

SOUTHPORT & ORMKSIRK HOSPITAL NHS TRUST

**FINAL
ACCOUNTS**

FOR THE YEAR ENDING 31 MARCH 2008

*C E Throp
Director of Finance*

2007-08 Annual Accounts of Southport & Ormskirk Hospital NHS Trust

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.

.....4/06/08.....Date.....J Parry.....Chief Executive

2007-08 Annual Accounts of Southport & Ormskirk Hospital NHS Trust

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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

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

By order of the Board

.....4/06/08.....Date.....J Parry.....Chief Executive

.....4/06/08.....Date.....C Throp.....Finance Director

STATEMENT ON INTERNAL CONTROL 2007/2008

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:

- Meetings with Primary Care Trust 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

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 2008 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 who is the lead Executive and Chief Operating Officer. Each Executive Director has a clearly defined objective to manage risk within their area of responsibility. Each Service Division has an identified Risk Lead who works in conjunction with the Trust Risk Managers to develop and oversee the risk management process throughout the organisation. The Integrated Governance Structure led by the Deputy Chief Executive and the Medical Directors continued to operate successfully throughout the year. This brings 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.

A review of the organisations 'Risk Maturity' has taken place during the year with the Trust being identified through Audit opinion as being 'Risk Defined'. This helpful audit will assist the Trust in continuing to develop its successful risk structure by learning from best practice.

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 particular accountabilities are held. Divisional Risk Leads and the Trust's Risk Managers are available to provide support and guidance to any member of staff.

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 was reviewed and updated leading to a new published strategy for 2006-2009 being approved by the Trust Board in April 2006. The key elements of the Strategy include:

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

The Risk Management Strategy was subject to a further yearly review of the March 2008 meeting of the Risk Management Committee.

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 Division within the Trust.

From the 1st April 2007 the Trust outsourced its financial transaction processing to NHS Shared Business Services. The processes outsourced were purchased to pay, order to cash and accounting to reporting. The Trust has received external assurance that effective controls operate in this shared service environment. This assurance came from Ernst & Young's SAS 70 report which assessed the 22 key control objectives identified and provided significant assurance that these controls were appropriate and effective.

Information Governance - In line with David Nicholson's letter of the 4th December, the Trust reviewed all its bulk data transfers, identifying any risks and deficiencies in handling and initiated any immediate remedial action. We further commissioned a detailed review of the security of all transfers of personal data and provided detailed findings and an action plan for managing any weaknesses.

The process adopted consisted of:

- Identifying the areas of highest risk.
- Ensuring plans were in place to mitigate and then remove these risks.
- Ensuring that everyone understood what good practice was and was working to achieve it.
- Giving confidence to the SHA Chief Executive and David Nicholson through the submission of a series of Internal Assurance Statements.

Additional assurance has also been provided through the completion of the Information Governance Toolkit, and in particular that element of the Toolkit relating to the Statement of Compliance, which requires all organisations that have access to applications and services provided by NHS Connecting for Health to demonstrate that they are meeting, or

have an agreed plan for addressing shortfalls against a set of key security standards.

There are no gaps in control.

Two minor gaps in assurance have been identified within only two of the elements of the principal objectives in the 2007/08 Assurance Framework. These elements are within the following strategic objectives:

- Continue the drive towards sustainable financial balance.
- Expand partnership working opportunities with all external stakeholders and partners.

The first element related to the outstanding element of contract settlement with PCTs in relation to PBR excluded activity and changes to PBR tariffs which compromise the Trust's plan to deliver a surplus for the current year. This is a significant risk identified in March 07 with a potential impact in 2008/09. The second element related to the lack of Primary Care support for service re-design as part of the Best Care Practice Service Improvement Framework which is categorised as a low risk.

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 three times per year with the Risk Management Committee reviewing the Framework at each meeting. Through the Board Cycle, the Trust Board also receives reports throughout the year on:

- Review of the Risk Register
- The Patients Experience
- Annual Report on the Security Management Service
- Infection Control
- Child Protection
- Integrated Governance

Within the year the Trust has maintained CNST Level 3 (General) and achieved CNST Level 3 (Maternity).

