

SOUTHPORT & ORMKSIRK HOSPITAL NHS TRUST

**FINAL
ACCOUNTS**

FOR THE YEAR ENDING 31 MARCH 2006

*C E Throp
Director of Finance*

Southport & Ormskirk Hospital NHS Trust – Annual Accounts 2005/06

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.

SignedJ Parry..... (Chief Executive) Date ...5/7/06.....

Southport & Ormskirk Hospital NHS Trust – Annual Accounts 2005/06

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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

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

By order of the Board

SignedJ Parry..... (Chief Executive) Date ...5/7/06.....

SignedC Throp..... (Finance Director) Date ...5/7/06.....

STATEMENT OF INTERNAL CONTROL 2005/2006

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:

- Hurlston meeting with Primary Care Trusts Chief Executive's and Chairs
- Chief Executive Forum with the PPIF
- Attendance at Overview and Scrutiny Committee meetings
- North Mersey Chief Executives meetings
- Local Strategic Partnership Group
- Strategic Health Authority Chief Executive meetings
- Internal system of Performance Management
- Process of Performance Management with the Strategic Health Authority

2. The purpose of the system of internal control

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

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

The system of internal control has been in place in the Southport and Ormskirk Hospital NHS Trust for the year ended 31 March 2006 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 with my Deputy being the lead Executive. Each Executive Director has 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 Integrated Governance to develop and oversee the risk management process throughout the organisation. A new Integrated Governance Structure led by the Deputy Chief Executive and the Medical Directors was introduced during the year. This brought together all the elements of risk management, clinical governance, clinical audit and research & development under a single co-ordinated management structure.

To support our strategy and associated management structure there are also two clear mechanisms for handling issues of risk. These are:

1. The development of annual strategic objectives which underpin the robust Assurance Framework which is approved and overseen by the Trust Board with rigorous monitoring being the responsibility of the Risk Management Committee which is a formal sub-committee of the Trust Board.
2. A functional corporate Risk Register which is facilitated by the Integrated Governance Structure but again rigorously monitored by the Risk Management Committee.

The Southport and Ormskirk Hospital NHS Trust is continually developing the 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 to the risk source as possible. Those risks that cannot be dealt with locally are escalated to the appropriate level.

Risk Management, risk assessment and incident reporting is included in the core induction programme for all new employees. Induction training supports the principles of the National Patients Safety Agency, the promotion of an open and fair blame culture, and identifies the systems and structures in place within the organisation which support the management of risk. Risk Management training is also included in the Trust Mandatory training programme which staff are required to attend annually. Training on other aspects of risk management such as root cause analysis, risk assessment for risk assessors, fire response and complaints is provided on an ongoing basis throughout the year.

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

As part of an ongoing commitment by the Trust to having effective risk management processes a new procedure for the handling of complaints has been introduced during the year and this policy has been endorsed by the Trust Board.

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 which is approved by the Trust Board. The Strategy has been reviewed and updated during the year. The key elements of the Strategy include:

- Scope of Risk Management
- Strategic Aims and Objectives
- Risk Management and Policy Statement
- Responsibilities and Scheme of Delegation
- Risk Management Department
- Risk Management Process
- Risk Register
- Communications
- Training
- Annual Risk Development Plan
- Monitoring and Review
- Risk Management Committees – Terms of Reference
- Ward/Department Risk Management Strategy Model
- Risk Assessment Model

The Southport and Ormskirk Hospital NHS Trust has a comprehensive list of policies which support the risk management framework and are accessible via the Trust Intranet, the key ones are:

- Accident Incident & Near Miss Reporting
- Health and Safety
- Emergency Contingency and Business Continuity Planning
- Fire
- Security
- Major Clinical Incident
- Handling of Clinical Negligence Employers and Public Liability Claims
- Complaints Policy and Procedure

Once risks are identified they are evaluated and graded in accordance with the risk assessment model which is described in the Risk Management Strategy. Reasonable practicable control measures are implemented and residual risk is recorded in the Risk Register.

The Strategic Objectives for the Trust are reflected in each of the Executive Directors personal objectives and appraisals. These objectives are monitored by the Chief Executive using the Trust Appraisal system.

