

Swansea Local Health Board

FOREWORD

These accounts have been prepared by the Local Health Board under section 98(2) of the National Health Service Act 1977 (as amended) in the form in which the National Assembly for Wales has, with the approval of the Treasury, directed.

Statutory background

The Local Health Board was one of 22 which came into existence on 1st April 2003. As a statutory body governed by Acts of Parliament the LHB is responsible for :

- agreeing the action which is necessary to improve the health and health care of the population of [Swansea](#);
- supporting and financing General Practitioner-led purchasing of the services needed to meet agreed priorities, including charter standards and guarantees;
- supporting and funding the contractor professions;
- the commissioning of health promotion, emergency planning and other regulatory tasks;
- the stewardship of resources including the financial management and monitoring of performance in critical areas;
- eliciting and responding to the views of local people and organisations and changing and developing services at a pace and in ways that they will accept.

Performance Management and Financial Results

Local Health Boards in Wales must comply fully with the Treasury's Financial Reporting Manual to the extent that it is applicable to them. As a result the Primary Statement of in-year income and expenditure is the Operating Cost Statement, which shows the net operating cost incurred by the LHB which is funded by the Assembly. This funding is allocated on receipt directly to the General Fund in the Balance Sheet.

The statutory duty for Local Health Boards is enacted in the 2002 NHS Reform and Health Care Professionals Act. Net Operating Costs incurred by Local Health Boards should not exceed their allocated Resource Limit.

The primary performance measure for Local Health Boards is note 2.1 Achievement of Operational Financial Balance on page 12. This note compares net operating costs expended against Resource Limits allocated by the Assembly and measures whether operational financial balance has been achieved in year.

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	Total £000	2004-05 Total £000
Expenditure	4.1,4.2,4.3, 4.4	274,152	259,471
Miscellaneous income	3.1	4,496	6,790
Net operating costs		<u>269,656</u>	<u>252,681</u>

**STATEMENT OF RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**

	£000	£000
Unrealised surplus on revaluation / indexations of fixed assets	0	0
Net increases / reductions in General Fund due to transfers of assets	0	0
Fixed asset impairment losses	0	0
Recognised gain / (loss) for the year	<u>0</u>	<u>0</u>

BALANCE SHEET AS AT 31 MARCH 2006

	Note	£000	31 March 2005 £000
TOTAL FIXED ASSETS			
Intangible fixed assets	5.1	0	0
Tangible fixed assets	5.2	0	0
CURRENT ASSETS			
Debtors	6.1	1,083	768
Cash at bank and in hand		2	83
Total Current Assets		1,085	851
Creditors: amounts falling due within one year	6.2	17,342	16,506
Net current liabilities		(16,257)	(15,655)
Creditors: amounts falling due after more than one year	6.3	0	0
Provisions for liabilities and charges	6.4	725	891
TOTAL NET LIABILITIES		(16,982)	(16,546)
FINANCED BY:			
General fund	6.5	(16,982)	(16,546)
Donated Assets Reserve	6.6	0	0
Revaluation Reserve	6.7	0	0
TOTAL		(16,982)	(16,546)

Signed for and on behalf of the Board

Director of Finance Chief Executive

Date Date.....

Adopted by the Board on.....

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	£000	2004-05 £000
Net operating costs	(269,656)	(252,681)
Adjust for non-cash transactions	(715)	197
Adjust for movements in working capital other than cash	521	542
Utilisation of provisions	(39)	0
	<hr/>	<hr/>
Net cash outflow from operating activities	(269,889)	(251,942)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:		
Payments to acquire fixed assets	0	0
Receipts from the sale of fixed assets	0	0
	<hr/>	<hr/>
Net cash inflow / (outflow) from investing activities	0	0
	<hr/>	<hr/>
Net cash outflow before financing	(269,889)	(251,942)
FINANCING:		
Net Assembly funding (including capital)	269,808	252,004
Surrender of income from sale of fixed assets	0	0
Donations	0	0
Capital element of finance lease rental payments	0	0
	<hr/>	<hr/>
Net cash inflow from financing	269,808	252,004
	<hr/>	<hr/>
Increase / (decrease) in cash	(81)	62

Notes to the cash flow statement

Adjust for non-cash transactions

	£000	2004-05 £000
Depreciation and other write-offs	0	0
Impairment of fixed assets	0	0
(Profit) / Loss on disposal of fixed assets	0	0
Non-cash provisions	(127)	729
Capital charge interest	(588)	(532)
	<u>(715)</u>	<u>197</u>

Adjust for movements in working capital other than cash

	£000	2004-05 £000
(Increase)/decrease in debtors	(315)	879
Increase/(decrease) in creditors	836	(337)
	<u>521</u>	<u>542</u>

Reconciliation of net cash flow to movement in net debt

	£000
Decrease in cash in the period	(81)
Cash outflow from debt repaid and finance lease capital payments	0
Change in net debt resulting from cash flows	<u>(81)</u>
Non cash changes in debt	0
Net debt at 1 April 2005	<u>83</u>
Net debt at 31 March 2006	<u>2</u>

Analysis of changes in net debt

	As at 1 April 2005	Cash flows	Other changes	As at 31 March 2006
	£000	£000	£000	£000
Cash at bank and in hand	83	(81)	0	2
Bank overdraft	0	0	0	0
Debt due within one year	0	0	0	0
Debt due after one year	0	0	0	0
	<u>83</u>	<u>(81)</u>	<u>0</u>	<u>2</u>
Total	<u>83</u>	<u>(81)</u>	<u>0</u>	<u>2</u>

Notes to the Account

1. Accounting Policies

1.1 The financial statements have been prepared in accordance with the Financial Reporting Manual (FRM) issued by HM Treasury to the extent that the National Assembly for Wales has directed as being appropriate to LHBs. The particular accounting policies adopted by the Local Health Board (LHB) are described below. They have been applied in dealing with items considered material in relation to the accounts.

These accounts have been prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the National Assembly for Wales (the Assembly) and approved by Treasury.

LHBs are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

Acquisitions and Discontinued Operations

Activities are considered to be "acquired" and disclosed as such, only if they are acquired from outside the public sector. Activities are considered to be "discontinued" and disclosed as such, only if they cease entirely or are transferred outside the public sector

1.2 Income and funding

The main source of funding for the LHB is resource allocations from the Assembly within an approved cash limit, which is credited to the general fund when the associated cash is received. Income disclosed in the Operating Cost Statement reflects only the amounts other than Assembly funding.

Miscellaneous income is income which relates directly to the operating activities of the LHB. It comprises principally of fees and charges for services provided on a full cost basis to external customers.

