Royal Liverpool Children's NHS
NHS Trust

Annual Report & Accounts 06/07

Welcome from the Chair and Chief Executive

This year has been exciting and challenging and has been a very important year in building the future of the Trust and children's health services.

Throughout the year we have made great progress with our application to become a Foundation Trust. We consulted our local communities, staff, patients and partner organisations and the vast majority of those who responded were supportive of our plans and long-term goals. We have started recruiting members for our Foundation Trust and already over 4,400 people have pledged their support and joined the new organisation. All our members will have an ownership stake in the Trust and working with them will help us design services that meet the needs of those we care for serve and work alongside with every day. We hope to achieve Foundation Trust status in August 2007 and we are very much looking forward to working with each and every one of our members.

This year, for the fourth year running, the Trust received the highest possible score in the national NHS ratings system. To be classed as excellent by the Health Care Commission four years in a row is a wonderful achievement and is a reflection of the dedication and professionalism of all our staff.

Our service developments have gone from strength to strength. Our acute admissions unit (AAU) opened in November and we are now 'best in class' for length of stay. This is indeed a fantastic achievement.

We were proud to launch a new research network in February making the Trust a co-ordinating centre for research into child medicine across Cheshire, Merseyside and North Wales. This is a significant milestone and contributes to our vision of leading healthcare for children and young people through excellence in research.

In November, Liverpool City Council resolved to grant planning permission for our new hospital in the park. We are delighted that we will be able to re-develop our hospital in Liverpool. We still have a lot of planning to do but have addressed the issues of affordability surrounding the new hospital and we currently hope that building work will begin in 2010.

As always we want to express our profound gratitude to those who have worked so hard over the last year to make the Royal Liverpool Children's Hospital a success: The parents, carers, volunteers, fundraisers and the many whose unique contributions support so many areas of our work. Finally, to our staff - whose commitment and dedication to providing the best possible care never ceases to amaze us - thank you.

Introduction

The Royal Liverpool Children's NHS Trust cares for more than 200,000 children and young people every year and serves a population of over seven million from the North-West, North Wales, Shropshire and the Isle of Man.

We offer a comprehensive range of specialist and general health services at our main site, Alder Hey hospital in West Derby, Liverpool, which was founded in 1914 and is one of the largest and busiest children's hospitals in Europe. Our specialist services include a dedicated intensive care unit, burns unit, a bone marrow transplant centre and we are a centre of excellence for children with cancer, heart, spinal, and brain disease. In the North West region we also provide specialist mental health services and are a national centre for head and face surgery.

Our general services include an accident and emergency department, which treats 65,000 children every year. We have 10 state-of-the-art operating theatres, 309 in-patient and day case beds, and a child and adolescent mental health service.

We offer community and mental health service at 38 sites across Merseyside, working closely with primary care trusts[1] and local authorities to set up children's centres close to people's homes. This is in addition to more than 800 specialist clinical sessions a year delivered across the North West, North Wales, Shropshire and the Isle of Man. In fact, 40 per cent of our work is carried out in a community setting.

We have a world-class reputation for saving the lives of sick children and a proud history of medical achievement and clinical innovation. As a teaching hospital we are involved in training more than 600 medical students every year.

Thanks to the hard work and dedication of our staff the care that we provide has received the highest possible score in the national NHS ratings system for the last four years.

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1: One of the roles of a primary care trust is to make sure healthcare is provided to meet the needs of individuals and communities

What guides us?

Our vision is to lead world class healthcare for children and young people by committing to excellence through:

Partnership
- Research
- Innovation
- Learning

Our values:

Communicate effectively at the right time, in the right way, to the right people
Honesty and openness about how we work together
Innovate to continuously improve services
Lead others and improvements in service
Develop staff to ensure they can reach their full potential
Respect for all, at all times
Energise and enthuse others to deliver excellence in everything we do
Nationally and internationally promote research and best practice

To achieve our vision we have a number of long-term goals/objectives:

1. Making sure we are financially sound by:
    - Working efficiently
    - Having the right financial controls in place

2. Improving the design and quality of our services by:
    - Continual improvement through the values and behaviour of our staff
    - Listening and responding to the views and experiences of patients and their families

3. Achieving high performance by:
    - Achieving "excellence" in the Healthcare Commission's[2] annual performance ratings
    - Meeting service access targets
    - Being able to respond quickly to change

4. Managing risk effectively by:

- Having the right systems to assess and manage risk
- Developing plans to reduce known risks

5. Continuing to develop our workforce by:

- Making sure our staff have the right skills
- Having the right policies for recruiting and retaining staff
- Developing our staff so they can progress within the Trust

6. Working with other organisations to:

- Improve services
- Safeguard children and young people
- Influence national policy

In the summer of 2007 we hope to achieve Foundation Trust status. Becoming a Foundation Trust will give us the opportunity to work more closely with our communities, staff, patients and parents in achieving our vision.

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2: The Healthcare Commission is the independent inspection body for the NHS.

Who makes up the Trust?

We have 2,782* staff across five care groups that are responsible for the services we provide.

These are:

Medical (533 staff)
This care group offers a range of services including: accident and emergency; dietetics; special feeds unit; and medical specialties (including diabetes, cancer, skin conditions, allergies, breathing problems, and rheumatology).

Surgical (978 staff)
Provides a range of services including: critical care (such as the intensive care unit; high dependency ward; and heart surgery) and surgery (such as eyes; ear, nose and throat; dental; cleft lip; and head and face).

Clinical support services (390 staff)
Offers a range of services including: pathology; radiology (including medical illustrations); pharmacy; out-patients; medical records; biomedical engineering; and bereavement care services

Community and mental health (405 staff)
Staff in community and mental health provide a range of services including: community paediatricians; community nursing; therapy services (occupational therapy, speech therapy, physiotherapy and hearing); orthotics (supportive braces and splints); community-based child and adolescent mental health service; psychiatric in-patient unit; transitional care (care in between being in hospital and going home); and a severe learning disabilities service.

Corporate services (non clinical) (476 staff)
Provides support to frontline services and includes: chaplains; communications; finance; equality and diversity; estates; fundraising; hotel services; human resources; patient advice and liaison service; play and childcare services; research and development; risk management; information management and technology.

*This headcount figure represents actual numbers of staff and not whole time equivalents. The head count also includes those staff who deliver activity within the Trust but are not on our payroll e.g. Specialist Registrars.

How are we helping children and young people?

We have continued to build on our consistently high standards and have worked towards the national performance targets applicable to specialist trusts. These targets measure how much work we are doing and how efficient we are.

Access to in-patient care

This year we again ensured that no patients waited over six months for an operation. This was the national target we were required to meet. We will now be working towards a more stringent target to ensure that no patients wait longer than 11 weeks by April 2008. This is to ensure that all patients referred to us are treated within the new combined national target of 18 weeks from referral to treatment including diagnostic tests.

Out-patients

There are now no patients waiting more than 11 weeks for an out-patient appointment after being referred by their family doctor (GP). Over the coming year we will be working hard to reduce this target to a maximum wait of five weeks. This is to ensure that all patients referred to us are treated within the new combined national target of 18 weeks from referral to treatment including diagnostic tests.

Waiting in Accident & Emergency (A&E)

98.9% of our patients who attended A&E were seen and, if necessary, admitted to the hospital within four hours. This is an improvement on last year when 98.6% were seen and admitted with a four hour maximum wait.

Infection rates

The hospital was required to have no more than 12 MRSA infections during the year and had five. MRSA (Methicillin-Resistant Staphylococcus Aureus) is a bacterium that lives harmlessly on skin and in the lining of the mouth and nose of about one third of healthy people. It can, however, cause infection once it enters the body through a cut or abrasion. MRSA is resistant to some of the antibiotics that are commonly used to treat infection. Our infection rates are low thanks to the diligence of staff who follow our hand hygiene programme, and the thoroughness of our cleaners.

Diagnostic tests

99.9% of our patients received diagnostic tests within the national target of 13 weeks. Unfortunately two patients had to wait longer than 13 weeks for three tests. The tests had been scheduled within the specified target of 13 weeks but the procedures could not be safely undertaken due to the patients being unfit for anaesthetic. We are liaising with the Healthcare Commission about these circumstances and will continue to work towards ensuring that no patients wait over 13 weeks for any diagnostic tests.

The year: At a glance

11,250 Day cases

33,905 In-patients

61,085 A&E Attendances

131,308 Out-patients

71,653 Radiology tests

384,658 Pathology tests

7.6% Increase in planned work

12.5% Increase in planned operations

On an average day Alder Hey:

Treats 167 patients in the Accident & Emergency Department

Performs 164 Radiology examinations

Cares for 230 In-patients

Admits 121 patients

Sees 520 Out-patients

Building an exciting future

A new hospital

We need to re-develop our hospital to make it fit to provide 21st century healthcare and to create a more modern and comfortable environment for our patients, their families and our staff.

Our vision is a 'Children's Health Park' – a hospital surrounded by parkland that will give children access to fresh air and space, which will help them get well.

In November 2006, Liverpool City Council resolved to grant outline planning permission to allow us to rebuild Alder Hey on Springfield Park. This decision was a major milestone in our plans and has moved us much closer to our new hospital in the park.

Because of changes to Private Finance Initiative borrowing rules and Payment by Results, the Trust has experienced challenges in designing a new hospital that is affordable. We have designed a revised site plan that splits hospital services into three parts:

- In-patients/Critical Care/Theatres
- Out-patients
- Research and Education Campus

This will allow us to explore the possibility of identifying separate funding streams for each building. The Private Finance Unit (PFU) from the Department of Health has examined the affordability of our scheme and agreed that we can move to the next stage in the planning process, which is to prepare a detailed outline business case for the development. The new site plan was a significant factor in obtaining PFU support for the scheme.

