

* Includes £2,888,000 to fund accelerated depreciation.

Road Traffic Act income is subject to a provision for doubtful debts of 8.7% to reflect expected rates of collection

4. Other Operating Income

	£000	2003/04 £000
Patient transport services	0	0
Education, training and research	4,195	3,297
Charitable and other contributions to expenditure	0	0
Transfers from donated asset reserve	127	179
Transfers from government grant reserve	0	0
Non-patient care services to other bodies	4,474	3,717
Other income	1,840	3,097
	<u>10,636</u>	<u>10,290</u>

Other income includes:

Car parking £732,584
 Creche £337,538
 Accommodation £157,532
 Catering £551,541

5. Operating Expenses

5.1 Operating expenses comprise:

	£000	2003/04 £000
Services from other NHS Trusts	1,412	1,296
Services from other NHS bodies	1,555	1,746
Services from Foundation Trusts	0	0
Purchase of healthcare from non NHS bodies	87	1,785
Directors' costs	653	542
Staff costs	82,623	74,740
Supplies and services - clinical	11,856	12,152
Supplies and services - general	1,768	1,720
Establishment	1,367	1,554
Transport	285	300
Premises	4,410	4,190
Bad debts	385	143
Depreciation and amortisation	7,458	7,039
Fixed asset impairments and reversals	0	0
Audit fees	108	112
Other auditor's remuneration	0	0
Clinical negligence	1,631	891
Other	1,593	992
	<u>117,191</u>	<u>109,202</u>

Bad debts above include £99,567 for irrecoverable RTA income. In addition there is an I&E charge for the change in the provision for doubtful debts on RTAs up from 6% to 8.7%. This accounted for another £59,811 of the bad debt figure. The major write off of £199,266 was in connection with a failed legal challenge for compensation for increased prostheses costs in relation to last year's regional orthopaedic waiting list work.

Other expenditure includes:

Operating lease payment £548,917
 Courses & conferences £445,027
 Other miscellaneous £235,163

5.2 Operating leases

5.2/1 Operating expenses include:

	£000	2003/04 £000
Hire of plant and machinery	4	16
Other operating lease rentals	626	156
	<u>630</u>	<u>172</u>

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

	Land and buildings		Other leases	
	£000	2003/04 £000	£000	2003/04 £000
Operating leases which expire:				
Within 1 year	0	0	22	576
Between 1 and 5 years	0	0	35	2,230
After 5 years	0	0	549	4,939
	<u>0</u>	<u>0</u>	<u>606</u>	<u>7,745</u>

5.3 Salary and Pension entitlements of senior managers

A) Remuneration

Name and Title	2004-05			2003-04		
	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
J Parry (Chief Executive)	110-115		35	100-105		31
P Orme (Deputy Chief Executive)	85-90		5	80-85		4
G Boocock (Medical Director)	20-25	130-135				
M Iskander (Medical Director)	30-35	120-125	31			
I Harrison (Medical Director)	10-15			15-20		4
C Throp (Director of Finance)	70-75		3	15-20		4
J Beck (Director of Nursing)	35-40		3			
E Chew (Director of Nursing)	25-30			65-70		1
K Clarkson (Deputy Chief Executive)	5-10					
A Johnson (Chairman)	15-20		20	15-20		20
C Aitken (Non Executive Director)	5-10			5-10		
C Westcott (Non Executive Director)	0-5					
M Eastwood (Non Executive Director)	5-10			5-10		
L Byrom (Non Executive Director)	5-10			5-10		
J Citarella (Non Executive Director)	5-10			0-5		
C Cheetham (Non Executive Director)	0-5			5-10		

Mr K Clarkson replaced P Orme as Deputy Chief Executive at the end of February 2005. Mrs J Beck replaced Mr E Chew during the reporting year. Mrs C Westcott replaced Mr C Cheetham in year.