In addition to the personal objectives for each Executive Director key elements of Integrated Governance and hence Risk Management are incorporated within the quarterly Performance Management Framework (PMF) Monitoring meetings which are chaired by the Deputy Chief Executive and the Director of Finance. These are formal reviews of performance for each Service Group within the Trust.

There are no gaps in control.

Minor gaps in assurance have been identified within only two of the elements of the principal objectives in the 2005/06 Assurance Framework. These elements are within the following strategic objectives:

- Ensure a measurable improvement in clinical quality and the patients experience.
- Expand partnership working opportunities with all external stakeholders and partners.

Both of the elements are related to the inability of the Primary Care Trusts to invest in community services as part of the Best Care Practice Service Improvement Framework. This is outside the control of the Southport and Ormskirk Hospital NHS Trust but progress is being continually monitored by the Best Care Practice Steering Group.

The Assurance Framework supports the Trust's Strategic Objectives. Risks identified on the Assurance Framework are strictly monitored by all the committees specific to risk with overall organisational progress being reviewed by the Risk Management Committee on behalf of the Trust Board.

The Trust Board receives a report on the development of the Assurance Framework at least every six months with the Risk Management Committee reviewing the Framework at each meeting. The Trust Board also receives a report regarding Integrated Governance at each meeting.

Within the year the Trust has achieved CNST Level 3 (General) and this was awarded through the NHS LA in December 2005.

The Trust has also performed an extensive review of the Core Standards of the Standards for Better Health Annual Health Check and has declared compliance for the year 2005/06. There is a formal system of performance monitoring and control against the standards which is underpinned by an extensive database of evidence.

The Trust has also been subject to a number of reviews of its risk management and effectiveness by independent agencies such as Mersey Internal Audit Agency, assessors on behalf of the NHS LA and external auditors KMPG who have performed the Auditors Local Evaluation (ALE) Assessment.

The outcomes of all external reviews are presented to the Audit Committee and on behalf of the Trust Board.

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 systems and processes in place regarding the Assurance Framework and an assurance rating regarding systems and processes underpinning Standards for Better Health. 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.

My review has therefore been informed by:

- Internal Audit opinion
- Accreditation by external review agencies
- External Audit
- Health & Safety Executive Inspections
- Standards for Better Health Declaration
- Trust Board
- Risk Management Committee
- Executive Directors
- Head of Integrated Governance
- Clinical Governance Committee
- Audit Committee
- Achievement of CNST Level 3

A plan to address any weaknesses and ensure continuous improvement of the system is in place.

Where internal control issues are identified the risk management process results in the establishment of a specific action plan to control 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 the Trust's

internal performance management arrangements. Residual risk is recorded in the risk register, which is routinely monitored by the Risk Management Committee.

Internal Audit provide quarterly reports to the Audit Committee and full reports to the Director of Finance and appropriate line managers. The Audit Committee also receives details of any actions that remain outstanding following the follow up of previous audit work. The Director of Finance also meets with the Audit Manager on a regular basis.

There are no significant internal control issues identified during the year 2005/2006.

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

Challenges for the year 2006/2007 have been identified and included below

- Financial balance and achievement of the Recovery Plan
- Payment by results and the Contracting Strategy
- The impact of Patient Choice
- Maintenance of Access Targets
- Achieving the Development standards of Standards for Better Health - Annual Health Check

Signed: J Parry

CHIEF EXECUTIVE

Date: 22/06/06..... (on behalf of the Trust Board)

Independent auditors' report to the Directors of the Board of Southport and Ormskirk Hospital NHS Trust

Opinion on the financial statements

We have audited the financial statements of Southport and Ormskirk Hospital NHS Trust for the year ended 31 March 2006 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out therein.

This report is made solely to the Board of Southport and Ormskirk Hospital NHS Trust, 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 the Board of Southport and Ormskirk Hospital NHS Trust, as a body, 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 the Board of Southport and Ormskirk Hospital NHS Trust, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors and the auditor

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We report to you our opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited (details of senior manager's remuneration and pensions) has been properly prepared in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England.

We review whether the directors' statement on internal control reflects compliance with the Department of Health's requirements 'The Statement on Internal Control 2003/2004' issued on 15 September 2003 and further guidance issued on 7 April 2006. 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.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

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

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.

