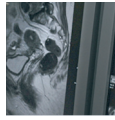


Countess of Chester Hospital NHS Foundation Trust

Annual Accounts for the year ended 31 March 2007





Statement of Accounting Officer's Responsibilities

The Health and Social Care (Community Health and Standards) Act 2003 states that the Chief Executive is the Accounting Officer of the NHS Foundation Trust. The relevant responsibilities of Accounting Officer, including their responsibility for the propriety and regularity of public finances for which they are answerable, and for the keeping of proper accounts, are set out in the Accounting Officer's Memorandum issued by the Independent Regulator of the NHS Foundation Trusts ("Monitor").

Under the Health and Social Care (Community Health and Standards) Act 2003, Monitor has directed the Countess of Chester Hospital NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Countess of Chester Hospital NHS Foundation Trust and of its Income and Expenditure, Total Recognised Gains and Losses and Cash Flows for the financial year.

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

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the NHS Foundation Trust Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on a going concern basis.

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

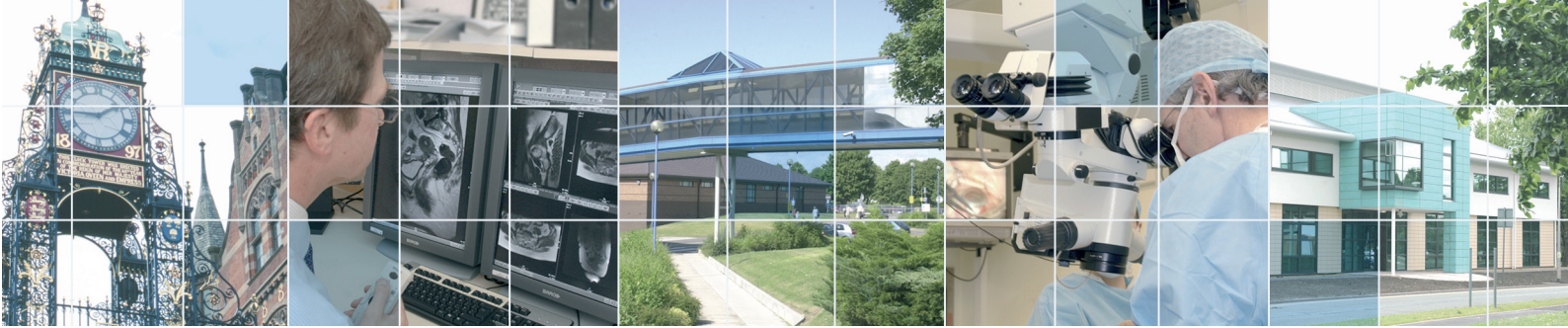
The annual accounts are prepared by the Directors of the Countess of Chester Hospital NHS Foundation Trust and are reviewed by the Audit Committee. The Board of Directors adopts the accounts following recommendation by the Audit Committee and once it is satisfied that the accounts give a true and fair view of the Trust's state of affairs, the Board of Directors also considers going concern and signs the Management Representation letter.

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

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

5th June 2007

Peter Herring - Chief Executive



Statement in respect of internal control

Scope of responsibility

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

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Countess of Chester Hospital NHS Foundation Trust, to 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 Countess of Chester Hospital NHS Foundation Trust for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Risk Management Strategy sets out the responsibility and role of the Chief Executive in relation to risk management. Through the Chairmanship of the Risk Management Committee and support of integrated clinical and non-clinical risk management the Chief Executive has delegated the executive lead to the Medical Director and operational responsibility to the Risk and Clinical Governance Manager. The Risk Management Committee embraces strategic issues, monitors the management of strategic risks, the activity of the Risk & Health and Safety Operational Group and reviews compliance with the Standards for Better Health and key performance indicators. The Risk Management Committee reports directly to the Board of Directors.

The roles and responsibilities of staff are clearly identified within the Risk Management Strategy and key staff have been trained in root cause analysis. Risk management, risk assessment and incident reporting is included in core induction and the two-day mandatory training programme. A separate medical staff and non-clinical staff mandatory programme commenced at the beginning of the year. There are other training forums to ensure that risk management is embedded throughout the Trust. The HR Department review mandatory training and report to the Risk Management Committee and the Board of Directors.

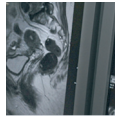
The risk and control framework

The risk management framework is set out in the Risk Management Strategy and is underpinned by the policy and procedure for risk management. The Risk Management Strategy is an integral part of the Trust's approach to continuous quality improvement and is intended to support and assist the organisation in delivering the key objectives of the NHS Plan. The review of the strategy, due in March 2006, was deferred to take into account the revised governance arrangements that will be put into place from 1 April 2007. The strategy will be reviewed in 2007/2008 in light of these changes. The Standards for Better Health Declaration was reviewed by the full Board prior to formal sign off.

The key elements of the strategy include:

- An executive summary from the Chief Executive that sets out the commitment to risk management and key indicators and the support for employees in providing services that are safe for patients and recognises that risk management is everyone's business;
- Key risk management objectives;
- Risk management and business continuity designated responsibilities including an organisation chart and accountability arrangements. This includes the forums for managing risk including principal committees and summarised terms of reference;





- Risk management processes that include the identification, evaluation, analysis, risk control, review, follow up and escalation processes;
- A definition of acceptable risk is included within the strategy together with the description of the 5 by 5 matrix and classifications for impact and likelihood. The classifications follow the National Patient Safety Agency (NPSA) guidance.
The strategy was discussed and approved at Board level;
- Training arrangements;
- Reporting of actions against top ten risks to the risk management committee;
- Framework and templates for divisional risk registers and clinical governance reviews; and
- Dissemination to key stakeholders.

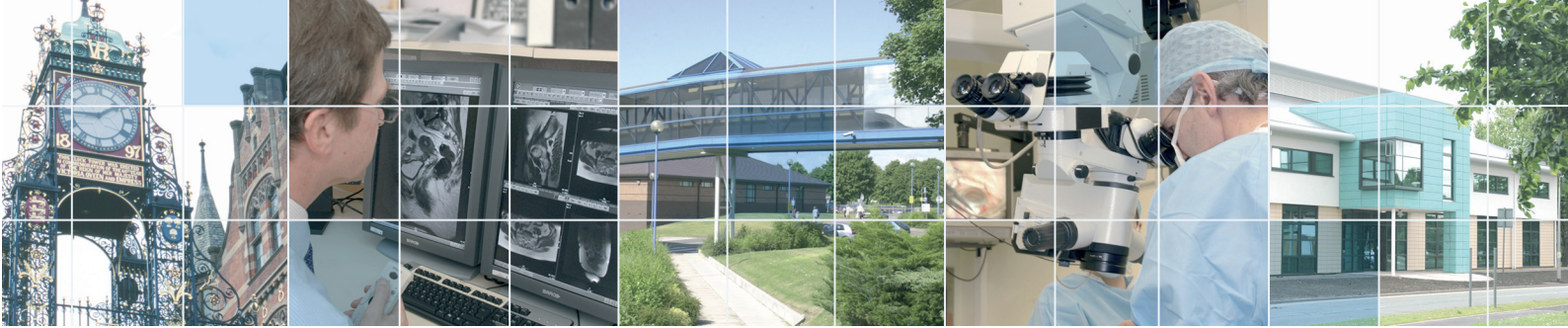
The Countess of Chester Hospital NHS Foundation Trust has developed and has continued to monitor risks within the Assurance Framework in line with national guidance. The standard Assurance Framework Tool has been utilised to identify the principal risks in achieving the corporate objectives. Corporate objectives were reviewed in year; existing risks were re-mapped to the new objectives, and the Risk Management Committee routinely evaluated the risks during the course of the year. The Assurance Framework has been reviewed both in-year and at the end of the financial year by the Board of Directors. Action plans have been developed to address gaps in controls and / or assurances.

In addition there are sub systems that form part of the overall risk management framework within the Trust, for example:-

- Ward, departmental and divisional risk registers have been in place for the full year and continue to be promulgated by robust systems for risk assessment across all areas of the organisation. The finance risk register includes more details of areas of financial risk emerging from the impact of the financial deficit within the local health economy, the full impact of NICE recommendations, the impact of pay reforms;
- DATIX is an integrated risk management system that is utilised to record incidents, complaints, claims and PALS issues that enables management to have access to incidents in their own area of responsibility;
- Education and training programmes are in place and details are recorded on the HR system. From 2007 / 2008 the training details will be logged through the Oracle Learning Module within the Electronic Staff Record System that became operational on 1 April 2007;
- Policies, including those for Incident and Reporting of Serious Untoward Incidents, outline the specific responsibilities of key individuals, including communication with patients and relatives, notification to external stakeholders and investigation and follow-up of the incident. All approved policies and procedures are loaded into the Trove document management system following approval at Corporate or Divisional level, as defined within the Policy on Policies document;
- Quarterly directorate progress reports are submitted to the Risk and Clinical Governance Manager and the Risk and Health & Safety Operational Group;
- Risk assessment is an integral part of the process for developing all new projects;
- The Western Cheshire Clinical Risk Forum is attended by all local health providers on a quarterly basis; and
- The Board of Governors Strategy Group have reviewed the draft Standards for Better Health Declaration and input is obtained from the Overview and Scrutiny Committee and the Patient and Public Involvement Forum.