Mrs G Boocock and Mr M Iskander replaced Mr I Harrison as Medical Director in April 2004. The post of Medical Director is shared between Mrs G Boocock and Mr M Iskander. The other remuneration of these individuals is in connection with their clinical roles.

Benefits in kind for Mr J Parry, Mr A Johnson and Mr M Iskander are in respect of lease cars and are shown in hundreds.

All other benefits in kind relate to private vehicle benefit.

5.3 Salary and Pension entitlements of senior managers

B) Pension Benefits

Name and title	Real increase in pension and related lump sum at age 60 (bands of £2500) £000	Total accrued pension and related lump sum at age 60 at 31 March 2005 (bands of £5000) £000	Cash Equivalent Transfer Value at 31 March 2005 £000	Cash Equivalent Transfer Value at 31 March 2004 £000	Real Increase in Cash Equivalent Transfer Value £000	Employers Contribution to Stakeholder Pension To nearest £100
J Parry (Chief Executive)	0-2.5	120-125	429	399	19	0
P Orme (Deputy Chief Executive)	12.5-15	140-145	0	574	0	0
G Boocock (Medical Director)	0-2.5	125-130	481	451	17	0
M Iskander (Medical Director)	2.5-5	55-60	274	242	25	0
C Throp (Director of Finance)	0-2.5	100-105	387	363	14	0
J Beck (Director of Nursing)	2.5-5	80-85	372	345	18	0
E Chew (Director of Nursing)	0-2.5	90-95	369	350	10	0
K Clarkson (Deputy Chief Executive)	7.5-10	60-65	174	141	29	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	2003/04
	£000	£000	£000	£000
Salaries and wages	70,700	66,400	4,300	66,900
Social Security Costs	5,066	5,066	0	4,748
Employer contributions to NHSPA	7,384	7,384	0	3,503
Other pension costs	75	75	0	84
	<u>83,225</u>	<u>78,925</u>	<u>4,300</u>	<u>75,235</u>

6.2 Average number of persons employed

	Total	Permanently Employed	Other	2003/04
	Number	Number	Number	Number
Medical and dental	286	246	40	279
Ambulance staff	0	0	0	0
Administration and estates	840	840	0	809
Healthcare assistants and other support staff	313	313	0	354
Nursing, midwifery and health visiting staff	754	741	13	701
Nursing, midwifery and health visiting learners	13	13	0	36
Scientific, therapeutic and technical staff	360	349	11	360
Social care staff	0	0	0	0
Other	27	27	0	24
Total	<u>2,593</u>	<u>2,529</u>	<u>64</u>	<u>2,563</u>

6.3 Employee benefits

There were no employee benefits in 2004/05 or 2003/04.

6.4 Management costs

	£000	2003/04 £000
Management costs	4,382	4,189
Income	120,223	112,810

Management costs in 2004/05 are 3.64% (prior year 3.71%).

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 2004/05 (prior year 2003/04) there were 13 (6) early retirements from the trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £719,116 (£200,250). 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	2003/04 Number	£000	2003/04 £000
Total bills paid in the year	45,156	51,969	40,666	48,682
Total bills paid within target	43,020	40,567	39,540	44,331
Percentage of bills paid within target	95.27%	78.06%	97.23%	91.06%

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.

	£000	2003/04 £000
7.2 The Late Payment of Commercial Debts (Interest) Act 1998		
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	1
Compensation paid to cover debt recovery costs under this legislation	0	0

8. Profit on Disposal of Fixed Assets

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

	£000	2003/04 £000
Profit on disposal of fixed asset investments	0	0
Loss on disposal of fixed asset investments	0	0
Profit on disposal of intangible fixed assets	0	0
Loss on disposal of intangible fixed assets	0	0
Profit on disposal of land and buildings	100	0
Loss on disposal of land and buildings	0	0
Profits on disposal of plant and equipment	0	0
Loss on disposal of plant and equipment	(9)	(25)
	91	(25)

A number of peripheral properties were sold in year by the Trust. These properties were victorian houses previously used by the Trust as offices. In total three houses were sold - two in Southport and one in Ormskirk.