Name: KPMG LLP

Date: 6 July 2006
Address: St James Square
Manchester
M2 6DS

FOREWORD TO THE ACCOUNTS

SOUTHPORT & ORMSKIRK HOSPITAL NHS TRUST

These accounts for the year ended 31 March 2006 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.

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 March 2006**

	NOTE	2005/06 £000	2004/05 £000
Income from activities	3	115,139	109,587
Other operating income	4	10,329	10,636
Operating expenses	5-7	<u>(121,893)</u>	<u>(117,191)</u>
OPERATING SURPLUS		3,575	3,032
Cost of fundamental reorganisation/restructuring		0	0
Profit on disposal of fixed assets	8	<u>1,218</u>	<u>91</u>
SURPLUS BEFORE INTEREST		4,793	3,123
Interest receivable		260	224
Interest payable	9	0	0
Other finance costs - unwinding of discount	16	(21)	(32)
Other finance costs - change in discount rate on provisions	16	<u>(113)</u>	<u></u>
SURPLUS FOR THE FINANCIAL YEAR		4,919	3,315
Public Dividend Capital dividends payable		<u>(4,919)</u>	<u>(4,504)</u>
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		<u><u>0</u></u>	<u><u>(1,189)</u></u>

The notes on pages 14 to 42 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 2006**

	31 March 2006 £000	31 March 2005 £000
Retained surplus/(deficit) for the year	0	(1,189)
Financial support included in retained deficit for the year - NHS Bank	0	0
Financial support included in retained deficit for the year - Internally Generated	14,260	9,372
	(14,260)	(10,561)
Retained deficit for the year excluding financial support	(14,260)	(10,561)

Financial support is income provided wholly to assist in managing the NHS Trust's financial position. Internally generated financial support is financial support received from within the local health economy, consisting of the area of responsibility of Cheshire & Merseyside Strategic Health Authority.

**BALANCE SHEET AS AT
31 March 2006**

	NOTE	31 March 2006 £000	31 March 2005 £000
FIXED ASSETS			
Intangible assets	10	0	0
Tangible assets	11	144,609	151,108
Investments	14.1	0	0
		144,609	151,108
CURRENT ASSETS			
Stocks and work in progress	12	2,040	2,034
Debtors	13	19,814	8,705
Investments	14	0	0
Cash at bank and in hand	18.3	347	340
		22,201	11,079
CREDITORS: Amounts falling due within one year	15	(8,215)	(10,521)
NET CURRENT ASSETS		13,986	558
TOTAL ASSETS LESS CURRENT LIABILITIES		158,595	151,666
CREDITORS: Amounts falling due after more than one year	15	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	16	(2,414)	(1,899)
TOTAL ASSETS EMPLOYED		156,181	149,767
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	22	107,565	98,375
Revaluation reserve	17	46,857	49,593
Donated asset reserve	17	792	928
Government grant reserve	17	260	267
Other reserves	17	0	0
Income and expenditure reserve	17	707	604
TOTAL TAXPAYERS EQUITY		156,181	149,767

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

Date:5/07/06.....

The financial statements on pages 2 to 6 were approved by the Board on 5th July 2006 and signed by, Jonathon Parry (Chief Executive).

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

	2005/06	2004/05
	£000	£000
Surplus for the financial year before dividend payments	4,919	3,315
Fixed asset impairment losses	0	0
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	(2,748)	19,660
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	60	90
Defined benefit scheme actuarial gains/(losses)	0	0
Additions/(reductions) in "other reserves"	0	0
Total recognised gains and losses for the financial year	2,231	23,065
Prior period adjustment	0	0
Total gains and losses recognised in the financial year	<u>2,231</u>	<u>23,065</u>

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2006

	NOTE	2005/06 £000	2004/05 £000
OPERATING ACTIVITIES			
Net cash inflow/(outflow) from operating activities	18.1	(1,132)	10,773
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		272	206
Interest paid		0	0
Interest element of finance leases		0	0
Net cash inflow/outflow from returns on investments and servicing of finance		272	206
CAPITAL EXPENDITURE			
(Payments) to acquire tangible fixed assets		(15,916)	(15,646)
Receipts from sale of tangible fixed assets		12,512	675
(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
Net cash outflow from capital expenditure		(3,404)	(14,971)
DIVIDENDS PAID			
Net cash outflow before management of liquid resources and financing		(4,919)	(4,504)
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of current asset investments		0	0
Sale of current asset investments		0	0
Net cash inflow/(outflow) from management of liquid resources		0	0
Net cash outflow before financing		(9,183)	(8,496)
FINANCING			
Public dividend capital received		9,190	9,588
Public dividend capital repaid (not previously accrued)		0	(1,078)
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
Net cash inflow from financing		9,190	8,510
Increase in cash		7	14

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

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

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

Income is accounted for applying the accruals convention. The main source of income for the Trust is from 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. Gains and losses on revaluations are also taken to the Government Grant Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government Grant Reserve to the Income and Expenditure account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Reserve.

