



Health Commission Wales

Financial Statements

For the Year Ended 31st March 2008

ANNUAL REPORT

Directors Report

1. Form of Accounts

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 17th April 2008 in pursuance of Section 131 of the Government of Wales Act 2006.

2. Background to Health Commission Wales (Specialist Services)

Health Commission Wales (Specialist Services) (HCW) is an Executive Agency of the Welsh Assembly Government. Prior to the NHS restructuring in 2003, specialised health services were either commissioned by individual Health Authorities or were delegated to the Specialised Health Services Commission for Wales (SHSCW). This organisation had been set up as a joint venture of the five Welsh Health Authorities, and operated as a sub-committee of Dyfed Powys Health Authority. On 1st April 2003 Dyfed Powys Health Authority ceased to exist and the responsibility for commissioning all designated specialised health services for the residents of Wales formally transferred to HCW including those specialised services formerly commissioned directly by health authorities. The functions of HCW were established under “The Health Authorities (Transfer of Functions, Staff, Property, Rights and Liabilities and Abolition) (Wales) Order 2003 (SI 2003/813)”.

3. Accountability structures

Professor Ken Woodhouse was the Chair of HCW’s National Commissioning Advisory Board and reported to the Minister for Health & Social Services. Professor Woodhouse resigned as Chair on 14th April 2008. Mr Simon Dean was the Chief Executive and Accounting Officer of HCW until 18th October 2007 when he left his employment with HCW. Mr Stuart Davies took on the role as Acting Chief Executive and Accounting Officer from 19th October 2007. The Chief Executive and Accounting Officer is directly accountable to Ann Lloyd, the Director NHS Wales. During the period to 18th October 2007, three directors reported to HCW’s Chief Executive: Stuart Davies was the Director of Finance and Contracting until his appointment as Acting Chief Executive, Daniel Phillips is the Director of Planning and Performance and Geoffrey Carroll is the Medical Director. These three directors have been in place throughout 2007-08. Following Stuart Davies’ appointment as Acting Chief Executive he carried out a dual role as Director of Finance and Contracting until 18th February 2008 when Robert Tovey was appointed as the new Director of Finance and Contracting reporting directly to the Chief Executive.

4. Principal Activities

HCW’s role is to commission tertiary and other highly specialised services for the population of Wales. HCW also has commissioning responsibility for a range of designated services provided on a national basis, including blood and screening services

and NHS Direct. HCW also has a role in giving advice to NHS Wales on the commissioning of specialised services.

5. The National Commissioning Advisory Board

The National Commissioning Advisory Board (the Board) meets bi-monthly. The Board advises the Chief Executive of HCW and its key role is to consider and sign off the HCW National Commissioning Strategy and Annual Commissioning Plans. The Board will make recommendations to the Director, Health and Social Care Department and Minister for Health and Social Services, Welsh Assembly Government through the Chief Executive and monitor the implementation of the approved plan. Further information on the Board and its membership can be found in the Statement on Internal Control.

6. Pension liabilities

The accounting policy for the treatment of pension liabilities is explained in Note 1.e. to the Accounts.

7. Disabled Persons

HCW follows the Civil Service Code of Practice on Employment of Disabled People. Its policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

8. Employee Consultation

HCW is part of the Welsh Assembly Government, which has established Whitley Committees, with employee representatives, to discuss matters of concern. Staff are also consulted over the planning process and regular consultation meetings are held between senior and junior staff.

9. Creditors Payment Policy

HCW follows the principles of the Government's Better Payment Practices Code and is committed to paying all undisputed invoices within 30 days of receipt. For the financial year 2007-08, 89 per cent of payments by number met this target (2006-07: 80 per cent).

HCW's performance has been affected by a number of issues that have detracted staff time away from core tasks during the year including:

- Staff sicknesses
- Introduction of new accounting systems
- Delays in setting up supplier accounts centrally
- The Aylward review

The effects of the last three points should be less significant as we move into 2008/09 which combined with a review by HCW of its internal systems and staffing levels will provide HCW with an environment in which it will improve its performance and reach the 95% target.

10. Auditors

The Accounts have been audited by the Auditor General for Wales in accordance with Section 131 of the Government of Wales Act 2006. No amount has been paid to HCW's auditors for non-audit work.

Management Commentary

Position, development and performance of HCW during the financial year

The 2007-08 financial year was another major financial challenge for HCW with further significant savings plan required to be achieved and the first repayment of its resource brokerage to the Welsh Assembly Government in order to meet the agreed financial target set out in the SCEP. HCW has fully met its financial target for 2007-08.

SCEP

Under the Strategic Change and Efficiency Plan (SCEP) for the financial year 2007-08, agreed with the Welsh Assembly Government, HCW needed to achieve £23.62m of savings in 2007-08 to meet all of the needs identified in its Commissioning Plan, including the first repayment of £5.45m to the Welsh Assembly Government against the resource brokerage received in earlier years.

The agreed SCEP identified areas in which these savings could be made across a range of initiatives:

- Strategic schemes (£4.9m) that commission and procure services in different ways.
- Efficiency schemes (£14.4m) that deliver services at reduced cost and focus commissioning resources more effectively.
- Disinvestment schemes (£4.32m) that reduce the range and/or volume of services being commissioned against a prioritisation framework.

The delivery of the SCEP was underpinned by a clear project management framework which included a monthly Project Board, chaired by the Chief Executive, and a weekly Project Review Team. The process successfully implemented a recurrent savings plan valued at £17m together with a risk management strategy to deliver in-year financial balance.

HCW fully delivered its financial target for the year by delivery of the SCEP, and the management of reserves and development programmes.