Review of economy, efficiency and effectiveness of the use of resources

Effective performance management has been demonstrated through, for example:



- Achievement of “good” for quality of services and “fair” for use of resources in the NHS Performance ratings and indicators as evaluated by the Healthcare Commission;
- Achievement of the majority of key NHS targets central to delivering effective services, with the exception of the MRSA target which was not achieved, largely as a result of an increase in community acquired infection;
- Monitor, the Independent Regulator of NHS Foundation Trusts issues financial risk ratings between 1 and 5 (1 being the highest level of risk and 5 being the lowest). The Trust has retained a financial risk rating of 5 for the second year;
- The governance risk rating, issued by Monitor, is amber, due to the failure to achieve the MRSA target detailed above; and
- The mandatory services risk rating, issued by Monitor, is green.

The performance management dashboard, reports and information pack are provided routinely to members of the Board of Directors and these are underpinned with sound processes. The effectiveness of these reports enables senior management to monitor, review and take appropriate action to ensure that its key targets are met or remedial action taken to improve areas where necessary.

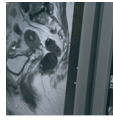
The Trust has in place overall arrangements for:

- Setting and cascading aims, objectives and targets;
- Developing and cascading action plans to meet Trust objectives and targets;
- Corporate objectives were reviewed and revised in year to respond to the requirements of “Commissioning a Patient Led NHS”;
- Promotion of a positive risk management culture that ensures staff, at all levels, identify and manage risks;
- Allocating resources and review of arrangements to ensure that cost improvement savings are performance managed;
- Workforce changes have continued with good progress in managing the Consultants Contract (reviewed by External Audit), and Agenda for Change;
- The national staff survey results have been received from the Healthcare Commission and a summary report provided to the April 2007 meeting of the Board of Directors. Issues identified will be reviewed and action plans put in place, where appropriate;
- Annual patient survey results are presented to the Board of Directors;
- The Trust has embarked on reviews of procurement practices in order to make decisions that will commercially improve best value, for example the use of e-procurement; and
- An external review of performance optimisation and a commissioning base line review has been undertaken during the course of the year. The report recognises that the Trust has successfully achieved its cost reduction programme to date and will need to strengthen its processes and practices in place to sustain a more challenging and strategic programme for the future.

Compliance with NHS Pension Scheme Regulations

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. The NHS Pension Scheme 2006-07 Contributions Assurance Statement has been duly completed and issued.





Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the NHS Foundation Trust who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the audit committee and risk management committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Assurance Framework and regular performance management reports also provide me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by ongoing attendance and debate at the Audit Committee, Risk Management Committee, and receipt of the minutes and papers from the Clinical Governance Board and the Risk & Health and Safety Operational Group. There are several plans to address weaknesses identified in each review and these are brought together into an Assurance Framework action plan.

The Trust is also subject to a number of external assessments and reports are catalogued within the CIRIS software to ensure that risk management processes and the Standards for Better Health are supported by an evidence base.

The Board of Directors provide active leadership of the Trust within a framework of prudent and effective controls that enable risk to be assessed and managed.

The Audit Committee, as part of an integrated committee structure, is pivotal in advising the Board of Directors on the effectiveness of the system of internal control.

The Risk Management and Clinical Governance Board are key components by which I am able to assess the effectiveness and assure the Board of Directors of risk management generally and clinical risk.

The Internal Audit plan is risk based and includes a number of the key priority areas that are identified within the Assurance Framework. Quarterly reports are provided to the Audit Committee and full reports to the Director of Finance, and line management. The Audit Committee also receives details of actions that remain outstanding following any follow up of previous audit work. The Director of Finance also meets with the Audit Manager. A review of the Trust's Assurance Framework has been undertaken and a programme of developments provided to the Clinical and Risk Manager for implementation.

A nominated Local Counter Fraud Specialist with a remit on building a strong anti-fraud culture throughout the organisation is commissioned and a specialist security manager has a remit to promote and protect the security of people in the hospital.

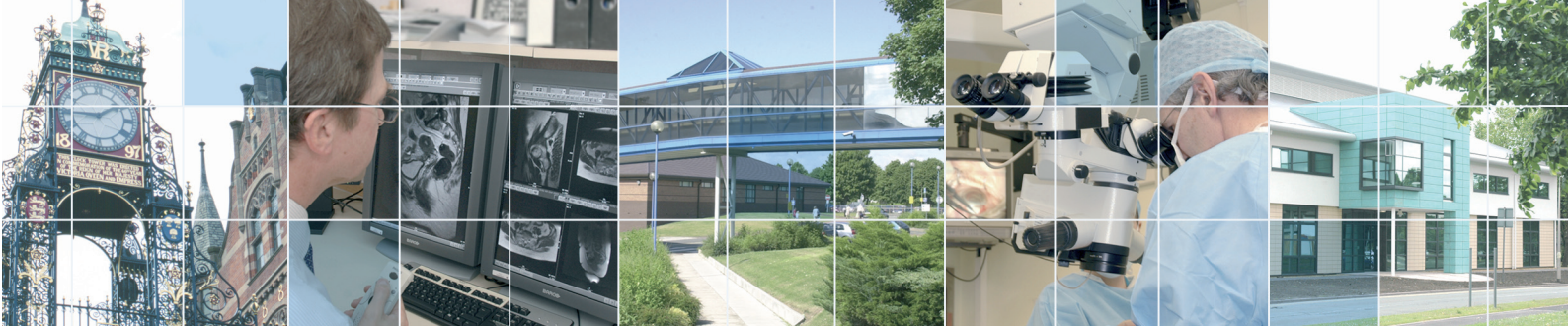
Any significant internal control issues would be reported to the Board of Directors via the Audit Committee and review of the Assurance Framework. Any significant risks have been identified within the Assurance Framework and reviewed in-year by the Risk Management Committee and at year-end by the full Board of Directors.

The final declaration for the Standards of Better Health identifies that all areas are compliant.

The Board of Directors is committed to continuous improvement and development of the systems of internal control.

Peter Herring - Chief Executive

5th June 2007



Independent Auditors' Report to the Board of Governors of Countess of Chester Hospital NHS Foundation Trust

We have audited the financial statements of Countess of Chester Hospital NHS Foundation Trust for the year ended 31 March 2007 under the Health and Social Care (Community Health and Standards) Act 2003. 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 NHS Foundation Trusts set out therein.

This report is made solely to the Board of Governors of Countess of Chester Hospital NHS Foundation Trust ('the Trust'), as a body, in accordance with the Health and Social Care (Community Health and Standards) Act 2003. Our audit work has been undertaken so that we might state to the Board of Governors of the Trust, as a body, those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Board of Governors, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Accounting Officer and Auditors

As described on page 2 the Accounting Officer is responsible for the preparation of the financial statements in accordance with directions issued by Monitor. Our responsibilities, as independent auditors, are established by statute, the Code of Audit Practice issued by Monitor and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view of the state of affairs of the Trust and its income and expenditure for the year ended 31 March 2007.

We review whether the statement on internal control on pages 3 to 6 reflects compliance with Monitor's guidance issued in the NHS Foundation Trust Financial Reporting Manual. We report if it does not meet the requirements specified by Monitor or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the Directors' statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the statement of accounts.

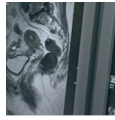
Basis of Audit Opinion

We conducted our audit in accordance with the Health and Social Care (Community Health and Standards) Act 2003 and the Code of Audit Practice issued by Monitor, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused





by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

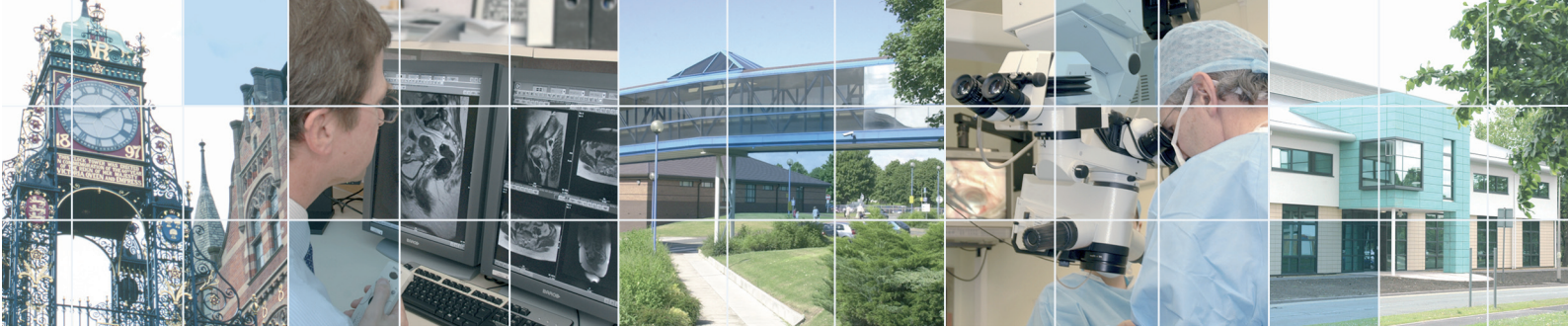
Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of Countess of Chester Hospital NHS Foundation Trust as at 31 March 2007 and of its income and expenditure for the year then ended.