1.8 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

- 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 2.2% in real terms. This is a change from the rate of 3.5% in 2004/05 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 16.

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 2005/06 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

Non-clinical risk pooling

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

1.12 Pension costs

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

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

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employers' contributions are set at 14% of pensionable pay from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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

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

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

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

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

Losses and Special Payments are charged to the relevant functional headings in the income and expenditure account on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, note 30 is compiled directly from the losses and compensations register which is prepared on a cash basis.

2 SEGMENTAL ANALYSIS

The trust has one business segment only.

3. Income from Activities

	2005/06 £000	2004/05 £000
Strategic Health Authorities	14,300	0
NHS Trusts	334	355
Primary Care Trusts	97,472	107,439
Foundation Trusts	0	0
Local Authorities	0	0
Department of Health	1,463	50
NHS Other	0	22
Non NHS:		
- Private Patients	367	426
- Overseas patients (non-reciprocal)	4	1
- Road Traffic Act	1,179	1,262
- Other	20	32
	<u>115,139</u>	<u>109,587</u>

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

	2005/06 £000	2004/05 £000
Patient transport services	0	0
Education, training and research	4,134	4,195
Charitable and other contributions to expenditure	0	0
Transfers from donated asset reserve	81	127
Transfers from government grant reserve	7	0
Non-patient care services to other bodies	4,107	4,474
Income Generation	1,972	0
Other income	28	1,840
	<u>10,329</u>	<u>10,636</u>

Income generation includes:

Car parking	£825,628	(04/05 figure £732,584)
Creche	£298,334	(04/05 figure £337,538)
Accommodation	£177,064	(04/05 figure £157,532)
Catering	£597,144	(04/05 figure £551,541)

5. Operating Expenses

5.1 Operating expenses comprise:

	2005/06	2004/05
	£000	£000
Services from other NHS Trusts	1,283	1,412
Services from other NHS bodies	1,444	1,555
Services from Foundation Trusts	264	0
Purchase of healthcare from non NHS bodies	44	87
Directors' costs	671	653
Staff costs	87,529	82,623
Supplies and services - clinical	12,014	11,856
Supplies and services - general	1,728	1,768
Establishment	1,373	1,367
Transport	286	285
Premises	5,451	4,410
Bad debts	150	385
Depreciation and amortisation	5,796	7,458
Fixed asset impairments and reversals	0	0
Audit fees	239	108
Other auditor's remuneration	0	0
Clinical negligence	1,631	1,631
Other	1,990	1,593
	<u>121,893</u>	<u>117,191</u>

Bad debts above include £124,107 for irrecoverable Road Traffic Accident (RTA) income (04/05 figure £99,567).

The audit fees for 2005/06 include a correction from 2004/05. The actual audit fee for 2005/06 was £150,400 .

Other expenditure includes:

Operating lease payments	£915,713	(04/05 figure £548,917)
Courses & conferences	£473,305	(04/05 figure £445,027)

5.2 Operating leases

5.2/1 Operating expenses include:

	2005/06	2004/05
	£000	£000
Hire of plant and machinery	5	4
Other operating lease rentals	991	626
	<u>996</u>	<u>630</u>

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

	Land and buildings		Other leases	
	2005/06	2004/05	2005/06	2004/05
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	0	0	35	22
Between 1 and 5 years	0	0	24	35
After 5 years	0	0	1,281	549
	<u>0</u>	<u>0</u>	<u>1,340</u>	<u>606</u>

6. Staff costs and numbers

6.1 Staff costs

	2005/06			2004/05
	Total	Permanently Employed	Other	
	£000	£000	£000	£000
Salaries and wages	74,775	70,056	4,719	70,700
Social Security Costs	5,374	5,374	0	5,066
Employer contributions to NHSPA	7,929	7,929	0	7,384
Other pension costs	72	72	0	75
	88,150	83,431	4,719	83,225