It is expected that the outline business case will be completed in December 2007. This will be submitted to the Department of Health, local Primary Care Trusts and the North West Strategic Health Authority for approval. Following this a full business case will be developed and we estimate that we may begin building our new hospital as early as 2010.

Foundation Trust status

We are applying to become a Foundation Trust. NHS Foundation Trusts are membership organisations. The Board of Directors will continue to run the Trust however, we will be accountable to our members and local communities and not the Department of Health as is currently the case. Thousands of people have signed up to be a part of our new organisation and our membership is continuing to grow.

In July 2006 we launched a 12-week public consultation on our plans to become a Foundation Trust and we sought people's views on how the organisation should be run in the future. 340 people responded to the consultation and an overwhelming 94% of people were supportive of our long-term goals, with 6% expressing no opinion.

Responses came from staff, children and young people, parents and carers and partnership organisations and the consultation showed that people have strong ideas about how we can develop our services.

We have applied for Foundation Trust status so that we can continue to improve the services we offer. By becoming a Foundation Trust:

- We will have stronger links with children, families, carers and the communities we serve
- All staff will be able to have greater involvement in shaping our future
- We will be able to make crucial decisions about new services and facilities more independently
- We will have more say over how we manage our finances and if we make a financial surplus we can invest it in our services rather than returning it to be spent elsewhere. This means we might be able to develop new services or undertake redevelopments.

We hope to achieve Foundation Trust status in August 2007. We will remain part of the NHS, employing NHS staff and treating patients exactly as we do now and we will have to maintain the same high quality standards. We will continue to have independent inspections from the Healthcare Commission just like other NHS organisations. The main difference will be that we will have greater freedom to work locally, with all of our members, to design services that meet the needs of our patients and those we work along side.

We have recruited members from the age of seven as listening to children and young people and working with them is an important part of our vision.

Getting better all the time

We are always looking for ways to improve our services and the hospital environment for our patients, their families and carers and our staff. Highlights from the last year include:

A true 'Oasis'

A £400,000 redevelopment of our patient and staff restaurant has led to a massive improvement in the facilities available at Alder Hey. Built in the 1980s the re-vamped Oasis now has a modern coffee bar and a bright and airy feel thanks to the introduction of glass canopies in the ceiling. The restaurant's dedicated children's activity area will be developed in conjunction with the Children's Council.

Acute Admissions Unit up and running

The acute admission unit (AAU) has improved access to care for several conditions. The Trust now delivers 'best in class' for length of stay for patients admitted to this unit.

New Neurosciences unit

Our Littlewoods Neurosciences Unit – the first and only facility in the UK that provides a complete neurological and neurosurgical service for children in a single purpose-built building - was officially opened in December 2006. Littlewoods Shop Direct Group have generously donated £2.25m to the Royal Liverpool Children's Charitable Fund to support the future running costs of this facility. The unit is providing state of the art clinical and evidence based services for children with neurological disorders and their families.

An excellent hospital by national standards

The Trust was rated "excellent" by the Healthcare Commission on its performance in 2005/06. The Healthcare Commission is the organisation that inspects NHS trusts to make sure they are working to high standards. This is the fourth year running that the Trust received the highest possible score for the quality of care it provides. We will work hard to keep achieving these standards year on year. The Trust is being assessed on its performance in 2007 and is confident of retaining 'excellent' status.

The Healthcare Commission's Annual Healthcheck assessed:

- Seven core standards including: safety; care environment and amenities; clinical and cost effectiveness; governance; patient focus; accessible and responsive care and public health.
- Ten "existing targets", which include: no patients waiting more than six months for an operation; 98% of all patients at Accident and Emergency (A&E) seen within four hours; all urgent cancer referrals seen within two weeks and no patients waiting more than 13 weeks for an out-patient appointment after being referred by their family doctor (GP).
- Ten "new targets", including recording data on the ethnicity of patients; patient experience;

MRSA infections and becoming a smoke-free hospital.

- The improvement review of children's services in hospital. This compared services with the standards required by the National Service Framework for children, young people and maternity services published by the Government in 2003. The Trust came in the top 4% of those providing care for children and young people nationwide.

A safe environment

We are committed to providing safe and effective care for our patients and providing a safe and healthy environment for staff, contractors and visitors. This is why we have improved facilities across the hospital. Improvements have been made to entrances and exits in many areas of the hospital, particularly for disabled staff, visitors and patients. Ramps have been improved in the restaurant and child development centre and pavements outside entrances and exits have also been improved.

Preventing and controlling the risk of infection is one of our major priorities and our infection rates are low thanks to the diligence of staff who follow our hand hygiene programme and the thoroughness of our cleaners. We have this year implemented extra measures to control any potential legionella risks in showers and sinks by ensuring that any showers and sinks which are infrequently used are regularly flushed and cleaned, to prevent static water build up. We are also replacing all older showers with newer models that are easier to clean.

Clinical governance

All trusts have a statutory duty to have comprehensive arrangements for monitoring and improving the quality of healthcare. This is called clinical governance and includes:

- Ensuring that professional principles are developed and applied to all services.
- Working openly and cooperatively with external organisations who audit and inspect our services.

The Clinical Governance Committee (formerly the Board of Clinical Governance) is the mechanism through which the Trust Board is assured of matters related to Clinical Governance. During the past year the Clinical Governance Committee oversaw major programmes of work required to meet standards set by the Healthcare Commission and NHS Litigation Authority. These are essential standards that are expected of health care organisations as defined by the Parliamentary Acts. We have declared full compliance with all of the core standards for better health and good progress with the developmental standards. During the coming months the focus will be to monitor and improve performance in all of the Healthcare Commission developmental standards.

Risk management

We have systems in place to identify and remove or reduce potential risks to patients, staff, others and the organisation itself. Identified risks are put on our risk register, which is reviewed every two months by our risk management committee. An assurance framework, which outlines risks and what is being done to address them, has been agreed by the Trust Board.

The Trust has been judged to have met the higher standard of Level 2 of the National Health Service Litigation Authority (NHS LA) scheme. The NHS LA are our insurers and rigorously assess how safe we are as an employer and healthcare provider. This is the first time that the Trust has achieved this level of recognition.

Being prepared for an emergency

Under the Civil Contingency Act 2005 we have produced a comprehensive business continuity plan which explains how we would continue to deliver critical services in an emergency. Our executive lead for business continuity / emergency preparedness has worked with senior managers across the organisation to develop the plan to address several potential threats. These include a flu pandemic, a fire or a flood. Work is ongoing to make sure that plans are in place and available to staff. Aspects of the plan are tested in the following ways:

- Communication exercises to test the availability of key staff
- Exercises and training days to test our response to different scenarios
- Responses to actual incidents including heatwaves and Mersey tunnels and Ambulance Service industrial action.
- A live mock major incident exercise every three years or so

Complaints

We take all complaints seriously and try to resolve each one quickly and efficiently. We always seek to learn and improve as a result. Last year we received 133 complaints compared to 131 in the year before. Of these 133 (84%) were responded to within the nationally agreed response time. There have been three requests to the Healthcare Commission for independent reviews. To date, one has been dealt with. The outcome of the remaining two cases is awaited.

Categories of complaints	
Treatment	56
Attitude	18
Operation postponed	8
Out-patient appointments	5
Communication	8
Waiting times	8
Standard of cleanliness	4
Missing case notes	2
Admission/discharge procedures	1
Other	23
Total	**133**

Where possible we use the information we gain from patient feedback and complaints to improve the care we provide. To keep parents and carers informed of waiting times we will soon be installing an electronic system in our out-patients clinic. This system is being introduced in response to people telling us that they don't receive enough information when waiting to see our medical staff.

Partnership

We are committed to involving our patients, their parents, carers and representatives. Their views and experiences help us continually improve services.

Parents and Carers' Council

This year members of the Trust's Parent and Carers' Council have responded to a consultation from the National Patient Safety Agency about issues around patient safety for disabled children.

The council have held many of their meetings in community settings to encourage more people to join the group and with its membership growing the council is planning to change its name to INVOLVE Alder Hey Parents and Carers.

Patient and Public Involvement Forum

We have continued to strengthen our working relationship with the Patient and Public Involvement Forum, a dedicated group of volunteers who have statutory powers to monitor our services. They have been involved in a number of Trust projects including a night visit to observe our patients' experience throughout the night and a privacy and dignity audit, which had generally positive feedback but made some useful recommendations that we have taken into account.

Patient Advice and Liaison Service (PALS)

PALS provides support and advice to patients and their carers. During the last year the service offered information, help, advice and support to 521 individuals and families. This compares with 225 contacts in the year 2005/06. The increase in contacts is due to the service being promoted widely within the Trust and local communities. The PALS service is provided on a face to face basis, via e-mail or by telephone.

The Children and Young People's Council

The Young People's Council was consulted on a number of key projects. A Pain Audit was devised by the Pain and the Clinical Audit Teams with input from the Council who compiled a questionnaire and visited in-patients to complete them. The results were used by the young people to devise a Pain Management Tool which is now kept at the bedside of every child.

The Council was also consulted about the Out-patient Departments with work being carried out in a group which then provided constructive and valuable feedback.

The executive nurse was invited to her first Council meeting which was dominated by a question and answer session with members raising some very challenging points about changes within the Trust.

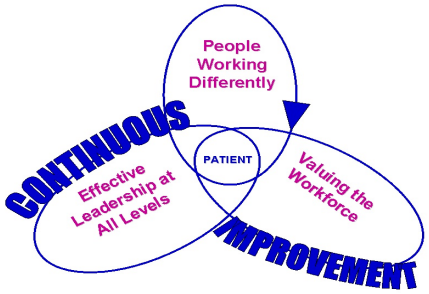
The medical director attended a meeting to discuss doctor training from which rose the opportunity for the Council to become involved in making a DVD to be used for doctor training. This very exciting initiative is currently underway.