Certificate

We certify that we have completed the audit of the accounts in accordance with the requirements of the Health and Social Care (Community Health and Standards) Act 2003 and the NHS Foundation Trust Audit Code of Practice issued by Monitor.

KPMG LLP
Chartered Accountants
St James Square
Manchester
M2 6DS
5 June 2007



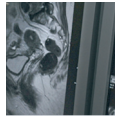
Foreword to the accounts

These accounts for the year ended 31 March 2007 have been prepared by the Countess of Chester Hospital NHS Foundation Trust under schedule 1 sections 24 and 25 of the Health and Social Care (Community Health and Standards) Act 2003 in the form which Monitor, the Independent Regulator of NHS Foundation Trusts has, with the approval of the Treasury directed.

Peter Herring - Chief Executive

5th June 2007



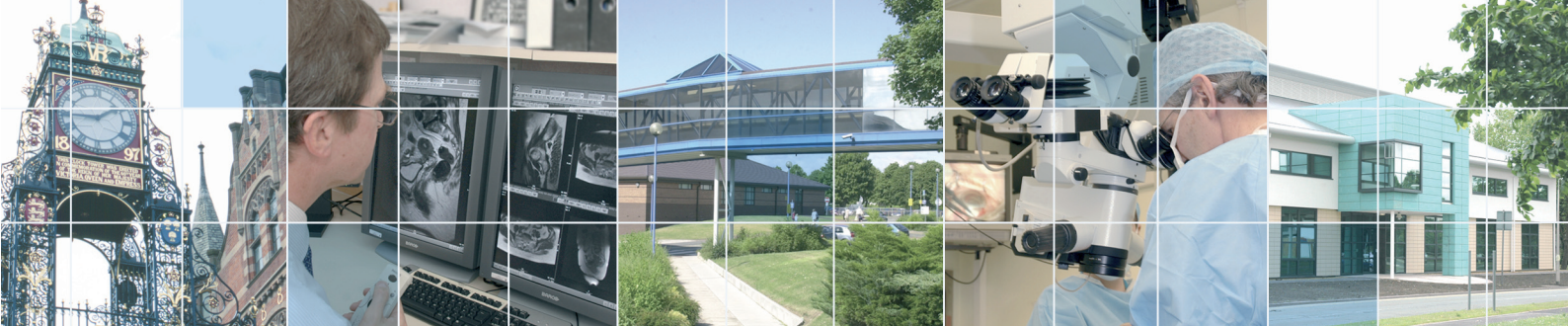


Income and Expenditure Account

for the year ended 31 March 2007

	NOTE	2006/07 £000	2005/06 as restated £000
Income from activities:			
Continuing operations	2	127,226	122,292
Other operating income			
Continuing operations	3	10,363	10,500
Operating expenses:			
Continuing operations	4-5	<u>(132,794)</u>	<u>(128,697)</u>
OPERATING SURPLUS			
Continuing operations		4,795	4,095
(Loss) / Profit on disposal of fixed assets	8	<u>(209)</u>	<u>477</u>
SURPLUS BEFORE INTEREST		4,586	4,572
Interest receivable		<u>805</u>	<u>564</u>
SURPLUS FOR THE FINANCIAL YEAR		5,391	5,136
Public Dividend Capital dividends payable	6	<u>(2,658)</u>	<u>(2,523)</u>
RETAINED SURPLUS FOR THE YEAR		<u><u>2,733</u></u>	<u><u>2,613</u></u>

The notes on pages 14 to 34 form part of these financial statements



Balance Sheet

as at 31 March 2007

	NOTE	31 March 2007 £000	31 March 2006 as restated £000
FIXED ASSETS			
Tangible fixed assets	8.2	84,566	81,653
		84,566	81,653
CURRENT ASSETS			
Stocks and work in progress	9	1,683	1,462
Debtors	10	4,669	4,767
Current asset investments	15.3	13,524	9,535
Cash at bank and in hand	15.3	265	1,011
		20,141	16,775
CREDITORS: Amounts falling due within one year	11	(14,968)	(12,112)
NET CURRENT ASSETS		5,173	4,663
TOTAL ASSETS LESS CURRENT LIABILITIES		89,739	86,316
CREDITORS: Amounts falling due after more than one year	11	(1,071)	(1,166)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(1,692)	(2,970)
TOTAL ASSETS EMPLOYED		86,976	82,180
FINANCED BY:			
Public dividend capital		58,834	56,214
Revaluation reserve	13	17,809	18,186
Income and expenditure reserve	13	8,655	6,011
Donated asset reserve	13	1,068	1,195
Other reserves	13	610	574
TOTAL FUNDS	18	86,976	82,180

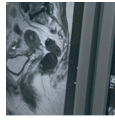
For details of the prior period adjustment made in the comparative figures, refer to note 13.2.

The notes on pages 14 to 34 form part of these financial statements.

The financial statements were approved by the Board of Directors on 5 June 2007 and are signed on its behalf by:

Signed:

Peter Herring - Chief Executive



Statement of Total Recognised Gains and Losses

for the year ended 31 March 2007

	2006/07	2005/06 as restated
	£000	£000
Surplus for the financial year before dividend payments	5,391	5,136
Unrealised (deficit)/surplus on fixed asset revaluations	(466)	25
Receipt of donated assets	15	(351)
Reductions in the donated asset reserve due to the depreciation of donated assets	(142)	(209)
Additions in "other reserves"	36	460
	<hr/> 4,834	<hr/> 5,061
Prior year adjustment	(760)	(117)
Total recognised gains	<hr/> 4,074	<hr/> 4,944

For details of the prior period adjustment made in the comparative figures, refer to note 13.2. The notes on pages 14 to 34 form part of these financial statements.

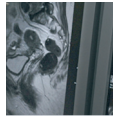


Cash Flow Statement

for the year ended 31 March 2007

		2006/07		2005/06 as restated
	NOTE	£000	£000	£000
OPERATING ACTIVITIES				
Net cash inflow from operating activities	15.1		9,189	11,172
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		805		564
Net cash inflow from returns on investments and servicing of finance			805	564
CAPITAL EXPENDITURE				
Payments to acquire tangible fixed assets		(6,892)		(11,411)
Receipts from sale of tangible fixed assets		143		655
Net cash outflow from capital expenditure			(6,749)	(10,756)
DIVIDENDS PAID				
Net cash inflow/(outflow) before management of liquid resources and financing			(2,658)	(2,523)
			587	(1,543)
MANAGEMENT OF LIQUID RESOURCES				
Movement in short-term deposits	15.3	(3,989)		(7,535)
Net cash outflow from management of liquid resources			(3,989)	(7,535)
FINANCING				
Public dividend capital received		2,620		7,310
Government grant received		-		-
Other capital receipts		36		460
Net cash inflow from financing			2,656	7,770
Movement in cash			(746)	(1,308)

The notes on pages 14 to 34 form part of these financial statements.



Notes to the Accounts

1. Accounting Policies

Monitor has directed that the financial statements of NHS Foundation Trusts shall meet the accounting requirements of the NHS Foundation Trusts Financial Reporting Manual which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2006/07 NHS Foundation Trust Financial Reporting Manual issued by Monitor. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent that they are meaningful and appropriate to NHS Foundation Trusts. 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. NHS Foundation Trusts, in compliance with HM Treasury's Financial Reporting Manual, are not required to comply with the FRS3 requirements to report "earnings per share" or historical profits and losses.

1.2 Acquisitions and discontinued operations

Activities are considered to be 'discontinued' where they meet all of the following conditions:

- The sale (this may be at nil consideration for activities transferred to another public sector body) or termination is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.
- If a termination, the former activities have ceased permanently.
- The sale or termination has a material effect on the nature and focus of the reporting NHS Foundation Trust's operations and represents a material reduction in its operating facilities resulting either from its withdrawal from a particular activity or from a material reduction in income in the NHS Foundation Trust's continuing operations.
- The assets, liabilities, results of operations and activities are clearly distinguishable, physically, operationally and for financial reporting purposes.