Income is accounted for by applying the accruals convention. Income is recognised in the period in which services are provided.

1.3 Taxation

The LHB is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.

1.4 Intangible fixed assets

Intangible assets which can be valued, are capable of being used in a LHB's activities for more than one year and have a cost equal to or greater than £5,000 are capitalised.

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic lives.

1.5 Tangible fixed assets

a. Capitalisation

Tangible fixed assets are capitalised if they are capable of being used for a period which exceeds one year and:

- individually have a cost equal to or greater than £5,000; or
- collectively have a cost equal to or greater than £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates; and are under single managerial control; or
- form part of the initial setting - up cost of a new building, irrespective of their individual or collective cost.
- form part of an IT network which collectively has a cost more than £5,000 and individually have a cost of more than £250.

b. Valuation

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

Land and Buildings

Land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BICS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office. Valuations are carried out by the District Valuers of the Inland Revenue Government Department at five - yearly intervals. A five - yearly revaluation was carried out as at 30 September 2003.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non - specialised operational property.

In respect of non - operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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

All adjustments arising from indexation and five - yearly revaluations are taken to the Revaluation Reserve.

All impairments resulting from price changes are charged to the Statement of Recognised Gains and Loses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for Depreciated Replacement Cost valuations.

Equipment

Equipment surplus to requirements is valued at net recoverable amount and assets held under finance leases are capitalised at the fair value of the assets. With those exceptions, equipment is valued at Depreciated Replacement Cost.

Assets in the course of construction

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

c. Depreciation, amortisation and impairments

Depreciation is charged on a straight - line basis on each main class of fixed asset as follows:

Freehold land and land and buildings surplus to requirements are not depreciated. Assets in the course of construction and residual interests in off - balance sheet Private Finance Initiative contract assets are not depreciated until the asset is brought into use or reverts to the LHB, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset.

Vehicles are depreciated over 7 years.

Intangible assets are amortised over the estimated lives of the assets.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic lives

1.6 Donated assets

Donated tangible fixed assets are capitalised at their valuation on receipt and are valued and depreciated as described above for purchased assets.

The value of donated tangible fixed assets and the donated element of part - donated assets are reflected in a donated asset reserve. This reserve is credited with the value of the original donation and any subsequent revaluation and indexation; an amount equal to the depreciation charge is released from this reserve each year to the Operating Cost Statement.

1.7 Research and development

Research and development expenditure is charged to the Operating Cost Statement in the year in which it is incurred, except insofar as it is separately identifiable development expenditure relating to a clearly defined project and benefits therefrom can reasonably be regarded as assured.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

1.8 Pension Costs

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

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003.

The scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employers' contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999.

Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published every October. These accounts can be viewed on the NHS Pensions Agency website at www.nhs.gov.uk. Copies can also be obtained from the Stationery Office.

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

NHS bodies are directed by the National Assembly to charge employers' pension costs contributions to operating expenses as and when they become due.

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

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

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

Additional pension liabilities arising from early retirements are not funded by the scheme, except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the LHB commits itself to the retirement, regardless of the method of payment.

1.9 Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Resulting exchange gains and losses are taken to the Operating Cost Statement.

1.10 Cost of Capital

The cost of capital applies to all the assets and liabilities of the LHB, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in the 2005/06 financial year was 3.5%.

1.11 Provisions

The LHB provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms. Provisions are only recognised where the amount of economic benefit is probable, and the amount of the transfer can reasonably be estimated.

1.12 Liquid resources

Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cashflow statement. The LHB does not hold any investments with maturity dates exceeding one year from the date of purchase.

1.13 Leases

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

1.14 Contingent liabilities

Contingent liabilities are recognised where the LHB has :

- a possible obligation arising from past events whose existence will be confirmed by the occurrence of future events not wholly within the LHB's control;
- a present obligation arising from past events for which it is not probable that a transfer of economic benefits will be required to settle the obligation; or
- a present obligation where the amount of the obligation cannot be measured with sufficient accuracy.

Contingent liabilities are not disclosed where the probability of them becoming liabilities is considered to be remote.

Contingent assets are disclosed where a possible asset exists as a result of past events whose existence will

be confirmed only by the occurrence of one or more uncertain future events not wholly within the LHB's control.

Contingent assets are disclosed only where the future outflow of economic benefit is considered to be probable.

1.15 Deferred Income

Deferred income is recognised where income has been received with an obligation to use the monies for a specific purpose, but these monies have not yet been spent.

1.16 Expenditure

Interest payable arises from the unwinding of discount on provisions, as the value is restated to reflect the present value of the provision at the closing balance sheet date. Interest payable also arises on bank overdrafts and finance leases and is recognised on the accruals basis. Interest payable is not shown separately on the face of the Operating Cost Statement, but is included within expenditure.

Certain expenditure relating to reimbursement of General Practitioners for the provision of Family Health Services is defined by the National Assembly as "non-discretionary" and is deducted from net operating costs for the purposes of assessing outturn against revenue resource limit in note 2.1.

Programme expenditure is defined as costs relating directly to the provision of healthcare, social care and other services relating to the LHB's functions provided directly to the public.

All other expenditure is classified as administration expenditure.

2.1 Achievement of Operational Financial Balance

	£000	2004-05 £000
Net operating costs for the financial year	269,656	252,681
Non-discretionary expenditure	2,371	8,232
Operating costs less non-discretionary expenditure	267,285	244,449
Revenue Resource Limit	262,705	244,641
Under / (over) spend against Revenue Resource Limit	(4,580)	192
Unplanned resource brokerage received	0	0
Operational Financial Balance	(4,580)	192

Footnote to Note 2.1

1) Swansea Local Health Board has not achieved operational financial balance and therefore failed in its statutory financial duty as the requested brokerage from Welsh Assembly Government to support the Swansea Strategic Change and Efficiency Plan (SCEP) has not been made available.

2) Note 7.2 contains two tables extracted from the latest Swansea Community Recovery Plan (SCEP) submission showing the outline 2006/07 financial plan and the overall financial schedule from 2006/07 to 2009/10.

3) Swansea LHB submitted a formal request on behalf of the health economy to Welsh Assembly Government for permission to develop a medium term financial recovery plan on 30th June 2005. Subsequent detailed plans were submitted by the health economy in August 2005 at the request of the Mid & West Wales Regional Office.

Swansea LHB were asked by the Regional Office in November 2005 to account for the entire agreed Swansea health community deficit of £4.251M within the Swansea LHB financial returns.