Our staff at a glance

Staff Group	Number of staff
Administration and Clerical	533
Nursing and Midwifery	897
Consultants	152
Other Medical Staff	162
Healthcare Scientists	98
Allied Health Professionals	121
Estates and Ancillary	154
Healthcare Assistant and Other Support Staff	402
Other Professional Scientific and Technical Staff	263
Total	2782

During 2006 we reviewed our Workforce Strategy to support the Trust's application for Foundation Trust Status. Based on a theme of continuous improvement, the strategy focuses on three key themes with the patient at the centre of all that we do. These are

- ***effective leadership at all levels***
- ***people working differently***
- ***valuing the workforce***



Effective Leadership at all levels

Implementing the leadership development framework 'Leadership Development for all' is key to our success, and has been short-listed for a national award competing against public and private sector organizations.

Key achievements during 2006 were:-

· ***The Way We Work Around Here*** programme was incorporated within corporate induction in September 2006. The aim is to introduce new staff to the Trust's corporate values, preferred behaviours, and the concept that we can all be a leader.

· ***The Team Leaders Programme*** has been reviewed in line with improving personal qualities as team leaders. To date there have been 10 groups who have successfully completed the programme.

· ***Delivering the Service*** programme, focusing on the skills and competences leaders in middle to senior positions will need in leading others to deliver quality services.

· ***Setting the Direction*** is a care group development programme helping our most senior management teams to lead the Trust towards the future, through learning new service improvement tools and techniques to both improve quality and reduce the costs of delivering services.

People working differently

· **Electronic Staff Record :** During 2006/07 we successfully implemented Electronic Staff Record, the new NHS Payroll and Human Resources records database system. The ESR system promises to deliver significant improvements in terms of efficiency, improved information systems, and empowerment of staff through its self service functions.

· **Excellence through Learning** (EtL) programme was nationally recognised as part of the Excellence in Human Resource Management Awards in October 2006. The judges considered the EtL programme as a well-executed approach to supporting staff to lead improvements to the delivery of care. The Excellence through Learning programme not only won the Organisational Learning category but went on to win the overall award for Excellence in Human Resource Management and was held up as a best practice model for leading organisational cultural change.

· **Workforce Planning:** We have implemented workforce planning systems that will deliver accurate predictions of our future staff requirements. The Workforce Plans will also identify opportunities or new and extended roles to best meet changing service needs. Our focus will be on the development of Assistant Practitioners and Advanced Practitioners.

· **Agenda for Change and the Knowledge and Skills Framework :** The Knowledge and Skills Framework has been fully implemented and new Performance Development Review processes have been put in place that incorporate the KSF, objective setting, and performance development for all staff.

Valuing the Workforce

· **Equality and Diversity :** The Trust has consulted with staff, members of the public, community groups and other key stakeholders on its Single Equality Scheme and Action Plan. In publishing an Equality Scheme the Trust seeks to promote a fair organisation, which values diversity and gives everyone an equal chance to work and learn from discrimination.

· **Staff Support :** The Alder Centre offers advice and counselling about emotional and mental health problems caused or exacerbated by work and work/life balance issues. The team also provides training around issues such as bullying, harassment and conflict management.

Getting feedback from our staff

The Results of our annual Staff Survey have become an important part of how we measure our performance and how we identify areas for improvement. It covers areas such as work life balance, appraisal, learning and development, team working, supervision, and communication. It provides information which can be used to improve both patient care and the working lives of staff.

The 2006 survey results showed a number of positives. For example:

- staff are encouraged to suggest new ideas for improving services
- flexible working opportunities are available
- there are substantial levels of training with a significant increase in e-learning activity
- more staff are working in teams, with clear objectives
- staff felt supported
- the care of patients was the Trust's top priority

There are however still some areas for improvement and an action plan is being developed to address these. The full report is available from the Healthcare Commission on www.healthcarecommission.org.uk/staffsurveys

Caring for our environment

The Trust Board approved a new environmental strategy in February 2007, which clearly states our commitment to contributing to a sustainable environment.

We hope to achieve this by pursuing three key objectives;

- Enhancing environmental awareness and promoting sustainability amongst our staff and with partner organisations

- Minimising our consumption of resources and waste

- Reducing carbon emissions

Over the year we reduced the amount of energy we use, making a substantial saving of £50,000. This has been achieved through a combination of initiatives including the installation of speed controllers to large motors and new heating controls across the hospital. A new gas boiler has also been fitted to replace our last remaining oil boiler.

Staff throughout the hospital have committed to helping us save energy and resources by signing up to the 'Save It' campaign. The campaign was launched in partnership with the Environment Agency and has encouraged staff to consider the way they use energy and resources and look for ways to make savings. Through the campaign staff made numerous promises to try to switch off lights and equipment, print on both sides of paper and reuse old envelopes and plastic cups. The campaign has helped to reduce our energy usage and a recent audit by the Carbon Trust gave Alder Hey the top score for energy use.

Minimising waste is an important environmental target for the Trust and work to ensure all of our waste is correctly segregated has led to a decrease of 25% in the clinical waste sent for incineration. This reduction is beneficial for the environment and has also helped us to reduce costs.

We work in close partnership with the Environment Agency and have plans for further investment in energy saving and waste reduction initiatives in order to create long-term savings. A bid for 'spend to save' investment has been placed with the North West Strategic Health Authority and if we are successful in obtaining these funds we will invest in continuing to reduce the amount of electricity we consume, particularly through the use of lighting, by installing low energy lighting and increased controls to turn off lights when they are not in use.

The Board

Non-Executive Director:

Angela Jones	Chair (R)
Lorraine Dodd	Non Executive Director (A) (R)
Susan Malthouse	Non Executive Director (until 31 January 2007)
Susan Rutherford	Non Executive Director (A) (R)
Leslie Taylor-Duff	Non Executive Director (until 31 August 2006)
Chris Vellenoweth	Non Executive Director (A)
Susan Musson	Non Executive Director (from 14 February 2007)
Ed Oliver	Non Executive Director (from 1 December 2006)

Executive Directors:

Tony Bell	Chief Executive (R)
Moya Sutton	Executive Nurse
Jayne Shaw	Acting Director of Human Resources (Appointed to the post of Director of Human Resources on 1 April 2007)
Dr Steve Ryan	Medical Director
Alan Sharples	Director of Finance, Information and Commissioning
Terry Windle	Director of Strategic Planning
Paul Hetherington	Director of Performance and Service Improvement (appointed 1 April 2007)
Prof Ros Smyth	Associate Partner

(R) This indicates that the individual is a member of the Remuneration Committee

(A) This indicates that the individual is a member of the Audit Committee

Appointments

The chief executive and executive directors are recruited and appointed following public advertisement and a recruitment panel which usually includes the chairman (or a non-executive nominee) and an external assessor. The appointments made do not have fixed terms; they are the normal contracts of employment that apply to all staff. Their salary and performance is reviewed by the remuneration committee. Should questions arise about performance, they are dealt with through the same arrangements as all employees.

The chair and non-executive directors are appointed by arrangements overseen by the Appointments Commission. This is an independent body that covers appointments to public bodies of non-executive members. The terms of office are specified when appointed.

Corporate governance

Our strategy is set by the board. The board – which is the main mechanism for public accountability – meets in public every other month. Agendas can be found on our website.

The executive team, the Trust's most senior management team, meets fortnightly to make sure the strategy becomes reality.

The board has a number of sub-committees and their proceedings are recorded as part of the main board agenda. The sub-committees during the year were:

- Audit (meets four times a year)
- Communications (meets quarterly)
- Endowment and Investment Committee (meets bi-monthly)
- Clinical Governance Committee (meets monthly)
- Finance (meets monthly)
- Outline Business Case Project Board (meets as required)
- Remuneration (at least once a year and then as required)

A membership list of the audit and remuneration committees is given in the table on page 23.

For further information about what these committees do please contact us on 0151 293 3502.

Financial Review

Looking back at the 10 year period from 1996/97 to 2006/07, the Trust has experienced significant growth. The Trust's income has risen by 135% from £57.3m to £134.7m. This compares to NHS pay and price inflationary increases of approximately 46.8%. The increased level of income equates to over 60% growth in real terms. During the same period, the number of staff employed by the Trust has grown by 40% and the inpatient activity of the Trust has increased by around 69%. The way in which activity is counted has changed over the 10 year period from discharges to Finished Consultant Episodes, and A&E observation admissions are now taken fully into account, so care must be taken in interpreting the inpatient activity changes. Nevertheless, this growth represents a material and sustained trend in the increase in demand for the services provided by the Trust.

Our total income for 2006/07 compared to 2005/06 has increased by 6.9% to £134.7m. This increase reflects an 8.8% increase in inpatient activity, year on year. Changes in clinical governance rules mean that local hospitals are struggling to maintain their children's services and we expect that this trend will continue. We have also received £255k additional income for Alder Hey Consultants carrying out clinics at other hospitals as part of the "Alder Hey At" initiative.

Even so it has been a difficult year for the Trust and we started the year with a requirement to make savings of £6.5m. To meet this challenging target we set up an internal Rapid Improvement Support Team (RIST) to help identify areas where savings could be made and to help implement suggestions made by members of staff. The schemes working together with vacancy control, getting better prices for the goods we buy and the additional income described above, meant that we exceeded our in-year savings target by almost £1m.

We met all our financial targets including the duty to achieve financial balances and actually made a small surplus of £21k. Details of the financial statements are on pages 26 to 62. We received a capital allocation of £1803k to implement the Picture Archives Communications System (PACS) as part of the National Programme for IT (NPfIT). Technical issues with the system mean that the system which was originally planned to go live in March will now be operational in July. As a result we only spent £408k on PACS resulting in an underspend against our Capital Programme and Capital Resource Limit (CRL) of £1414k. The money will be spent in 2007/2008.