Operations not satisfying all these conditions are classified as continuing.

Activities are considered to be 'acquired' whether or not they are acquired from outside the public sector.

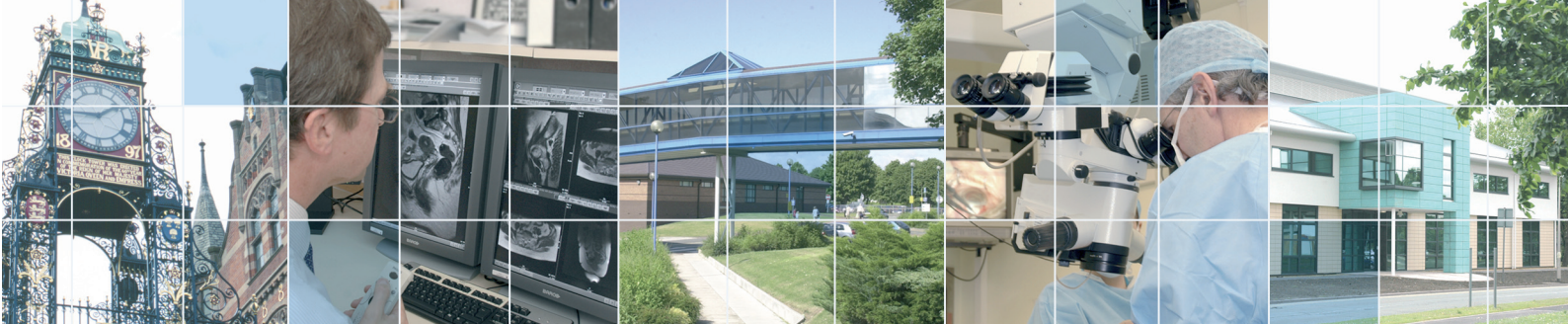
1.3 Income recognition

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

The NHS Foundation Trust changed the form of its contracts with NHS commissioners to follow the Department of Health's Payment by Results methodology in 2004/05. As an early implementer the transition to full National Tariff is phased over a four year period. In 2004/05 the Trust received 25% of the difference between its local costs and tariff, which increased to 50% in 2005/06 and 75% in 2006/07. Given Tariff and PBR structural changes each year, the value received in year at the relevant proportion changes also, during the year 2006/07 the Trust received £2,280,000. (2005/06 £1,924,000)

1.4 Expenditure

Expenditure is accounted for by applying the accruals convention.



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
- form a group of assets which individually have a cost of more than £250, collectively have a cost of at least £5,000, 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 or refurbishment of a ward or unit irrespective of their individual or collective cost.

Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable. The costs arising from financing the construction of the fixed assets are not capitalised but are charged to the income and expenditure account in the year to which they relate.

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years. A three yearly interim valuation is also carried out.

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. The last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005.

The revaluation undertaken at that date has been accounted for on 31 March 2005.

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

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

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

Residual interests in off-balance sheet Private Finance Initiative properties are included in assets under construction within tangible fixed assets at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in the fair value of the residual as estimated at the start of the contract and at the balance sheet date.

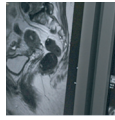
Operational equipment is valued at depreciated replacement cost. Equipment surplus to requirements is valued at net recoverable amount.

Depreciation, amortisation and impairments

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

Assets in the course of construction and residual interests in off-balance sheet PFI contract





assets are not depreciated until the asset is brought into use or reverts to the Trust, respectively. Buildings and installations are depreciated over the estimated remaining life of the asset as assessed by the NHS Foundation Trust's professional valuers. Equipment is depreciated evenly over the estimated life of the asset, as follows:

	Years
Plant & Machinery	5 to 15
Transport Equipment	5
Information Technology	7 to 8
Furniture & Fittings	5 to 10

Fixed asset impairments resulting from losses of economic benefits are charged to the Income and Expenditure Account. All other impairments are taken to the revaluation reserve and reported in the Statement of Total Recognised Gains and Losses to the extent that there is a balance on the revaluation reserve in respect of the particular asset.

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

1.7 Current Asset Investment

Current Asset Investments are short term deposits which are readily convertible into known amounts of cash, at or close to their carrying amounts. They are treated as liquid resources in the Cashflow Statement.

1.8 Government Grants

Government grants are grants from Government bodies other than income for the provision of services. Grants from the Department of Health are accounted for as Government grants as are grants from the Big Lottery Fund (previously the New Opportunities Fund). Where the Government grant is used to fund revenue expenditure it is taken to the Income and Expenditure Account to match that expenditure. Where the grant is used to fund capital expenditure the grant is held as deferred income and released to the Income and Expenditure Account over the life of the asset on a basis consistent with the depreciation charge for that asset.

1.9 Private Finance Initiative (PFI) Transactions

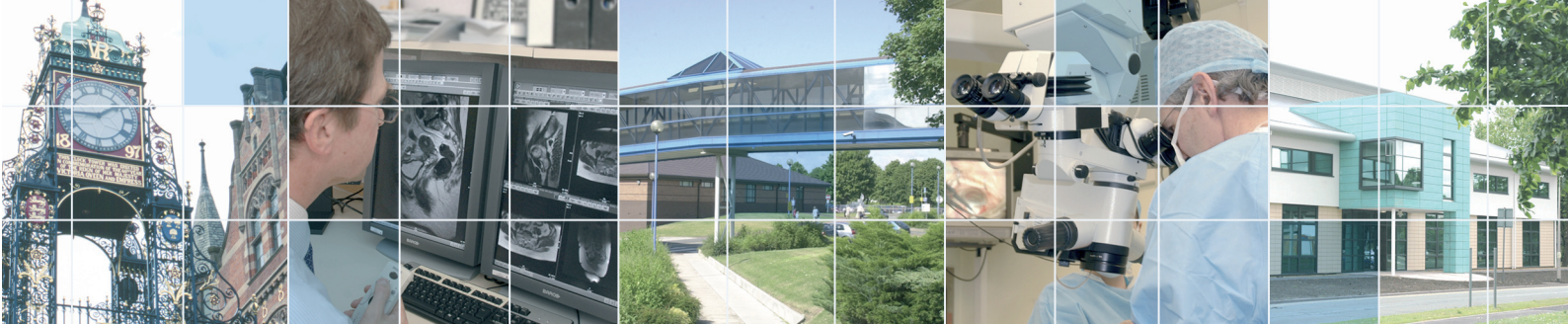
The NHS follows HM Treasury's Technical Note 1 (Revised) "How to Account for PFI transactions" which provides definitive guidance for the application of Application note F to FRS 5.

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

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

1.10 Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Work-in-progress comprises goods and services in intermediate stages of production.



1.11 Cash, bank and overdrafts

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

1.12 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 significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

Contingent liabilities are provided for where a transfer of economic benefits is probable. Otherwise, they are not recognised, but are disclosed in note 12 unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

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

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

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the NHS Foundation 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 NHS Foundation Trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Trust is disclosed at note 12.

Non-clinical risk pooling

The NHS Foundation 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 when the liability arises.

1.13 Pension costs

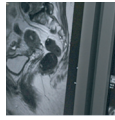
Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit Scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the NHS Foundation Trust to identify its share of the underlying scheme assets and liabilities. Therefore, the Scheme is accounted for as a defined contribution Scheme under FRS 17.

The Scheme is subject to a full valuation every four years by the Government Actuary. The last published valuation relates to the period 1 April 1994 to 31 March 1999. The valuation as at 31 March 2003 has not yet been published and it is not expected that it will be published before the 2006/07 NHS Foundation Trust Accounts are prepared. Between valuations, the Government Actuary provides an update of the Scheme liabilities which is contained in the Scheme Actuary Report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at www.nhspa.gov.uk.

The notional surplus of the Scheme is £1.1 billion as per the last Scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the Scheme continues to operate on a sound financial basis.

Employers pension cost contributions are charged to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following the Scheme valuation, on advice from the Actuary. At the last valuation on which contribution rates were rebased (31 March 1999) employer contribution rates from 2003-04 were set at 14% of pensionable pay.





Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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

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

1.14 Taxation

The Countess of Chester Hospital NHS Foundation Trust is a Health Service body within the meaning of s519A ICTA 1988 and accordingly is exempt from taxation in respect of income and capital gains within categories covered by this. There is a power for the Treasury to disapply the exemption in relation to the specified activities of a Foundation Trust (s519A (3) to (8) ICTA 1988). Accordingly, the Trust is potentially within the scope of Corporation Tax in respect of activities which are not related to, or ancillary to, the provision of healthcare, and where the profits therefrom exceed £50,000pa. There is no tax liability arising in respect of the current financial year.

