

Comisiwn Iechyd Cymru (Gwasanaethau Arbenigol)
Health Commission Wales (Specialist Services)

Asiantaeth Weithredol Llywodraeth Cynulliad Cymru
An Executive Agency of Welsh Assembly Government



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Health Commission Wales

Financial Statements

For the Year Ended 31st March 2009

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. Stuart Davies is the Acting Chief Executive and Accounting Officer and is directly accountable to Paul Williams, Chief Executive, NHS Wales. During the year, four directors reported to HCW’s Chief Executive: Robert Tovey is the Director of Finance, Daniel Phillips is the Director of Planning and Performance, Geoffrey Carroll is the Medical Director and Lynda Williams is the Nursing Director. These four directors have been in place throughout 2008-09.

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, NHS Wales 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 2008-09, 91 per cent of payments by number met this target (2007-08: 89 per cent).

HCW's payment performance was affected early in the year with the loss of support staff and delays with the bedding in of the new financial accounting system which has contributed to the target not being reached. However, HCW has since overcome these difficulties and in the last 7 months of the year was achieving a rate over 95 per cent and as high as 98 per cent.

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 2008-09 financial year was another major financial challenge for HCW with further significant savings plan required to be achieved and the continuing repayment of its resource brokerage to the Welsh Assembly Government in order to meet the agreed financial target set out in the AOF as outlined below. HCW has fully met its financial target for 2008-09.

Annual Operating Framework (AOF)

Within the AOF for the financial year 2008-09 as agreed with the Welsh Assembly Government, HCW identified savings of £9.6m that would be required in order to achieve a balanced financial position and still meet all of the needs of the Commissioning Plan and make the second repayment of £7.7m to the Welsh Assembly Government of the resource brokerage received in prior years.

The agreed AOF identified areas in which savings could be made across a range of initiatives. These are set out as follows:

- Strategic schemes (£5.0m) that commission and procure services in different ways.
- Efficiency schemes (£2.0m) that deliver services at reduced cost and focus commissioning resources more effectively.
- Disinvestment schemes (£2.6m) that reduce the range and/or volume of services being commissioned against a prioritisation framework.

HCW was able to achieve £7.4m of these planned savings but was still able to achieve its financial target by 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

The following chart provides an indication of the services across which HCW utilises its expenditure of £577,637,000.

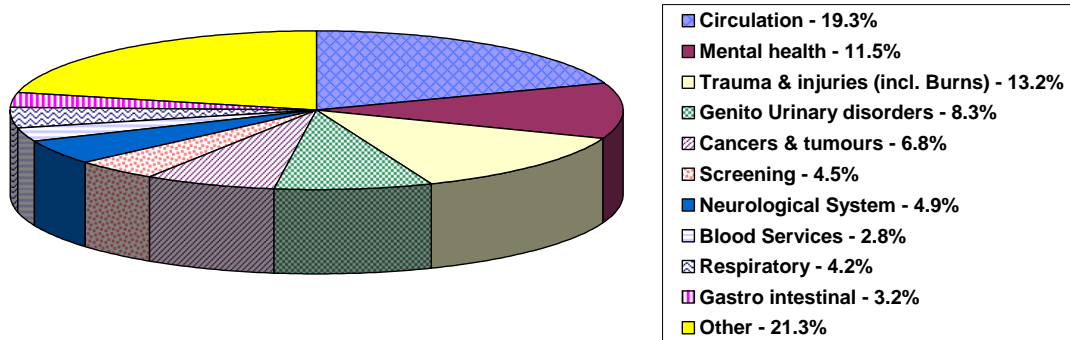
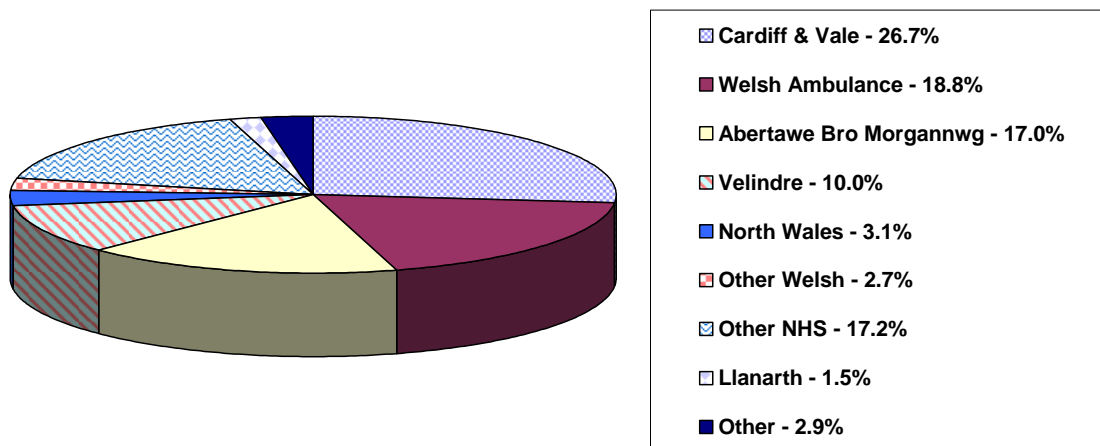