PROGRAMME EXPENDITURE

The following charts present two alternative analyses of the way in which HCW utilises its Programme budget. The first chart provides an indicative analysis of HCW’s programme expenditure by major service. The second chart provides an analysis of HCW’s programme spend by major service provider:

Chart 1 – Indicative Analysis of Programme Expenditure

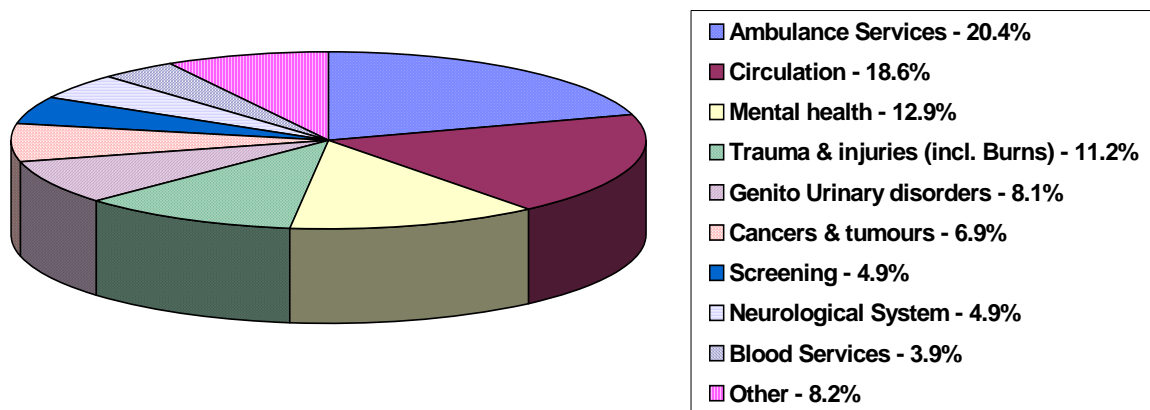
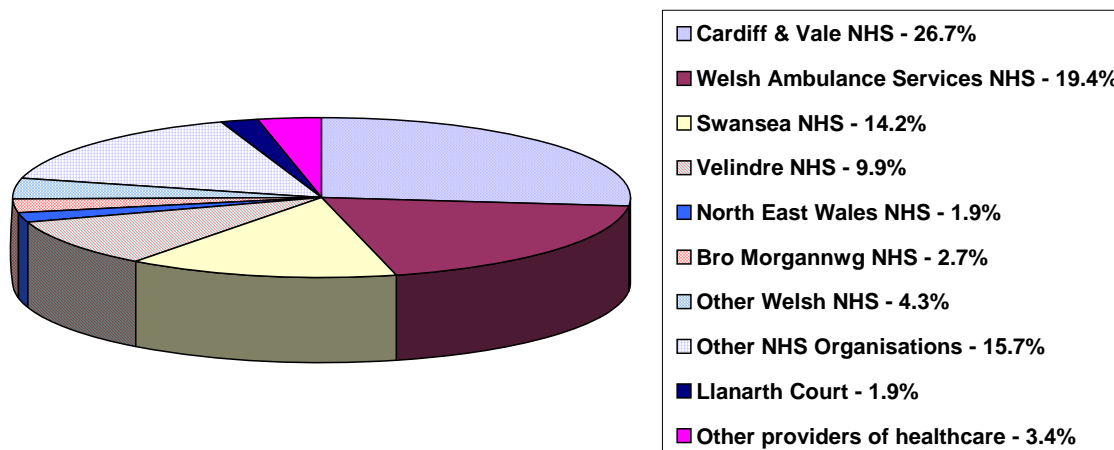


Chart 2 – Analysis of Programme Spend by Major Service Provider



Core Business Achievements

In parallel with the challenges of the SCEP HCW continued to deliver the improvements in services set out in its Commissioning Plan:

- Delivery of all ministerial targets including:
 - Reduction in waiting times in important areas such as cancer and cardiac – for example component waiting times for cardiac surgery and angioplasty decreased from 36 weeks to 22 weeks
 - Improvement in ambulance response times
 - Improvement in the assessment of young people requiring specialist CAMHS services
 - Reduction of delayed transfers of care in secure mental health services
- Progress towards implementing the Renal NSF by improving access to dialysis services with investment in capacity across Wales – including Cardiff, Swansea, and North Wales. A notable development was the commissioning of a new unit in Carmarthen with increased capacity for patients from West Wales.
- Maintain the safety of specialist services for the people of Wales through investment in service pressures, including Neonatal Intensive Care.
 - Meeting increases in demand for specialist services including:
 - Haemophilia – significant investment in delivery of inhibitor reduction programmes, which have a high unit cost but good clinical outcomes
 - Pulmonary hypertension – continued trend of increased numbers of patients with longer survival

- Home parenteral nutrition – continued trend of increased patient numbers and the development of a local treatment initiation programme in Wales at UHW, Cardiff
 - Neonatal intensive care – developing capacity in Swansea
 - Thoracic surgery – developing capacity in Swansea
 - Arrhythmia services – significant investment in capacity in Cardiff, Swansea and Liverpool
 - Medium secure mental health services – the commissioning of 14 new NHS beds in Bridgend as part of a plan to ensure reduced reliance on private sector and out of area placements for Welsh patients
 - Renal Transplantation – increasing capacity delivered in Wales from 90 transplants to 120 (UHW, Cardiff)
- Deliver specific Ministerial priorities for developing specialist services including:
 - brachytherapy – development of a new service in Velindre and the introduction of a new commissioning policy
 - bowel cancer screening – infrastructure investment in readiness for the 2008-09 implementation
 - enzyme replacement therapy – implementation of a significant expansion in ERT with a core service provided in Wales at UHW, Cardiff
 - bone marrow transplants – development of new capacity in Wales and an extended range of commissioning indications for lymphomas
 - adult cochlear implant – development of additional capacity in North and South Wales

Business Process Improvements

In order to ensure the delivery of core business and the delivery of the SCEP HCW has developed business process in the areas highlighted below:

- Individual Patient Commissioning – HCW has continued to invest management resource in ensuring that the processes are in place to deal with the increasing (>2,000 p.a.) requests for individually commissioned activity. Specific areas of improvement include the documentation of IPC procedure and strengthening the IPC team. An external review panel was in place throughout the year to ensure patients were able to have an independent consideration of an appeal.
- Commissioning Policies – HCW has developed a range of commissioning policies which set out the extent to which HCW will commission or otherwise specified specialist services. The development of these policies has been of significant importance in informing the decision-making process in respect of individual patient commissioning and in implementing SCEP schemes which control access or de-commission services. The continued development of commissioning policies is important to improve transparency of decision-making and the ability to defend actions from a legal perspective.
- Tertiary Referral Management – HCW has established processes designed to gatekeep access for a range of specialist services not provided within Wales. These

processes are helping to ensure that access to specialised services in Wales is maximised and unnecessary referrals to out of Wales providers reduced. As part of this process an increased range of services is now commissioned on a prior-approval basis with the associated improvement in financial control. 2007-08 saw the full implementation of a number of initiatives designed to maximise the extent to which specialised healthcare is delivered by the Welsh NHS including specialist paediatric and neurosciences clinical gatekeeping arrangements.