6.2 Average number of persons employed

	2005/06			2004/05
	Total	Permanently Employed	Other	
	Number	Number	Number	Number
Medical and dental	286	246	40	286
Ambulance staff	0	0	0	0
Administration and estates	566	564	2	572
Healthcare assistants and other support staff	694	694	0	673
Nursing, midwifery and health visiting staff	713	694	19	702
Nursing, midwifery and health visiting learners	0	0	0	0
Scientific, therapeutic and technical staff	373	364	9	354
Social care staff	0	0	0	0
Other	0	0	0	0
Total	2,632	2,562	70	2,587

Note that numbers for 2004/05 have been re-stated using the current Occupation Code structure adopted by Cheshire & Merseyside Strategic Health Authority. This then allows comparison between the two financial years.

6.3 Employee benefits

There were no employee benefits in 2005/06 or in 2004/05.

6.4 Management costs

	2005/06	2004/05
	£000	£000
Management costs	4,609	4,382
Income	125,468	120,223

Management costs in 2005/06 are 3.67% (prior year 3.64%).

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

6.5 Retirements due to ill-health

During 2005/06 (prior year 2004/05) there were 6 (13) early retirements from the trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £386,691 (£719,116). 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

	2005/06 Number	2005/06 £000
Total Non-NHS trade invoices paid in the year	44,497	42,876
Total Non NHS trade invoices paid within target	35,596	37,914
Percentage of Non-NHS trade invoices paid within target	80%	88%
Total NHS trade invoices paid in the year	1,630	9,028
Total NHS trade invoices paid within target	1,362	7,526
Percentage of NHS trade invoices paid within target	84%	83%

The Better Payment Practice Code requires the Trust to aim to pay all undisputed invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is later.

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

	2005/06 £000	2004/05 £000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	0	0

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

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

	2005/06 £000	2004/05 £000
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	1,220	100
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	(2)	(9)
	<u>1,218</u>	<u>91</u>

The major property disposals included 6 acres of land at the Ormskirk site, the medical records and ward accommodation modular building at Southport plus 3 further peripheral property sales at the Ormskirk site.

9. Interest Payable

	2005/06 £000	2004/05 £000
Finance leases	0	0
Other	0	0
	<u>0</u>	<u>0</u>

10. Intangible Fixed Assets

	Software Licences £000	Licenses and trademarks £000	Patents £000	Development Expenditure £000	Total £000
Gross cost at 1 April 2005	0	0	0	0	0
Indexation				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	0	0	0	0	0
Gross cost at 31 March 2006	0	0	0	0	0
Amortisation at 1 April 2005	0	0	0	0	0
Indexation				0	0
Impairments	0	0	0	0	0
Reversal of impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluation	0	0	0	0	0
Charged during the year	0	0	0	0	0
Disposals	0	0	0	0	0
Amortisation at 31 March 2006	0	0	0	0	0
Net book value					
- Purchased at 1 April 2005	0	0	0	0	0
- Donated at 1 April 2005	0	0	0	0	0
- Government Granted at 1 April 2005	0	0	0	0	0
- Total at 1 April 2005	0	0	0	0	0
- Purchased at 31 March 2006	0	0	0	0	0
- Donated at 31 March 2006	0	0	0	0	0
- Government Granted at 31 March 2006	0	0	0	0	0
- Total at 31 March 2006	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	Plant and Machinery	Transport Equipment	Information Technology	Furniture & fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2005	25,191	100,791	1,109	13,491	26,467	523	5,978	3,583	177,133
Additions purchased	1,072	1,438	0	8,028	2,394	0	274	73	13,279
Additions donated	0	0	0	0	60	0	0	0	60
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	19,243	0	(20,271)	882	0	29	117	0
Indexation	1,259	1,850	21	122	559	11	0	76	3,898
Other in year revaluation	(1,072)	(5,126)	0	0	0	0	0	0	(6,198)
Disposals	(3,172)	(8,119)	0	0	(2,190)	(68)	(1,112)	(109)	(14,770)
Cost or Valuation at 31 March 2006	23,278	110,077	1,130	1,370	28,172	466	5,169	3,740	173,402
Depreciation at 1 April 2005	0	0	0	0	18,002	369	4,838	2,816	26,025
Charged during the year	0	3,290	48	0	1,922	31	328	177	5,796
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	380	8	0	60	448
Other in year revaluation	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(2,187)	(68)	(1,112)	(109)	(3,476)
Depreciation at 31 March 2006	0	3,290	48	0	18,117	340	4,054	2,944	28,793
Net book value									
- Purchased at 1 April 2005	25,191	99,877	1,109	13,491	8,214	143	1,140	756	149,921
- Donated at 1 April 2005	0	647	0	0	251	11	0	11	920
- Government Granted at 1 April 2005	0	267	0	0	0	0	0	0	267
- Total at 1 April 2005	25,191	100,791	1,109	13,491	8,465	154	1,140	767	151,108
- Purchased at 31 March 2006	23,278	106,002	1,082	1,370	9,806	117	1,115	787	143,557
- Donated at 31 March 2006	0	525	0	0	249	9	0	9	792
- Government Granted at 31 March 2006	0	260	0	0	0	0	0	0	260
- Total at 31 March 2006	23,278	106,787	1,082	1,370	10,055	126	1,115	796	144,609