Most of the activities of the Foundation 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

In accordance with the Foundation Trusts Financial Reporting Manual assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the NHS Foundation Trust has no beneficial interest in them. See note 22.

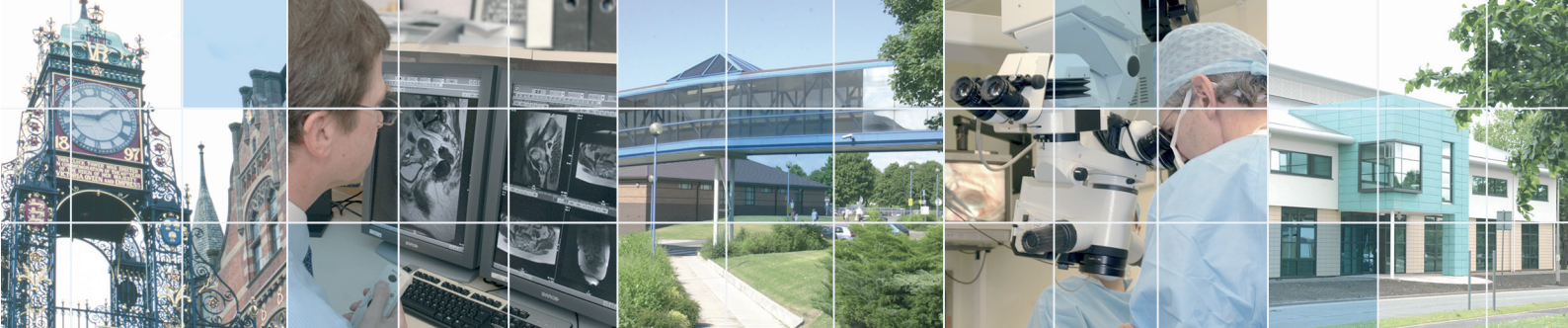
1.17 Leases

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

1.18 Public Dividend Capital (PDC) and PDC Dividend

Public Dividend Capital (PDC) is a type of public sector equity finance.

A charge, reflecting the forecast cost of capital utilised by the NHS Foundation 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 average relevant net assets of the NHS Foundation Trust. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for donated assets and cash held with the Office of the Paymaster General. Average relevant net assets are calculated as a simple mean of opening and closing relevant net assets. Note 6 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.



2. Income from Activities

2.1 Income from activities comprises:

	2006/07 £000	2005/06 as restated £000
Elective income	25,291	21,246
Non elective income	49,986	50,524
Outpatient income	23,558	22,397
Other type of activity income	23,689	23,498
A&E income	5,013	6,076
Total income	127,537	123,741
PBR clawback	(760)	(1,924)
Income from activities (before private patient income)	126,777	121,817
Private patient income	449	475
Income from activities	127,226	122,292

As an NHS Foundation Trust, the majority of income in respect of patient care is received under Payment by Results (PBR), which is intended to re-imburse Trusts based on the actual activity delivered using the National Tariff of procedure prices. Income is shown above gross with a 25% clawback (50% in 2005/06) to reduce our income to the amount received in the year.

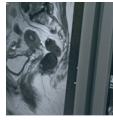
The Terms of Authorisation set out the mandatory goods and services that the Trust is required to provide (protected services). All of the income from activities before private patient income shown above is derived from the provision of protected services.

The Trust changed the classification of certain services and recharges from non-clinical to clinical during the year, to better reflect the nature of the income. The comparator for the previous financial year has been amended accordingly.

2.2 Income from activities comprises:

	2006/07 £000	2002/03 £000
Private patient income	449	520
Total patient related income	127,226	89,454
Proportion as a percentage	0.4%	0.6%

Section 15 of the Health and Social Care (Community Health and Standards) Act 2003, requires that the proportion of private patient income to the total patient related income of NHS Foundation Trusts should not exceed its proportion whilst the body was an NHS Trust in 2002/03. The note above shows that the Trust was compliant for 2006-07.



3. Other Operating Income

	2006/07 £000	2005/06 as restated £000
Research and development	183	188
Education and training	5,785	5,353
Charitable and other contributions to expenditure	248	343
Amortisation of Government Grants	94	-
Transfers from donated asset reserve	142	209
Non-patient care services to other bodies	1,019	1,334
Other income	2,892	3,073
	10,363	10,500

Other income includes £1,029,000 (2005/06 £1,049,000) in respect of staff catering and shop income and £848,000 (2005/06 £672,000) in respect of car parking.

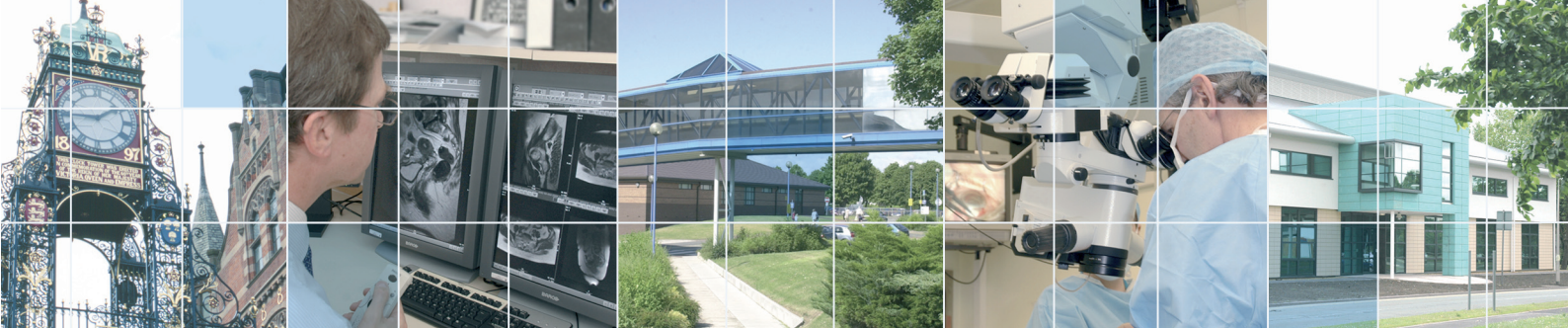
The Terms of Authorisation sets out the mandatory education and training that the Trust is required to provide (protected education and training). All of the income from education and training shown above is derived from the provision of protected education and training. All other operating income is un-protected.

The Trust changed the classification of certain services and recharges from non-clinical to clinical during the year, to better reflect the nature of the income. The comparator for the previous financial year has been amended accordingly.

4. Operating Expenses

4.1 Operating expenses comprise:

	2006/07 £000	2005/06 as restated £000
Services from NHS Foundation Trusts	145	198
Services from NHS Trusts	1,090	838
Services from other NHS bodies	418	554
Purchase of healthcare from non NHS bodies	226	213
Directors' costs	745	665
Staff costs	93,707	90,645
Supplies and services		
- clinical	18,287	18,088
- general	2,211	2,150
Establishment	1,534	1,587
Transport	111	131
Premises	6,459	5,903
Depreciation and amortisation	3,794	3,505
Audit fees	48	82
Clinical negligence	2,076	2,088
Training courses	614	545
Other	1,329	1,505
	132,794	128,697



4.2 Operating Leases

4.2.1 Operating expenses include:

	2006/07 £000	2005/06 £000
PFI Scheme (see note 20.1)	897	893
Hire of Plant and Machinery	1,024	963
	1,921	1,856

4.2.2 Annual commitments under non - cancellable operating leases are:

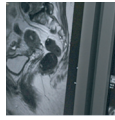
	Land and Buildings		Other Leases	
	2006/07 £000	2005/06 £000	2006/07 £000	2005/06 £000
Operating leases which expire:				
Within 1 year	32	79	-	-
Between 1 and 5 years	-	32	919*	922
	32	111	919	922

*Other lease commitments expiring between 1 and 5 years includes PFI scheme costs of £897,000 (2005/06 £900,000), see note 20.1

4.3 Salary and Pension Entitlements of Senior Managers

4.3.1

Name and Title	Salary	Other Remuneration	Benefits in kind	Salary	Other Remuneration	Benefits in kind
	(bands of £5,000)	(bands of £5,000)	(to nearest £100)	(bands of £5,000)	(bands of £5,000)	(to nearest £100)
	2006/07 £000	2006/07 £000	2006/07 £	2005/06 £000	2005/06 £000	2005/06 £
2006/07						
Dr William E Kenyon - Medical Director	30-35	125-130	-	30-35	120-125	-
Mrs Gaynor Hales - Director of Nursing and Patient Services	85-90	-	-	80-85	-	-
Mr Peter Herring - Chief Executive	125-130	-	-	115-120	-	-
Mrs Carole Spencer - Director of Planning and Development	75-80	-	200	70-75	-	-
Mr David Wood - Director of Human Resources and Corporate Services	85-90	-	-	80-85	-	-
Mrs Jane Tomkinson - Deputy Chief Executive and Director of Finance and Performance	105-110	-	-	90-95	-	-
Dr Gerald Levy - Non-Executive Director	5-10	-	-	0-5	-	-
Sir James Sharples QPM DL - Chairman	30-35	-	-	20-25	-	-
Mrs Samantha Dixon - Non-Executive Director	10-15	-	-	5-10	-	-
Mr Alastair Findlay - Non-Executive Director	10-15	-	-	5-10	-	-
Mrs Wendy Williams - Non-Executive Director	10-15	-	-	0-5	-	-
Mrs Sarah Jane Goulbourne - Non-Executive Director	10-15	-	-	0-5	-	-