Going concern basis of accounting

The accounts for HCW have been prepared on the going concern basis. This basis of accounting has been maintained because HCW has an agreed SCEP for 2008-09. HCW agreed a five year SCEP in August 2006 which has been updated annually through the agreement of the Annual Operating Frameworks. HCW has attained recurrent financial balance without in-year financial support.

HCW has a negative balance on the General Fund, which at 31st March 2008 stood at £14m, but is still a going-concern. This position arises from the existence of significant creditor balances on the Balance Sheet that form part of the resource allocation provided to it by the Welsh Assembly Government but which was not drawn down in cash during the year.

Treasury accounting rules do not allow bodies to accrue for grant in aid, the net effect being a negative balance on HCW's General Fund. As HCW has kept within its resource allocation each year, the cash will be made available by the Welsh Assembly Government as and when the liabilities are discharged.

Principal risks and uncertainties affecting HCW

Aylward Review

It was announced by the Health Minister in October 2007 that an external review would be undertaken of the role and functions of Health Commission Wales with a view to providing advice, including recommendations, on the provision of specialised and tertiary health services for the people of Wales.

The report was published by Professor Aylward (www.wch.wales.nhs.uk) on 10th June 2008. The key findings were presented by Edwina Hart, the Minister for Health and Social Services to the Senedd on 10th June 2008 as follows:

- There were flaws in the way HCW was established by Welsh Assembly Government and in particular the nature of the governance arrangements in relation to the nature of the organisation and the advisory board
- That HCW was not sufficiently funded both in terms of programme resources and staffing resources
- That there is an over-reliance on agency personnel and staff on short term contracts which added to concerns about the adequacy of staffing numbers led to excess staff stress and anxiety
- That the organisational boundaries and lack of clarity around the range of services for which HCW is responsible led to fractured lines of communication between HCW and the Local Health Boards and a consequent negative impact on some areas of healthcare

- Finally that the heavy workload related to Individual Patient Commissioning was not anticipated by Welsh Assembly Government and was not sufficiently resources both in manpower of financial resources. This led to a strain on budgetary decisions and on the decision-making process and contributed to a perception that the processes are not transparent or understood sufficiently.

The Minister has asked that the Health community consider the findings in with the wider feedback on the NHS consultation process due for completion by the end of June 2008. Importantly the report recognises the need to keep the planning and funding of specialist services at a national level.

Accounting Issues

Contingent Liabilities

Throughout 2007-08 HCW has continued to take positive action to reduce the level of contingent liabilities. The closing assessment of contingent liabilities is now at £46,000 compared to an opening position of £388,000. The level of contingent liabilities has reduced over the year with some disputes being settled as part of agreements with English providers and some not materialising.

Furthermore, in keeping with the previous year's direction from the Welsh Assembly Government regarding financial risk management, HCW has been realistic in the assessment of its provisions and in particular has, wherever appropriate, made provisions to agree balances with Welsh NHS Trusts and LHB's.

Welsh Arbitration Process

In April 2007, the Welsh Assembly Government introduced a new arbitration process for dealing with disputed debts between all Welsh providers, which HCW agreed to sign up to voluntarily. The process outlines a rigid timetable for dealing with disputed invoices that ranges from normal finance department dealings, through to intervention by Directors of Finance and Chief Executives.

If debts are still disputed after a certain period of time, the disputing organisations must submit a formal case for arbitration, which for HCW is to the Director of Resources at the Welsh Assembly Government who decides which organisation should accept responsibility for the liability.

The financial statements take account of the outcome of all known cases and also include appropriate provision for cases in progress.

Environmental matters

As part of the 'Greening Operations' from the Welsh Assembly Government, HCW must try to reach a Level 5 Green Dragon Award. All offices under WAG are trying to achieve this award by maximising all recycling and environmental issues. To achieve Level 5 HCW must recycle as much as possible and try to cut back on using excessive electricity, water and consumables.

HCW continues to recycle paper, cardboard, wooden pallets, plastic bottles, aluminium cans and waste toners.

Social and community issues

HCW continues to engage fully with health communities and patient networks. HCW involves and consults on substantial changes to health services in accordance with WHC(2004)84 - 'Shaping Health Services Locally'.

Stuart Davies
Acting Chief Executive & Accounting Officer
15th July 2008

Remuneration Report

Remuneration Policy

HCW follows the remuneration policy of the Welsh Assembly Government. HCW participates in an ongoing performance appraisal process. The performance management process links to the HCW's strategic planning process ensuring that individual objectives reflect wider team and corporate goals.

The level of pay awarded to each pay grade has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- variations in labour markets and their effects on the recruitment and retention of staff;
- National Assembly policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available in the National Assembly's expenditure limits;
- the National Assembly's inflation target.

All seconded staff from NHS bodies are subject to a performance appraisal process in the same way as permanent employees. Further details on the remuneration policy of individual NHS bodies can be found in their published annual accounts.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Both Mr Simon Dean (until his resignation in October 2007) and Mr Stuart Davies hold appointments which are open-ended until they reach the normal retiring age of 60. The other directors who have held post during the year have been on fixed-term secondment agreements from various NHS bodies. Details of the secondments are explained below. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary

'Salary' includes gross salary; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by HCW and thus recorded in these accounts. No bonuses or allowances were payable and no element of senior manager remuneration is subject to performance conditions.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. The salary of the senior staff consists of a gross salary only, except for Dr G Carroll who is paid an allowance of £1,705 (*) (2006-07: £1,430) for a lease car.

Senior Staff Emoluments (*)

HCW Employees:	Salary (2007-08) £000	Salary (2006-07) £000	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/08 and related lump sum £000	CETV at 31/03/08 £000	CETV at 01/04/07 £000	Real increase in CETV as funded by employer £000
Simon Dean Chief Executive (i)	35 - 40 (75 - 80)	75 - 80	2	4	58	22	28
Stuart Davies Acting Chief Executive/Director of Finance and Contracting (ii)	70 - 75	70 - 75	2	29	421	339	23
Secondees:							
Robert Tovey Director of Finance and Contracting (iii)	5 10 (70 - 75)	N/A	N/A	23	333	N/A	N/A
Dr Geoffrey Carroll Medical Director (iv)	120 - 125	120 - 125	2	47	862	785	40
Daniel Phillips Director of Planning and Performance (v)	80 - 85	75 - 80	2	24	315	271	26
Professor Ken Woodhouse (vi)	5 - 10	5 - 10	N/A	N/A	N/A	N/A	N/A

(*) These figures have been subject to audit.