Chart 2 – Analysis of Programme Expenditure by Major Service Provider

The values associated with the spend of each provider can be found in Note 3 to these financial statements



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:

Against ministerial targets HCW achieved the following:

- Reduction in waiting times in important areas such as cancer and cardiac services
 - Delivery of improvement in ambulance response times was not possible in all LHB areas. However, by yearend performance improved to deliver an all-Wales average performance of 65% for category A
 - Improvement in the assessment of young people requiring specialist CAMHS services with the development of a 24/7 service in North Wales and new emergency beds in South Wales
 - Reduction of delayed transfers of care in secure mental health services
- Working in partnership with the Renal Networks, the Renal Advisory Group and Professor Williams significant progress was made 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 Pembrokeshire.
- 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 Wales
 - Arrhythmia services – significant investment in capacity in Cardiff and Liverpool together with a major investment in capacity in Swansea
 - Renal Transplantation – investment in the transplant unit in Cardiff to deliver sustainable increases in transplantation
- Deliver specific Ministerial priorities for developing specialist services including:
 - brachytherapy – the new service at Velindre has been in operation for the year
 - bowel cancer screening – the programme has been successfully rolled out in 2008-09
 - 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, leukaemia and myeloma
- adult cochlear implant – development of additional capacity in North and South Wales
- positron emission tomography scanning (PET) – introduction of expanded access criteria for head and neck and oesophageal cancers

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.
- Commissioning Policies – HCW has continued to develop a range of commissioning policies which set out the extent to which HCW will commission or otherwise specified specialist services.
- Tertiary Referral Management – HCW continues to maximise the use of local services.
- Clinical Governance Process – HCW has strengthened and developed the clinical governance process in the year to provide added scrutiny of the clinical performance of specialist services. The work programme has included the development of an outcome measurement framework.
- Health Care Standards Process – HCW has developed the Health Care Standards assurance process during the year and improved delivery against the core standards.

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 2009-10. HCW agreed a five year SCEP in August 2006 which has been updated annually through the agreement of the Annual Operating Frameworks.

HCW has a negative balance on the General Fund, which at 31st March 2009 stood at £16.0m, 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. HCW will draw down cash from the Welsh Assembly Government as and when the liabilities are discharged.

Principal risks and uncertainties affecting HCW

NHS Re-organisation

In the context of the re-organisation of the NHS in Wales the future organisational form of Health Commission Wales was the subject of a public consultation which closed on 19th June 2009. The nature of the proposed model followed a report prepared by Professor Aylward on behalf of Assembly Government published in March 2009.

The Minister for Health & Social Services has considered the response from the public consultation and announced on 14th July 2009 the new model under which Health Commission Wales will operate.

The principal features of this new model are summarised below:

- The statutory responsibility for specialist services will transfer to the 7 new Local Health Boards on 1st October 2009.
- HCW's current functions will be split into those to be directly responsible at a local level and those which will become the responsibility of a new national service named the Welsh Health Specialised Services Group (WHSSG).
- The WHSSG will be a formal joint-committee of the new LHBs and will take decisions on national specialised services on behalf of the LHBs under a clear framework agreement.
- The framework agreement will incorporate governance arrangements designed to overcome the problems identified with the previous arrangements for HCW
- The WHSSG will be accountable directly to the LHBs and will have an independent Chair. The work of the WHSSG will be delivered by the Welsh Health Specialist Services Team (WHSST).
- The WHSSG will be hosted by the newly formed Cwm-Taf LHB.
- The membership of WHSSG will comprise the Chair, Senior Members of each of the LHBs, additional members from Health Trusts and the Executive Directors of WHSST including the Director, Medical Director, Nurse Director and Finance Director.
- The operational arrangements for the transition between HCW and WHSST, including any shadow period of operation, will be subject to further consideration by the Minister.