4.3.2 Pension benefits

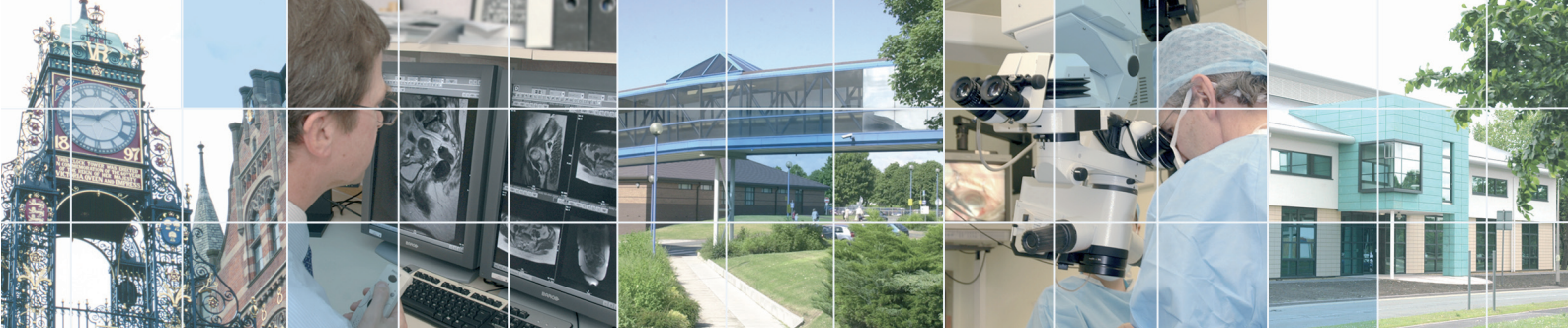
	Real Increase in Pension at age 60	Real Increase in Automatic Lump Sum at age 60	Total Accrued Pension at age 60 at 31 March 2007	Total Related Lump Sum at 31 March 2007	Cash Equivalent Transfer Value at 31 March 2007	Cash Equivalent Transfer Value at 31 March 2006	Real Increase in Cash Equivalent Transfer Value
	(bands of £2,500)	(bands of £2,500)	(bands of £2,500)	(bands of £2,500)	(bands of £1,000)	(bands of £1,000)	
	£000	£000	£000	£000	£000	£000	£000
Dr William E Kenyon - Medical Director	17.5-20	55-57.5	75-77.5	225-227.5	1,389-1,390	996-997	368
Mrs Gaynor Hales - Director of Nursing and Patient Services	0-2.5	5-7.5	17.5-20	55-57.5	253-254	211-212	37
Mr Peter Herring - Chief Executive	2.5-5	12.5-15	55-57.5	170-172.5	958-959	828-829	109
Mrs Carole Spencer - Director of Planning and Development	0-2.5	0-2.5	10-12.5	30-32.5	137-138	128-129	5
Mr David Wood - Director of Human Resources and Corporate Services	2.5-5	7.5-10	30-32.5	90-92.5	407-408	349-350	49
Mrs Jane Tomkinson - Deputy Chief Executive and Director of Finance and Performance	2.5-5	10-12.5	30-32.5	90-92.5	400-401	326-327	66

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

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme.

They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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



5. Staff Costs and Numbers

5.1 Staff costs

	2006/07	2005/06 as restated
	£000	£000
Salaries and wages	74,368	72,144
Social Security Costs	5,683	5,273
Employer contributions to NHS Pensions Agency	8,724	8,067
Agency and contract staff	832	1,277
Seconded-in staff	4,751	4,479
	94,358	91,240

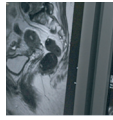
5.2 Average number of persons employed

	Total 2006/07	Senior Managers	Others	Staff on Inward Secondment	Agency, Temporary and Contract Staff	Total 2005/06 as restated
	Number	Number	Number	Number	Number	Number
Medical and dental	332	1	97	83	151	298
Administration and estates	590	4	546	-	40	607
Healthcare assistants & other support staff	554	-	535	-	19	589
Nursing, midwifery & health visiting staff	745	1	712	-	32	782
Nursing, midwifery & health visiting learners	22	-	21	-	1	20
Scientific, therapeutic and technical staff	445	-	417	-	28	450
	2,688	6	2,328	83	271	2,746

Due to changes in the classifications of employees as a result of Agenda for Change the comparative values for staff costs and numbers have been restated.

5.3 Retirements due to ill-health

During 2006/07 (prior year 2005/06) there were 2 (5) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £29,000 (£208,000). The cost of these ill-health retirements will be borne by the NHS Pensions Agency. These retirements represented 0.61 per 1,000 active scheme members.



6. Public Dividend Capital Dividend

The Trust is required to pay a dividend to the Department of Health at a real rate of 3.5% of average relevant net assets. The Trust's public dividend paid in year totals £2,658,000. This represents 3.22% of the actual average carrying amount of relevant net assets held.

7. Losses and special payments

NHS Foundation Trusts are required to record cash payments and other adjustments that arise as a result of losses and special payments. In the year the Trust had 98 separate losses and special payments, totalling £20,000 (2005/06 £51,000). The bulk of these were in relation to bad debts and damage / loss of hospital property.

8. Tangible Fixed Assets

8.1 Profit/ (Loss) on Disposal of Fixed Assets

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

	2006/07 £000	2005/06 £000
Loss on disposal of plant and equipment (unprotected)	(209)	-
Profit on disposal of buildings (unprotected)	-	477
Total	(209)	477

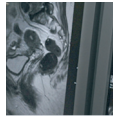


8.2 Tangible fixed assets at the balance sheet date comprise the following elements:

	Land	Buildings Excluding Dwellings	Dwellings	Assets Under Construction	Plant & Machinery	Transport Equipment	Information Technology	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
at 1 April 2006	12,369	58,215	130	2,808	24,274	19	1,447	1,452	100,714
Additions - purchased	-	817	-	4,926	1,204	7	519	38	7,511
Additions - donated	-	-	-	-	15	-	-	-	15
Reclassifications	-	3,260	-	(6,144)	670	-	2,001	213	-
Other in year revaluation	-	(468)	(27)	-	-	-	-	-	(495)
Disposals	(40)	-	(103)	-	(4,189)	-	(399)	-	(4,731)
At 31 March 2007	12,329	61,824	-	1,590	21,974	26	3,568	1,703	103,014
Accumulated depreciation									
at 1 April 2006	-	1,800	2	-	16,225	15	793	226	19,061
Other in year revaluation	-	(26)	(3)	-	-	-	-	-	(29)
Disposals	-	-	-	-	(4,016)	-	(363)	-	(4,379)
Provided during the year	-	2,034	1	-	1,351	1	245	162	3,794
At 31 March 2007	-	3,808	-	-	13,560	16	675	388	18,447
Net book value - as restated									
- Purchased at 1 April 2006	12,369	55,871	128	2,808	7,398	4	654	1,226	80,458
- Donated at 1 April 2006	-	544	-	-	651	-	-	-	1,195
Total at 31 March 2006	12,369	56,415	128	2,808	8,049	4	654	1,226	81,653
- Purchased at 31 March 2007	12,329	57,491	-	1,590	7,870	10	2,893	1,315	83,498
- Donated at 31 March 2007	-	524	-	-	544	-	-	-	1,068
Total at 31 March 2007	12,329	58,015	-	1,590	8,414	10	2,893	1,315	84,566

Within land and buildings brought forward is an amount of £25,000 and £128,000, respectively in relation to a property used for accommodation. This asset is unprotected. All other land and buildings are used in the provision of mandatory goods and services and so are protected.