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 2007/08. 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 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 acting on behalf of the Trust Board.

Public stakeholders are involved in managing risks which impact on them primarily through the Trust working closely with the members of the Patient & Public Involvement Forum. Meetings are held on a regular basis where agreement is reached on how the Trust and members of the Forum can work together to improve clinical services and the planning of health service. The Trust adheres to the Patient & Public Involvement Strategy and Implementation Plan for 2006/09 which sets out the ways in which public stakeholders will be involved over the three year period. The Strategy includes learning from patient surveys, complaints, compliments, audit and the patients' experience. The PPI Forums have been abolished as at 31st March 2008. I have expressed my gratitude to the Forum for its support and look forward to maintaining the same relationship with the replacement Local Involvement Networks (LINKs) and their host organisations.

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

5. Review of Effectiveness

As Accountable Officer, I have responsibility 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.

My review has therefore been informed by:

- Internal Audit opinion
- Accreditation by external review agencies
- External Audit
- Health & Safety Executive
- NHS Security Management Service
- Standards for Better Health Declaration – both Core and Developmental
- Trust Board
- Risk Management Committee
- Executive Directors
- The Integrated Core Governance Team
- Clinical Governance Committee
- Audit Committee
- Achievement of CNST Level 3 (Maternity)
- Maintenance of CNST Level 3 (General)

I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the above mentioned process and committees. A plan to address 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 2007/2008.

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

Challenges for the year 2008/2009 have been identified and included below:

- Delivering and sustaining financial balance
- Payment by results and the Contracting & Commercial Strategy

Sustaining the 18-Week Referral to Treatment Target (RTT)
Influencing Patient Choice
Maintenance of Access Targets

Signed: *J Parry*

CHIEF EXECUTIVE

Date: 4/06/08..... (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 2008 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies relevant to the National Health Service set out within them.

This report is made solely to the Board of 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 which 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 Directors and auditors

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 managers' 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 2003/04 issued on 15 September 2003 and further guidance issued on 7 April 2008. We report if it does not meet the requirements specified by the Department of Health or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the directors' statement on internal control covers all risks and controls. 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.

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.

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 2008 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.

KPMG LLP

KPMG LLP
St James Square
Manchester
M2 6DS

11 June 2008

**INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED
31 March 2008**

	NOTE	2007/08 £000	2006/07 £000
Income from activities	3	127,050	114,843
Other operating income	4	10,816	9,694
Operating expenses	5	<u>(129,844)</u>	<u>(122,908)</u>
OPERATING SURPLUS/(DEFICIT)		8,022	1,629
Cost of fundamental reorganisation/restructuring		0	0
Profit/(loss) on disposal of fixed assets	8	<u>(293)</u>	<u>3</u>
SURPLUS/(DEFICIT) BEFORE INTEREST		7,729	1,632
Interest receivable		448	713
Interest payable	9	0	0
Other finance costs - unwinding of discount	16	<u>(19)</u>	<u>(20)</u>
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR		8,158	2,325
Public Dividend Capital dividends payable		<u>(5,335)</u>	<u>(5,148)</u>
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		<u><u>2,823</u></u>	<u><u>(2,823)</u></u>

The notes on pages 5 to 40 form part of these accounts.
All income and expenditure is derived from continuing operations.