In terms of size and scope the new organisation will be responsible for between 65% and 70% of current services by number and value. The final list of responsibilities is subject to consultation and the LHBs may wish to discharge additional responsibilities via WHSSG.

HCW will continue to operate fully through to the new arrangements and will continue to be responsible for agreeing the Commissioning Plan and Annual operating framework for 2009-10. HCW will be expected to continue to enter into new financial commitments to ensure its functions are delivered.

A Project Board to oversee the proposed arrangements has been established and has commenced preparatory work accountable through to the NHS Transition Board and DHSS Reform Board.

Accounting Issues

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.

HCW's contingent liabilities amounted to £38,757 at 31 March 2009 (31 March 2008 - £46,119).

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'.

Sickness Absence

During the year HCW lost 201 working days to long-term staff sickness and a further 208 working days to short-term staff sickness.

Stuart Davies
Acting Chief Executive & Accounting Officer
14th July 2009

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;
- Welsh Assembly Government 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 Welsh Assembly Government's expenditure limits;
- the Welsh Assembly Government'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.

Mr Stuart Davies' appointment is open-ended until he reaches 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.

* This section is subject to audit.

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 £nil (2007-08: £1,705) for a lease car.

Senior Staff Emoluments

HCW Employees:	Salary (2008-09) £000	Salary (2007-08) £000	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/09 and related lump sum £000	CETV at 31/03/09 £000	CETV at 01/04/08 £000	Real increase in CETV as funded by employer £000
Stuart Davies Acting Chief Executive (i)	75 - 80	70 - 75	0-2.5	30-35	437	390**	13
Seconded:							
Robert Tovey Director of Finance and Contracting (ii)	70-75	5-10 (70 – 75)	0-2.5 Plus lump Sum of 7.5-10	25-30 Plus lump Sum of 80-85	481	333	98
Dr Geoffrey Carroll Medical Director (iii)	130 - 135	120 - 125	2.5-5 Plus lump Sum of 15-17.5	50-55 Plus lump Sum of 155-160	1,313	862	301
Daniel Phillips Director of Planning & Performance (iv)	80 – 85	80 – 85	0-2.5 Plus lump Sum of 2.5-5	25-30 Plus lump Sum of 75-80	423	315	70
Lynda Williams Nursing Director (v) (until 27 th March 2009)	35 – 40	N/A	2.5-5 Plus lump Sum of 12.5-15	20-25 Plus lump sum of 70-75	424	272	102
Professor Ken Woodhouse, HCW Chair (vi) (until 14 th April 2008)	0-5	5-10	N/A	N/A	N/A	N/A	N/A

** The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

- (i) Mr Stuart Davies has been employed by HCW since 1st April 2003. On 19th October 2007, Mr Davies was appointed as Acting Chief Executive. His contract is subject to a three-month notice period.
- (ii) Mr Robert Tovey was appointed as Director of Finance and Contracting from 18th February 2008 onwards and is seconded in from Powys LHB. The secondment agreement ended on 31st March 2009 and was extended to 1st October 2009. The secondment is subject to a 3 month notice period. 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).

- (iii) 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 the National Public Health Service (NPHS). NPHS is a division of Velindre NHS Trust so HCW will continue to be re-charged by Velindre NHS Trust under a Service Level Agreement. This agreement is subject to a three-month notice period.
- (iv) 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.
- (v) Lynda Williams is employed by Rhondda Cynon Taff Teaching LHB and seconded to HCW on a 3 day a week basis. Lynda was appointed on 31st March 2008 and the secondment ran until 27th March 2009.
- (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 2008/09 (2007/08 - £nil).

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 $\frac{1}{80}$ 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 year's 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 $3/80^{\text{th}}$ 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.

(e) Nuvos

In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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

14th July 2009

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, in accordance with the responsibilities assigned to me in managing public money.

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 2009 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 Chief Executive 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 leading on and the development of a corporate approach to risk management for HCW.