As one of only 6 specialist children's hospitals around the country, we deal with children referred by all Primary Care Trusts in the North West Strategic Health Authority area and from many PCTs in other parts of England as well as Wales and the Isle of Man. As part of the Government's agenda to improve patient care, the number of PCTs has been reduced to form fewer but larger organisations. Services provided to local patients are now commissioned by the new Liverpool PCT, as our host commissioner, whilst services to patients from further afield are commissioned by Specialist Commissioning Teams set

up by the Special Health Authorities. Our finance department has established good working relationships with these new bodies.

We face another challenging year ahead and are facing a savings target for the year of £3.8m mainly due to the NHS policy of requiring efficiency savings of 2.5% a year. We plan to continue the work of the RIST group and also to introduce 'lean thinking' techniques to reduce waste and improve the operational efficiency of organisations by changing how we do things. We expect to be able to make a surplus of £700k in 2007/2008 and we have applied to become a Foundation Trust.

Payment by Results is a problem for all Specialist Children's Trusts because the cost of treating children and carrying out specialist work is more than the national tariff. This has been recognised by the Department of Health and this year they gave £4.9m to cover the shortfall and they will give us £4.1m in 2007/2008. In 2008/09 there are plans to make short term adjustments to the National Tariff in respect of the services provided by a range of Specialist Trusts, including Paediatric Specialist Trusts. It is hoped that longer term adjustments to the Tariff will be introduced in 2009/2010.

As part of our statutory duties we are required to manage our cash within the External Funding Limit (EFL) set by the Government. This outlines how much extra money we can borrow or how much extra we have to pay back to the Treasury. Throughout the history of the Trust, it has experienced an underlying cash shortfall of £3.25m which arose from a number of factors including the cash level allowed for in the balance sheet on formation and a number of nationally prescribed prior year adjustments in relation to changes in NHS accounting policy. Despite this underlying problem, the Trust has consistently met the EFL target, with the cooperation of the local health economy. Following discussions with the Strategic Health Authority the underlying cash problem has been eased by the transfer of £2m from Liverpool PCT. We have been promised a further £1.25m from Knowsley PCT in 2007/2008 which will finally eliminate the problem.

Like all public bodies we are required to demonstrate that our procurement (the buying of our goods) provide best value for money and complies with the relevant European Directives. The specialist nature of many of the items we use in the Trust means that they can only be obtained from multi-national companies. Despite this we estimate that about half of our non-pay spend is with companies in the North West of England, which is where most of our patients are from.

2006/2007 was a year of outstanding progress and achievement. This excellent performance is due to the hard work and dedication of all our staff. We would also wish to acknowledge that the success of the Trust has been made possible by the continued confidence and support of service commissioners, the SHA and through the warm hearted generosity of all those who have contributed to our charitable funds for which we are very grateful.

Salary and pension entitlements of senior managers

Remuneration

Name and title		2006-07			2005-06		
		Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind Rounded to the nearest £100	Salary (bands of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in Kind Rounded to the nearest £100
Mr A P Bell Chief Executive	R)	125-130	0	0	120-125	0	0
Mr A Sharples Director of Finance & Information		90-95	0	0	75-80	0	14
R Cooke Acting Executive Nurse from 17.04.05 to 27.02.06		0	0	0	55-60	0	0
Ms M Sutton Executive Nurse from 27.02.06		80-85	0	0	5-10	0	0
Dr S Ryan Medical Director		70-75	80-85	0	70-75	75-80	0
Miss N Elliott Director of Human Resources to 30.11.05		0	0	0	40-45	0	0
Ms J Shaw Director of Human Resources from 01.12.05		65-70	0	0	20-25	0	0
Mr T Windle Director of Strategic & Operational Planning		85-90	0	33	85-90	0	36
Ms A Jones Chair	R)	15-20	0	0	15-20	0	0
Mrs L Dodd Non-Executive Director	A) (R)	5-10	0	0	5-10	0	0
Ms S Rutherford Non-Executive Director	A) (R)	5-10	0	0	5-10	0	0
Mr C Vellenoweth Non-Executive Director	A)	5-10	0	0	5-10	0	0
Mr L Taylor Duff Non-Executive Director to 31.08.06		0-5	0	0	5-10	0	0
Mrs S Malthouse Non-Executive Director to 31.01.07		0-5	0	0	5-10	0	0
Mr G E Oliver Non-Executive Director from 27.11.06		0-5	0	0	0	0	0
Ms S Musson Non-Executive Director from 14.02.07		0-5	0	0	0	0	0

Pension Benefits

Name and title	Real increase in pension and related lump sum at age 60 (bands of £2500) £000	Total accrued pension and related lump sum at age 60 at 31 March 2007 (bands of £5000) £000	Cash Equivalent Transfer Value at 31 March 2007 £000	Cash Equivalent Transfer Value at 31 March 2006 £000	Real Increase in Cash Equivalent Transfer Value £000	Employers Contribution to Stakeholder Pension To nearest £100
Mr A P Bell Chief Executive	10-12.5	190-195	726	649	43	0
Mr A Sharples Director of Finance & Information	12.5-15	135-140	567	481	52	0
M Sutton Executive Nurse from 27.2.06	2.5-5	85-90	296	266	16	0
Dr S Ryan Medical Director	5-7.5	140-145	538	486	28	0
Ms J Shaw Director of Human Resources	5-7.5	70-75	220	192	16	0
Mr T Windle Director of Strategic & Operational Planning	0-2.5	150-155	627	586	19	0

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2004-2005 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.

* This indicates that the individual has exercised their right under the Data Protection Act to refuse publication of this information.

(R) This indicates that the individual is a member of the remuneration committee.

(A) This indicates that the individual is a member of the audit committee.

The salary paid to Mrs L Dodd is paid to Rathbone Brothers Ltd.
As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive members.

Mr Windle has a leased car provided by the Trust.

The Chief Executive is appointed by the Chair and the Executive Directors are appointed by the Chief Executive, both in conjunction with other representatives. Their remuneration is determined by the Trust Remuneration Committee and they are employed on individual contracts with notice periods ranging from 3-6 months. Non-Executive Directors are appointed by the Secretary of State for Health, usually for a period of 3 years. Their remuneration is that determined by the Secretary of State for Health.

The statement of Directors' responsibility in respect of internal control can be found in the Trust's annual accounts.

Pensions
Past and present employees are covered by the provisions of the NHS Pension Scheme. Further details are available in the notes to the accounts, the remuneration report and on the NHS Pensions Agency website at www.nhspa.gov.uk.

Statement as to disclosure of information to auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Tony Bell OBE
Chief Executive

Date: 20.6.07

These accounts for the year ended 31 March 2007 have been prepared by the Royal Liverpool Children's NHS Trust under *Section 98(2)* of the *National Health Service Act 1977* (as amended by *Section 24(2), Schedule 2* of the *National Health Service and Community Care Act 1990)* in the form which the Secretary of State has, with the approval of the Treasury, directed.

The enclosed accounts for 2006/2007 provide a detailed analysis of the Trust's financial performance during its fifteenth year as an NHS Trust.

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st MARCH 2007

	NOTE	£000	2005/06 £000
Income from activities: Continuing operations	3	**120,424**	*110,572*
Other operating income: Continuing operations	4	**14,301**	*15,468*
Operating expenses: Continuing operations	5-7	**(132,800)**	*(123,949)*
OPERATING SURPLUS/(DEFICIT): Continuing operations		**1,925**	*2,091*
Cost of fundamental reorganisation/reconstruction		**0**	*0*
Profit/(Loss) on disposal of fixed assets	8	**(10)**	*1*
SURPLUS/(DEFICIT) BEFORE INTEREST		**1,915**	*2,092*
Interest receivable		**376**	*144*
Interest payable	9	**0**	*0*
Other finance Costs - unwinding of discount		**(12)**	*(13)*
Other finance costs - change in discount rate on provisions		**0**	*(61)*
SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR		**2,279**	*2,162*
Public Dividend Capital dividends payable		**(2,258)**	*(2,161)*
RETAINED SURPLUS/(DEFICIT) FOR THE YEAR		**21**	*1*

Note to the NHS Trust Income and Expenditure Account	**£000**	**£000**
Retained surplus/(deficit) for the year	21	1
Financial support included in retained surplus/(deficit) for the year - NHS Bank	0	0
Financial support included in retained surplus/(deficit) for the year - Internally Generated	0	0
Retained surplus/(deficit) for the year excluding financial support	21	1

The notes on pages 30 to 62 form part of these accounts.
All income and expenditure is derived from continuing operations.