Further joint work with Swansea NHS Trust to deliver a balanced financial plan for 2006/07 continues to be progressed, but unfortunately savings and greater efficiency proposals have not been sufficient to deliver an overall balanced position in 2006/07. Note 7.3 contains the Welsh Assembly Government letter dated 27th June 2006 informing the LHB of the reporting requirements regarding the status of SCEP progress.

3.1 Miscellaneous income

	£000	2004-05 £000
Fees & Charges	0	0
Prescription charge income	1,655	2,063
Income for trust impairments	0	0
Deferred Income released to revenue	0	0
Other (see note 7.1)	<u>2,841</u>	<u>4,727</u>
Total	<u>4,496</u>	<u>6,790</u>

The prior year figure for 'Other' has been re-stated to include amount previously shown as 'Deferred income released to revenue'.

Expenditure:**4.1 Primary health care**

	Cash limited	Non cash limited	Total	2004-05 Total
	£000	£000	£000	£000
General Medical services	28,693	0	28,693	25,701
Pharmaceutical services	7,892	183	8,075	6,043
General Dental services	0	35	35	45
General Ophthalmic services	0	2,153	2,153	2,130
Other Primary health care expenditure	2,357	0	2,357	2,405
Prescribed drugs and appliances	35,602	0	35,602	36,697
Total	74,544	2,371	76,915	73,021

4.2 Secondary and Community health care

	Total	2004-05 Total
	£000	£000
NHS Trusts:		
Provider 1 - Swansea	166,424	159,460
Provider 2 - Carmarthen	3,006	2,883
Provider 3 - Bro Morgannwg	2,107	1,974
Provider 4 - Cardiff & Vale	918	923
Provider 5 - Gwent HC	165	173
Provider 6 - Powys Healthcare	127	130
Provider 7 - Pembrokeshire & Derwen	79	142
Provider 8 - Royal National Hospital for Rheumatic Diseases	70	97
Provider 9 - North Bristol	44	75
Provider 10 - Ceredigion and Mid Wales	35	33
Other Welsh NHS trusts	169	97
Other non Welsh NHS trusts	80	177
Local Authorities	1,142	1,313
Voluntary Organisations	746	821
NHS Funded Nursing Care	3,676	4,214
Continuing Care	10,745	7,122
Private providers	2,160	2,301
Specific projects funded by Welsh Assembly Government	391	294
Other	1	0
Total	192,085	182,229

The prior year NHS Trust figures have been re-stated to reflect the change in order of the top ten providers

The prior year figure for private providers has been re-stated with the cost of out of county placements removed. This is now shown on the local authorities line.

Expenditure with local authorities is as follows :

	£'000
Community packages	261
Out of County looked after children	458
Substance misuse	177
Renal support project	18
Home care placements	35
Falls Management	13
Child 2020 scheme	25
Reach team	155
Total	1142

4.3 Other programme expenditure

	£000	2004-05 £000
Salaries and wages	925	439
National Public Health Service	1,182	1,103
Losses, special payments and irrecoverable debts	0	0
Research and development	0	0
Other	697	231
	<hr/>	<hr/>
Total	2,804	1,773

4.4 Administration expenditure

	£000	2004-05 £000
Non-officer members' remuneration	88	89
Other salaries and wages	944	985
Establishment expenses	177	202
Transport and moveable plant	0	0
Premises and fixed plant	142	162
External contractors	10	17
Auditors' remuneration - audit fee	114	97
Auditors' remuneration - other fees	0	0
Business Services Centre recharge	1,436	1,401
Interest payable- unwinding of discount	0	0
Interest payable -other	0	0
Capital - depreciation and amortisation	0	0
Capital charge interest	(588)	(532)
Impairment	0	0
(Profit) / loss on disposal of fixed assets	0	0
Other	25	27
	<hr/>	<hr/>
Total	2,348	2,448

Included in Business Services Centre recharge is an amount of £16,803 for the external audit of the Business Services Centre attributable to Swansea LHB.

**4.5 Losses, special payments and irrecoverable debts:
charges to operating expenses**

	Total	2004-05 Total
	£000	£000
Clinical negligence	0	0
Personal injury	0	0
All other losses and special payments	0	0
Defence legal fees and other administrative costs	0	0
	<hr/>	<hr/>
Gross increase / decrease in provision for future payments	0	0
Contributions to Welsh Risk Pool/insurance premiums	0	0
Irrecoverable debts	0	0
Less: income received/due from Welsh Risk Pool	0	0
	<hr/>	<hr/>
Total	0	0
	<hr/>	<hr/>

Personal injury includes [£nil](#) in respect of permanent injury benefits

4.6 Hire and operating lease rentals

	£000	2004-05 £000
Hire of plant and machinery	0	0
Other operating leases	61	74
Total	61	74

Commitments under non-cancellable operating leases:

	Land and Buildings	Other Leases	2004-05 Land and Buildings	2004-05 Other Leases
	£000	£000	£000	£000
Operating leases which expire:				
Within 1 year	64	0	0	0
Between 1 and 5 years	0	0	74	0
After 5 years	0	0	0	0

4.7 Executive Directors and staff costs

	Total	2004-05 Total
	£000	£000
Salaries and wages	1,394	1,072
Social security costs	115	84
Employer contributions to NHSPA	184	139
Other pension costs	0	0
Agency / seconded staff	170	122
Total	1,863	1,417

4.8 Board Directors' remuneration

	£000	2004-05 £000
Non-officer members' remuneration	88	89
Executive Directors' remuneration:		
basic salaries	284	283
benefits	0	0
performance related bonuses	0	0
pension contributions	40	40
Compensation for loss of office	0	0
Pensions to former directors (early retirees)	0	0
Total	412	412

	Chief Chairman	Chief Executive
	£000	£000
Basic Salary	34	79
Benefits	0	0
Compensation for loss of office	0	0
Performance related bonuses	0	0
Pension contributions	0	11
Total	34	90

Remuneration waived by directors and allowances paid in lieu:

	Number	£000
Directors' remuneration waived	0	0
Allowances paid in lieu of remuneration	0	0

The basis on which performance related bonuses are calculated is as follows:

Performance related bonuses are not paid

4.9 Average number of employees

The average number of employees during the year was:

	Permanent staff	Agency, temporary and contract staff	Staff on inward secondment	Total	2004-05
	Number	Number	Number	Number	Number
Executive Board Members	4	0	0	4	4
Other Local Health Board Staff	38	1	4	43	33
Recharged staff	2	0	0	2	3
Total	44	1	4	49	40

The average number of employees is calculated as the total number of employees under contract of service in each week in the financial year divided by the number of weeks in the financial year.