**BALANCE SHEET AS AT
31 March 2008**

	NOTE	31 March 2008 £000	31 March 2007 £000
FIXED ASSETS			
Intangible assets	10	0	0
Tangible assets	11	168,375	156,316
Investments	14.1	0	0
		<u>168,375</u>	<u>156,316</u>
CURRENT ASSETS			
Stocks and work in progress	12	2,277	1,924
Debtors	13	8,003	6,347
Investments	14.2	0	0
Cash at bank and in hand	18.3	377	364
		<u>10,657</u>	<u>8,635</u>
CREDITORS: Amounts falling due within one year	15	<u>(11,932)</u>	<u>(11,476)</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>(1,275)</u>	<u>(2,841)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>167,100</u>	<u>153,475</u>
CREDITORS: Amounts falling due after more than one year	15	0	0
PROVISIONS FOR LIABILITIES AND CHARGES	16	(1,749)	(1,758)
TOTAL ASSETS EMPLOYED		<u>165,351</u>	<u>151,717</u>
FINANCED BY:			
TAXPAYERS' EQUITY			
Public dividend capital	22	94,224	94,664
Revaluation reserve	17	67,822	57,054
Donated asset reserve	17	1,867	1,623
Government grant reserve	17	254	260
Other reserves	17	0	0
Income and expenditure reserve	17	1,184	(1,884)
TOTAL TAXPAYERS' EQUITY		<u>165,351</u>	<u>151,717</u>

The financial statements on pages 1 to 4 were approved by the Board on 4th June 2008 and signed on its behalf by:

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

Date:4/06/08.....

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED
31 March 2008**

	2007/08	2006/07
	£000	£000
Surplus/(deficit) for the financial year before dividend payments	8,158	2,325
Fixed asset impairment losses	0	0
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	11,066	10,480
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	432	895
Defined benefit scheme actuarial gains/(losses)	0	0
Additions/(reductions) in "other reserves"	0	0
Total recognised gains and losses for the financial year	19,656	13,700
Prior period adjustment	0	0
Total gains and losses recognised in the financial year	19,656	13,700

CASH FLOW STATEMENT FOR THE YEAR ENDED
31 March 2008

	NOTE	2007/08 £000	2006/07 £000
OPERATING ACTIVITIES			
Net cash inflow/(outflow) from operating activities	18.1	14,843	20,192
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE:			
Interest received		446	704
Interest paid		0	0
Interest element of finance leases		0	0
Net cash inflow/(outflow) from returns on investments and servicing of finance		446	704
CAPITAL EXPENDITURE			
(Payments) to acquire tangible fixed assets		(9,686)	(4,250)
Receipts from sale of tangible fixed assets		185	1,420
(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 inflow/(outflow) from capital expenditure		(9,501)	(2,830)
DIVIDENDS PAID			
Net cash inflow/(outflow) before management of liquid resources and financing		453	12,918
MANAGEMENT OF LIQUID RESOURCES			
(Purchase) of investments with DH		0	0
(Purchase) of other current asset investments		0	0
Sale of investments with DH		0	0
Sale of other current asset investments		0	0
Net cash inflow/(outflow) from management of liquid resources		0	0
Net cash inflow/(outflow) before financing		453	12,918
FINANCING			
Public dividend capital received		1,500	0
Public dividend capital repaid (not previously accrued)		(1,940)	(12,901)
Loans received from DH		0	0
Other loans received		0	0
Loans repaid to DH		0	0
Other 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/(outflow) from financing		(440)	(12,901)
Increase/(decrease) in cash		13	17

* This line is only used by NHS Trusts that are dissolved mid-year.

NOTES TO THE ACCOUNTS

1 ACCOUNTING POLICIES

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts which shall be agreed with HM Treasury. The accounting policies contained in that manual follow UK generally accepted accounting practice and HM Treasury's Government Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income Recognition

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

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.

From 1st April 2007, following guidance from the Department of Health, all digital hearing aid expenditure is now not capitalised.

Valuation

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

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

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

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

Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

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

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

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, 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

The Trust does not have any 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 2.2% in real terms.

Clinical negligence costs

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

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2006/07 relates to the Trust's contribution to the Clinical Negligence Scheme for Trusts.

Non-clinical risk pooling

The Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. 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. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.pensions.nhsbsa.nhs.uk. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

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

a) Full actuarial (funding) valuation

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

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

b) FRS17 Accounting valuation

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

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 with summary global member and accounting data.