BALANCE SHEET AS AT 31 MARCH 2007

	NOTE	£000	£000	*2005/06 £000*
FIXED ASSETS:				
Intangible assets	10	**165**		*0*
Tangible assets	11	**74,467**		*69,695*
Investments	14	**0**		*0*
			74,632	*69,695*
CURRENT ASSETS:				
Stocks and work in progress	12	**700**		*672*
Debtors	13	**11,113**		*9,853*
Investments	14	**0**		*0*
Cash at bank and in hand	18.3	**380**		*347*
			12,193	*10,872*
Creditors: Amounts falling due within one year	15		**(11,990)**	*(7,047)*
NET CURRENT ASSETS/(LIABILITIES)			**203**	*3,825*
TOTAL ASSETS LESS CURRENT LIABILITIES			**74,835**	*73,520*
Creditors: Amounts falling due after more than one year	15		**0**	*0*
PROVISIONS FOR LIABILITIES AND CHARGES	16		**(1,748)**	*(1,180)*
TOTAL ASSETS EMPLOYED			**73,087**	*72,340*

FINANCED BY:				
TAX PAYERS EQUITY				
Public dividend capital	22		**41,693**	*45,803*
Revaluation reserve	17		**24,557**	*20,979*
Donated asset reserve	17		**4,182**	*4,226*
Government grant reserve	17		**0**	*0*
Other reserves	17		**143**	*160*
Income and expenditure reserve	17		**2,512**	*1,172*
TOTAL TAX PAYERS EQUITY			**73,087**	*72,340*

The financial statements on pages 26 to 62 were approved by the Board on 20 June 2007 and signed on its behalf by:

_____Signed  (Chief Executive)

Date 20.6.07

STATEMENT OF TOTAL RECOGNISED GAINS & LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	£000	*2005/06 £000*
Surplus/(deficit) for the financial year before dividend payments	**2,279**	*2,162*
Fixed asset impairment losses	**0**	*0*
Unrealised surplus/(deficit) on fixed asset revaluations/indexation	**5,201**	*1,359*
Increases in the donated asset and government grant reserve due to receipt of donated and government grant financed assets	**125**	*44*
Reduction in the donated asset and government grant reserve due to the depreciation, impairment and disposal of donated assets and government grant financed assets	**(473)**	*(517)*
Additions/(reductions) "Other Reserves"	**(17)**	*(65)*
Total recognised gains and losses for the financial year	**7,115**	*2,983*
Prior period adjustment	**0**	*0*
Total gains and losses recognised in the financial year	**7,115**	*2,983*

CASHFLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	NOTE	£000	£000	*2005/06 £000*
OPERATING ACTIVITIES				
Net Cash Inflow from operating activities	18.1		**8,748**	*1,551*
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest received		**376**		*144*
Interest paid		**0**		*0*
Interest element of finance leases		**0**		*0*
Net cash (outflow) from returns on investments and servicing of finance			**376**	*144*
CAPITAL EXPENDITURE				
Payments to acquire tangible fixed assets		**(2,683)**		*(4,878)*
Receipts from sale of tangible fixed assets		**0**		*33*
(Payments to acquire)/receipts from sale of intangible assets		**(165)**		*0*
(Payments to acquire)/receipts from sale of fixed asset investments		**0**		*0*
Net cash inflow/(outflow) from capital expenditure			**(2,848)**	*(4,845)*
DIVIDENDS PAID			**(2,258)**	*(2,161)*
Net cash inflow/(outflow) before management of liquid resources and financing			**4,018**	*(5,311)*
MANAGEMENT OF LIQUID RESOURCES				
Purchase of current asset investments		**0**		*0*
Sale of current asset investments		**0**		*0*
Net cash inflow/(outflow) from management of liquid resources			**0**	*0*
Net cash inflow/(outflow) before financing			**4,018**	*(5,311)*
FINANCING				
Public dividend capital received		**0**		*7,318*
Public dividend capital repaid (not previously accrued)		**(4,110)**		*205*
Public dividend capital repaid (accrued in prior period)		**0**		*0*
Loans received		**0**		*0*
Loans repaid		**0**		*0*
Repayable cash brokerage (paid to)/from other NHS bodies		**0**		*0*
Other capital receipts		**125**		*44*
Capital element of finance leases		**0**		*0*
Cash transferred (to)/from other NHS bodies		**0**		*0*
Net cash inflow/(outflow) from financing			**(3,985)**	*7,567*
Increase/(decrease) in cash			**33**	*2,256*

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES AND OTHER INFORMATION

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS trusts Manual for Accounts which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2006/2007 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Government Financial Reporting Manual to the extent 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.

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 the 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. Income for partially completed spells is accounted for where there is a contractual obligation.

1.2 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.

1.3 **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.

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 FRS 15 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 HM Revenue & 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 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.

Operational equipment which is considered to have nil inflation is valued at net current replacement costs. All equipment, other than IT equipment is uplifted annually by the change in 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.

1.4 **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.

1.5 **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.

1.6 **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 certainly 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 ie: 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 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.

1.7 **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 2006/2007 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.

1.8 **Pension costs**

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

The Scheme is subject to a full valuation for FRS17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The Scheme is also subject to a full valuation by the Government Actuary to assess the Scheme's assets and liabilities and to allow a review of the employers contribution rates. This valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Service Authority - Pensions Division website at www.nhspa.gov.uk. Copies can also be obtained from The Stationary Office.

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

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

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

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

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

1.9 **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.

1.10 **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.

1.11 **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.

1.12 **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.

1.13 **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.

1.14 **Public Dividend Capital (PDC) and PDC Dividend**

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

1.15 **Losses and Special Payments**

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

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

1.16 **Other reserves**

The ‘Other Reserve’ relates to income, received as revenue funding, for the purchase of capital assets. The Reserve is wound down over the assets useful economic life to provide an income for the assets depreciation.

1.17 **Prior year comparators**

Prior year comparators have been amended to allow a true comparison with the current year.

2. SEGMENTAL ANALYSIS

For the purposes of SSAP 25: Segmental Reporting, the Trust's sole class of business is the provision of healthcare.

3. INCOME FROM ACTIVITIES

	2006/07 £000	*2005/06 £000*
Strategic Health Authorities	**47**	*0*
NHS Trusts	**579**	*170*
Primary Care Trusts	**99,057**	*96,904*
Foundation Trusts	**0**	*0*
Local Authorities	**2,071**	*1,328*
Department of Health	**10,423**	*4,067*
NHS Other	**0**	*0*
Non-NHS:		
- Private Patients	**48**	*137*
- Overseas Patients (non-reciprocal)	**0**	*0*
- Road Traffic Act	**259**	*208*
- Other	**7,940**	*7,758*
TOTAL	**120,424**	*110,572*

Road Traffic Act income is subject to a provision for doubtful debts of 7.7% to reflect expected rates of collection.

4. OTHER OPERATING INCOME

	2006/07 £000	*2005/06 £000*
Patient Transport Services	**0**	*0*
Education, Training and Research	**7,321**	*8,257*
Charitable and other contributions to expenditure	**675**	*989*
Transfers from the donated asset reserve	**473**	*517*
Transfers from government grant reserve	**0**	*0*
Non-patient care services to other bodies	**1,607**	*1,699*
Income generation	**1,126**	*761*
Other income (including income from services provided to other trusts)	**3,099**	*3,245*
TOTAL	**14,301**	*15,468*

5. OPERATING EXPENSES

5.1 Operating expenses comprise:

	2006/07 £000	*2005/06 £000*
Goods and services from other NHS - Trusts	**707**	*858*
- bodies	**1,024**	*1,045*
- Foundation Trusts	**547**	*387*
Purchase of healthcare from non-NHS bodies	**828**	*561*
Directors' costs	**657**	*662*
Staff costs	**92,932**	*86,695*
Supplies and services - clinical	**18,495**	*16,868*
- general	**1,434**	*1,370*
Establishment	**1,870**	*2,113*
Transport	**210**	*181*
Premises	**6,507**	*5,282*
Bad debts	**75**	*177*
Depreciation and amortisation	**4,160**	*3,938*
Fixed asset impairments and reversals	**0**	*0*
Audit fees	**144**	*146*
Other auditor's remuneration	**0**	*0*
Clinical negligence	**797**	*843*
Redundancy costs	**20**	*6*
Other	**2,393**	*2,817*
TOTAL	**132,800**	*123,949*

5.2 Operating leases

5.2.1 Operating Expenses include:

	2006/07 £000	*2005/06 £000*
Hire of plant and machinery	**0**	*0*
Other operating lease rentals	**60**	*86*
	60	*86*

5.2.2 Annual commitments under non-cancellable operating leases:

	Land & Buildings		Other Leases	
	2006/07 £000	*2005/06 £000*	**2006/07 £000**	*2005/06 £000*
Operating leases which expire:				
Within 1 year	**0**	*0*	**0**	*0*
Between 1 and 5 years	**0**	*0*	**156**	*209*
After 5 years	**0**	*0*	**0**	*0*
	0	*0*	**156**	*209*

6. STAFF COSTS AND NUMBERS

6.1 Staff Costs

	2006/07 Total £000	Permanently Employed £000	Other £000	*2005/06 £000*
Salaries and wages	**79,692**	**78,565**	**1,127**	*74,277*
Social security costs	**5,529**	**5,529**	**0**	*5,306*
Employer contributions to NHSPA	**8,307**	**8,307**	**0**	*7,723*
Other pension costs	**0**	**0**	**0**	*0*
Total	**93,528**	**92,401**	**1,127**	*87,306*

6.2 Average number of persons employed

	2006/07 Total Number	Permanently Employed Number	Other Number	2005/06 Number
Medical & dental	305	299	6	291
Ambulance staff	0	0	0	0
Administration & estates	473	470	3	487
Healthcare assistants & other support staff	254	254	0	210
Nursing, midwifery & health visiting staff	984	976	8	1024
Nursing, midwifery & health visiting learners	0	0	0	0
Scientific, therapeutic & technical staff	367	366	1	369
Social care staff	0	0	0	0
Other	0	0	0	0
Total	2,383	2,365	18	2,381

6.3 Employee benefits

In 2005/2006 Trust employees received no non-pay benefits.

6.4 Management Costs

	2006/07 £000	*2005/06 £000*
Management Costs	**5,573**	*5,318*
Income	**133,618**	*123,438*

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 2006/2007 there were 0 (2005/2006: 6) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £nil (2005/06: £154,351). The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.