The Director of Nursing 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, including identifying and reporting risks, 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.

HCW has developed and operates to a Commissioning Plan which is reviewed by HCW's National Commissioning Advisory Board and approved by the Minister.

Underpinning my 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. I have put in place processes for managing this internally on a regular basis, throughout the year, and I have submitted the self-assessment for external validation to Health Inspectorate Wales and for internal review by our Internal Auditors.

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 I have agreed accountability processes as follows:

Scheme of Delegations

During the year I have worked with the other directors to produce a Scheme of Delegations document which describes the system of internal control in terms of each of the groups/committees that I have put in place and how they link to one another. This document has been reviewed by the Risk Management Group, Clinical Governance Committee and Audit Group for comment and has been formally adopted by the team of directors.

Risk Management Group

During the year the terms of reference of this group were updated and membership of the group has been extended to include the Director of Nursing as well as the Director of Planning and Performance, Director of Finance, 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 Management 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.

During the year, I have also established better links between the Clinical Governance Committee and the Risk Management Group by sharing the Corporate risk register and the Clinical risk register at each of the meetings for cross review and consideration.

Clinical Governance Committee

This Committee is an advisory group that reviews the clinical governance arrangements within HCW and provides advice to me. The group includes health professionals from a range of specialised areas across NHS Wales, including LHB's and Trusts, 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:

- (a) clinical reviews that involve assessing current practices, risks assessment and a review of the management and quality of care; and
- (b) major clinical governance assessments that are undertaken as required.

During the year a new clinical risk register was created for consideration by the Committee which has also been shared with the Risk Management Group. The main corporate risk register has also been reviewed by the Clinical Governance Committee. It is anticipated that both registers will be amalgamated within the next 6 months.

During the year I have also appointed a new independent Chair to the Clinical Governance Committee who also sits on HCW's National Commissioning Advisory Board (NCAB). The Committee has met 4 times during the year.

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 me as Accounting Officer on the operation of internal controls, financial management and budgetary control and risk management. The Group consists of 3 members and a number of other attendees. The members make up the quoracy of the group and are represented by HCW's Chief Executive and two non-executive officers. Other attendees include, Internal and External audit, HCW directors, HCW's Business Manager, HCW's Financial accountant and WAG central Finance staff. During the year the group met 5 times.

Issues arising from the Risk Management Group, Clinical Governance Committee, Information Governance Group and progress against implementation of audit recommendations are reported into the Audit Group. During the year, except for the issues surrounding HCW's governance arrangements which I comment on below, no group members have raised any concern about the effectiveness of the system of internal control I have put in place.

Information Governance Group

During the year I established an Information Governance Group with its primary purpose being to develop and monitor information governance within Health Commission Wales and to ensure that the organisation meets with national standards and legislation. The group met twice during the year and planned meeting frequency is every 2 months.

The group oversees all aspects of information collection, storage and dissemination, paying particular attention to patient identifiable information. The remit includes information security, risk management, data protection, Caldicott and confidentiality, ethical requirements and records management.

The Chair of the Clinical Governance Committee is responsible for the Information Governance Group, delegating this on a day to day basis to the Clinical Governance Manager. The Information Governance Group reports to Health Commission Wales' Clinical Governance Committee, with minutes distributed to Health Commission Wales' Risk Management and Audit Groups.

Membership of the group comprises the Medical Director (Caldicott Guardian) as chair, plus the Clinical Governance Manager, Specialist IPC adviser, Information Manager, Financial Accountant, Specialist Commissioner, Business Support Manager, Assistant Commissioner for Mental Health, Head of Information Management Governance and the Information Analyst.

Staff Meetings

During the year I have established regular staff meetings which have provided a forum for me to update staff on current issues affecting them and HCW. This forum is also used for staff to voice any concerns they may have or issues they wish to bring to my attention. Any actions needed from these meetings are then directed through the appropriate group/committee.

Directors Meetings

On a weekly basis I meet with the other directors on 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

I have put 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, along with other directors, attend a quarterly performance review with the Director of DHSS.

The National Commissioning Advisory Board (the Board)

The National Commissioning Advisory Board advises the Chief Executive of Health Commission Wales 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, DHSS and Minister for Health and Social Services through the Chief Executive of Health Commission Wales and monitor the implementation of the approved plan.