- (i) Mr Simon Dean's employment ended on 18th October 2007. Therefore, the amounts disclosed above for 2007-08 represent those earned in the period from 1st April 2007 to 18th October 2007 (full year equivalents in brackets).
- (ii) Mr Stuart Davies has been employed by HCW since 1st April 2003. On 19th October 2007, Mr Davies was appointed as Acting Chief Executive whilst still maintaining his role as Director of Finance and Contracting. His contract is subject to a three-month notice period.
- (iii) Mr Robert Tovey was appointed as Director of Finance and Contracting from 18th February 2008 onwards and is seconded in from Powys LHB. Mr Tovey's contract runs until 31st March 2009 and is subject to a notice period of three months. The amounts disclosed above for 2007/08 represent those earned in the period 18th February 2008 to 31st March 2008 (full year equivalent in bracket).

- (iv) Dr Geoffrey Carroll is employed by Velindre NHS Trust and is seconded to HCW. Dr Carroll's secondment agreement ended on 31st May 2008. Dr Carroll's secondment agreement was not renewed but his appointment to HCW has continued in the capacity as a consultant from NPHS. NPHS is a division of Velindre NHS Trust so HCW will continue to be re-charged by Velindre NHS Trust under an SLA agreement.
- (v) Mr Daniel Phillips is employed by Cardiff & Vale NHS Trust and seconded to HCW. The secondment agreement ended on 31st March 2008 and Mr Phillips was re-appointed to his role and a new two-year secondment agreed. This contract is subject to a three-month notice period.
- (vi) Professor Ken Woodhouse was the Chairman of the National Commissioning Advisory Board until his resignation on 14th April 2008. HCW reimburses his employer, Cardiff University, a small proportion of his salary costs for his services in this respect. Health Commission Wales has not paid any expenses for 2007/08.

Pensions

Pension benefits for all HCW employees are provided through the Principal Civil Service Pension Scheme (PCSPS). All seconded staff remain covered by the provisions of the NHS Pension Scheme through their employment with their home organisations.

Staff who have joined HCW with existing membership of the PCSPS may participate in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants to the PCSPS after 1st October 2002 had the choice between membership of premium or joining a 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of $1/80^{\text{th}}$ of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pensionable salary is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on commuting the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years.

Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial valuation and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of $1/60^{\text{th}}$ of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of $3/80^{\text{th}}$ of final

pensionable earnings for each years service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for £1 of pension given up). Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of $\frac{3}{80}^{\text{th}}$ of the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of 3 times pensionable earnings and also provides a service enhancement on commuting the spouse's pension.

The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued to the age of 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1st October 2002 calculated broadly as per classic.

Pensions payable under classic, premium and classic plus are increased in line with the Retail Price Index.

(d) Partnership Pension Account

This is a stakeholder type arrangement where the employer pays a basic contribution of between 3 and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25 per cent of the fund as a lump sum.

No employees have opened partnership pension accounts.

There were no pension contributions prepaid at the balance sheet date.

NHS Pension Scheme

This scheme is an unfunded, defined benefit scheme that covers NHS employees, General Practices and other bodies allowed under the direction of Secretary of State, in England and Wales. The cost of the employer contributions due in respect of the seconded staff has been reimbursed by HCW and is shown in Note 2a. Further information about the scheme and details of the latest actuarial valuation are contained in the NHS Pension Scheme (England and Wales) Resource Account, available on the NHS Pensions Agency website www.nhspa.gov.uk or from The Stationery Office Ltd.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. 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, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

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.

Stuart Davies

Acting Chief Executive & Accounting Officer

15th July 2008

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 131 of the Government of Wales Act 2006, HM Treasury has directed Health Commission Wales to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Health Commission Wales and of the net resource outturn, net resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the *Financial Reporting Manual* issued by the Welsh Assembly Government, and in particular to:

- Observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the *Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on the going concern basis.

The Welsh Assembly Government has designated the Chief Executive of Health Commission Wales as the Accounting Officer of Health Commission Wales. The Chief Executive's responsibilities, as Accounting Officer, include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Health Commission Wales' assets, are set out in the Welsh Assembly Government Accounting Officers' Memorandum, issued by HM Treasury.

Statement of disclosure of information to auditors

So far as the Accounting Officer, on behalf of Health Commission Wales, is aware, there is no relevant audit information of which Health Commission Wales' auditors are unaware, and the accounting officer has taken all the steps that ought to have taken in order to make himself aware of any relevant audit information and to establish that Health Commission Wales' auditors are aware of that information.

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control within HCW, which supports the achievement of HCW's policies, aims and objectives. I am also responsible for safeguarding the public funds and assets for which I am responsible.

2. The purpose of the system of internal control

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

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of HCW policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in HCW for the year ended 31 March 2008 and up to the date of approval of the annual accounts, and accords with HM Treasury guidance.

3. Capacity to handle risk

As Accounting Officer, I have the responsibility of ensuring that appropriate activities take place within HCW to manage risk. I am accountable to the Director NHS Wales and I am required to report risks to the Department for Health & Social Services.

Whilst I have ultimate responsibility for managing risk, responsibility for managing specific risks has been delegated to other directors as follows:

The Director of Planning and Performance is responsible for ensuring the corporate governance responsibilities set out in the HCW Framework Document are met. In particular, this appointment should ensure that HCW has Accountability and Governance Frameworks with clear operational and performance responsibility to the Director NHS Wales. It is also the responsibility of the Director of Planning and Performance to lead on the development of a corporate approach to risk management for HCW.

The Medical Director is responsible for ensuring that all aspects of Clinical Governance are maintained and that service areas are risk assessed as appropriate.

The Director of Finance and Contracting is responsible for ensuring that financial control exists within the organisation and that there are mechanisms for reporting and monitoring HCW's budget.

All staff are made aware of their responsibilities in respect of risk management and have a range of risk management courses available to them to ensure they can meet these responsibilities. All staff also have access to the organisation's risk register and are well aware of the process for submitting new risks into the risk management process.

Underpinning the organisations approach to risk management and internal control is the Healthcare Standards Self-Assessment process, which is a system of demonstrating

continuous improvement in areas of governance, risk management and corporate probity. This process is managed internally on a regular basis, throughout the year, and is submitted for external validation to Health Inspectorate Wales.