7. BETTER PAYMENTS PRACTICE CODE

7.1 Better payments practice code - measure of compliance

	2006/07 Number	2006/07 £000
Total Non-NHS trade invoices paid in the year	31,716	26,890
Total Non-NHS trade invoices paid within target	30,292	25,101
Percentage of Non-NHS trade invoices paid within target	95.51%	93.35%
Total NHS trade invoices paid in the year	1,783	9,821
Total NHS trade invoices paid within target	1,651	9,462
Percentage of NHS trade invoices paid within target	92.60%	96.34%

The Better Payments Practice Code requires the Trust 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

	2006/07 £000	*2005/06 £000*
Amounts included within Interest Payable (Note 9) arising from claims made by small businesses 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:

	2006/07 £000	*2005/06 £000*
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*
Profit on disposal of plant and equipment	**0**	*1*
Loss on disposal of plant and equipment	**(10)**	*0*
TOTAL	**(10)**	*1*

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2006/07 £000	*2005/06 £000*
Finance leases	**0**	*0*
Other	**0**	*0*
Total	**0**	*0*

10. INTANGIBLE FIXED ASSETS

	Software Licences £000
Gross cost at 1 April 2006	0
Additions purchased	165
Additions donated	0
Disposals	0
Gross cost at 31 March 2007	**165**
Amortisation at 1 April 2006	0
Charged during the year	0
Disposals	0
Amortisation at 31 March 2007	**0**
Net book value:	
- Purchased at 1 April 2006	0
- Donated at 1 April 2006	0
- Government granted at 1 April 2006	0
- Total at 1 April 2006	**0**
- Purchased at 31 March 2007	165
- Donated at 31 March 2007	0
- Government granted at 31 March 2007	0
- Total at 31 March 2007	**165**

11. TANGIBLE FIXED ASSETS

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

	Total	Land	Buildings, excluding Dwellings	Dwellings	Assets under Construction and Payments on account	Plant and Machinery	Transport Equipment	Information Technology	Furniture & Fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation: At 1 April 2006	87,853	3,460	59,421	396	452	21,473	56	2,147	448
Additions - purchased	3,616	0	995	0	463	1,633	0	498	27
Additions - donated/government granted	125	0	0	0	0	125	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reclassification	0	0	0	0	(465)	465	0	0	0
Indexation	5,667	198	4,818	32	13	592	2	0	12
Other in-year revaluation	0	0	0	0	0	0	0	0	0
Disposals	(25)	0	0	0	0	(25)	0	0	0
National Revaluation Exercise	0	0	0	0	0	0	0	0	0
At 31 March 2007	**97,236**	**3,658**	**65,234**	**428**	**463**	**24,263**	**58**	**2,645**	**487**
Accumulated depreciation at 1 April 2006	18,158	0	0			16,434	56	1,289	379
Provided during the year	4,160	0	2,175	12	0	1,639	0	304	30
Impairments	0	0	0	0	0	0	0	0	0
Reversal of Impairments	0	0	0	0	0	0	0	0	0
Reclassification	0	0	0	0	0	0	0	0	0
Indexation	466	0	0	0	0	453	2	0	11
Other in-year revaluation	0	0	0	0	0	0	0	0	0
Disposals	(15)	0	0	0	0	(15)	0	0	0
Accumulated depreciation at 31 March 2007	**22,769**	**0**	**2,175**	**12**	**0**	**18,511**	**58**	**1,593**	**420**
Net book value:									
Purchased at April 2006	65,469	3,460	55,908	396	452	4,338	0	846	69
Donated at 1 April 2006	4,226	0	3,513	0	0	701	0	12	0
Government granted at 1 April 2006	0	0	0	0	0	0	0	0	0
Total at 1 April 2006	**69,695**	**3,460**	**59,421**	**396**	**452**	**5,039**	**0**	**858**	**69**
Net book value:									
Purchased at 31 March 2007	70,285	3,658	59,396	416	463	5,241	0	1,044	67
Donated at 31 March 2007	4,182	0	3,663	0	0	511	0	8	0
Government granted at 31 March 2007	0	0	0	0	0	0	0	0	0
Total at 31 March 2007	**74,467**	**3,658**	**63,059**	**416**	**463**	**5,752**	**0**	**1,052**	**67**

Of the totals at 31 March 2007, £111,000 related to land valued at open market value, £nil related to buildings valued at open market value and £416,000 related to dwellings valued at open market value.

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date are as follows:

	Total £000	Land £000	Buildings, excluding Dwellings £000	Dwellings £000	Assets under Construction and Payments on account £000	Plant and Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000
TOTAL	0	0	0	0	0	0	0	0	0

The total amount of depreciation charged to the income and expenditure in respect of assets held under finance leases and hire purchase contracts:

TOTAL	0	0	0	0	0	0	0	0	0

11.2 The net book value of land and buildings at 31 March 2007 comprises:

	2006/07 £000	*2005/06 £000*
Freehold	**67,133**	*63,277*
Long leasehold	**0**	*0*
Short leasehold	**0**	*0*
TOTAL	**67,133**	*63,277*

12. STOCKS AND WORK IN PROGRESS

	2006/07 £000	*2005/06 £000*
Raw materials and consumables	**700**	*672*
Work in progress	**0**	*0*
Finished processed goods	**0**	*0*
	700	*672*

13. DEBTORS

	2006/07 £000	*2005/06 £000*
Amounts falling due within one year:		
NHS debtors	**3,956**	*3,874*
Provision for irrecoverable debts	**(578)**	*(574)*
Other prepayments and accrued income	**3,411**	*3,491*
Other debtors	**4,324**	*3,062*
	11,113	*9,853*
Amounts falling due after more than one year:		
NHS debtors	**0**	*0*
Provision for irrecoverable debts	**0**	*0*
Other prepayments and accrued income	**0**	*0*
Other debtors	**0**	*0*
Sub Total	**0**	*0*
TOTAL	**11,113**	*9,853*

14. INVESTMENTS

At the balance sheet date, the Trust had no investments.

15. CREDITORS

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

	2006/07 £000	*2005/06 £000*
Amounts falling due within one year:		
Bank overdrafts	**0**	*0*
Current instalments due on loans	**0**	*0*
Interest payable	**0**	*0*
Payments received on account	**0**	*0*
NHS creditors	**3,337**	*1,563*
Non-NHS trade creditors - revenue - other	**1,517**	*1,314*
Non-NHS trade creditors - capital	**1,538**	*480*
Tax and social security costs	**1,965**	*1,086*
Obligations under finance leases and hire purchase contracts	**0**	*0*
Other creditors	**1,806**	*1,512*
Accruals and deferred income	**1,827**	*1,092*
	11,990	*7,047*
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*
	11,990	*7,047*

Other creditors include £nil for payments due in future years under arrangements to buy out the liability for early retirements over 5 years; and £1,028,311 outstanding pension contributions at 31 March 2007 (2005/06: £1,005,712)

The rise in creditors during the year has largely occurred as a result of cash management arrangements in the Liverpool Health Economy in 2005/2006. The Trust received £3m cash in March 2006. As part of the management of this cash, Tax and Social Security payments of £900k due in April 2006, were paid in March and general creditor invoices were paid in advance of the due date. Other factors affecting the increase in creditors are the amount of capital equipment (£1,058k) purchased in March 2007, provision for repaying income overpaid during the year (£582k), the deferral of income granted for expenditure which will be incurred in 2007/2008 (£389k), and the provision for charges expected in 2006/2007 for which invoices were not received (£1,045k).

15.2 Loans

At the balance sheet date, the Trust had no loans.

15.3 Finance lease obligations

In 2006/2007 the Trust had no finance lease obligations.

15.4 Finance lease commitments

At 31 March 2007 the Trust had no finance lease commitments.

16. PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions relating to former Directors	Pensions relating to Other Staff	Other Legal Claims	Re-Structurings	Other Provisions	Total	*2005/06*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	*£000*
At 1 April 2006	**97**	**474**	**97**	**0**	**512**	**1,180**	*2,164*
Change in the discount rate	**0**	**0**	**0**	**0**	**0**	**0**	*61*
Arising during the year	**0**	**20**	**92**	**0**	**1,029**	**1,141**	*547*
Utilised during the year	**(7)**	**(40)**	**(31)**	**0**	**(489)**	**(567)**	*(642)*
Reversed unused	**0**	**0**	**(18)**	**0**	**0**	**(18)**	*(963)*
Unwinding of discount	**2**	**10**	**0**	**0**	**0**	**12**	*13*
At 31 March 2007	**92**	**464**	**140**	**0**	**1,052**	**1,748**	*1,180*
Expected timing of cashflows:							
Within 1 year	**8**	**49**	**140**	**0**	**1,052**	**1,249**	*665*
1 - 5 years	**32**	**159**	**0**	**0**	**0**	**191**	*187*
Over 5 years	**52**	**256**	**0**	**0**	**0**	**308**	*328*

£1,029k of other provisions relates to claims for back pay in relation to Agenda for Change bandings.

£6,772,211 (2005/06: £3,396,591) is included in the provisions of the NHS Litigation Authority at 31 March 2007 in respect of clinical negligence liabilities of the Trust.

The figure above represents provisions held in respect of formal legal claims only, and so is prepared on a different basis to those reported by the Trust in previous periods. The NHSLA accounts for provisions arising other for current legal claims separately, determining these nationally on an actuarial basis. Certain of these liabilities would, in previous periods, have been included in the Trust's gross clinical negligence provisions.

17. MOVEMENTS ON RESERVES

	Revaluation Reserve £000	Donated Asset Reserve £000	Govern-ment Grant Reserve £000	Other Reserves £000	I&E Reserve £000	Total £000
At 1/4/06 as previously stated	**20,979**	**4,226**	**0**	**160**	**1,172**	**26,537**
Prior period adjustment	**0**	**0**	**0**	**0**	**0**	**0**
At 1/4/06, as restated	**20,979**	**4,226**	**0**	**160**	**1,172**	**26,537**
Transfer from I&E account	**0**	**0**	**0**	**0**	**21**	**21**
Fixed asset impairment	**0**	**0**	**0**	**0**	**0**	**0**
Surplus/(deficit) on other revaluation/ indexation of fixed assets	**4,897**	**304**	**0**	**0**	**0**	**5,201**
Transfer of realised profits/(losses) to the income and expenditure reserve	**0**	**0**	**0**	**0**	**0**	**0**
Receipt of donated/govern-ment granted assets	**0**	**125**	**0**	**0**	**0**	**125**
Depreciation impairment and disposal of donated/ government granted assets	**0**	**(473)**	**0**	**0**	**0**	**(473)**
Other transfers between reserves	**(1,319)**	**0**	**0**	**0**	**1,319**	**0**
Other reserve movements	**0**	**0**	**0**	**(17)**	**0**	**(17)**
At 31 March 2007	**24,557**	**4,182**	**0**	**143**	**2,512**	**31,394**

The 'Other Reserve' relates to income, received as revenue funding, for the purchase of capital assets. The Reserve is wound down over the assets useful economic life to provide an income for the assets depreciation.