11.1 Tangible Fixed Assets (contd)

No land or buildings were valued at open market value at 31st March 2006. All of the land and buildings held at open market value at the end of March 2005 were sold in 2005/06.

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

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

	31 March 2006	31 March 2005
	£000	£000
Freehold	131,147	127,091
Long leasehold	0	0
Short leasehold	0	0
TOTAL	<u>131,147</u>	<u>127,091</u>

12. Stocks and Work in Progress

	31 March 2006	31 March 2005
	£000	£000
Raw materials and consumables	2,040	2,034
Work-in-progress	0	0
Finished goods	0	0
TOTAL	<u>2,040</u>	<u>2,034</u>

13. Debtors

	31 March 2006	31 March 2005
	£000	£000

Amounts falling due within one year:

NHS debtors	16,206	4,837
Provision for irrecoverable debts	(93)	(70)
Other prepayments and accrued income	1,083	673
Other debtors	1,860	2,370
Sub Total	<u>19,056</u>	<u>7,810</u>

Amounts falling due after more than one year:

NHS debtors	0	0
Provision for irrecoverable debts	(71)	(83)
Other prepayments and accrued income	0	0
Other debtors	829	978
Sub Total	<u>758</u>	<u>895</u>

TOTAL	<u>19,814</u>	<u>8,705</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:

	31 March 2006	31 March 2005
	£000	£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	1,159	1,293
Non - NHS trade creditors - revenue - other	1,929	1,723
Non - NHS trade creditors - capital	1,543	4,120
Tax and social security costs	1,962	1,705
Obligations under finance leases and hire purchase contracts	0	0
Other creditors	1,321	1,293
Accruals and deferred income	301	387
Sub Total	8,215	10,521
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	8,215	10,521

Other creditors include £1,027,000 pension contributions at 31 March 2006. Prior year figure was £908,000.

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 £000	Pensions relating to other staff £000	Legal claims £000	Restructurings £000	Other £000	Total £000
At 1 April 2005	0	938	0	0	961	1,899
Change in discount rate	0	113	0	0	0	113
Arising during the year	0	0	0	0	832	832
Utilised during the year	0	(72)	0	0	(352)	(424)
Reversed unused	0	0	0	0	(27)	(27)
Unwinding of discount	0	21	0	0	0	21
At 31 March 2006	0	1,000	0	0	1,414	2,414

Expected timing of cashflows:

Within one year	0	72	0	0	1,414	1,486
Between one and five years	0	288	0	0	0	288
After five years	0	640	0	0	0	640

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 £71,353. The remaining provision under this heading of £1,342,888 relates to Agenda for Change salary banding payments.

A total of £11,230,159 is included in the provisions of the NHS Litigation Authority at 31/3/2006 in respect of clinical negligence liabilities of the Trust. This figure is split between the Existing Liabilities Scheme (ELS) @ £4,757,703 and the Clinical Negligence Scheme for Trusts (CNST) @ £6,472,456. Corresponding figures for the year ended 31/3/2005 total £8,888,475 split between ELS @ £4,425,607 and CNST @ £4,462,868.