9. Interest Payable

	£000	2003/04 £000
Finance leases	0	0
Other	0	1
	0	1

10. Intangible Fixed Assets

	Software Licences £000	Licenses and trademarks £000	Patents £000	Development Expenditure £000	Total £000
Gross cost at 1 April 2004	98	0	0	0	98
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluation	0	0	0	0	0
Additions purchased	0	0	0	0	0
Additions donated	0	0	0	0	0
Additions government granted	0	0	0	0	0
Disposals	(98)	0	0	0	(98)
Gross cost at 31 March 2005	0	0	0	0	0
Amortisation at 1 April 2004	98	0	0	0	98
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluation	0	0	0	0	0
Provided during the year	0	0	0	0	0
Disposals	(98)	0	0	0	(98)
Amortisation at 31 March 2004	0	0	0	0	0
Net book value					
- Purchased at 1 April 2004	0	0	0	0	0
- Donated at 1 April 2004	0	0	0	0	0
- Government granted at 1 April 2004	0	0	0	0	0
- Total at 1 April 2004	0	0	0	0	0
- Purchased at 31 March 2005	0	0	0	0	0
- Donated at 31 March 2005	0	0	0	0	0
- Government granted at 31 March 2005	0	0	0	0	0
- Total at 31 March 2005	0	0	0	0	0

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 2004	13,193	83,408	1,539	14,147	23,212	486	5,455	3,201	144,641
Additions purchased	0	564	0	16,741	990	27	365	15	18,702
Additions donated	0	0	0	0	90	0	0	0	90
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	16,197	0	(18,514)	1,836	26	158	297	0
Indexation	976	6,584	122	1,117	501	10	0	70	9,380
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	(111)	(461)	0	0	(162)	(26)	0	0	(760)
National Revaluation Exercise	11,133	(31)	(403)	0	0	0	0	0	10,699
At 31 March 2005	25,191	106,261	1,258	13,491	26,467	523	5,978	3,583	182,752
Depreciation at 1 April 2004	0	0	0	0	16,440	365	4,529	2,613	23,947
Provided during the year	0	5,473	149	0	1,358	22	309	147	7,458
Impairments	0	0	0	0	0	0	0	0	0
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	355	8	0	56	419
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	(3)	0	0	(151)	(26)	0	0	(180)
Depreciation at 31 March 2005	0	5,470	149	0	18,002	369	4,838	2,816	31,644
Net book value									
- Purchased at 1 April 2004	13,193	82,494	1,539	14,147	6,512	108	926	576	119,495
- Donated at 1 April 2004	0	626	0	0	260	13	0	12	911
- Government Granted at 1 April 2004	0	288	0	0	0	0	0	0	288
Total at 31 March 2004	13,193	83,408	1,539	14,147	6,772	121	926	588	120,694
- Purchased at 31 March 2005	25,191	99,877	1,109	13,491	8,214	143	1,140	756	149,921
- Donated at 31 March 2005	0	647	0	0	251	11	0	11	920
- Government Granted at 31 March 2005	0	267	0	0	0	0	0	0	267
Total at 31 March 2005	25,191	100,791	1,109	13,491	8,465	154	1,140	767	151,108

11.1 Tangible Fixed Assets (contd)

Of the totals at 31 March 2005, £383,000 related to land valued at open market value and £408,000 related to buildings valued at open market value.

There were no assets held under finance leases and hire purchase contracts at the balance sheet date.