Expenditure on staff benefits

	£	£
Nature of expenditure:		
a.	0	0
b.	0	0
c.	0	0
d.	0	0
Total	0	0

4.10 Retirements due to ill-health

During 2005-06 there were no early retirements from the LHB agreed on the grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Pension Scheme) will be £0.

4.11 Public Sector Payment Policy - Measure of Compliance

The National Assembly for Wales requires LHBs to pay non-NHS trade creditors in accordance with the CBI prompt payment code and Government Accounting rules. The target is to pay all trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier.

	Number	£000	2004-05 £000
Non- NHS			
Total bills paid 2005-2006	8,789	20,721	15,739
Total bills paid within target	8,576	20,206	15,250
Percentage of bills paid within target	97.6%	97.5%	96.9%

In addition, the National Assembly for Wales require LHBs to pay other NHS bodies in accordance with Government Accounting rules. The target is to pay all other NHS bodies within 30 days of receipt of goods or a valid invoice by the authority (whichever is the later) unless other payment terms have been agreed with the NHS body.

	Number	£000	2004-05 £000
NHS			
Total bills paid 2005-2006	697	176,670	169,391
Total bills paid within target	695	176,656	169,358
Percentage of bills paid within target	99.7%	100.0%	100.0%

	Number	£000	2004-05 £000
Total			
Total bills paid 2005-2006	9,486	197,391	185,130
Total bills paid within target	9,271	196,862	184,608
Percentage of bills paid within target	97.7%	99.7%	99.7%

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

	£	2004-05 £
Amounts included within Interest Payable arising from claims made by small businesses under this legislation (see note 4.4).	0	0
Compensation payable to cover debt recovery costs	0	0

5.1 Intangible Fixed Assets

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2005	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Gross replacement cost at 31 March 2006	0	0	0	0	0
Accumulated amortisation at 1 April 2005	0	0	0	0	0
Provided during the year	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Accumulated amortisation at 31 March 2006	0	0	0	0	0
Net book value at 1 April 2005	0	0	0	0	0
Net book value at 31 March 2006	0	0	0	0	0

Tangible fixed assets

5.2 Tangible assets at the balance sheet date:

Cost or valuation	Land £000	Buildings, excluding dwellings £000	Dwellings £000	Assets under construction and payments on account	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	Total £000
				£000					
At 1 April 2005	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	0	0	0	0	0
Additions - purchased	0	0	0	0	0	0	0	0	0
Additions - donated government granted	0	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
At 31 March 2006	0	0	0	0	0	0	0	0	0
Depreciation									
At 1 April 2005	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	0	0	0	0	0
Additions - purchased	0	0	0	0	0	0	0	0	0
Additions - donated government granted	0	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
Provided during the year	0	0	0	0	0	0	0	0	0
At 31 March 2006	0	0	0	0	0	0	0	0	0
Net book value									
at 1 April 2005	0	0	0	0	0	0	0	0	0
at 31 March 2006	0	0	0	0	0	0	0	0	0
Net book value of assets held under finance leases and hire purchase contracts									
Total	0	0	0	0	0	0	0	0	0
The total amount of depreciation charged in the Operating Cost Statement in respect of assets held under finance leases and hire purchase contracts:									
Total	0	0	0	0	0	0	0	0	0
Value of assets held at open market value	0	0	0	0	0	0	0	0	0

Tangible Fixed Assets (continued)

The net book value of land and buildings at 31 March 2006 comprises:

	£000	2004-05 £000
Freehold	0	0
Long leasehold	0	0
Short leasehold	0	0
	<hr/>	<hr/>
Total	0	0
	<hr/>	<hr/>

Net profit/(loss) on disposal of fixed assets

	£000	2004-05 £000
During the year the LHB disposed of fixed assets with the net book value of,	0	0
The gross proceeds from the sale(s) were	0	0
giving a net profit/(loss) on disposal of	<hr/> 0	<hr/> 0
The LHB paid over to the National Assembly for Wales the net proceeds from disposal of and retained the costs of disposal, met of,	0	0
	0	0

6.1 Debtors

	£000	2004-05 £000
Amounts falling due within one year:		
National Assembly for Wales	285	111
Health Commission Wales	0	0
Local Health Boards	49	15
Primary Care Trusts	0	0
NHS Trusts	315	260
Welsh Risk Pool	0	0
Capital debtors	0	0
Other debtors	58	72
Provision for irrecoverable debts	0	0
Pension Prepayments:	0	0
Other prepayments and accrued income	376	310
	<hr/>	<hr/>
Sub total	1,083	768
	<hr/>	<hr/>
Amounts falling due after more than one year:		
National Assembly for Wales	0	0
Health Commission Wales	0	0
Local Health Boards	0	0
Primary Care Trusts	0	0
NHS Trusts	0	0
Welsh Risk Pool	0	0
Capital debtors	0	0
Other debtors	0	0
Provision for irrecoverable debts	0	0
Pension Prepayments	0	0
Other prepayments and accrued income	0	0
	<hr/>	<hr/>
Sub total	0	0
	<hr/>	<hr/>
Total	1,083	768

The prior year figure for other debtors has been re-analysed between other debtors and accrued income for comparison purposes. The prior year figure for other debtors falling due after more than one year has been reclassified as falling due within one year.

6.2 Creditors

Amounts falling due within one year:	2004-05	
	£000	£000
National Assembly for Wales	208	0
Health Commission Wales	0	0
Local Health Boards	202	7
NHS Trusts	1,671	774
Primary Care Trusts	145	72
Income tax and social security	43	59
Non-NHS creditors	12,041	12,419
Capital Creditors	0	0
Overdraft	0	0
Rentals due under operating leases	0	0
Obligations under finance leases and HP contracts	0	0
GPFH savings	0	0
Pensions: staff	24	0
Accruals	3,008	3,175
Deferred Income	0	0
Other creditors	0	0
Total	17,342	16,506

6.3 Creditors

Amounts falling due after more than one year:	2004-05	
	Total £000	Total £000
Obligations under finance leases and HP contracts	0	0
NHS creditors	0	0
Assembly loans	0	0
Pensions: staff	0	0
Other	0	0
Total	0	0

6.4 Provisions for liabilities and charges

	At 1 April 2005	Structured settlement cases trans- ferred to WRP	Transfer of prov- isions to creditors	Change in discount rate	Arising during the year	Reversed unused	Utilised during the year	Unwind- ing of discount	At 31 March 2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Clinical negligence	0	0	0	0	0	0	0	0	0
Personal injury	0	0	0	0	0	0	0	0	0
All other losses and special payments	891	0	(127)	0	382	(382)	(39)	0	725
Defence legal fees and other administration costs.	0	0	0	0	0	0	0	0	0
Sub-total	891	0	(127)	0	382	(382)	(39)	0	725
Pensions	0			0	0	0	0	0	0
Other	0			0	0	0	0	0	0
Total	891	0	(127)	0	382	(382)	(39)	0	725

Expected timing of cash flows:

	Between			Total £000
	Within 1 year £000	2 and 5 years £000	After 5 years £000	
Clinical negligence	0	0	0	0
Personal injury	0	0	0	0
All other losses and special payments	725	0	0	725
Defence legal fees and other administration costs	0	0	0	0
Pensions	0	0	0	0
Other	0	0	0	0
Total	725	0	0	725

The LHB estimates that in 2006-07 it will receive £0, and in 2007-08 and beyond £0 from the Welsh Risk Pool in respect of losses and special payments.