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 £000	Donated Asset Reserve £000	Government Grant Reserve £000	Other Reserves £000	Income and Expenditure Reserve £000	Total £000
At 1 April 2005 as previously stated	49,593	928	267	0	604	51,392
Prior Period Adjustments	0	0	0	0	0	0
At 1 April 2005 as restated	<u>49,593</u>	<u>928</u>	<u>267</u>	<u>0</u>	<u>604</u>	<u>51,392</u>
Transfer from the income and expenditure account	0	0	0	0	0	0
Fixed asset impairments	0	0	0	0	0	0
Surplus on other revaluations/indexation of fixed assets	(2,633)	(115)	0	0	0	(2,748)
Transfer of realised profits (losses) to the Income and Expenditure	0	0	0	0	0	0
Receipt of donated/government granted assets	0	60	0	0	0	60
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated/government granted assets	0	(81)	(7)	0	0	(88)
Other transfers between reserves	(103)	0	0	0	103	0
Other movements on reserves	0	0	0	0	0	0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 March 2006	<u>46,857</u>	<u>792</u>	<u>260</u>	<u>0</u>	<u>707</u>	<u><u>48,616</u></u>

18. Notes to the cash flow Statement

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

	2005/06	2004/05
	£000	£000
Total operating surplus (deficit)	3,575	3,032
Depreciation and amortisation charge	5,796	7,458
Fixed asset impairments and reversals	0	0
Transfer from donated asset reserve	(81)	(127)
Transfer from the government grant reserve	(7)	0
(Increase)/decrease in stocks	(6)	(72)
(Increase)/decrease in debtors	(11,109)	(843)
Increase/(decrease) in creditors	319	1,254
Increase/(decrease) in provisions	381	71
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities before restructuring costs	(1,132)	10,773
Payments in respect of fundamental reorganisation/restructuring	0	0
	<hr/>	<hr/>
Net cash inflow from operating activities	(1,132)	10,773
	<hr/> <hr/>	<hr/> <hr/>

18.2 Reconciliation of net cash flow to movement in net debt

	2005/06	2004/05
	£000	£000
Increase in cash in the period	7	14
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	7	14
Non - cash changes in debt	0	0
Net debt at 1 April 2005	340	326
	<hr/>	<hr/>
Net debt at 31 March 2005	347	340
	<hr/> <hr/>	<hr/> <hr/>

18.3 Analysis of changes in net debt

	At 1 April 2005	Cash Transferred (to)/from other NHS bodies	Other cash changes in year	Non-cash changes in year	At 31 March 2006
	£000	£000	£000	£000	£000
OPG cash at bank	294	0	(3)	0	291
Commercial cash at bank and in hand	46	0	10	0	56
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
	340	0	7	0	347

19. Capital Commitments

Commitments under capital expenditure contracts at 31 March 2006 were £47,965 (31 March 2005 £9,458,000).

20. Post Balance Sheet Events

There are no known post balance sheet events having a material effect on the accounts.

21. Contingencies

	2005/06	2004/05
	£000	£000
Contingent liabilities (gross value)	(32)	(217)
Amounts recoverable against contingent liabilities	0	0
Net value of contingent liabilities	(32)	(217)
Contingent Assets	0	0

Contingent liabilities are detailed below:

- 1) Public/Employer liability as notified to the Trust from the NHS Litigation Authority amounts to £23,363.
- 2) Dispute with Footman & Walker from 2003 in relation to A&E system installation costs amounts to £8,500.
- 3) In assimilating staff on to the Agenda for Change terms and conditions, a number of appeals have been made by staff opposing the pay banding of their post. The appeals process has not yet started and a reliable estimate of any potential Trust liability cannot be given at this stage.