4. The risk and control environment

HCW's governance and risk management arrangements are outlined in the Framework document and validated through the Healthcare Standards process. Internal accountabilities are discharged throughout the committees and directors for which HCW has agreed accountability processes as follows:

Risk Management Group

This group comprises the Director of Planning and Performance, Business Manager, Clinical Governance Manager and Financial Accountant. The Group's main objectives are as follows:

- Record, assess and monitor all risks associated with HCW;
- Record and monitor the implementation of audit recommendations
- Review the Statement on Internal Control
- Maintain the organisation wide risk register

In order to capture all risks, the risk Group has developed an internal form that is available to all staff that provides them with a mechanism for reporting to the group any risks they perceive to exist. This form requires comment by the identified risk owner and is then assessed at the next available risk group meeting. The notes of the risk group meetings and the risk register are also made available to all staff.

The risk register is reported into the DHSS risk management process and the audit group.

Clinical Governance Committee

This Committee is an advisory group that reviews the clinical governance arrangements within HCW and provides advice to me. The membership includes health professionals from a range of specialised areas across NHS Wales as well as representatives from the Community Health Councils, NHS Wales' regional offices, and the Clinical Governance Support and Development Unit in the Welsh Assembly Government

Clinical risks are identified through a number of methods, including clinical reviews that involve assessing current practices, risks assessment and management and quality of care and major clinical governance assessments that are undertaken as required.

Audit Group

The Audit Group acts in an advisory capacity by commenting on both internal and external audit matters and seeks to provide assurance to HCW's Accounting Officer on the operation of internal controls, financial management and budgetary control and risk management. Issues arising from the Risk Management Group, Clinical Governance Committee and progress against implementation of audit recommendations are reported into the Audit Group.

Directors Meetings

The Directors meet weekly to consider the operational issues and plans of HCW. Reports are discussed and appropriate action agreed for managing identified risks. This includes a review of the progress made against the Healthcare Standards Implementation Plan.

Financial/Budgetary Control/Quarterly Review Process

HCW has in place a monthly reporting mechanism for monitoring the financial position of the organisation. In addition I have put in place a formal SCEP monitoring process, in which I participate, to ensure control exists over the management of the savings schemes that have been identified as contributing towards the organisation's overall in-year financial balance. The financial performance of HCW is submitted to the Welsh Assembly Government on a monthly basis for consideration as part of the overall performance of the DHSS business unit and I attend a quarterly performance review with the Director of DHSS.

The National Commissioning Advisory Board (the Board)

The Board's main role is to approve and monitor the implementation of HCW's commissioning plan. In addition, the Board also advises me on service risks and on the strategic direction of HCW.

Internal/External Audit

The internal audit function for HCW is provided by the WAG Internal Audit Services which operates to Government Internal Audit Standards. There is a five year audit strategy in place and audits are carried out in accordance with this plan.

HCW's external auditors are the Wales Audit Office who undertake work to provide assurances on the integrity of the financial statements and written reports on recommendations for improvements in processes/controls.

The results from both internal and external audits have been agreed by management and have been considered by the Audit Group. The risk management group oversees implementation of any recommendations arising.

Strategic Change and Efficiency Plan (SCEP)

One of the most significant risks facing HCW is its ability to maintain a balanced financial position whilst still providing the services described in its Commissioning Plan. Following additional funding from the Welsh Assembly Government over the past three financial years, HCW has developed a SCEP plan in order to achieve overall financial balance for 2007/08, to repay £5.45m of funding and to repay existing financial support from the Welsh Assembly Government in subsequent years.

The plan was agreed by the Health Minister and includes a number of strategic service changes, efficiency improvements and service disinvestments in order to ensure HCW delivers Ministerial prioritisation along with achieving financial balance. Progress against the SCEP is a feature of the Quarterly Performance Review with the Welsh Assembly Government.

I manage the SCEP process through a Project Board which meets monthly. Under the Project Board there is a SCEP Quality Review Team which meets on a bi-weekly basis. Each savings scheme has an owner and is given a risk rating that highlights the likelihood of the scheme being successful.

Any changes to the SCEP are recommended by the Quality Review Team and approved at the Project Board. The Quality Review Team is also responsible for developing contingency plans to counter act any adverse performance in the SCEP.

Healthcare Standards

HCW is required to undertake a self-assessment against Healthcare Standards and from this to produce a Healthcare Standards Improvement Plan which schedules the actions and improvements identified as a result of the self-assessment.

To assist in monitoring HCW's implementation of the actions, periodic internal meetings are held, which I attend along with the other directors, to consider in detail the progress of the implementation.

HCW has undertaken a self-assessment against the Healthcare Standards for Wales, for the period 2007 -08. HCW self-assessed itself against 222 criteria and scored as follows:

Matrix Categories	Number
Level 2 – Responding	67
Level 3 – Developing	148
Level 4 – Practising	5
Level 5 - Leading	2
	222

In respect of the core governance standards, HCW self-assessed as follows:

Healthcare Standard 27 -	Level 3
Healthcare Standard 28 -	Level 3

These self-assessment scores are currently being validated by Health Inspectorate Wales.

Healthcare Standards Self Improvement Plan (HCSIP) 2007

As part of HCW's improvement initiative and in preparation for the 2007-08 self-assessment, HCW developed a Healthcare Standards Self Improvement Plan (HCSIP) 2007.

In the 2007 HCSIP, HCW had identified 37 specific improvement actions which primarily channelled its energies into strengthening the clinical governance structures and advancing the high standards of commissioning.

HCW achieved 29 actions in full, 6 in large part and 2 were not achieved and have been rolled over to the following year. HCW's improvements are reflected in its self-assessment for 2007-08 and demonstrate HCW's commitment and continuous work towards raising its standards.

Healthcare Standards for Wales, Self-assessment 2007-08

In preparing HCW's self assessment, the Chief Executive agreed that any criteria scoring less than 2 on the maturity matrix would be included in HCW's action plan for 2008-09. HCW scored 67 criteria out of a total of 220, at level 2. Actions and targets to raise these to at least level 3 are currently being developed. The actions/targets will be rationalised and prioritised by the HCW Healthcare Standards Group and agreed by the Directors, and will form the HCSIP for 2008-09. Additionally the HCSIP for 2008-09 will include Annual Operating Framework targets. The work on the 2008-09 HCSIP is therefore under development and will be in place for submission to the Director of Service Delivery and Performance Management by the July 2008 deadline.

5. Review of effectiveness

As Accounting Officer I also have responsibility for the review of the effectiveness of the system of internal control. My review is informed by:

- the work of the risk management group;
- the work of the internal/external auditors;
- the Directors within HCW who have responsibility for the development and maintenance of the internal control framework;
- feedback from the National Commissioning Advisory Board;

The result of my review of the effectiveness of the system of internal control has been discussed by the Audit Group, and a plan to ensure continuous improvement of the system is in place.