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

Scheme provisions as at 31 March 2008:

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

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

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

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

Scheme provisions from 1 April 2008:

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

1.13 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). Note 30 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.20 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as government granted current asset investments, valued at open market value. As the Trust makes emissions a provision is recognised, with an offsetting transfer from the government grant reserve. The provision is settled on surrender of the allowances. The current asset investment, provision and government grant reserve are valued at current market value at the balance sheet date.

2 SEGMENTAL ANALYSIS

The Trust has one business segment only.

3. Income from Activities

	2007/08	2006/07
	£000	£000
Strategic Health Authorities	0	0
NHS Trusts	280	241
Primary Care Trusts	119,452	105,978
Foundation Trusts	307	225
Local Authorities	0	0
Department of Health	5,593	6,891
NHS Other	0	0
Non NHS:		
- Private patients	238	338
- Overseas patients (non-reciprocal)	1	10
- Road Traffic Act	-	1,117
- Injury cost recovery	636	0
- Other	543	43
	<u>127,050</u>	<u>114,843</u>

Injury cost recovery income is subject to a provision for doubtful debts of 7.8% to reflect expected rates of collection.

4. Other Operating Income

	2007/08	2006/07
	£000	£000
Patient transport services	0	0
Education, training and research	3,896	3,634
Charitable and other contributions to expenditure	26	0
Transfers from donated asset reserve	241	115
Transfers from government grant reserve	6	0
Non-patient care services to other bodies	4,362	3,907
Income Generation	2,258	2,008
Other income	27	30
	<u>10,816</u>	<u>9,694</u>

5. Operating Expenses

5.1 Operating expenses comprise:

	2007/08	2006/07
	£000	£000
Services from other NHS Trusts	977	1,020
Services from PCTs	0	0
Services from other NHS bodies	1,400	1,338
Services from Foundation Trusts	612	542
Purchase of healthcare from non NHS bodies	3	48
Directors' costs	585	565
Staff costs	90,198	86,744
Supplies and services - clinical	14,860	13,049
Supplies and services - general	2,003	1,678
Consultancy services	8	0
Establishment	2,158	1,219
Transport	230	277
Premises	7,255	6,052
Bad debts	84	125
Depreciation	5,249	5,041
Amortisation	0	0
Fixed asset impairments and reversals	212	0
Audit fees	162	161
Other auditor's remuneration	13	0
Clinical negligence	1,772	1,563
Redundancy costs	249	1,313
Other	1,814	2,173
	<u>129,844</u>	<u>122,908</u>

5.2 Operating leases

5.2/1 Operating expenses include:

	2007/08	2006/07
	£000	£000
Hire of plant and machinery	1	4
Other operating lease rentals	1,306	1,366
	<u>1,307</u>	<u>1,370</u>

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

	Land and buildings		Other leases	
	2007/08	2006/07	2007/08	2006/07
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	0	0	46	45
Between 1 and 5 years	0	0	21	20
After 5 years	0	0	1,281	1,281
	<u>0</u>	<u>0</u>	<u>1,348</u>	<u>1,346</u>

6. Staff costs and numbers

6.1 Staff costs

	Total	2007/08 Permanently Employed	Other	2006/07
	£000	£000	£000	£000
Salaries and wages	76,987	71,914	5,073	73,508
Social Security Costs	5,426	5,426	0	5,481
Employer contributions to NHS Pension Scheme	8,242	8,242	0	8,198
Other pension costs	76	76	0	73
	<u>90,731</u>	<u>85,658</u>	<u>5,073</u>	<u>87,260</u>

6.2 Average number of persons employed

	Total	2007/08 Permanently Employed	Other	2006/07
	Number	Number	Number	Number
Medical and dental	282	227	55	280
Ambulance staff	0	0	0	0
Administration and estates	489	475	14	517
Healthcare assistants and other support staff	630	623	7	658
Nursing, midwifery and health visiting staff	675	669	6	681
Nursing, midwifery and health visiting learners	8	8	0	4
Scientific, therapeutic and technical staff	370	369	1	379
Social care staff	0	0	0	0
Other	0	0	0	0
Total	<u>2,454</u>	<u>2,371</u>	<u>83</u>	<u>2,519</u>

6.3 Employee benefits

There were no employee benefits in 2007/08 or in 2006/07.