6.5 General fund

The movement on the General fund in the year comprised:

	£000
At 1 April 2005	(16,546)
Net operating cost for the financial year	(269,656)
Net Assembly funding (including capital)	269,808
Capital charge interest	(588)
Transfers to NHS bodies	0
Transfer to general fund of realised elements of the revaluation reserve	0
	<hr/>
Balance at 31 March 2006	(16,982)

6.6 Donated asset reserve

The movement on the donated asset reserve in the year comprised:

	£000
Balance at 1 April 2005	0
Additions	0
Impairments	0
Revaluation and indexation	0
Disposals and write-offs	0
Depreciation	0
	<hr/>
Balance at 31 March 2006	0

6.7 Revaluation reserve

The movement on the revaluation reserve in the year comprised:

	£000
Balance at 1 April 2005	0
Revaluation	0
Indexation	0
Transfer to general fund - realised revaluation	0
	<hr/>
Balance at 31 March 2006	0

6.8 Contingent liabilities -**The following contingent losses/gains have not been included in the accounts**

Nature:	2004-05	
	£000	£000
Legal claims for liabilities in respect of third parties	0	0
Doubtful debts	0	0
Other	608	0
Total	608	0

Uncertainties affecting outcome:

This amount relates to Continuing Care Ombudsman cases for which the claimant does not have power of attorney. There is a degree of uncertainty as to whether power of attorney will be obtained by the claimants. There is also uncertainty as to whether the claim will be successfully progressed even if power of attorney is received.

6.9 Intra Government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
Balances with other central government bodies	285	0	251	0
Balances with local authorities	45	0	1476	0
Balances with NHS trusts and Foundation trusts	315	0	1671	0
Balances with Local Health Boards	49	0	202	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	389	0	13742	0
Total at 31 March 2006	1,083	0	17,342	0

6.10 Post balance sheet events

Post balance sheet events having a material effect on the accounts are:

1.	£000
	0
2.	
	0
Total		0

6.11 Capital commitments

The Local Health Board has the following capital commitments:

		2004-05	
			£000
Contracted	0		0
Authorised but not contracted	0		0
Total		0	0

6.12 Related Party transactions**£000**

Total value of transactions with Board members and key senior staff in 2005-2006

0

Swansea Local Health Board is a body corporate established by order of the National Assembly.

The Assembly is regarded as a related party. During the year Swansea Local Health Board has had a significant number of material transactions with the Assembly and with other entities for which the Assembly is regarded as the parent body namely,

Neath Port Talbot Local Health Board
 Bridgend Local Health Board
 Powys Local Health Board
 Vale of Glamorgan Local Health Board
 Health Commission Wales
 National Public Health Service

In addition, the Local Health Board has a significant number of material transactions with other Government Departments and other central and local government bodies. Most of these transactions have been with the City and County of Swansea

During the year there were normal business transactions with the following organisations that currently employ some Swansea LHB members or their partners or who are linked with members:

		£000	2004-05 £000
Swansea NHS Trust	J Perrin, J Calvert, D Keen, EP Howells, P Edwards	166,424	159,460
Cardiff and Vale NHS Trust	J Perrin	918	923
City & County of Swansea	R Owen, J Hague, W Fitzgerald, J Straw, G Sullivan	1,142	1,313

A number of the LHB's Board members have interests in related parties as follows:

Member Name	Organisation	Interests
JS Hilliard - GP Member	Gower Medical Practice	Partner
A Norton - GP Member	The Grove Medical Practice	Partner
A Norton - GP Member	Swansea Out of Hours Service	Employee
P Edwards - Medical Director	Tal-y-Bont Surgery	Partner
SR Newbury - Pharmacist Member	S R Newbury Pharmacist	Proprietor
L Browes - Optometrist Member	Loveleen Browes Optometrist	Proprietor
M Hughes - Vol Sector Member	Age Concern (Swansea)	Trustee / Vice Chair
M Hughes - Vol Sector Member	Swansea College	Governor
J Perrin - Trust Member	University of Wales, Swansea	Member of Board
N Williams - Public Health Director	Bobath Charity	Member
C Danino - former GP Member	Cwmfelin Medical Practice	Partner

6.13 Losses and special payments

Losses and special payments are transactions that the National Assembly for Wales would not have contemplated when it allocated and distributed funding for the National Health Service. By their nature they items that should not arise. They are therefore subject to special control procedures compared with the generality of payments and special notation in the accounts to draw them to the attention of the National Assembly for Wales. They are divided into different categories, which govern the way each individual case is handled. These payments are charged to the Operating Cost Statement in accordance with UK GAAP but are recorded in the losses and special payments register when payment is made. Therefore, this note is compiled on a cash basis.

	Number of cases	Value of cases £
Personal injury	0	0
Fraud cases	0	0
All other losses and special payments	0	0
Total losses and special payments	0	0

Analysis of cases which exceed £250,000 and all other cases

	Amounts paid out in year £	Cumulative amount £	Approved to write-off in year £
Cases exceeding £250,000			
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
Sub-total	0	0	0
All other cases	0	0	0
Total cases	0	0	0

6.14 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the way that LHB's in Wales are financed, they are not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The LHB's have no power to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the LHB's in undertaking their activities.

Liquidity Risk

The LHB's income allocations and capital expenditure are financed from resources voted annually by Parliament. Therefore, they are not exposed to significant liquidity risks.

Interest-rate Risk

All the LHB's financial assets and financial liabilities carry nil or fixed rates of interest. Therefore, they are not exposed to interest-rate risk.

Foreign Currency Risk

The LHB's have negligible foreign currency income or expenditure. Therefore, they are not exposed to significant foreign currency risk.