The largest risk facing HCW is the staffing levels and how staff are employed. As Accounting Officer I have taken all of the appropriate steps thus far to address this issue and have made the Director of NHS Wales fully aware of the issues faced by HCW. HCW is planning to increase its staffing levels over the next year and how they are employed but will need to continue to engage with the Welsh Assembly Government as to how this plan can be implemented.

6. Matters of note

IT Data Security

During the year ended 31st March 2008, HCW's risk management group have considered the risks in relation to the security and confidentiality of personal and other data. This has been reported to me and I have taken steps to mitigate the risks associated with this which are underway and due to be completed in the first half of the 2008/09 year.

Public Sector Payment Performance

HCW's current payment performance rate is 89% which is below the Public Sector Payment Performance target of 95%. HCW's performance has been affected by a number of issues that have detracted staff time away from core tasks during the year including:

- Staff sicknesses
- Introduction of new accounting systems
- Delays in setting up supplier accounts centrally
- The Aylward review

The effects of the last three points should be less significant as we move into 2008/09 which combined with a review by HCW of its internal systems and staffing levels will provide HCW with an environment in which it will improve its performance and reach the 95% target.

Internal Audit Opinion

During the year, Internal Audit undertook three audits which provided me with limited assurance. One audit was a substantial systems audit, the other two were short advisory reviews. A second planned substantial systems audit has been postponed. Internal Audit concluded that they are unable to provide an overall opinion for the year, as extracting an overall opinion from the limited volume of audit work undertaken would be potentially misleading.

Whilst it is of concern to me that there were a number of areas in which limited assurance was given there were several issues raised where I felt the information/controls are in place but were not readily available or fully documented at the time of the audit due to staff resource issues. It is hoped that HCW will be able to recruit to appropriate staffing levels.

I am content that HCW has appropriate core controls in place to ensure the accuracy of the financial statements and the appropriateness of expenditure. Furthermore, that action plans are in place to address the areas for improvement identified for the forthcoming year.

Aylward Review

It was announced by the Health Minister in October 2007 that an external review would be undertaken of the role and functions of Health Commission Wales with a view to providing advice, including recommendations, on the provision of specialised and tertiary health services for the people of Wales.

This review was undertaken by Professor Mansell Aylward and was completed in June 2008. The key findings were presented by Edwina Hart, the Minister for Health and Social Services to the Senedd on 10th June 2008.

The findings of this report are discussed in more detail in the Management Commentary section of these financial statements on page 8.

Up until the date of signing there were no other matters of note during the year.

7. Statement of assurance

In light of the above, I am satisfied that a sound system of control has operated within the areas for which I am the Accounting Officer.

Stuart Davies
Acting Chief Executive & Accounting Officer
15th July 2008

THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO THE NATIONAL ASSEMBLY FOR WALES

I certify that I have audited the financial statements of Health Commission Wales (Specialist Services) for the year ended 31 March 2008 under Section 131 of the Government of Wales Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that Report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, including a Remuneration Report, and the Financial Statements in accordance with Section 131 of the Government of Wales Act 2006 and HM Treasury's Directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury's Directions issued under the Government of Wales Act 2006. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises only the Directors' Report, the Management Commentary and the unaudited part of the Remuneration Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition, I report to you if Health Commission Wales (Specialist Services) has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Health Commission Wales (Specialist Services)'s compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of Health Commission Wales (Specialist Services)'s corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial

transactions included 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 Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Health Commission Wales (Specialist Services)'s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me 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 error and that in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government of Wales Act 2006 and directions made thereunder by HM Treasury of the state of Health Commission Wales (Specialist Services)'s affairs as at 31 March 2008 and the net expenditure and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury's directions issued under the Government of Wales Act 2006; and
- information given within the Annual Report, which comprises only the Directors' Report, the Management Commentary and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

Jeremy Colman
Auditor General for Wales
Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ
22nd July 2008

OPERATING COST STATEMENT FOR YEAR ENDED 31 MARCH 2008

		Year Ended 31 March 2008		Year Ended 31 March 2007	
	<i>Note</i>	£000	£000	£000	£000
EXPENDITURE					
Programme Expenditure	3	541,915		509,735	
Administration Expenditure:					
Staff	2	1,692		1,679	
Other administration	4	31		(6)	
Total Expenditure			<u>543,638</u>	<u>511,408</u>	
NET COST OF ACTIVITIES			<u>543,638</u>	<u>511,408</u>	
NET EXPENDITURE FOR THE YEAR			<u>543,638</u>	<u>511,408</u>	

The movement on the General Fund is shown at Note 9

All activities are continuing. There are no recognised gains or losses during the year.

The notes on pages 28 to 37 form part of these accounts

BALANCE SHEET AS AT 31 MARCH 2008

		31 March 2008		31 March 2007	
	<i>Note</i>	£000	£000	£000	£000
CURRENT ASSETS					
Debtors	6	2,741		1,761	
Cash at bank and in hand	7	2,547		3,977	
		<u>5,288</u>		<u>5,738</u>	
CREDITORS					
Amounts falling due within one year	8	<u>(19,152)</u>		<u>(17,625)</u>	
NET CURRENT LIABILITES			<u>(13,864)</u>		<u>(11,887)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			(13,864)		(11,887)
CREDITORS					
Amounts falling due after more than one year	8		(166)		(166)
NET LIABILITIES			<u>(14,030)</u>		<u>(12,053)</u>
FINANCED BY TAXPAYERS EQUITY					
General fund	9		(14,030)		(12,053)
TOTAL GOVERNMENT FUNDS			<u>(14,030)</u>		<u>(12,053)</u>

Stuart Davies

Acting Chief Executive & Accounting Officer
15th July 2008

The notes on pages 28 to 37 form part of these accounts

CASH FLOW STATEMENT
for the year ended 31 March 2008

	<i>Note</i>	2007-08 £000	2006-07 £000
Net cash outflow from operating activities	10a	(543,209)	(515,671)
Financing from the Welsh Assembly Government	9	541,779	519,337
(Decrease)/increase in cash in the period	10b	<u>(1,430)</u>	<u>3,666</u>

The notes on pages 28 to 37 form part of these accounts

NOTES TO THE ACCOUNTS

1. Accounting Policies

a. Basis of Accounting

The financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 17th April 2008 pursuant to Section 131 of the Government of Wales Act 2006.