6.4 Management costs

	2007/08	2006/07
	£000	£000
Management costs	4,598	4,451
Income	138,314	124,539

Management costs in 2007/08 are 3.32% (2006/07 = 3.57%) .

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

6.5 Retirements due to ill-health

During 2007/08 there were 4 (2006/07, 9) early retirements from the NHS Trust on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £85,843 (£442,664). The cost of these ill-health retirements will be borne by the NHS Business Services Authority -Pensions Division.

7. Better Payment Practice Code

7.1 Better Payment Practice Code - measure of compliance

	2007/08	
	Number	£000
Total Non-NHS trade invoices paid in the year	32,395	31,533
Total Non NHS trade invoices paid within target	28,693	28,609
Percentage of Non-NHS trade invoices paid within target	89%	91%
Total NHS trade invoices paid in the year	1,974	12,818
Total NHS trade invoices paid within target	1,639	12,058
Percentage of NHS trade invoices paid within target	83%	94%

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

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

	2007/08	2006/07
	£000	£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:

	2007/08	2006/07
	£000	£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	0	0
(Loss) on disposal of land and buildings	0	0
Profits on disposal of plant and equipment	0	3
(Loss) on disposal of plant and equipment	(293)	0
	<u>(293)</u>	<u>3</u>

A review of all the Trust's equipment assets was undertaken in year and resulted in a substantial number of assets being removed from the asset register at a loss.

9. Interest Payable

	2007/08	2006/07
	£000	£000
Finance leases	0	0
Late payment of commercial debt	0	0
Loans	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 2007	0	0	0	0	0
Indexation				0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
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 2008	0	0	0	0	0
Amortisation at 1 April 2007	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
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 2008	0	0	0	0	0
Net book value					
- Purchased at 1 April 2007	0	0	0	0	0
- Donated at 1 April 2007	0	0	0	0	0
- Government granted at 1 April 2007	0	0	0	0	0
- Total at 1 April 2007	0	0	0	0	0
- Purchased at 31 March 2008	0	0	0	0	0
- Donated at 31 March 2008	0	0	0	0	0
- Government granted at 31 March 2008	0	0	0	0	0
- Total at 31 March 2008	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 2007	23,545	114,369	1,117	5,518	30,573	479	5,237	3,866	184,704
Additions purchased	0	789	0	3,192	1,582	9	596	330	6,498
Additions donated	0	27	0	0	381	7	17	0	432
Additions government granted	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassifications	0	2,494	0	(6,147)	3,475	0	87	91	0
Indexation	1,273	9,486	88	357	819	13	0	104	12,140
Revaluation	(408)	0	0	0	(22)	0	0	0	(430)
Disposals	0	(15)	0	0	(7,454)	(204)	(223)	(182)	(8,078)
Cost or Valuation at 31 March 2008	24,410	127,150	1,205	2,920	29,354	304	5,714	4,209	195,266
Depreciation at 1 April 2007					20,421	375	4,375	3,217	28,388
Charged during the year	0	2,246	18		2,373	26	396	190	5,249
Impairments	0	0	0	0	212	0	0	0	212
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		548	10		86	644
Revaluation					0	0	0	0	0
Disposals	0	0	0		(7,013)	(195)	(223)	(171)	(7,602)
Depreciation at 31 March 2008	0	2,246	18	0	16,541	216	4,548	3,322	26,891
Net book value									
- Purchased at 1 April 2007	23,545	113,549	1,117	5,518	9,106	97	862	639	154,433
- Donated at 1 April 2007	0	560	0	0	1,046	7	0	10	1,623
- Government granted at 1 April 2007	0	260	0	0	0	0	0	0	260
- Total at 1 April 2007	23,545	114,369	1,117	5,518	10,152	104	862	649	156,316
- Purchased at 31 March 2008	24,410	124,026	1,187	2,920	11,600	75	1,152	884	166,254
- Donated at 31 March 2008	0	624	0	0	1,213	13	14	3	1,867
- Government granted at 31 March 2008	0	254	0	0	0	0	0	0	254
- Total at 31 March 2008	24,410	124,904	1,187	2,920	12,813	88	1,166	887	168,375

11.1 Tangible Fixed Assets (contd)

Of the totals at 31 March 2008, £2,250,000 related to property valued at open market value.