6.15 Finance lease obligations

The future minimum lease payments under finance leases to which the Local Health Board was committed at the balance sheet date were as follows:

	£000	2004-05 £000
Within 1 year	0	0
Between 1 and 5 years	0	0
After 5 years	0	0
	<hr/>	<hr/>
Subtotal	0	0
	<hr/>	<hr/>
Less finance charges allocated to future periods	0	0
	<hr/>	<hr/>
Total	0	0

The total net obligation under finance leases can be analysed as follows:

Creditors: amounts due within one year	0	0
Creditors: amounts due after more than one year	0	0

6.16 Pooled Budgets

Swansea Local Health Board has no such arrangements.

7 Additional Information

7.1 Details of 'Other Income' line

	£000	2004-05 £000
Swansea CBC: HSC	46	65
WAG: Diabetic Retinopathy Services	103	100
WAG: Medicines Management Funding	0	18
WAG: Asylum Seekers	195	196
GP Registrar Scheme	1,373	1,381
Mental Health Action Programme	18	0
AIM project	10	0
Dental Dispensing Committee	17	17
Chemists Methadone Admin	60	41
All Wales Eye Care Initiative	64	42
Violent Patients recharge	18	0
Amounts written back during year	897	2,850
Other	40	17
Total	2,841	4,727

7 Additional Information

7.2 SCEP submission extracts

2006/07 Financial Plan

	£m	Risk	Risk holder
<i>Cost pressures</i>			
Recurrent 2005/06 deficit	-4.595	-----	Community
Trust additional cost pressures	-12.602	-----	Trust
LHB cost pressures	-6.494	-----	LHB
Total cost pressures	-23.691	-----	
<i>Savings plans</i>			
Trust Charter Plan	12.5	High	Trust
Trust cost avoidance	5.406	Medium	Trust + some joint with commissioners
Continuing care	3	High	LHB
Whole System Resource Management	4.306 (*)	High	LHB
Trust Savings allocated to other LHBs		Medium	Non-Swansea LHBs
LHB reinvestment costs	-0.806	Low	Community
Total savings plans	23.691	High	Community

(*) The full amount of this planned saving is dependent upon realising the contingency plans.

7 Additional Information

7.2 SCEP submission extracts continued

Recovery plan overall financial schedule (£m)

	2005/06	2006/07	2007/08	2008/09	2009/10
Deficit	-6.8	-23.691	-23.691	-23.691	-23.691
Recurrent		22.386	23.691	23.691	23.691
Non-recurrent		1.305			
Repayment					6.8
Total	-6.8	0	0	0	6.8
<i>Other comments</i>		<i>Breakeven on recurrent and non-recurrent basis</i>	<i>Recurrent financial balance Consolidate Singleton & Morriston</i>	<i>Further community based investment</i>	<i>Repayment of 05/06 brokerage</i>

7 Additional Information

7.3 Welsh Assembly Government letter outlining SCEP reporting requirements

Sue Heatherington,
Chief Executive,
Swansea Local Health Board,
Kidwelly House,
Charter Court,
Phoenix Way,
Llansamlet,
SA7 9FS

Eich cyf . Your ref
Ein cyf . Our ref CD/tlt

27th June 2006

Dear Sue,

SCEP progress to be reported in your 2005/6 Annual Accounts.

As a result of the reported financial problems in 2005/06, Ann Lloyd sent a letter dated 20th December 2005 to you requesting the preparation of a Strategic Change and Efficiency Plan (SCEP), to ensure that the Trust and the Local Health Economy returned to financial balance at the earliest possible date.

I recognise that significant progress has been made in recent months across the whole community to develop this plan. The latest plan that was forwarded to me on Friday 23rd June contains very positive steps and developments that will help restore financial balance in the medium to longer term. However, having discussed the schemes with all parties including your regional office, I do not feel that schemes are sufficiently robust at this present time, to provide the Assembly with the confidence that they are capable of being delivered as outlined currently in the plan, to achieve financial balance in 2006/07.

In view of the above, and to avoid any adverse impact on patient care, it is essential that the health community continues to work together to progress the planned schemes. We need to have a better understanding and agreement of the risks in achieving the expected savings currently identified in the financial profile for 2006/07. Over the next few weeks the Community need to ensure that all parties agree the risks, the savings and their timing. This information needs to be established and set out in a realistic monthly profile which all parties are committed to achieving. This will be an essential part of any agreed recovery plan and it will allow all parties to monitor the effectiveness of the current plans and their delivery.

I recognise that the community feels that action has been developed to improve efficiency and provide better patient care. I believe all parties also recognise that it may take some time to deliver the necessary savings without compromising patient care and it is therefore essential that contingency plans and other actions are explored in the interim to support this key objective in 2006/07 and beyond. When the plans have been further refined, with a clear and agreed monthly profile we will need to meet to discuss whether any transitional relief in 2006/07 may be needed to support any potential timing difficulties. I would hope that this can all be resolved in the next two months at the very latest.

Due to the further work that is needed it is not possible to complete the work within the next few days, and to avoid any delays in terms of the final accounts process, I must inform you that you should account for the latest SCEP developments as follows:

7 Additional Information

7.3 Welsh Assembly Government letter outlining SCEP reporting requirements continued

- You will need to report that you have failed your statutory duty in your 2005/06 performance notes.
- You will need to disclose the latest position of your SCEP within your accounts.
- The impact of the above on your audit opinion and the disclosures that are required will need to be discussed with your external auditor.

The above action will clear the accounting issues for 2005/06. However, you will no doubt appreciate the need to finalise a robust SCEP at the earliest possible opportunity, and you must continue to progress this issue so that the position is rectified, to minimise risks to your 2006/07 financial performance and to ensure that a robust plan is established as outlined above.

I trust that the information provided is of assistance and I would be grateful if you will ensure that you comply with the above requirements.

Yours sincerely,

Dr. Christine Daws,
Director of Resources,
Department for Health and Social Services.

c.c. Conrad Leslie, Acting Director of Finance.

c.c. Tony Hurrell, Regional Director.

c.c. Ann Lloyd, Director, Department of Health and Social Services.

**STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES
AS ACCOUNTABLE OFFICER OF THE LOCAL HEALTH BOARD**

The National Assembly has directed that the Chief Executive should be the Accountable Officer to the LHB. The relevant responsibilities of Accountable Officers, including their responsibility for the propriety and regularity of the public finances for which they are answerable, and for the keeping of proper records, are set out in the Accountable Officer's Memorandum issued by the Assembly.

With the exception of the overspend of £4.580M against the revenue resource limit (reference notes 2.1, 7.2 and 7.3) I have, to the best of my knowledge and belief, properly discharged the responsibilities set out in my letter of appointment as an Accountable Officer.