11.2 The net book value of land, buildings and dwellings at 31 March 2005 comprises:

	£000	31 March 2004 £000
Freehold	127,091	98,140
Long leasehold	0	0
Short leasehold	0	0
TOTAL	<u>127,091</u>	<u>98,140</u>

12. Stocks and Work in Progress

	£000	31 March 2004 £000
Raw materials and consumables	2,034	1,962
Work-in-progress	0	0
Finished goods	0	0
TOTAL	<u>2,034</u>	<u>1,962</u>

13. Debtors

	£000	31 March 2004 £000
Amounts falling due within one year:		
NHS debtors	4,837	3,577
Provision for irrecoverable debts	(70)	(43)
Other prepayments and accrued income	673	1,041
Other debtors	2,370	1,940
Sub Total	<u>7,810</u>	<u>6,515</u>
Amounts falling due after more than one year:		
NHS debtors	0	526
Provision for irrecoverable debts	(83)	(51)
Other prepayments and accrued income	0	0
Other debtors	978	872
Sub Total	<u>895</u>	<u>1,347</u>
TOTAL	<u>8,705</u>	<u>7,862</u>

14. Investments

No investments were held at the balance sheet date.

15. Creditors

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

	£000	31 March 2004 £000
Amounts falling due within one year:		
Bank overdrafts	0	0
Current instalments due on loans	0	0
Interest payable	0	0
Payments received on account	0	0
NHS creditors	1,293	3,105
Non - NHS trade creditors - revenue - other	1,723	1,585
Non - NHS trade creditors - capital	4,120	1,064
Tax and social security costs	1,705	35
Obligations under finance leases and hire purchase contracts	0	0
Other creditors	1,293	206
Accruals and deferred income	387	230
Sub Total	10,521	6,225
Amounts falling due after more than one year:		
Long - term loans	0	0
Obligations under finance leases and hire purchase contracts	0	0
NHS creditors	0	0
Other	0	0
Sub Total	0	0
TOTAL	10,521	6,225

Other creditors include £908,000 outstanding pension contributions at 31 March 2005.

15.2 Loans [and other long-term financial liabilities]

There were no loans at the balance sheet date.

16. Provisions for liabilities and charges

	Pensions relating to former directors	Pensions relating to other staff	Legal claims	Restructurings	Other	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2004	0	1,053	0	0	743	1,796
Arising during the year	0	0	0	0	951	951
Utilised during the year	0	(75)	0	0	(706)	(781)
Reversed unused	0	(72)	0	0	(27)	(99)
Unwinding of discount	0	32	0	0	0	32
At 31 March 2005	<u>0</u>	<u>938</u>	<u>0</u>	<u>0</u>	<u>961</u>	<u>1,899</u>

Expected timing of cashflows:

Within one year	0	75	0	0	961	1,036
Between one and five years	0	300	0	0	0	300
After five years	0	563	0	0	0	563

The provision under the heading "other" refers to public/employer's liability claims based on the information supplied by the NHS Litigation Authority. In total this amounts to £86,072. In addition there is a new provision of £874,681 for Agenda for Change payments. The brought forward figure of £743,000 included a provision for the consultant contract of £636,700. This provision was fully utilised in 2004/05.

A total of £8,888,475 is included in the provisions of the NHS Litigation Authority at 31/3/2005 in respect of clinical negligence liabilities of the Trust. This figure is split between the Existing Liabilities Scheme (ELS) @ £4,425,607 and the Clinical Negligence Scheme for Trusts (CNST) @ £4,462,868. Corresponding figures for the year ended 31/3/2004 total £4,490,831 split between ELS @ £1,645,528 and CNST @ £2,845,303.

The Existing Liabilities Scheme (ELS) covers clinical negligence claims arising out of incidents which occurred before April 1995. It is not a contributory scheme: the costs of funding settlements made under ELS are covered centrally by the Department of Health.

The Clinical Negligence Scheme for Trusts (CNST) is a voluntary risk-pooling scheme for clinical negligence claims arising out of incidents occurring after 1 April 1995, funded out of members' contributions. Currently all NHS Trusts and PCTs in England choose to belong.