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

	31 March 2008	31 March 2007
	£000	£000
Freehold	150,501	139,031
Long leasehold	0	0
Short leasehold	0	0
TOTAL	<u>150,501</u>	<u>139,031</u>

12. Stocks and Work in Progress

	31 March 2008	31 March 2007
	£000	£000
Raw materials and consumables	2,277	1,924
Work-in-progress	0	0
Finished goods	0	0
TOTAL	<u>2,277</u>	<u>1,924</u>

13. Debtors

	31 March 2008	31 March 2007
	£000	£000
Amounts falling due within one year:		
NHS debtors	2,984	2,235
Provision for irrecoverable debts	(115)	(88)
Other prepayments and accrued income	2,377	1,362
Other debtors	2,411	2,060
Sub Total	<u>7,657</u>	<u>5,569</u>

Amounts falling due after more than one year:

NHS debtors	0	0
Provision for irrecoverable debts	(36)	(64)
Other prepayments and accrued income	0	0
Other debtors	382	842
Sub Total	<u>346</u>	<u>778</u>
TOTAL	<u>8,003</u>	<u>6,347</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 2008	31 March 2007
	£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	8	0
NHS creditors	1,547	1,581
Non - NHS trade creditors - revenue	3,787	2,047
Non - NHS trade creditors - capital	886	4,074
Tax	9	1,927
Social security costs	838	0
Obligations under finance leases and hire purchase contracts	0	0
Other creditors	1,103	1,152
Accruals and deferred income	3,754	695
Sub Total	11,932	11,476
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	11,932	11,476

Other creditors include £1,049,532 pension contributions at 31 March 2008 (2006/07 = £809,419).

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 2007	0	948	0	0	810	1,758
Arising during the year	0	0	0	0	832	832
Utilised during the year	0	(76)	0	0	(750)	(826)
Reversed unused	0	0	0	0	(34)	(34)
Unwinding of discount	0	19	0	0	0	19
At 31 March 2008	0	891	0	0	858	1,749

Expected timing of cashflows:

Within one year	0	76	0	0	858	934
Between one and five years	0	815	0	0	0	815
After five years	0	0	0	0	0	0

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 £77,709. The remaining provision under this heading of £780,325 relates to Agenda for Change salary banding payments.

A total of £13,019,144 is included in the provisions of the NHS Litigation Authority at 31/3/2008 in respect of clinical negligence liabilities of the Trust. This figure is split between the Existing Liabilities Scheme (ELS) of £2,274,786 and the Clinical Negligence Scheme for Trusts (CNST) of £10,744,358. Corresponding figures for the year ended 31/3/2007 total £11,303,814 split between ELS of £4,677,695 and CNST of £6,626,119.

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 2007 as previously stated	57,054	1,623	260	0	(1,884)	57,053
Prior Period Adjustments	0	0	0	0	0	0
At 1 April 2007 as restated	<u>57,054</u>	<u>1,623</u>	<u>260</u>	<u>0</u>	<u>(1,884)</u>	<u>57,053</u>
Transfer from the income and expenditure account					2,823	2,823
Fixed asset impairments	0	0	0			0
Surplus/(deficit) on other revaluations/indexation of fixed/current assets	11,013	53	0			11,066
Transfer of realised profits/(losses) to the income and expenditure reserve	0	0	0		0	0
Receipt of donated/government granted assets		432	0			432
Transfers to the income and expenditure account for depreciation, impairment, and disposal of donated/government granted assets		(241)	(6)			(247)
Other transfers between reserves	(245)	0	0	0	245	0
Other movements on reserves				0		0
Reserves eliminated on dissolution	0	0	0	0	0	0
At 31 March 2008	<u><u>67,822</u></u>	<u><u>1,867</u></u>	<u><u>254</u></u>	<u><u>0</u></u>	<u><u>1,184</u></u>	<u><u>71,127</u></u>