Date: 2006 Chief Executive

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF
THE ACCOUNTS**

The directors are required under the National Health Service Act 1977 to prepare accounts for each financial year. The National Assembly, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the LHB and of the income and expenditure of the LHB for that period. In preparing those accounts, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the authority and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction by the Assembly.

By Order of the Board

Signed:

Chairman: Dated: 2006

Chief Executive: Dated: 2006

Director of Finance: Dated: 2006

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

The Board is accountable for internal control. As Accountable Officer and Chief Executive for this Board, I have the responsibility for maintaining a sound system of internal control that supports achievement of the organisation's policies, aims and objectives, whilst safeguarding the public funds and this organisation's assets for which I am personally responsible, in accordance with the responsibilities assigned by the Accounting Officer of NHS Wales.

To discharge that responsibility the Board has approved, through the Standing Orders, three Board committees to take forward the corporate governance and controls assurance arrangements:

- Audit Committee
- Clinical Governance Committee
- Risk Management Committee

These committees report directly to the Board. To ensure that there is complete coverage and linkages between the Board committees there is cross membership between committees at both Non Officer Member and Executive Director level.

The Local Health Board works closely with the Welsh Assembly Government, both directly and via its Regional Office, in managing the risk process. Workload is set via performance agreements and there is a system of regular written and verbal exception reporting in place to both the Regional Office and WAG, providing evidence of progress by the LHB. The LHBs main reporting tool is the Balanced Scorecard, which is submitted regularly to the LHB Board and the Regional Office. The Welsh Risk Pool Standards provide a key framework upon which the LHB has based its risk management process.

In the delivery of overall internal control the Business Services Centre, (BSC), has a key role given that, in particular, Finance and Contractor Services departments have fundamental responsibilities in running key payments, authorisation and reporting processes on behalf of Local Health Boards. Assurance on the discharge of these responsibilities is obtained through the Service Level Agreements and internal audit reports.

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 organisational 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 the organisation for the year ended 31 March 2006 and up to the date of approval of the accounts, and accords with Welsh Assembly Government guidance.

A new financial ledger was implemented at the BSC with effect from 1st April 2005 which has further improved the level of information easily available and increased the level of internal control. The new financial ledger has enabled the implementation of a more participative approach to monthly reporting involving budget holders in monthly review meetings. This has led to a better understanding of financial issues across the LHB resulting in an increased level of internal control.

3. Capacity to handle risk

At officer level the leadership for clinical governance is given by the Director of Nursing and Modernisation, supported by the Medical Director for medical matters, and for risk management and financial control is given by the Director of Finance and Performance. Staff are being trained to manage risks, both clinical and other, initially through the development of systems and processes to identify and manage risks. This includes both the work with the National Patient Safety Agency on clinical risks and incidents, and the bottom up approach to identify, prioritise and develop action plans to address individual, directorate and corporate risks.

A key element has been to review national guidance, good practice and strategies developed for similar organisations and incorporate them into the risk management strategy and risk register. The Risk Management Strategy and Risk Register also attribute actions, timescales and responsibilities to lead Executive Directors and Senior Managers.

This approach is consistent with how corporate objectives, SAFF targets and Welsh Risk Management Standards are allocated to the responsible Executive Directors and Senior Managers.

In addition to internal processes assurance is also given via the services provided by internal and external audit and by the Local Counter Fraud Service.

4. The risk and control framework

The Risk Management Strategy sets out the various roles and responsibilities of the Executive Directors, Senior Managers and Board Committees towards risk management. It also sets out how the various types of risks, such as organisational, staffing and clinical risks will be managed. The key element of the strategy is the risk register and action plan. The development of the Risk Register involved both a top down and bottom up identification and scoring of risks. The register also includes the actions to negate those risks, and clear identification of responsibilities to manage those risks. This risk register and action plan is regularly reviewed and updated via the Senior Managers and Executive Directors and revised risk register will be submitted to the Risk Management Committee on a regular basis.

During 2005/06 the LHB has internally assessed and scored its performance against the Welsh Risk Management Standards, particularly those deemed core to the management of risk:

- A Risk Management Policy and Strategy
- B Risk Assessment & Treatment
- C Incident and Hazard Reporting
- D Policies & Procedures
- E Governance
- F Financial Management
- G Facilitation of the Safe Provision of Primary Care
- I Records Management

The LHB is required to undertake self-assessments against these standards and they are subject to both Internal Audit Review and review by the Wales Risk Pool Assessors.

This process is designed to help NHS bodies achieve continuous and sustained improvement in their performance through effective risk management and internal control. A series of Corporate Governance "milestones" for Local Health Boards have been developed for LHBs to assess their own position against and help support the improvement of risk management processes and internal control performance. Whilst there is no requirement for Chief Internal Auditors (or equivalent) to report on compliance with the "milestones", NHS bodies in Wales should monitor themselves against the following targets :

- Level 1 performance attainment by 31 March 2004;
- Level 2 by 31 March 2006; and
- Level 3 by 31 March 2007.

The LHB believes it has now met the first two target levels and is undertaking continuous improvements in its control systems to ensure it meets the March 2007 Level 3 target. As an intermediate step LHBs were required to achieve a overall compliance score of 70% and a score of 75% in Standards A, B, C, D, and I plus a score of 50% in Standard G.

The following standards were assessed by the Welsh Risk Pool (WRP) external auditors against the targets set out in WHC (2002) 74 Statement on Internal Control 2001/02, as updated in 2003/04:

Standard	Target score (%)	Final score (%)
A	75	81
B	75	70
C	75	71
D	75	77
G	50	82
I	75	67
Weighted Average	70	75

Standards E and F were not assessed by the WRP external auditors in 2005/06. However, an internal audit overview was undertaken in February 2006, to assist the LHB in preparation for the external WRP review. The self assessment scores for these standards were 76% and 83% respectively.

An action plan has been developed to improve performance against the Welsh Risk Management Standards in 2006/07 and will ensure the achievement of targets at the year end.

5. Review of effectiveness

As Accountable 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 the organisation who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board, the Audit Committee and Risk Management Committee, and plans to address weaknesses and ensure continuous improvement of the system are in place.

The Board receives regular reports and position statements from the Audit Committee, Risk Management Committee, the Clinical Governance Committee, the Remuneration Committee as well as individual reports produced directly by Executive Directors and Senior Managers. These reports are designed, not only to inform the Board of the LHB's level of corporate and financial risks but also to encourage full participation by the Board in both the debating and problem solving of these issues where appropriate. The Board will receive at each Public Meeting (as a minimum) reports on the financial and commissioning performance as well as at appropriate intervals updates on the Risk Matrix/Register, reports on achievement against Corporate Objectives, etc.