17. Movements on Reserves

Movements on reserves in the year comprised the following

	Revaluation Reserve	Donated Asset Reserve	Government Grant Reserve	Other Reserves	Income and Expenditure Reserve	Total
	£000	£000	£000	£000	£000	£000
At 1 April 2004 as previously stated	30,430	909	267	0	1,352	32,958
Prior Period Adjustments	0	0	0	0	0	0
At 1 April 2004 as restated	<u>30,430</u>	<u>909</u>	<u>267</u>	<u>0</u>	<u>1,352</u>	<u>32,958</u>
Transfer from the income and expenditure account	0	0	0	0	(1,189)	(1,189)
Fixed asset impairments	0	0	0	0	0	0
Surplus on other revaluations/indexation of fixed assets	19,604	56	0	0	0	19,660
Transfer of realised profits (losses) to the Income and Expenditure reserve	0	0	0	0	0	0
Receipt of donated/government granted assets	0	90	0	0	0	90
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated/government granted assets	0	(127)	0	0	0	(127)
Other transfers between reserves	(441)	0	0	0	441	0
Other movements on reserves	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 March 2005	<u><u>49,593</u></u>	<u><u>928</u></u>	<u><u>267</u></u>	<u><u>0</u></u>	<u><u>604</u></u>	<u><u>51,392</u></u>

18. Notes to the cash flow Statement

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

	£000	2003/04 £000
Total operating surplus	3,032	3,608
Depreciation and amortisation charge	7,458	7,039
Fixed asset impairments and reversals	0	0
Transfer from donated asset reserve	(127)	(179)
Transfer from the government grant reserve	0	0
Increase in stocks	(72)	(27)
Increase in debtors	(843)	(1,258)
Increase in creditors	1,254	(2,047)
Decrease in provisions	71	521
	<hr/>	<hr/>
Net cash inflow from operating activities before restructuring costs	10,773	7,657
Payments in respect of fundamental reorganisation/restructuring	0	0
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>10,773</u>	<u>7,657</u>

18.2 Reconciliation of net cash flow to movement in net debt

	£000	2003/04 £000
Increase in cash in the period	14	3
Cash inflow from new debt	0	0
Cash outflow from debt repaid and finance lease capital payments	0	0
Cash (inflow)/outflow from (decrease)/increase in liquid resources	0	0
	<hr/>	<hr/>
Change in net debt resulting from cashflows	14	3
Non - cash changes in debt	0	0
Net debt at 1 April 2004	326	323
	<hr/>	<hr/>
Net debt at 31 March 2005	<u>340</u>	<u>326</u>

18.3 Analysis of changes in net debt

	At 1 April 2004	Cash Transferred (to)/from other NHS bodies	Cash changes in year	Non-cash changes in year	At 31 March 2005
	£000	£000	£000	£000	£000
OPG cash at bank	269	0	25	0	294
Commercial cash at bank and in hand	57	0	(11)	0	46
Bank overdraft	0	0	0	0	0
Debt due within one year	0	0	0	0	0
Debt due after one year	0	0	0	0	0
Finance leases	0	0	0	0	0
Current asset investments	0	0	0	0	0
	<u>326</u>	<u>0</u>	<u>14</u>	<u>0</u>	<u>340</u>

19. Capital Commitments

Commitments under capital expenditure contracts at the balance sheet date were £9,458,000 (31 March 2004 £5,325,620)

The Trust has committed itself to 17 capital projects. The major commitments are for the ITU extension, a 28 bed ward & low dependency unit at Ormskirk and the medical records accommodation at Southport. These all relate to major service reconfigurations.

20. Post Balance Sheet Events

From 1 April 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5% to 2.2%. This change will result in an increase in our provisions of £113,068 which will be charged to the Income and Expenditure account in 2005-06. National funding of NHS commissioners will be increased by the total estimated effect to offset this charge.