18. Notes to the cash flow Statement

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

	2007/08	2006/07
	£000	£000
Total operating surplus/(deficit)	8,022	1,629
Depreciation and amortisation charge	5,249	5,041
Fixed asset impairments and reversals	212	0
Transfer from donated asset reserve	(241)	(115)
Transfer from the government grant reserve	(6)	0
(Increase)/decrease in stocks	(353)	116
(Increase)/decrease in debtors	(1,656)	13,467
Increase/(decrease) in creditors	3,644	730
Increase/(decrease) in provisions	(28)	(676)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities before restructuring costs	14,843	20,192
Payments in respect of fundamental reorganisation/restructuring	0	0
	<hr/>	<hr/>
Net cash inflow from operating activities	14,843	20,192
	<hr/> <hr/>	<hr/> <hr/>

18.2 Reconciliation of net cash flow to movement in net debt

	2007/08	2006/07
	£000	£000
Increase/(decrease) in cash in the period	13	17
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 cash flows	13	17
Non - cash changes in debt	0	0
Net debt at 1 April 2007	364	347
	<hr/>	<hr/>
Net debt at 31 March 2008	377	364
	<hr/> <hr/>	<hr/> <hr/>

18.3 Analysis of changes in net debt

	At 1 April 2007	Cash Transferred (to)/from other NHS bodies	Other cash changes in year	Non-cash changes in year	At 31 March 2008
	£000	£000	£000	£000	£000
OPG cash at bank	280	0	35		315
Commercial cash at bank and in hand	84	0	(22)		62
Bank overdraft	0	0	0		0
Loan from DH due within one year	0	0	0	0	0
Other debt due within one year	0	0	0	0	0
Loan from DH due after one year	0	0	0	0	0
Other 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
	364	0	13	0	377

19. Capital Commitments

There were no commitments under capital expenditure contracts at 31 March 2008 (prior year £809,101).

20. Post Balance Sheet Events

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

21. Contingencies

	2007/08 £000	2006/07 £000
Contingent liabilities	(24)	(228)
Amounts recoverable against contingent liabilities	0	0
Net value of contingent liabilities	<u>(24)</u>	<u>(228)</u>
Contingent Assets	<u>0</u>	<u>0</u>

Contingent liability consists of Public/employer liability as notified to the Trust by the NHS Litigation Authority and amounts to £24,485.

22. Movement in Public Dividend Capital

	2007/08 £000	2006/07 £000
Public Dividend Capital as at 1 April 2007	94,664	107,565
New Public Dividend Capital received (including transfers from dissolved NHS Trusts)	1,500	0
Public Dividend Capital repaid in year	(1,940)	(12,901)
Public Dividend Capital written off	0	0
Public Dividend Capital issued as originating capital on new establishment	0	0
Public Dividend Capital transferred to Foundation Trust	0	-
Other movements in Public Dividend Capital in year	0	0
Public Dividend Capital as at 31 March 2008	<u>94,224</u>	<u>94,664</u>

23. Financial Performance Targets

23.1 Breakeven Performance

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

	2003/04	2004/05	2005/06	2006/07	2007/08
	£000	£000	£000	£000	£000
Turnover	112,810	120,223	125,468	124,537	137,866
Retained surplus/(deficit) for the year	1	(1,189)	0	(2,823)	2,823
Adjustment for:					
- Other agreed adjustments	0	0	1,189	0	0
Break-even in-year position	1	(1,189)	1,189	(2,823)	2,823
Break-even cumulative position	10	(1,179)	10	(2,813)	10
Materiality test (I.e. is it equal to or less than 0.5%):					
- Break-even in-year position as a percentage of turnover	0.00%	-0.99%	0.95%	-2.27%	2.05%
- Break-even cumulative position as a percentage of turnover	0.01%	(0.98%)	0.01%	(2.26%)	0.01%

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 £5,335,000 bears to the average relevant net assets of £156,492,000, that is 3.41%.