Membership of the group is structured in such a way that there is representation from each of the regional stakeholder panels, including Trusts and LHB's, as well as HCW's Chief Executive and other directors.

In addition to its main role of monitoring and reviewing HCW's Commissioning Plan and strategy, the Board also receive, for review and comment, HCW's commissioning policies, financial position and minutes of Audit Group and Clinical Governance Committee.

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 and achieving the targets described in its Commissioning Plan. Following additional funding from the Welsh Assembly Government over the past four financial years, HCW has developed a SCEP plan in order to achieve overall financial balance for 2008-09 and repay existing financial support from the Welsh Assembly Government in subsequent years. The plan was agreed by the Minister for Health and Social Services on 24th February 2009 and includes a number of strategic service changes, efficiency improvements and service disinvestments in order to ensure HCW delivers Ministerial priorities along with achieving financial balance. Monitoring of progress against the SCEP is a feature of the Quarterly Performance Review with the Welsh Assembly Government.

I manage the SCEP process through a quarterly Commissioners Programme where progress against each savings scheme is discussed and any shortfalls identified.

Where shortfalls are identified the team is responsible for developing contingency plans to ensure that the gap is filled so that financial targets are maintained.

Healthcare Standards

HCW is required to submit an annual self-assessment against Healthcare Standards and from this to produce a Healthcare Standards Improvement Plan (HCSIP) which schedules the actions and improvements which we shall work on during the coming year. This plan is submitted to the Clinical Governance Committee, Audit Group and ultimately to Directors for approval.

Healthcare Standards for Wales Self-assessment 2008-09

As part of HCW's improvement initiative and in preparation for the 2008-09 self-assessment, I have implemented systems to include all senior staff in the self-assessment process. Clear delegation of responsibilities confirmed by myself, the Audit Group and the Clinical Governance Committee, have been circulated to the staff concerned, designating lead directors and supporting senior staff. All senior staff and directors in HCW have a role in providing information and evidence for the self assessment. All senior staff and directors also have a responsibility to provide information to show that the improvement plan (HCSIP) targets are being addressed. This forms part of the performance management of the organisation by WAG. This is different to previous years when the majority of the wording for the submission was prepared by directors themselves.

An internal process is in place to ensure that all staff are aware of their roles and responsibilities in updating the standards and that the submission is available for review by directors in a timely manner so that the final submission is made within the set timescale.

I have also set up an internal Healthcare Standards Implementation Group whose prime role is to prepare the next self-assessment and monitor progress against the HCSIP, taking corrective action where necessary. This of necessity requires that the group is aware of developments and progress with the improvement plan, as the next self assessment will be founded on the progress made on the planned improvements as well as developments progressed with providers.

Annual Operating Framework Targets

The HCSIP for 2008-09 also includes Annual Operating Framework targets and concerted work is in hand to demonstrate progress made and actions taken in respect of standards 14, 16, 27 and 28, to provide the organisation with assurances for this statement.

Healthcare Standards Self Improvement Plan (HCSIP) 2009

In preparing HCW's 2008-09 self-assessment, I had directed that any criteria scoring less than 2 on the maturity matrix from the previous year would be included in HCW's action plan for 2008-09. In respect of the four core governance standards, HCW's scoring was as follows:

<u>No</u>	<u>Standard Name</u>	<u>08/09 Score</u>	<u>07/08 Score</u>
14	Healthcare Governance	4	3
16	Healthcare Governance	3	3
27	Healthcare Governance	4	3
28	Healthcare Governance	3	3

As a result the HCSIP driven improvements led to HCW to a position where 113 of the standards were scored at level 4 and 109 scored at level 3. This represents a significant improvement on the previous year and demonstrates that the Healthcare Standards are being embedded in HCW's business.

These scorings are based on HCW's self-assessment which is currently being validated by HIW. Actions and targets to raise these to at least level 3 have been developed and published in the HCSIP 2008-09.

As the Healthcare Standards process underpins HCW's system of internal control and risk management, I directed our Internal Audit team to undertake a review of our Healthcare Standards process to ensure HCW has a robust process in place. In addition the work of the Internal Audit team focussed in detail on the core governance standards of 14, 16, 27 and 28 to provide me with the added assurance that the systems I have put in place are operating effectively.