The Other transfer between reserves relates to the transfer for excess depreciation. This is the first year that the Trust has accounted for this movement, so the figure for 2006-2007 is a cumulative figure.

18. NOTES TO THE CASH FLOW STATEMENT

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

	2006/07 £000	2005/06 £000
Total operating surplus/(deficit)	**1,925**	*2,091*
Depreciation and amortisation charge	**4,160**	*3,938*
Fixed asset impairment and reversals	**0**	*0*
Transfers from the donated asset reserve	**(473)**	*(517)*
Transfer from the government grant reserve	**0**	*0*
(Increase)/decrease in stocks	**(28)**	*146*
(Increase)/decrease in debtors	**(1,260)**	*(2,294)*
Increase/(decrease) in creditors	**3,868**	*(755)*
Increase/(decrease) in provisions	**556**	*(1,058)*
Net cash inflow from operating activities before restructuring costs	**8,748**	*1,551*
Payments in respect of fundamental reorganisation/restructure	**0**	*0*
Net cash inflow from operating activities	**8,748**	*1,551*

18.2 Reconciliation of net cash flow to movement in net debt

	£000	2006/07 £000	2005/06 £000
Increase/(decrease) in cash in the period	**33**		*0*
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*
Change in net debt resulting from cash flows		**33**	*0*
Non-cash changes in debt		**0**	*0*
Net debt at 1 April 2006		**347**	*347*
Net debt at 31 March 2007		**380**	*347*

18.3 Analysis of changes in net debt

	At 31/3/2007 £000	Cash Flows £000	Non-cash Changes £000	At 1/4/06 £000
OPG cash at bank	**330**	**17**	**0**	**313**
Commercial cash at bank and in hand	**50**	**16**	**0**	**34**
Bank overdraft	**0**	**0**	**0**	**0**
Loan from DH due within one year	**0**	**0**	**0**	
Other debt due within 1 year	**0**	**0**	**0**	**0**
Loan from DH due after one year	**0**	**0**	**0**	
Other debt due after 1 year	**0**	**0**	**0**	**0**
Finance leases	**0**	**0**	**0**	**0**
Current asset investments	**0**	**0**	**0**	**0**
	380	**33**	**0**	**347**

Cash at bank and in hand at 31 March 2007 includes £329,989 in accounts with the Office of HM Paymaster General.

19. CAPITAL COMMITMENTS

Commitments under capital expenditure contracts at the balance sheet date were £1,395,000 (2005/06: £58,000) and relates to completion of the PACS scheme.

20. POST BALANCE SHEET EVENTS

The Trust is in the process of applying for Foundation Trust status and hopes to become a Foundation Trust on 1 August 2007.

21. CONTINGENCIES

	£000	*2005/06 £000*
Amounts (excluding Clinical Negligence):		
Gross value	**0**	*(500)*
Amounts recoverable	**0**	*0*
Net Value (excluding Clinical Negligence)	**0**	*(500)*

22. MOVEMENTS IN PUBLIC DIVIDEND CAPITAL

	2006/07 £000	*2005/06 £000*
Public Dividend Capital as at 1 April 2006	**45,803**	*40,536*
New Public Dividend Capital received	**0**	*7,318*
Public Dividend Capital repaid in year	**(4,110)**	*(2,051)*
Public Dividend Capital repayable (creditor)	**0**	*0*
Public Dividend Capital written off	**0**	*0*
Public Dividend Capital transferred to Foundation Trust	**0**	*0*
Other movements in Public Dividend Capital in year	**0**	*0*
Public Dividend Capital as at 31 March 2007	**41,693**	*45,803*

23. FINANCIAL PERFORMANCE TARGETS

23.1 Breakeven performance

The Trust's breakeven performance for 2006/2007 is as follows:

BREAKEVEN DUTY	1997/98 £000	1998/99 £000	1999/00 £000	2000/01 £000	2001/02 £000	2002/03 £000	2003/04 £000	2004/05 £000	2005/06	2006/07 £000
a) Turnover	61,267	68,326	74,012	78,628	87,385	91,344	101,265	116,871	126,040	134,725
b) Retained surplus/(deficit) for the year	70	3	(334)	0	0	1	3	10	1	21
c) Adjustments for:										
timing/non-cash impacting distortions	0	0	0	0	0	0	0	0	0	0
use of pre-1/4/97 surpluses [FDL(97)24 agreements]	0	0	0	0	0	0	0	0	0	0
1999/2000 prior period adjustment (relating to 1997/98 and 1998/99)	0	0	0	0	0	0	0	0	0	0
2000/01 prior period adjustment (relating to 1997/98 to 1999/2000)	0	0	785	0	0	0	0	0	0	0
2001/02 prior period adjustment (relating to 1997/98 to 2000/01)	0	0	0	0	0	0	0	0	0	0
2002/03 prior period adjustment (relating to 1997/98 to 2001/02)	0	0	0	0	0	0	0	0	0	0
2003/04 prior period adjustment (relating to 1997/98 to 2002/03)	0	0	0	0	0	0	0	0	0	0
2004/05 prior period adjustment (relating to 1997/98 to 2003/04)	0	0	0	0	0	0	0	0	0	0
2005/06 prior period adjustment (relating to 1997/98 to 2004/05)									0	0
2006/07 prior period adjustment (relating to 1997/98 to 2005/06)										
d) Breakeven in-year position (i.e. b ± c)	70	3	451	0	0	1	3	10	1	21
e) Breakeven cumulative position	70	73	524	524	524	525	528	538	539	561
f) If a breakeven cumulative deficit - anticipated financial year of recovery										
g) If anticipated financial year of recovery is more than two years state the period agreed with SHA										
Materiality test (ie is it equal to or less than 0.5%)										
h) Breakeven in year position (%) (ie d/a x 100)	0.1%	0.0%	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
i) Breakeven cumulative position (%) (i.e. e/a x 100)	0.1%	0.1%	0.7%	0.7%	0.6%	0.6%	0.5%	0.5%	0.4%	0.4%

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 £2,258,000, bears to the average net relevant assets of £68,188,000 that is3.3 % which is within the NHS Executive 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	2006/07 £000	*2005/06 £000*
External financing limit		**(4,143)**	*5,267*
Cash flow financing	**(4,018)**		*5,311*
Finance leases taken out in the year	**0**		*0*
Other capital receipts	**(125)**		*(44)*
External financing requirement		**(4,143)**	*5,267*
Undershoot (overshoot)		**0**	*0*

23.4 Capital Resource Limit

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

	2006/07 £000	*2005/06 £000*
Gross capital expenditure	**3,906**	*3,834*
Less: Book value of assets disposed of	**(10)**	*(32)*
Less: Loss on disposal of donated assets	**0**	*0*
Less: Capital grants	**0**	*0*
Less: Donations	**(125)**	*(44)*
Charge against the CRL	**3,771**	*3,758*
Capital resource limit	**5,185**	*3,797*
(Over)/Underspend against the CRL	**1,414**	*39*

The CRL underspend was mainly due to the delay in the PACS Capital Scheme.

24. RELATED PARTY TRANSACTIONS

The Royal Liverpool Children's NHS Trust is a corporate body 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 Royal Liverpool Children's NHS Trust.

The Department of Health is regarded as a related party. During the year the Royal Liverpool Children's 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:

- Liverpool Primary Care Trust
- Sefton Primary Care Trust
- Halton and St Helens Primary Care Trust
- Knowsley Primary Care Trust
- Western Cheshire Primary Care Trust
- Central & Eastern Cheshire Primary Care Trust
- Wirral Primary Care Trust
- Warrington Primary Care Trust
- Blackburn with Darwen Primary Care Trust
- North Lancashire Primary Care Trust
- Central Lancashire Primary Care Trust
- Bolton Primary Care Trust
- East Lancashire Primary Care Trust
- Blackpool Primary Care Trust
- Manchester Primary Care Trust
- Ashton Leigh & Wigan Primary Care Trust
- North West Strategic Health Authority
- Cheshire and Merseyside Workforce Development Confederation
- NHS Supply Chain
- Blood Transfusion Service
- Liverpool Women's Hospital NHS Foundation Trust
- Department of Health
- The Royal Liverpool and Broadgreen University Hospitals NHS Trust
- NHS Litigation Authority
- Oldham Primary Care Trust
- Heywood Middleton & Rochdale Primary Care Trust
- Central Manchester & Manchester Children’s Hospital NHS Trust

The wife of the Director of Finance is the Chief Executive of Halton & St Helens Primary Care Trust.

In addition, the Trust has had a number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with:

- Liverpool City Council
- Inland Revenue
- Customs & Excise
- Contributions Agency
- NHS Pensions Agency
- University of Liverpool
- North Wales Health Board
- Dyfed & Powys Health Board

The Royal Liverpool Children's NHS Trust is the corporate trustee of the Royal Liverpool Children's Charitable Funds which administers donations on behalf of the hospital. At 31 March 2007, the amount due from the Charity was £1,516k (31 March 2006 £560k) in relation to payments made for which funding has been promised by the Charity.

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the Trustees of which are also members of the Trust Board.