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	2007/08 £000	2006/07 £000
External financing limit		(440)	(12,901)
Cash flow financing	(453)		(12,918)
Finance leases taken out in the year	0		0
Other capital receipts	0		0
External financing requirement	<u>0</u>	<u>(453)</u>	<u>(12,918)</u>
Undershoot		<u><u>13</u></u>	<u><u>17</u></u>

23.4 Capital Resource Limit

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

	2007/08 £000	2006/07 £000
Gross capital expenditure	6,930	7,685
Less: book value of assets disposed of	(476)	(1,417)
Plus: loss on disposal of donated assets	22	0
Less: capital grants	0	0
Less: donations towards the acquisition of fixed assets	(432)	(895)
Charge against the capital resource limit	<u>6,044</u>	<u>5,373</u>
Capital resource limit	6,096	5,375
Underspend against the capital resource limit	<u><u>52</u></u>	<u><u>2</u></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:

	2007/08	2006/07
	£'000s	£'000s
Sefton PCT	62,464	53,224
Central Lancashire PCT	46,028	42,260
National Blood Authority expenditure incurred	1,235	1,084
NHS Supply Chain expenditure incurred	3,209	2,914

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

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2008							
Sterling	377	377	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	377	377	0	0			
At 31 March 2007							
Sterling	364	364	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial assets	364	364	0	0			

27.2 Financial Liabilities

	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate		Non-interest bearing Weighted average term
					Weighted average interest rate	Weighted average period for which fixed	
Currency	£000	£000	£000	£000	%	Years	Years
At 31 March 2008							
Sterling	0	0	0	0	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial liabilities	0	0	0	0			
At 31 March 2007							
Sterling	95,684	0	1,020	94,664	0.00%	0	0
Other	0	0	0	0	0.00%	0	0
Gross financial liabilities	95,684	0	1,020	94,664			

Note: The public dividend capital is of unlimited term.

The Department of Health has determined in 2007/08 that public dividend capital is not a financial instrument, it is under legislation rather than contract. As there is no entry for it at 31 March 2008.

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 2008.

	Book Value	Fair Value	Basis of fair valuation
	£000	£000	
Financial assets			
Cash	377	377	
Debtors over 1 year:			
- Agreements with commissioners to cover creditors and provisions	0	0	Note a
Investments	0	0	
Total	<u>377</u>	<u>377</u>	
Financial liabilities			
Overdraft	0	0	
Creditors over 1 year:			
- Finance leases	0	0	Note b
Provisions under contract	0	0	Note c
Loans	0	0	
Total	<u>0</u>	<u>0</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.

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

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

28 Third Party Assets

The Trust held £1,447 cash at bank and in hand at 31 March 2008 (£1,447 - at 31 March 2007) 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	2,623	0	421	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	361	0	1,090	0
Balances with Public Corporations and Trading Funds	0	0	36	0
Balances with bodies external to government	4,673	346	10,385	0
At 31 March 2008	<u>7,657</u>	<u>346</u>	<u>11,932</u>	<u>0</u>
Balances with other Central Government Bodies	1,786	0	1,110	0
Balances with Local Authorities	0	0	0	0
Balances with NHS Trusts and Foundation Trusts	449	0	372	0
Balances with Public Corporations and Trading Funds	0	0	99	0
Balances with bodies external to government	3,334	778	9,895	0
At 31 March 2007	<u>5,569</u>	<u>778</u>	<u>11,476</u>	<u>0</u>

30 Losses and Special Payments

There were 234 cases of losses and special payments (2006/07: 564 cases) totalling £215,890 (2006/07: £225,449) paid during 2007/08.

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.