22. Movement in Public Dividend Capital

	2005/06	2004/05
	£000	£000
Public Dividend Capital as at 1 April 2005	98,375	89,865
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	9,190	9,588
Public Dividend Capital repaid in year	0	(1,078)
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 2006	107,565	98,375

23. Financial Performance Targets**23.1 Breakeven Performance**

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

	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	£000	£000	£000	£000	£000	£000	£000
Turnover	85,193	86,709	94,045	101,904	112,810	120,223	125,468
Retained surplus/(deficit) for the year	(377)	3	17	7	1	(1,189)	0
Adjustment for:							
- 2000/01 Prior Period Adjustment (relating to 1997/98 to 1999/2000)	359	0	0	0	0	0	0
Break-even in-year position	(18)	3	17	7	1	(1,189)	0
Break-even cumulative position	(18)	(15)	2	9	10	(1,179)	(1,179)
Materiality test (I.e. is it equal to or less than 0.5%):							
- Break-even in-year position as a percentage of turnover	(0.02%)	0.00%	0.02%	0.01%	0.00%	(0.99%)	0.00%
- Break-even cumulative position as a percentage of turnover	(0.02%)	(0.02%)	0.00%	0.01%	0.01%	(0.98%)	(0.94%)

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 £4,919,000, bears to the average relevant net assets of £151,822,000, that is 3.24%.

The variance from 3.5% is within the Department of Health's materiality range of 3.0% to 4.0%.

23.3 External financing

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

	£000	2005/06 £000	2004/05 £000
External financing limit		9,190	8,510
Cash flow financing	9,183		8,496
Finance leases taken out in the year	0		0
Other capital receipts	0		0
External financing requirement		<u>9,183</u>	<u>8,496</u>
Undershoot		<u>7</u>	<u>14</u>

23.4 Capital Resource Limit

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

	£000	2005/06 £000	2004/05 £000
Gross capital expenditure		13,339	18,702
Less: book value of assets disposed of		(11,294)	(580)
Plus: loss on disposal of donated assets		0	0
Less: capital grants		0	0
Less: donations towards the acquisition of fixed assets		(60)	(90)
Charge against the CRL		<u>1,985</u>	<u>18,032</u>
Capital resource limit		1,987	18,068
Underspend against the CRL		<u>2</u>	<u>36</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:

	2005/06	2004/05
	£'000s	£'000s
Southport & Formby PCT income received	39,973	54,722
West Lancashire PCT income received	42,272	40,090
South Sefton PCT income received	5,394	5,109
National Blood Authority expenditure incurred	1,137	1,189
NHS Logistics expenditure incurred	2,811	2,742

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 Trustees 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

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
					Weighted average interest rate %	Weighted average period for which fixed Years	
	£000	£000	£000	£000			
At 31 March 2006							
Sterling	347	347	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	347	347	0	0			
At 31 March 2005 (prior year)							
Sterling	340	340	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	340	340	0	0			

27.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing
					Weighted average interest rate %	Weighted average period for which fixed Years	
	£000	£000	£000	£000			
At 31 March 2006							
Sterling	108,636	0	1,071	107,565	2.20%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial liabilities	108,636	0	1,071	107,565			
At 31 March 2005 (prior year)							
Sterling	99,448	0	1,073	98,375	3.50%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial liabilities	99,448	0	1,073	98,375			

Note: The public dividend capital is of unlimited term.

Foreign Currency Risk

The Trust has no/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 2006.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	347	347	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provis	0	0	Note a
Investments	0	0	
Total	<u>347</u>	<u>347</u>	
Financial liabilities			
Overdraft	0	0	
Creditors over 1 year:			
- Early retirements	(1,000)	(1,000)	Note b
- Finance leases	0	0	Note c
Provisions under contract	(71)	(71)	Note d
Loans	0	0	
Public dividend capital*	(107,565)	(107,565)	Note e
Total	<u>(108,636)</u>	<u>(108,636)</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 £13,522,000 which relates to short-term repayable (within a set period) PDC held by the Trust.

28 Third Party Assets

The Trust held £775 cash at bank and in hand at 31 March 2006 (£3,627 - at 31 March 2005) 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 £000	Debtors: amounts falling due after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
Balances with other Central Government Bodies	15,712	0	490	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	494	0	418	0
Balances with Public Corporations and Trading Funds	0	0	251	0
Balances with bodies external to government	2,850	758	7,056	0
At 31 March 2006	<u>19,056</u>	<u>758</u>	<u>8,215</u>	<u>0</u>
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	2,973	895	8,320	0
At 31 March 2005 (prior year)	<u>7,810</u>	<u>895</u>	<u>10,521</u>	<u>0</u>

30 Losses and Special Payments

There were 999 cases of losses and special payments (2004/05: 871 cases) totalling £239,385 (2004/05: £465,487) paid during 2005/06.

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 a cash basis.