25. MANAGED SERVICE ARRANGEMENTS (MSA)

25.1 Managed Service Arrangements deemed to be off-balance sheet

	2006/07 £000	*2005/06 £000*
Amounts included in operating expenses in respect of MSA transactions deemed to be off-balance sheet - gross	**3,368**	*2,345*

The Trust is committed to make the following payment during the next year:

		2006/07 £000	*2005/06 £000*
Schemes which expire within	- 1 to 5 years	**724**	*701*
	- 6 to 10 years	**453**	*454*
	- 11 to 15 years	**2,191**	*2,191*

Scheme Details:

Description: Managed Hospital Information System

Estimated Capital value of the MSA scheme	£1.8m
Contract start date	01.07.97
Contract end date	22.06.08

Description: Oncology Building

Estimated Capital value of the scheme	£9m
Contract start date	28.03.03
Contract end date	29.03.14

Description: Modular Theatres and Ward

Estimated Capital value of the scheme	£6.3m
Contract start date	18.03.05
Contract end date	17.03.17

Description: Ward Outpatient Facilities and Consultant Accommodation

Estimated Capital value of the scheme	£5.4m
Contract start date	18.03.06
Contract end date	17.03.17

26. 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.

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. The Royal Liverpool Children's NHS Trust is not, therefore, exposed to significant liquidity risks.

Interest-rate risk

100% of the Trust's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The Royal Liverpool Children's 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

					Fixed Rate		Non-interest bearing
Currency	Total £000	Floating rate £000	Fixed Rate £000	Non-interest bearing £000	Weighted average interest rate %	Weighted average period for which fixed	Weighted average term
At 31 March 2007							
Sterling	380	0	0	380	0	0	0
Other	0	0	0	0	0	0	0
Gross financial assets	380	0	0	380	0	0	0
At 31 March 2006							
Sterling	347	0	0	347	0	0	0
Other	0	0	0	0	0	0	0
Gross financial assets	347	0	0	347	0	0	0

27.2 Financial Liabilities

					Fixed Rate		Non-interest bearing
Currency	Total £000	Floating rate £000	Fixed Rate £000	Non-interest bearing £000	Weighted average interest rate %	Weighted average period for which fixed	Weighted average term until maturity
At 31 March 2007							
Sterling	42,192	0	499	41,693	2.2%	0	note (a)
Other		0	0		0	0	
Gross financial liabilities	42,192	0	499	41,693	2.2%	0	
At 31 March 2006							
Sterling	46,318	0	515	45,803	2.2%	0	
Other	0	0	0	0	0	0	
Gross financial liabilities	46,318	0	515	45,803	2.2%	0	

(a) The Trust's non-interest bearing financial liabilities comprises of public dividend capital. The public dividend capital is of unlimited term. The fixed rate financial liabilities comprise of provisions for early retirement liabilities.

Foreign currency risk

The Trust has negligible foreign currency income or expenditure.

27.3 Fair Values

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

	Book Value £000s	Fair Value £000s	Basis of fair valuation
Financial assets			
Cash	380	380	
Investments	0	0	
Total	**380**	**380**	

Financial liabilities			
Overdraft	0	0	
Creditors over 1 year: - Early retirements	0	0	
- Finance leases	0	0	
Provisions under contract	499	499	Note (a)
Loans	0	0	
Public dividend capital	41,693	41,693	
Total	**42,192**	**42,192**	

(a) 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% (2005/2006 2.2%) in real terms.

28 THIRD PARTY ASSETS

The Trust held £0 cash at bank and in hand at 31 March 2007 (2005/06: £0) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

29 INTRA-GOVERNMENT AND OTHER BALANCES

	Debtors: amounts falling due within one year £000	Debtors: amounts falling due after more than one year £000	Creditors: amounts falling due within one year £000	Creditors: amounts falling due after more than one year £000
Balances with other Central Government Bodies	3,499	0	4,133	0
Balances with Local Authorities	1,553	0	124	0
Balances with NHS Trusts and Foundation Trusts	1,111	0	2,205	0
Balances with Public Corporations & Trading Funds	0	0	34	0
Balances with bodies external to government	4,950	0	5,494	0
At 31 March 2007	11,113	0	11,990	0

Balances with other Central Government Bodies	4,268	0	2,433	0
Balances with Local Authorities	490	0	0	0
Balances with NHS Trusts and Foundation Trusts	1,012	0	721	0
Balances with Public Corporations & Trading Funds	16	0	92	0
Balances with bodies external to government	4,067	0	3,801	0
At 31 March 2006	9,853	0	7,047	0

30 LOSSES AND SPECIAL PAYMENTS

There were 23 cases of losses and special payments (2005/06: 78 cases) totalling £51,458 (2005/06: £216,244) approved during 2006/2007.

There were no fraud cases where the net payment exceeded £100,000 (2005/06: no cases).

There were no personal injury cases where the net payment exceeded £100,000 (2005/06: no cases).

There were no compensation under legal obligation cases where the net payment exceeded £100,000 (2005/06: no cases).

There were no fruitless payment cases where the net payment exceeded £100,000 (2005/06: no cases).

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.

20.6.07 Date  Chief Executive

Statement of Directors' responsibilities in respect of the accounts

The directors are required under the National Health Services 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:

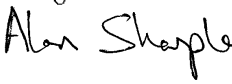
- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and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

20.6.07 Date  Chief Executive

20.6.07 Date  Director of Finance

AUDITOR'S REPORT

Independent Auditors' Report to Directors of the Board of the Royal Liverpool Children's NHS Trust

Opinion on the financial statements

We have audited the financial statements of Royal Liverpool Children's NHS Trust for the year ended 31 March 2007 under the Audit Commission Act 1998. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow 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 Royal Liverpool Children's NHS Trust in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of Directors and auditor

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the part of the Remuneration Report to be audited 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. 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 I/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 Foreword, the unaudited part of the Remuneration Report, the Chairman's Statement and the Operating and Financial Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with the accounting policies directed by the Secretary of State as being relevant to the National Health Service in England, of the state of the Trust's affairs as at 31 March 2007 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.

Baker Tilly UK Audit LLP
Registered Auditor &
Chartered Accountants
Brazennose House
Lincoln Square
Manchester
M2 5BL

Date 21.6.07

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Directors' Responsibilities

The directors are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the Trust's use of resources, to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of these arrangements.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Trust for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to the criteria for NHS bodies specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Trust has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for NHS bodies specified by the Audit Commission and published in December 2006. We are satisfied that, in all significant respects, Royal Liverpool Children's NHS Trust made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007.

Baker Tilly UK Audit LLP
Registered Auditor and
Chartered Accountants
Brazennose House
Lincoln Square
Manchester
M2 5BL

Date 21.6.07

STATEMENT OF DIRECTORS' RESPONSIBILITY IN RESPECT OF INTERNAL CONTROL

1. SCOPE OF RESPONSIBILITY

The Board is accountable for internal control. As Accountable Officer, and Chief Executive Officer of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement 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 carrying out these responsibilities, actions are delegated through the Trust's Scheme of Delegation and the performance of the Trust is monitored internally through the reports provided to the Board. The Strategic Health Authority provides advice, guidance and support through regular monitoring meetings and provided external monitoring of the Trust's systems of internal control.

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 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 Royal Liverpool Children's NHS Trust for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

3. CAPACITY TO HANDLE RISK

The Trust Board has approved a Risk Management Strategy and established a Risk Management Committee, reporting to the Board of Clinical Governance. Lead roles for risk management, the assurance framework, counter fraud and security management have been allocated to appropriate Executive Directors. Relevant staff are trained to manage risk in a way appropriate to their authority and duties. Appropriate guidance is provided including the need to seek out and learn from good practice, both within the Trust and from other organisations. A risk register has been created and the contents are regularly reviewed by the Care Group management teams, the Risk Management Committee and the Board. All incidents are investigated and when appropriate a full root cause analysis is carried out to determine if lessons can be learnt to reduce the risk of further occurrences.

4. THE RISK AND CONTROL FRAMEWORK

The Trust's Risk Management Strategy defines risk management as a framework for the systematic identification, assessment, treatment and monitoring of risk. The strategy sets out in detail the purpose, objectives and approach of the Trust's risk management arrangements. Risk management is embedded in the activity of the organisation through its governance systems, incident reporting processes and management arrangements. The Assurance Framework is a process which draws together the major risks facing the Trust which could potentially prevent the achievement of corporate objectives. For each risk, the key controls and sources of independent assurance are identified.

There are a number of issues which impact on the Trust but which are outside its control, the principle one being the impact of Payment by Results (PbR). The Trust is working with the other specialist children's hospitals and the Department of Health to produce a solution to mitigate the risks of potential loss of income and under-funding due to the current PbR proposals.

The Trust has established forums for both our patients and their parents/carers to assist us in identifying the issues important to them. The Chairs of these forums attend the Trust Board meetings and there are a number of lay members on key Trust Committees.

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 Head 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 managers 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. Mersey Internal Audit Agency have reviewed the assurance arrangements and concluded that an Assurance Framework has been established which is designed and operating to meet the requirements of the 2006/2007 Statement of Internal Control and provide reasonable assurances that there is an effective system of internal control to manage the principal risks identified by the organisation. My review is also informed by reviews undertaken by external auditors, the NHS Litigation Authority and Healthcare Commission.

I have been advised on the implication of the results of my review of the effectiveness of the systems of internal control by the Audit Committee, the Board of Clinical Governance, the Risk Management Committee, the Corporate Management Board and by the Trust Board. The Head of Internal Audit has given his opinion that the Board has significant assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weaknesses in the design or inconsistent application of controls put the achievement of particular objectives at risk. A plan to address these weaknesses and to ensure continuous improvement of the systems is in place.

Date 20.6.07

Chief Executive 

(on behalf of the Board)

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