21. Contingencies

	£000	2003/04 £000
Gross value	(217)	(244)
Amounts recoverable (if any)	0	0
Net contingent liability	<u>(217)</u>	<u>(244)</u>

1) The Ronald McDonald Family rooms use is restricted to providing "home-away-from-home" accommodation for the families of sick children being treated in the Trust. £175,000 would be repayable if this ceased, reducing on a straight line basis over 5 years.

2) Employers/Public liability as notified to the Trust from the NHS Litigation Authority amounts to £42,249.

22. Movement in Public Dividend Capital

	£000	2003/04 £000
Public Dividend Capital as at 1 April 2004	89,865	89,865
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	9,588	0
Public Dividend Capital repaid in year	(1,078)	0
Public Dividend Capital repayable (creditor)	0	0
Public Dividend Capital written off	0	0
Public Dividend Capital transferred to Foundation Trust	0	0
Other movements in Public Dividend Capital in year	0	0
Public Dividend Capital as at 31 March 2005	<u>98,375</u>	<u>89,865</u>

23. Financial Performance Targets

23.1 Breakeven Performance

The trust's breakeven performance for 2004/2005 is as follows:

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
	£000	£000	£000	£000	£000	£000
Turnover	85,193	86,709	94,045	101,904	112,810	120,223
Retained surplus/(deficit) for the year	(377)	3	17	7	1	(1,189)
Adjustment for:						
- 2000/01 Prior Period Adjustment (relating to 1997/98, 1998/99 and 1999/2000)	359					
Break-even in-year position	(18)	3	17	7	1	(1,189)
Break-even cumulative position	(18)	(15)	2	9	10	(1,179)
* Anticipated financial year of recovery (if a break-even cumulative deficit only). This should be the date of the financial year end e.g. 2005						2007
Materiality test:						
- Break-even in-year position	-0.02%	0.00%	0.02%	0.01%	0.00%	-0.99%
- Break-even cumulative position	-0.02%	-0.02%	0.00%	0.01%	0.01%	-0.98%

23.2 Capital cost absorption rate

The Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £4,504,000, bears to the average relevant net assets of £129,746,000 that is 3.5%.

23.3 External financing

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

	£000	£000	2003/04 £000
External financing limit		8,510	9,239
Cash flow financing	8,496		9,236
Finance leases taken out in the year	0		0
Other capital receipts	0		0
External financing requirement		<u>8,496</u>	<u>9,236</u>
Undershoot		<u>14</u>	<u>3</u>

23.4 Capital Resource Limit

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

	£000	2003/04 £000
Gross capital expenditure	18,702	20,302
Less: book value of assets disposed of	(580)	(5,976)
Plus: loss on disposal of donated assets	0	0
Less: capital grants	0	0
Less: donations	(90)	(27)
Charge against the CRL	<u>18,032</u>	<u>14,299</u>
Capital resource limit	18,068	14,337
Underspend against the CRL	<u>36</u>	<u>38</u>

24. Related Party Transactions

Southport and Ormskirk Hospital NHS Trust is a body corporate established by order of the Secretary of State for Health.

During the year none of the Board Members or members of the key management staff or parties related to them has undertaken any material transactions with the above NHS Trust.

The Department of Health is regarded as a related party. During the year Southport & Ormskirk Hospital NHS Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department. These entities are listed below:

	2004/05	2003/04
	£'000s	£'000s
Southport & Formby PCT income received	54,722	50,217
West Lancashire PCT income received	40,090	34,846
South Sefton PCT income received	5,109	3,695
National Blood Authority expenditure incurred	1,189	1,249
NHS Logistics expenditure incurred	2,742	2,457

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. These transactions have been conducted in the normal course of NHS business.

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the Trustees for which are also members of the NHS Trust Board. The Summary Financial Statements of the Funds Held on Trust are included in the charitable fund annual report.

25. Private Finance Transactions

There were no private finance transactions at the balance sheet date.

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

There were no private finance transactions at the balance sheet date.

26 Pooled Budget

There were no pooled budget projects at the balance sheet date.