Internal Audit completed their review of HCW's Healthcare standards process and concluded that there is a robust system of controls in place over the reporting of compliance with the healthcare standards. I will be taking on recommendations made in the report to improve the process further which will provide me with additional assurance over the overall effectiveness of the system of internal controls.

5. Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive officers within HCW who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Group and the Risk Management Group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Internal Audit Annual Report 2008-09 was completed and submitted to me in June 2009. The report concluded that HCW does have in place an effective framework of control, which enabled Internal Audit to give substantial assurance on HCW's overall arrangements for risk management, control and governance.

There are two areas in which the effectiveness of the system of internal control has been exposed to risk as follows:

(a) Staffing

Staffing levels have continued to be a concern and risk faced by HCW, particularly in light of the current NHS reform in Wales. As Accounting Officer I have taken appropriate steps thus far to address this issue, including the submission of a business continuity plan to WAG Human Resources department which outlines the risks faced by HCW and the need to retain staff posts throughout the period of reform. I will progress these issues to endeavour to reach a satisfactory conclusion.

(b) Governance Arrangements

During 2008-09 I have reviewed the governance arrangements of HCW and identified the need to improve governance through the appointment of a number of non-executives to the Audit Group and an independent Chair. With the backdrop of the NHS reorganisation the Chief Executive, NHS Wales, has confirmed that it is necessary for HCW to continue to proceed without having a permanent Chair and the necessary Non-Executive Directors until transfer date.

6. Matters of notePublic Sector Payment Performance

HCW's average payment performance rate for the year is 91% which is below the Public Sector Payment Performance target of 95%. However, it should be noted that HCW was affected in the first half of the year by delays in bedding in a new accounting system and the loss of key support staff. In the second half of the year, HCW has been able to resolve these issues and review and refine its internal process for monitoring prompt payment of invoices and can report that for the last 7 months HCW has been achieving at least 95% of payments on time with the rate being as high as 98%.

NHS Re-organisation

HCW will continue to operate fully through to the new arrangements and will continue to be responsible for agreeing the Commissioning Plan and Annual operating framework for 2009/10. HCW will be expected to continue to enter into new financial commitments to ensure its functions are delivered.

The principal risks facing HCW are the ability to retain and recruit staff throughout the transition process and for the whole financial year. The main staffing risks are the reliance on agency staff whose future is uncertain, the reliance on seconded NHS staff whose contracts with HCW may not be renewed after 30th September 2009 and the number of substantive staff who will choose not to transfer to the NHS. The project team is also currently working on a plan to mitigate the risks associated with IT migration given that it will not be possible to fully transfer all IT systems by 30th September 2009.

It is expected that these risks will be mitigated by determination of the precise transition arrangements between HCW and WHSST.

A Project Board to oversee the proposed arrangements has been established and has commenced preparatory work accountable through to the NHS Transition Board and DHSS Reform Board.

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
14th July 2009

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 2009 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 and the Management Commentary 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 in my opinion 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. This other information comprises only the unaudited part of the Remuneration Report. 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 2009 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 and the Management Commentary 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
15th July 2009

OPERATING COST STATEMENT FOR YEAR ENDED 31 MARCH 2009

		Year Ended 31 March 2009		Year Ended 31 March 2008	
	<i>Note</i>	£000	£000	£000	£000
EXPENDITURE					
Programme Expenditure	3	577,637		541,915	
Administration Expenditure:					
Staff	2	1,872		1,692	
Other administration	4	49		31	
Total Expenditure			<u>579,558</u>	<u>543,638</u>	
NET COST OF ACTIVITIES			<u>579,558</u>	<u>543,638</u>	
NET EXPENDITURE FOR THE YEAR			<u>579,558</u>	<u>543,638</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 31 to 40 form part of these accounts

BALANCE SHEET AS AT 31 MARCH 2009

		31 March 2009		31 March 2008	
	<i>Note</i>	£000	£000	£000	£000
CURRENT ASSETS					
Debtors	6	3,388		2,741	
Cash at bank and in hand	7	402		2,547	
		<u>3,790</u>		<u>5,288</u>	
CREDITORS					
Amounts falling due within one year	8	<u>(19,832)</u>		<u>(19,152)</u>	
NET CURRENT LIABILITES			<u>(16,042)</u>		<u>(13,864)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			(16,042)		(13,864)
CREDITORS					
Amounts falling due after more than one year	8		-		(166)
NET LIABILITIES			<u>(16,042)</u>		<u>(14,030)</u>
FINANCED BY TAXPAYERS EQUITY					
General fund	9		(16,042)		(14,030)
TOTAL GOVERNMENT FUNDS			<u>(16,042)</u>		<u>(14,030)</u>