For details of the prior period adjustment made in the comparative figures, refer to note 13.2



8.3 The net book value of land, buildings and dwellings at 31 March 2007 comprises:

	31 March 2007	31 March 2006
	£000	£000
Freehold	<u>70,344</u>	<u>68,912</u>

9. Stocks and Work in Progress

	31 March 2007	31 March 2006
	£000	£000
Raw materials and consumables	<u>1,683</u>	<u>1,462</u>

10. Debtors

	31 March 2007	31 March 2006
	£000	£000
Amounts falling due within one year:		
Trade debtors	3,269	3,358
Other debtors	492	492
Other prepayments and accrued income	908	917
	<u>4,669</u>	<u>4,767</u>

11. Creditors

	31 March 2007	31 March 2006
	£000	as restated £000
Amounts falling due within one year:		
Payments received on account	3,500	100
Trade creditors	5,890	5,867
Other creditors	3,412	3,644
Deferred government grant income	94	94
Accruals and deferred income	2,072	2,407
	<u>14,968</u>	<u>12,112</u>
Amounts falling due after more than one year:		
Deferred government grant income	1,071	1,166
	<u>1,071</u>	<u>1,166</u>

For details of the prior period adjustment made in the comparative figures, refer to note 13.2.



12. Provisions for Liabilities and Charges

	Pensions Relating to Other Staff £000	Legal Claims £000	Backdated pay provision £000	Permanent injury benefit	Total 31 March 2007 £000	Total 31 March 2006 £000
At 1 April 2006	94	85	2,791	-	2,970	1,636
Arising during the year	148	256	981	207	1,592	2,863
Utilised during the year	(10)	(61)	(2,791)	(8)	(2,870)	(1,540)
Reversed unused	-	-	-	-	-	11
At 31 March 2007	232	280	981	199	1,692	2,970
Contingent liability						
In addition to the provision above there is a contingent liability which is not provided for						
	-	44	-	-	44	38
Expected timing of cashflows:						
Within 1 year	16	280	981	10	1,287	2,886
1 - 5 years	66	-	-	41	107	40
Over 5 years	150	-	-	148	298	44

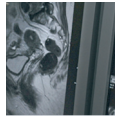
Provisions for capitalised pension benefits are based on tables provided by the NHS Pensions Agency, reflecting years to normal retirement age and the additional pension costs associated with early retirement.

Legal claims consist of amounts due as a result of third party and employee liability claims. The values are based on information provided by the Trust's Solicitors and the NHS Litigation Authority.

The provision for backdated pay is in respect of Agenda for Change and other pay reforms that could give rise to back pay.

Permanent Injury Benefits are payable to eligible individuals, and are calculated in the same way as capitalised pension benefits.

£13,902,000 is included in the provisions of the NHS Litigation Authority at 31/3/2007 in respect of clinical negligence liabilities of the Trust (31/3/2006 £12,914,000).



13. Movements on Reserves

13.1 Movements on reserves in the year comprised the following:

	Revaluation Reserve	Donated Asset Reserve	Other Reserves	Income and Expenditure Reserve	Total
	£000	£000	£000	£000	£000
At 1 April 2006	18,183	1,958	574	6,011	26,726
Prior year adjustments:	3	(763)	-	-	(760)
At 1 April 2006, as restated	18,186	1,195	574	6,011	25,966
Transfer from the Income and Expenditure Account	-	-	-	2,733	2,733
Deficit on other revaluations of fixed assets	(466)	-	-	-	(466)
Receipt of donated assets	-	15	-	-	15
Transfers to the Income and Expenditure Account for depreciation, impairment, and disposal of donated assets	-	(142)	-	-	(142)
Transfer of realised surpluses / (deficits) to income and expenditure reserve	89	-	-	(89)	-
Other reserve movements	-	-	36	-	36
At 31 March 2007	17,809	1,068	610	8,655	28,142

Other reserves represents the balance remaining on a charitable contribution for the purchase of medical equipment.

13.2 Prior Period Adjustments

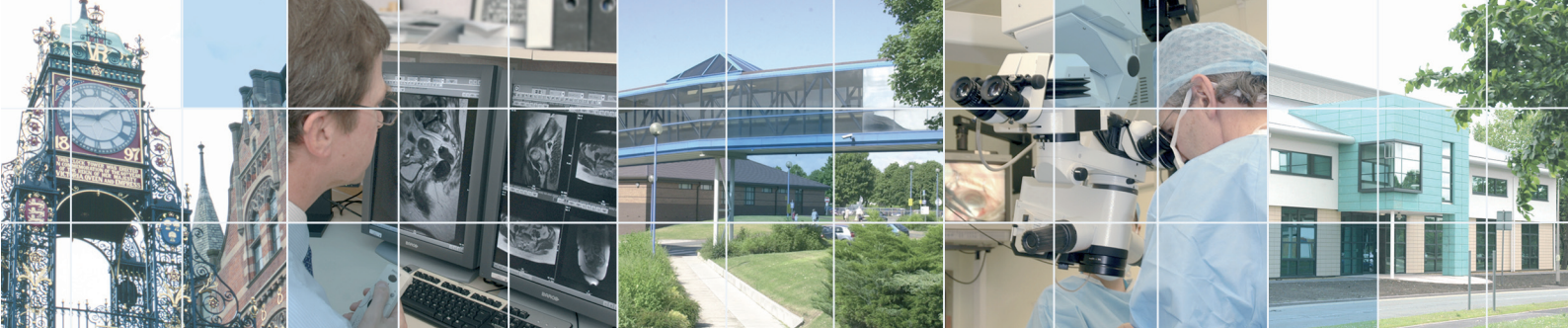
In accordance with UK GAAP and guidance from Monitor, the Independent Regulator, all contributions received from the Big Lottery Fund are no longer treated as Donated Assets. They have been re-classified as Government Grants and are included under deferred income in creditors (note 11). There is no impact on the Income & Expenditure Account in either year.

14. Prudential Borrowing Limit

The NHS Foundation Trust is required to comply and remain within a prudential borrowing limit. This is made up of two elements:

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

Further information on the NHS Foundation Trusts Prudential Borrowing Code and Compliance Framework can be found on the website of Monitor, the Independent Regulator of Foundation Trusts.



The Trust had a prudential borrowing limit of £10,500,000 in 2006/07 (2005/06 £15,900,000). The Trust has not yet borrowed against this limit.

The Trust had an approved working capital facility limit of £10,000,000 in 2006/07 (2005/06 £10,000,000), the Trust had in place an actual working capital facility of £10,000,000 (2005/06 £10,000,000).

The five ratio tests and the Trusts performance against them is set out below:

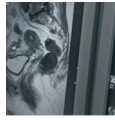
Financial ratios	Actual	Approved	Actual	Approved
	2006/07	2006/07	2005/06	2005/06
Maximum Debt / Capital Ratio	-	10%	-	15%
Minimum Dividend Cover	3.53	1	3.24	1
Minimum Interest Cover	-	3	-	3
Minimum Debt Service Cover	-	2	-	2
Maximum Debt Service to Revenue	-	3%	-	3%

Until such time as the Trust draws down a loan only the Minimum Dividend Cover ratio is relevant. The Trust was within the approved limit.

15. Notes to the Cash Flow Statement

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

	2006/07	2005/06
	£000	£000
Total operating surplus	4,795	4,095
Depreciation and amortisation charge	3,794	3,505
Amortisation income	(94)	-
Transfer from donated asset reserve	(142)	(209)
(Increase)/Decrease in stocks	(221)	55
Decrease in debtors	98	4,147
Increase/(Decrease) in creditors	2,237	(1,755)
(Decrease)/Increase in provisions	(1,278)	1,334
Net cash inflow from operating activities	9,189	11,172



15.2 Reconciliation of net cash flow to movement in cash and liquid resources

	2006/07	2005/06
	£000	£000
Decrease in cash in the period	(746)	(1,308)
Cash used to increase liquid resources	3,989	7,535
Cash and liquid resources at 1 April 2006	10,546	4,319
Cash and liquid resources at 31 March 2007	13,789	10,546

15.3 Analysis of changes in cash and liquid resources

	At 31 March 2007	Cash changes in year	At 31 March 2006
	£000	£000	£000
Cash at bank and in hand	265	(746)	1,011
Current asset investments	13,524	3,989	9,535
	13,789	3,243	10,546

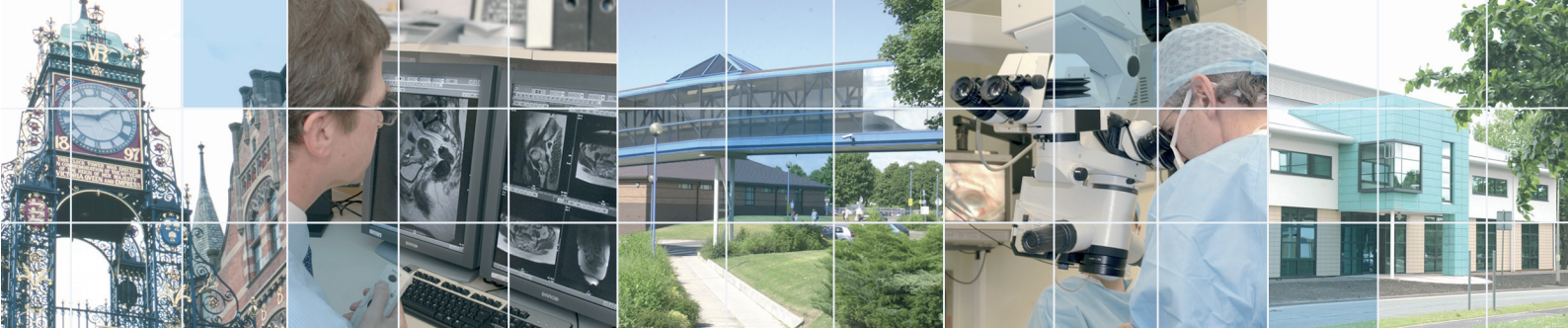
Cash at bank and in hand at 31 March 2007 is held in instant access bank accounts. Current asset investments comprise short-term money market investments and other deposit accounts.