The Audit Committee, consisting of Non Officer Members (Non Executive Directors) forms a direct line of communication to the Board from the Internal Auditors, External Auditors and the Local Counter Fraud Specialist Team. The Board has therefore been able to reassure itself, that it has receive advised on control and risk issues independently of Executive Officers on a regular basis. The Audit Committee receives reports from these three independent groups on control systems within the LHB. In addition the LHBs Audit Committee also receives assurance from the Business Support Centre's (BSC) Internal Auditors via relevant reports to the Powys LHB's Audit Committee.

The process applied in maintaining and reviewing the effectiveness of the system of internal control, includes the full involvement of the Board, Board Committees, Executive Directors and Senior Managers. During the year two additional sub-committees of the Board have been established to support the delivery of the LHBs objectives: Emergency Planning and Clinical Advisory Group. Specific responsibility, to support the Chief Executive, is with the Director of Finance and Performance and is supported by the Performance and Organisational Development Manager and the internal audit service.

It is however recognised that a recently incorporated body will inevitably not achieve a perfect control system in its early years and must continue to seek improvements and enhance its systems over time. The LHB also recognizes that its staff, managers and Board Members also require time to develop the appropriate skills and experience necessary for effective control. However, information contained within the various reports on both the LHB systems and the BSC systems by the various independent auditors, coupled with the scores achieved in the Welsh Risk Standards targets, provides sufficient evidence to conclude that the LHB at least has its core controls in place and that the LHB has a firm foundation upon which it can develop further improvements.

The LHB Internal Auditors reported

"It is our opinion that for the identified principal risks covered by Internal Audit partial assurance can be given that there is an adequate risk management and control framework, as the absence of clarity regarding clinical risk management and reporting undermines assurance regarding the LHB's objective of delivering safe healthcare services"

6. Significant internal control problems

The internal control improvements highlighted in 2004/05 have improved further in 2005/06 and there are no other significant internal control problems that need to be reported.

Signed Date.....
Chief Executive
(on behalf of the Board)

AUDITORS' REPORT

The Certificate and Report of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 2 to 38 under Section 61 of the Public Audit (Wales) Act 2004. These financial statements have been prepared under the accounting policies set out on pages 6 to 11. I certify that I have audited that part of the remuneration report to be audited.

Respective responsibilities of Directors, the Chief Executive and Auditor

As described on page 40, the Directors and the Chief Executive are responsible for the preparation of the financial statements in accordance with Section 98(2) on the National Health Service Act 1977 and the National Assembly for Wales directions made thereunder and for ensuring the regularity of financial transactions. The Directors and the Chief Executive are also responsible for the preparation of the Foreword and the contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report in my opinion to you 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 the National Health Service Act 1977 and National Assembly for Wales directions made thereunder, and 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. I also report, if, in my opinion, the Foreword is not consistent with the financial statements, if the Board 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 have been unable to read the other information contained in the Annual Report and consider whether it was consistent with the audited financial statements as it was not available at the time of my audit.

I review whether the statement on pages 41-43 reflects the Board's compliance with the Treasury and Assembly's guidance on the Statement on Internal Control and I report if it does not, or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Board's corporate governance procedures or its risk and control procedures.

Basis of Opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relating to the amounts, disclosures and regularity of financial transactions included in the financial statements and that part of remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Board'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 that part of remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity 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 have also evaluated the overall adequacy of the presentation of information in the financial statements and that part of the remuneration report to be audited.

The LHB has breached its resource limit by spending £4.580m over the amount that it was authorised to spend in the year. This spend constitutes irregular expenditure.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Swansea Local Health Board as at 31 March 2006 and of its net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the National Assembly for Wales;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the National Assembly for Wales; and
- except for the irregular expenditure of £4.580m in the year, explained in the paragraph above, 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.

Without qualifying my opinion, I draw your attention to Note 2.1, which sets out the financial position of the Local Health Board and the actions being taken to achieve financial balance.

Jeremy Colman
Auditor General for Wales
6 July 2006

Wales Audit Office
Deri House
Park Grove
Cardiff

ACCOUNT OF - 2005-2006

THE NATIONAL HEALTH SERVICE IN WALES ACCOUNTS DIRECTION GIVEN BY THE NATIONAL ASSEMBLY FOR WALES IN ACCORDANCE WITH SECTION 98(2) OF THE NATIONAL HEALTH SERVICE ACT 1977 AND WITH THE APPROVAL OF TREASURY

LOCAL HEALTH BOARDS

1. The National Assembly for Wales (NAW) directs that an account shall be prepared for the financial year ended 31 March 2006 and subsequent financial years in respect of the Local Health Boards (LHB). The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

BASIS OF PREPARATION

2. The account of the LHB shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) accounting guidance approved by the FRAB and contained in the Financial Reporting Manual (FReM), as detailed in the LHB Manual for Accounts, but specifically excluding schedules 1 and 5;
- (e) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

FORM AND CONTENT

3. The account of the LHB for the year ended 31 March 2006 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of recognised gains and losses as long as these statements are required by FRAB, including such notes as are necessary to ensure a proper understanding of the accounts.
4. For the financial year ended 31 March 2006 and subsequent years, the account of the LHB shall give a true and fair view of the state of affairs as at the end of the financial year and the operating costs, recognised gains and losses and cashflows during the year.
5. The balance sheet shall be signed by the chief executive and the director of finance of the LHB and dated.

MISCELLANEOUS

6. The direction shall be reproduced as an appendix to the published accounts.
7. The notes to the accounts shall, inter alia, include details of the accounting policies adopted.
8. Notes providing further explanations of figures in the accounts shall be made where it is considered appropriate for a proper understanding of the accounts.

Signed by the authority of the National Assembly of Wales

Signed : Christine Daws

Dated :

ACCOUNT OF - 2005-2006

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS

Companies Act

1. The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.
3. The operating cost statement, balance sheet and cashflow statement shall have regard to the format prescribed in the Financial Reporting Manual.
5. NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

Accounting Standards

6. NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.

SCHEDULE 2

ADDITIONAL REQUIREMENTS

1. The foreword shall include a statement that the account has been prepared to comply with a Direction given by the National Assembly for Wales in accordance with section 98(2) of the NHS Act 1977.
2. The foreword shall also contain a description of the statutory background and main functions of the LHB together with a fair review of their operational and financial activities and a summary of their performance against targets.