Stuart Davies
Acting Chief Executive & Accounting Officer
14th July 2009

The notes on pages 31 to 40 form part of these accounts

CASH FLOW STATEMENT
for the year ended 31 March 2009

	<i>Note</i>	2008-09 £000	2007-08 £000
Net cash outflow from operating activities	10a	(579,645)	(543,209)
Financing from the Welsh Assembly Government	9	577,500	541,779
Decrease in cash in the period	10b	<u>(2,145)</u>	<u>(1,430)</u>

The notes on pages 31 to 40 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% (2007-08 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

				2008-09	2007-08
	HCW employees	Secondees	Agency	Total	Total
	£000	£000	£000	£000	£000
Wages & Salaries	1,015	704	227	1,946	1,772
Social Security Costs	86	65	-	151	134
Other Pension Costs	193	90	-	283	252
	1,294	859	227	2,380	2,158
Funding for seconded out staff	(59)	-	-	(59)	(62)
Funded from programme expenditure	(59)	(390)	-	(449)	(404)
Total funded from administration expenditure	1,176	469	227	1,872	1,692

The above staff costs of £1,872,000 represent 0.3 per cent of HCW's expenditure

b) Staff Numbers

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

	2008-09	2007-08
HCW employees	31	27
Secondees	11	11
Agency	5	6
Total	47	44

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 2008-09, employers' contributions of £193,618 (2007-08: £176,476) were payable to the PCSPS at one of four rates in the range 17.1% to 24.3% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. For 2009-10, employers' contributions will be payable at one of the four rates in the range 16.7% and 25.8% 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 2008-09 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 his employer Cardiff University £429 during the year (2007-08 - £12,268) for his services.

Members of the National Commissioning Advisory Board do not receive any emoluments and were not reimbursed any expenses in respect of 2008-09.

3. Programme Expenditure

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

	2008-09	2007-08
	£000	£000
NHS:		
Cardiff & Vale NHS Trust	154,471	144,450
Welsh Ambulance Services NHS Trust	108,828	105,001
Abertawe Bro Morgannwg University NHS Trust	98,449	91,458
Velindre NHS Trust	57,941	53,477
North Wales NHS Trust	17,812	16,875
Other Welsh NHS Trusts	15,633	16,793
Other NHS Organisations	99,113	85,161
Non-NHS:		
Llanarth Court	8,877	10,042
Other providers of healthcare	16,454	18,596
Welsh Assembly Government	59	62
	<u>577,637</u>	<u>541,915</u>

The expenditure with Cardiff & Vale NHS Trust has increased by £10m and is mainly due to inflation of £4m and additional funding of £2.5m for Local Development Projects, £1.2m for renal transplants, renal dialysis of £0.7m and Bone Marrow Transplants of £0.5m.

Other NHS Organisations refer to expenditure with English Trusts which has increased by £14m. The main reason for this is that there was increased expenditure across a number of Trusts in achieving waiting time targets, the most significant ones totalling some £6.2m. In addition tariff increases and high costs transplants resulted in increased expenditure with Great Ormond Street of £0.8m.

4. Administration expenditure

	2008-09	2007-08
	£000	£000
Central administration	33	36
Information technology	2	-
Travel, subsistence and meeting costs	60	51
Review Panel Remuneration	3	12
Auditor's remuneration	64	46
Other	7	4
	<u>169</u>	<u>149</u>
Non-cash items:		
- cost of capital credit	(576)	(564)
- notional charge for Welsh Assembly Government central services	326	319
- IT notional charge	130	127
	<u>(120)</u>	<u>(118)</u>
	<u>49</u>	<u>31</u>

5. Movements in working capital other than cash

	2008-09	2007-08
	£000	£000
Increase in debtors	(647)	(980)
Increase in creditors falling due within one year	680	1,527
	<u>33</u>	<u>547</u>