27 Financial Instruments

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

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

Liquidity risk

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

Interest-Rate Risk

All of the Trust's financial assets and all of its financial liabilities carry nil or fixed rates of interest. Southport & Ormskirk Hospital NHS Trust is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Trust's financial assets and liabilities:

27.1 Financial Assets

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
					Weighted average interest rate	Weighted average period for which fixed	Weighted average term
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2005							
Sterling	340	340	0	0	3.5%	0	0
Other	0	0	0	0	0%	0	0
Gross financial assets	340	340	0	0			
At 31 March 2004 (prior year)							
Sterling	852	326	526	0	3.5%	0	0
Other	0	0	0	0	0%	0	0
Gross financial assets	852	326	526	0			

27.2 Financial Liabilities

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
					Weighted average interest rate	Weighted average period for which fixed	Weighted average term
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2005							
Sterling	99,448	0	1,073	98,375	9%	0	0
Other	0	0	0	0	0%	0	0
Gross financial liabilities	99,448	0	1,073	98,375			
At 31 March 2004 (prior year)							
Sterling	91,661	0	1,796	89,865	9%	0	0
Other	0	0	0	0	0%	0	0
Gross financial liabilities	91,661	0	1,796	89,865			

Note: The public dividend capital is of unlimited term.

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

27.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the NHS Trust's financial assets and liabilities as at 31 March 2005.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	340	340	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	0	0	Note a
Investments	0	0	
Total	<u>340</u>	<u>340</u>	
Financial liabilities			
Overdraft	0	0	
Creditors over 1 year:			
- Early retirements	(938)	(938)	Note b
- Finance leases	0	0	Note c
Provisions under contract	(135)	(135)	Note d
Loans	0	0	
Public dividend capital*	(98,375)	(98,375)	Note e
Total	<u>(99,448)</u>	<u>(99,448)</u>	

Notes

- a These debtors reflect agreements with commissioners to cover creditors over 1 year for early retirements and provisions under contract, and their related interest charge/unwinding of discount. In line with notes c and e, below, fair value is not significantly different from book value.
- b Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.
- c To obtain fair value, cash flows have been discounted at prevailing market interest rates for finance leases for a similar term.
- d Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 3.5% in real terms.
- e The figure here should be the full value of PDC in the balance sheet and 'book value' should equal 'fair value'.
- * This figure includes £371,000 which relates to short-term repayable (within a set period) PDC held by the Trust.

28 Third Party Assets

The Trust held £3,627 cash at bank and in hand at 31/03/05 (£4,090 - at 31/03/04) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

29 Intra-Government and Other Balances

	Debtors: amounts falling due within one year	Debtors: amounts falling due after more than one year	Creditors: amounts falling due within one year	Creditors: amounts falling due after more than one year
	£000	£000	£000	£000
Balances with other Central Government Bodies	4,054	0	1,238	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	762	0	581	0
Balances with Public Corporations and Trading Funds	21	0	382	0
Balances with bodies external to government	<u>2,973</u>	<u>895</u>	<u>8,320</u>	<u>0</u>
At 31 March 2005	<u><u>7,810</u></u>	<u><u>895</u></u>	<u><u>10,521</u></u>	<u><u>0</u></u>
Balances with other Central Government Bodies	2,717	526	2,450	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	860	0	445	0
Balances with Public Corporations and Trading Funds	0	0	210	0
Balances with bodies external to government	<u>2,938</u>	<u>821</u>	<u>3,120</u>	<u>0</u>
At 31 March 2004	<u><u>6,515</u></u>	<u><u>1,347</u></u>	<u><u>6,225</u></u>	<u><u>0</u></u>

30 Losses and Special Payments

There were 871 cases of losses and special payments (prior year: 1,247 cases) totalling £465,487 (prior year: £238,347) approved during 2004/05.

Note: The total costs included in this note are on a cash basis and will not reconcile to the amounts in the notes to the accounts which are prepared on an accruals basis.