The Accounts follow the requirements of the Financial Reporting Manual issued by the Welsh Assembly Government and are based on the accruals concept of accounting and the historical cost convention.

Subject only to compliance with the requirements set out in the Accounts Direction, the Accounts also:

- i. Comply with the accounting and disclosure requirements of the Companies Act 2006 in so far as they are consistent with the status of an Agency of the Welsh Assembly Government; and
- ii. Comply with accounting standards issued or adopted by the Accounting Standards Board except to the extent that they are advised inapplicable by HM Treasury.

b. Funding

The main source of funding for HCW is from the Welsh Assembly Government and is credited to the General Fund on receipt.

c. Expenditure

Programme

The expenditure recognised in the accounts primarily represents the cost of treatments carried out in the year. There are also a small number of staff members that are funded from programme expenditure which are detailed at note 2(a).

In common with NHS commissioners HCW has in place service level agreements covering the provision of health services with all main providers. The majority of HCW's expenditure is incurred under cost and volume Service Level Agreements (SLAs). These SLAs, agreed on a rolling one-year basis are not legally binding. Contracts with NHS organisations on an individual patient commissioning (IPC) basis are also not legally binding. A small proportion of HCW's expenditure is incurred under legally binding contracts with the Foundation Trusts in England or private sector providers of primarily secure mental health services.

Administration

This expenditure recognised in the accounts represents the costs of staff and other running costs incurred during the year.

d. Value Added Tax (VAT)

HCW is covered by the VAT registration of the Welsh Assembly Government. HCW recovers VAT on its business activities and on certain contracted out services, as agreed by HM Treasury. Expenditure shown in the Operating Cost Statement includes VAT except where VAT is recoverable in conjunction with the business activity or contracted-out service.

e. Pension Costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which is described at Note 2. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. HCW recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, HCW recognises the contributions payable for the year; these amounts are charged to the Operating Cost Statement in the year of payment.

Staff seconded from other NHS organisations are covered by other NHS pension schemes.

f. Notional Costs

Welsh Assembly Government recharge

A notional cost has been included to cover certain common services and support functions, such as IT, finance, personnel, accommodation and other office services, provided to HCW by the Welsh Assembly Government free of charge.

Cost of capital

A notional interest has been calculated at the appropriate government lending rate of 3.5% (2006-07 3.5%) on the average value of net current liabilities in the year.

g. Capitalisation of equipment

Health Commission Wales does not hold any fixed assets with a value over the capitalisation threshold of £5000.

2. Staff numbers and costs

a) Staff Costs

				2007-08	2006-07
	HCW employees	Secondees	Agency	Total	Total
	£000	£000	£000	£000	£000
Wages & Salaries	934	607	231	1,772	1,655
Social Security Costs	82	52	-	134	132
Other Pension Costs	185	67	-	252	256
	1,201	726	231	2,158	2,043
Funding for seconded out staff	(62)	-	-	(62)	(102)
Funded from programme expenditure	-	(404)	-	(404)	(262)
Total funded from administration expenditure	1,139	322	231	1,692	1,679

b) Staff Numbers

The average number of whole-time equivalent persons (including Senior Staff) employed during the year was:

	2007-08	2006-07
HCW employees	27	21
Secondees	11	9
Agency	6	9
Total	44	39

c) Pension Schemes

Pension benefits for all HCW employees are provided through the Principal Civil Service Pension Scheme (PCSPS). All seconded staff remain covered by the provisions of the NHS Pension Scheme through their employment with their home organisations. The figures within this note therefore relate only to HCW employees.

Principal Civil Service Pension Scheme (PCSPS)

This is an unfunded multi-employer defined benefit scheme but HCW is unable to identify its share of the underlying assets and liabilities and therefore falls within the multi-employer exemption provided by FRS17, Retirement Benefits, and accounts for its contributions to the scheme as though this was a defined contribution scheme.

A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2007-08, employers' contributions of £176,476 (2006-07: £169,242) were payable to the PCSPS at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. For 2008-09, employers' contributions will continue to be payable at one of the four rates in the range 17.1% and 25.5% until the next full actuarial valuation which is expected in 2010. The contribution rates are set to meet the cost of the benefits accruing during 2007-08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners

NHS Pension Scheme

This scheme is an unfunded, defined benefit scheme that covers NHS employees, General Practices and other bodies allowed under the direction of Secretary of State, in England and Wales. The cost of the employer contributions due in respect of the seconded staff has been reimbursed by HCW and is shown in Note 2a. Further information about the scheme and details of the latest actuarial valuation are contained in the NHS Pension Scheme (England and Wales) Resource Account, available on the NHS Pensions Agency website www.nhspa.gov.uk or from The Stationery Office Ltd.

d) Chair of National Commissioning Advisory Board

Professor Ken Woodhouse was the Chairman of the National Commissioning Advisory Board until his resignation on 14th April 2008. HCW paid in his employer Cardiff University £12,268 during the year (2006-07 - £11,902) for his services. No expenses were paid in respect of 2007-08 by Health CommissionWales.

Members of the National Commissioning Advisory Board do not receive any emoluments and were not reimbursed any expenses in respect of 2007-08.

3. Programme Expenditure

The note below gives an analysis of programme expenditure by Provider for the year.

	2007-08	2006-07
	£000	£000
NHS:		
Cardiff & Vale NHS Trust	144,450	140,359
Welsh Ambulance Services NHS Trust	105,001	80,015
Swansea NHS Trust	77,074	83,986
Velindre NHS Trust	53,477	51,693
North East Wales NHS Trust	10,388	9,404
Bro Morgannwg NHS Trust	14,384	13,070
Other Welsh NHS Trusts	23,280	19,598
Other NHS Organisations	85,161	80,265
Non-NHS:		
Llanarth Court	10,042	11,035
Other providers of healthcare	18,658	20,310
	<u>541,915</u>	<u>509,735</u>

The reduction in the programme expenditure with Swansea NHS Trust is a result of the transfer of the NHS Direct service to the Welsh Ambulance Services NHS Trust which amounted to £9.9m.