10a

6. Debtors

	31 March	31 March
	2009	2008
	£000	£000
Amounts falling due within one year:		
Trade debtors - NHS:		
Welsh NHS Trusts	1,341	6
Welsh Local Health Boards	780	789
English NHS Trusts	1,198	1,331
Trade debtors - Non NHS:		
Welsh Assembly Government	10	10
Other providers of healthcare	59	574
VAT Reclaimable	-	1
Prepayments and accrued income	-	30
	<u>3,388</u>	<u>2,741</u>

7. Cash at bank and in hand

	31 March	31 March
	2009	2008
	£000	£000
Balance at 1 April	2,547	3,977
Net cash outflow	(2,145)	(1,430)
Balance at 31 March	<u>402</u>	<u>2,547</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
	2009	2008
	£000	£000
Balances at OPG	331	2,539
Commercial Banks and cash	71	8
	<u>402</u>	<u>2,547</u>

8. Creditors

	31 March 2009 £000	31 March 2008 £000
Amounts falling due within one year:		
Trade creditors - NHS:		
Welsh NHS Trusts	3,408	2,967
Welsh Local Health Boards	276	533
English NHS Trusts	11,803	11,111
Trade creditors – non NHS:		
Welsh Assembly Government	569	272
Other providers of healthcare	3,776	4,269
	19,832	19,152

Included in the above figures are accruals totalling £19.2m

Amounts falling due after more than one year:

Trade creditors:		
Non NHS	-	166
	-	166

The long-term creditor of £166k related to liabilities taken on to the balance sheet at the inception of HCW from the old Health Authorities. It has been agreed that this creditor is no longer payable and therefore WAG approved a decision was made to write it off. The write-off has been made directly to the General Fund in accordance with the original accounting treatment.

9. General Fund

	2008-09 £000	2007-08 £000
Funding	577,500	541,779
Net expenditure for the year	(579,558)	(543,638)
Notional cost adjustments:		
- cost of capital	(576)	(564)
- notional charge for Welsh Assembly Government services	456	446
- movement in general fund	166	-
Net decrease in general fund	(2,012)	(1,977)
General fund at 1 April	(14,030)	(12,053)
General fund at 31 March	(16,042)	(14,030)

10. Notes to the Consolidated Cash Flow Statement

10(a). Reconciliation of net cost of operating activities to net cash outflow from operating activities

		2008-09	2007-08
		£000	£000
Net cost of operating activities for the year		(579,558)	(543,638)
Adjustments for non-cash transactions	4	(120)	(118)
Adjustments for movements in working capital other than Cash	5	33	547
Net cash outflow from operating activities		<u>(579,645)</u>	<u>(543,209)</u>

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

		2008-09	2007-08
		£000	£000
Decrease in cash		(2,145)	(1,430)
Net funds at 1 April		<u>2,547</u>	<u>3,977</u>
Net funds at 31 March		<u>402</u>	<u>2,547</u>

11. Commitments

There were no capital commitments at 31st March 2009.

Other commitments relating to Individual Patient Commissioning Agreements amounted to £955,834 at 31st March 2009 (31st March 2008 - £526,042). This represents the level of treatments agreed during 2008-09 not carried out prior to 1st April 2009.

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.

HCW's contingent liabilities amounted to £38,757 at 31st March 2009 (31 March 2008 - £46,119).

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. Cash funds are held within central government accounts with no external investments being made and therefore HCW has no exposure to banking losses.
- 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 31st March 2009.

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 2008-09 £000	Programme Expenditure 2007-08 £000
Senior staff:			
Lynda Williams	Rhondda Cynon Taff Teaching LHB	47	-
Robert Tovey	Powys LHB	156	91
Geoffrey Carroll	Velindre NHS Trust	57,941	53,477
Daniel Phillips	Cardiff & Vale NHS Trust	154,471	144,450

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 £1,294,000 which relates to staff salaries included in Admin costs.

Chairman of the National Commissioning Advisory Board:		2008-09 £000	2007-08 £000
Ken Woodhouse	Cardiff University	1	130

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

15. Post Balance Sheet Events

NHS Re-organisation

HCW has been subject to an NHS wide re-organisation as announced by the Minister for Health and Social Services. Following public consultation, the Minister for Health & Social Services announced on 14th July 2009 changes that would be made to the way in which Health Commission Wales would operate. Full details of the background to this and the risks faced by HCW can be found in the Management Commentary report and the Statement on Internal Control contained within these financial statements

The Accounting Officer authorised these accounts for issue on 15th July 2009.