16. Capital Commitments

Commitments under capital expenditure contracts at the balance sheet date were £636,000 (2005/06 £1,645,000)

17. Post Balance Sheet Events

There are no disclosable post balance sheet events.



18. Movements in Total Funds

	2006/07
	£000
Surplus for the financial year	5,391
Public dividend capital dividends	(2,658)
	2,733
Losses from revaluation of purchased fixed assets	(466)
New public dividend capital	2,620
Movement on donated asset reserve	(127)
Movement on other reserves	36
Net addition in total funds	4,796
Opening total funds (originally £82,940,000 before prior period adjustment of £760,000)	82,180
Closing total funds	86,976

For details of the prior period adjustment made in the comparative figures, refer to note 13.2.

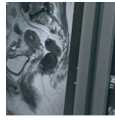
19. Related Party Transactions

The Countess of Chester Hospital NHS Foundation Trust is a public interest body Authorised by Monitor - the Independent Regulator for NHS Foundation Trusts.

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 Countess of Chester Hospital NHS Foundation Trust.

As NHS Foundation Trusts are independent bodies, not controlled by the Secretary of State, other Government departments are not automatically deemed to be related parties.

The Trust has also received revenue and capital payments from a number of charitable funds for which the Trust acts as Corporate Trustee.



20. Private Finance Transactions

20.1 PFI schemes deemed to be off-balance sheet

	2006/07	2005/06
	£000	£000
Amounts included within operating expenses in respect of PFI transactions deemed to be off-balance sheet	897	893

The Trust is committed to make the following payments during the next year.

	2006/07	2005/06
	£000	£000
PFI scheme which expires; 2nd to 5th years (inclusive)	897	900

	£000
Estimated capital value of the PFI scheme	4,300

Contract Start date: 1999/2000

Contract End date: 2010/11

The PFI scheme is for the provision of a managed patient administration and information system.

The contract initially was for eight years starting in 1999/2000. The option to extend has been exercised in the current financial year.

The capital value for the scheme is difficult to estimate, since the majority of 'property' is software and software development.

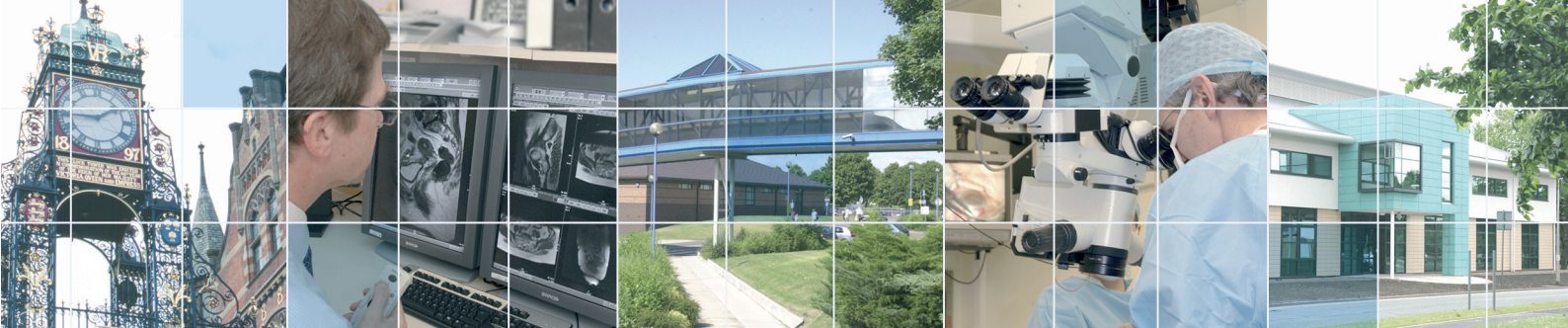
20.2 PPP Schemes

In 2005/06, the Trust entered into a Public Private Partnership with Frontis Homes Limited, a registered social landlord, to provide our staff accommodation and on-call facilities. The £5.9m scheme has significantly improved the quality of the previous accommodation, and increased the ability of the Trust to continue to attract the best staff. The Trust will contribute a total of £339,000 (index linked) annually toward the cost of the rent and services to be provided for the on-call facility. The term of the agreement is 40 years.

21. Financial Instruments

FRS13, Accounting for 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. The Countess of Chester Hospital NHS Foundation Trust actively seeks to minimise its financial risks. In line with this policy, the Trust neither buys nor sells financial instruments. Financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the 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 the relevant disclosures.



Liquidity risk

The Trust's net operating costs are incurred under three year agency purchase contracts with local Primary Care Trusts, which are financed from resources voted annually by Parliament. The Trust receives such contract income in accordance with Payment by Results (PBR), which is intended to match the income received in year to the activity delivered in that year by reference to the National Tariff procedure cost. The Trust receives cash each month based on an annually agreed level of contract activity and there are quarterly payments made to adjust for the actual income due under PBR. This means that in periods of significant variance against contracts there can be a significant cash-flow impact. To alleviate this issue the Trust has continued to put in place a £10,000,000 working capital facility with its current Bankers, which it has yet to draw on.

The Trust presently finances its capital expenditure from internally generated funds or funds made available from Government, in the form of additional Public Dividend Capital, under an agreed limit. In addition, the Trust can borrow, both from the Department of Health Financing Facility and commercially to finance capital schemes. Financing is drawn down to match the capital spend profile of the scheme concerned and the Trust is not, therefore, exposed to significant liquidity risks in this area.

Interest-Rate Risk

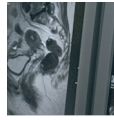
All of the Trust's financial liabilities carry nil or fixed rates of interest. In addition, the only element of the Trust's assets that are subject to a variable rate are short term cash investments. The Trust is not, therefore, exposed to significant interest-rate risk. The tables shown in note 21.1 and 21.2 detail the interest rate profiles of the Trust's financial assets and liabilities.

Foreign Currency Risk

The Trust has negligible foreign currency income or expenditure.

21.1 Financial Assets

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	
					Weighted average interest rate	Weighted average period for which fixed
	£000	£000	£000	£000		
At 31 March 2007						
Sterling	13,789	265	13,524	-	5.35%	30 days
Gross financial assets	13,789	265	13,524	-		
At 31 March 2006						
Sterling	10,546	1,011	9,535	-	4.45%	30 days
Gross financial assets	10,546	1,011	9,535	-		



21.2 Financial Liabilities

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	
					Weighted average interest rate	Weighted average period for which fixed
	£000	£000	£000	£000		
At 31 March 2007						
Sterling	59,265	-	431	58,834	2.20%	indeterminate
Gross financial liabilities	59,265	-	431	58,834		
At 31 March 2006						
Sterling	56,308	-	94	56,214	2.20%	indeterminate
Gross financial liabilities	56,308	-	94	56,214		

Note: The non-interest bearing financial liability represents Public Dividend Capital (PDC) and so is of unlimited term. However, the Secretary of State can require repayment of PDC at any time. In addition, although not classified as interest, the Trust must pay a PDC dividend as disclosed in note 6. This dividend is payable, based on relevant net assets, at a rate that is fixed each year in advance. For 2006/07 the rate is 3.5%.

The interest rate used for determining the book value of fixed rate financial liabilities is dictated by the Financial Reporting Advisory Board for public sector bodies. The rate for 2006/07 is 2.2% from 1 April 2005. Future rate changes beyond 2006/07 are not known and therefore the period for which the rate is fixed is not determinable.

21.3 Fair Values

Set out below is a comparison, by category, of book values and fair values of the Trust's financial assets and liabilities as at 31 March 2007.

	Book Value	Fair Value	Basis of fair valuation
	£000s	£000s	
Financial assets			
Cash	265	265	
Current asset investments	13,524	13,524	
Total	13,789	13,789	
Financial liabilities			
Provisions under contract	431	431	Note a
Public dividend capital	58,834	58,834	
Total	59,265	59,265	

a Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted at the Treasury's discount rate of 2.2%.

22. Third Party Assets

The Trust held £7,000 in the Bank (2005/06 - £5,000) which relates to monies held by the NHS Foundation Trust on behalf of patients. This has been excluded from the accounts.