The increase in the programme expenditure with the Welsh Ambulance Services NHS Trust is explained by the transfer of the NHS Direct service mentioned above and the additional non-recurrent allocation of ARRP (Radio Replacement Programme) funds amounting to £7.5m

4. Administration expenditure

	2007-08	2006-07
	£000	£000
Central administration	36	45
Travel, subsistence and hospitality	51	54
Review Panel Remuneration	12	14
Auditor's remuneration	46	45
Other	4	26
	<u>149</u>	<u>184</u>
Non-cash items:		
- cost of capital credit	(564)	(625)
- notional charge for Welsh Assembly Government central services	319	311
- IT notional charge	127	124
	<u>(118)</u>	<u>(190)</u>
	<u>31</u>	<u>(6)</u>

5. Movements in working capital other than cash

	2007-08	2006-07
	£000	£000
(Increase) / decrease in debtors	(980)	176
Increase / (decrease) in creditors falling due within one year	1,527	(4,249)
10a	<u>547</u>	<u>(4,073)</u>

6. Debtors

	31 March	31 March
	2008	2007
	£000	£000
Amounts falling due within one year:		
Trade debtors - NHS:		
Welsh NHS Trusts	6	191
Welsh Local Health Boards	789	78
English NHS Trusts	1,331	1,020
Trade debtors - Non NHS:		
Welsh Assembly Government	10	21
Other Central Government bodies	-	431
Other providers of healthcare	574	19
VAT Reclaimable	1	1
Prepayments and accrued income	30	-
	<u>2,741</u>	<u>1,761</u>

7. Cash at bank and in hand

	31 March	31 March
	2008	2007
	£000	£000
Balance at 1 April	3,977	311
Net cash (outflow)/inflow	(1,430)	3,666
Balance at 31 March	<u>2,547</u>	<u>3,977</u>

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

	31 March	31 March
	2008	2007
	£000	£000
Balances at OPG	2,539	3,595
Commercial Banks and cash	8	382
	<u>2,547</u>	<u>3,977</u>

8. Creditors

	31 March 2008 £000	31 March 2007 £000
Amounts falling due within one year:		
Trade creditors - NHS:		
Welsh NHS Trusts	2,967	1,817
Welsh Local Health Boards	533	951
English NHS Trusts	11,111	11,679
English Primary Care Trusts		15
Trade creditors – non NHS:		
Welsh Assembly Government	272	397
Other Central Government bodies		-
Other providers of healthcare	4,269	2,665
Other creditors and deferred income	-	101
	19,152	17,625
Amounts falling due after more than one year:		
Trade creditors:		
Non NHS	166	166
	166	166

The Other creditors and deferred income of £101K in 2006/07 has been reflected in Trade Creditors for 2007/08.

9. General Fund

	2007-08 £000	2006-07 £000
Funding	541,779	519,337
Net expenditure for the year	(543,638)	(511,408)
Notional cost adjustments:		
- cost of capital	(564)	(625)
- notional charge for Welsh Assembly Government services	446	435
Net (decrease) / increase in general fund	(1,977)	7,739
General fund at 1 April	(12,053)	(19,792)
General fund at 31 March	(14,030)	(12,053)

10. Notes to the Consolidated Cash Flow Statement**10(a). Reconciliation of net cost of operating activities to net cash outflow from operating activities**

		2007-08	2006-07
		£000	£000
Net cost of operating activities for the year		(543,638)	(511,408)
Adjustments for non-cash transactions	4	(118)	(190)
Adjustments for movements in working capital other than Cash	5	547	(4,073)
Net cash outflow from operating activities		<u>(543,209)</u>	<u>(515,671)</u>

10(b). Reconciliation of Net Cash flow to movement in net funds

		2007-08	2006-07
		£000	£000
(Decrease)/increase in cash		(1,430)	3,666
Net funds at 1 April		<u>3,977</u>	<u>311</u>
Net funds at 31 March		<u>2,547</u>	<u>3,977</u>

11. Commitments

There were no capital commitments at 31 March 2008.

Other commitments relating to Individual Patient Commissioning Agreements amounted to £526,042 at 31 March 2008 (31 March 2007 £859,461). This represents the level of treatments agreed during 2007-08 but not carried out prior to 1 April 2008.

12. Contingent liabilities

During the year HCW has continued to work towards reducing the level of contingent liabilities by resolving disputed invoices with service providers. HCW has also continued to be realistic in its provisions.

As a result HCW's contingent liabilities have reduced to £46,119 at 31 March 2008 (31 March 2007 - £387,842).

13. Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of its activities and the way in which Agencies are financed, HCW is not exposed to the degree of financial risk faced by business entities. Moreover, 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. HCW has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day

operational activities and are not held to change the risks facing HCW in undertaking its activities.

- Liquidity Risk - HCW is financed by the Welsh Assembly Government and is therefore not exposed to liquidity risks.
- Interest Rate Risk and Foreign Currency Risk - HCW's financial assets and liabilities are not exposed to interest rate or foreign currency risks.
- Fair Values - There is no difference between the book values and fair values of HCW's financial assets and liabilities as at 31 March 2008.

14. Related Party Transactions

HCW is an Executive Agency of the Welsh Assembly Government which is therefore regarded as a related party. Other related parties are all Local Health Boards and NHS Trusts in Wales.

A number of HCW senior staff held senior management positions in other NHS organisations. During the year, HCW had transactions with these organisations as follows:

		Organisation	Programme Expenditure 2007-08 £000	Programme Expenditure 2006-07 £000
Senior staff:				
Robert Tovey (appointed 18th February 2008)	Powys LHB		91	N/A
Geoffrey Carroll	Velindre NHS Trust		53,477	51,693
Daniel Phillips	Cardiff & Vale NHS Trust		144,450	140,359

Included in the above Programme Expenditure is the secondees' salaries as reported within Note 2a.

During the year HCW had transactions with the Welsh Assembly Government to the value of £1,200,431 which relates to staff salaries included in Admin costs.

Chairman of the National Commissioning Advisory Board:		2007-08 £000	2006-07 £000
Ken Woodhouse	Cardiff University	130	143

Mr Ken Woodhouse resigned as the Chairman of the National Commissioning Advisory Board on 14th April 2008.

15. Post Balance Sheet Events

It was announced by the Health Minister in October 2007 that an external review would be undertaken of the role and functions of Health Commission Wales with a view to providing advice, including recommendations, on the provision of specialised and tertiary health services for the people of Wales.

This review was undertaken by Professor Mansell Aylward and was completed in June 2008. The key findings were presented by Edwina Hart, the Minister for Health and Social Services to the Senedd on 10th June 2008.

The key findings of this report are noted in the Management Commentary section of these financial statements on page 8.

There have been no other events since the end of the financial year, which would affect the understanding of the accounts. The Accounting Officer authorised these financial statements for issue on 22nd July 2008.