

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973  
NATIONAL HEALTH SERVICE ACT 1977  
HEALTH SERVICES ACT 1980  
HEALTH AND SOCIAL SERVICES AND SOCIAL SECURITY  
ADJUDICATIONS ACT 1983  
HEALTH AND SOCIAL SECURITY ACT 1984  
NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990  
GOVERNMENT OF WALES ACT 1998  
PUBLIC AUDIT (WALES) ACT 2004

Summarised accounts of local health boards and NHS trusts in Wales for the year ended 31  
March 2007

Presented pursuant to NHS Act 1977 c49, s.98(4)

---

# **NHS (Wales) Summarised Accounts 2006-07**

# NHS Wales Summarised Accounts 2006-07

## FOREWORD

### Introduction

1. Section 98(4) of the National Health Service (NHS) Act 1977 requires all NHS organisations in Wales to prepare annual accounts and to submit them to the National Assembly for Wales (the Assembly).
2. From the 1<sup>st</sup> April 2005 under the Public Audit (Wales) Act 2004 the Auditor General for Wales (AGW) became the appointed auditor for NHS bodies in Wales. Under the Government of Wales Act 1998 all audits are undertaken by the Auditor General for Wales and reported to the Assembly. In addition to these summarised accounts, the accounts for each NHS body must be laid before the Assembly.
3. The Assembly is required to prepare, in such form as HM Treasury may direct, summarised accounts from the individual accounts of NHS Wales organisations. The Auditor General for Wales is required to examine, certify and report on the summarised accounts.
4. The annual accounts of all NHS Wales organisations have been audited and these summarised accounts are based on those audited figures. These accounts supplement the details of expenditure on healthcare contained within the accounts of the National Assembly for Wales for 2006-07.
5. In my capacity as Accounting Officer for NHS Wales, I have financial responsibility for health service expenditure. Accordingly, I have signed the summarised accounts of the Local Health Boards and NHS trusts.
6. The chief executives of individual NHS organisations in Wales have a duty to their respective boards and, as accountable officers for those organisations, to me as Accounting Officer.

### Summarised Accounts

7. Two summarised accounts for NHS Wales have been prepared, one for the 22 Local Health Boards and one for the 14 NHS trusts.

#### *(a) Local Health Boards*

8. Local Health Boards were established under Welsh Statutory Instrument 2003 No. 150 (W.20) and the Local Health Boards (Functions) (Wales) Regulations 2003. Under these regulations the Local Health Boards replaced the previous Health Authorities. Their main functions are to prepare strategies and plans to meet the health needs of their population, commission services from health care providers

and make payments to primary care contractors.

9. The summarised account for the Local Health Boards in Wales is based on the audited accounts of the 22 Local Health Boards. All 22 Local Health Boards received unqualified true and fair view audit opinions from the Auditor General for Wales in 2006-07.

***(b) NHS trusts***

10. NHS trusts were established under section 5 of the National Health Service and Community Care Act 1990. NHS trusts are responsible for the provision of NHS hospital and community health care. They receive most of their income from commissioners of health care, mainly the Local Health Boards and Health Commission Wales (Specialist Services).
11. The summarised account for the NHS trusts in Wales is based on the audited accounts of the 14 Welsh NHS trusts. All 14 trusts received unqualified true and fair and regularity audit opinions from the Auditor General for Wales in 2006-07.

## **Performance against statutory financial duties**

***(a) Local Health Boards***

12. The statutory financial duty of Local Health Boards is set out in section 97G of the National Health Service Reform and Health Care Professions Act 2002. Under the Act, Local Health Boards have a statutory duty to ensure that net operating costs do not exceed the resources allocated to the Board by the Assembly. As set out in Welsh Health Circular (WHC (2007) 49), Local Health Boards that are forecasting overspend against resource limits must prepare a Financial Recovery Plan (FRP) and the plan must be accepted by the Welsh Assembly Government.
13. In 2006-07, 15 Local Health Boards met this statutory duty by keeping their expenditure within their allocated resource limits. The performance details for all 22 Local Health Boards are set out in Annex 2. Blaenau Gwent, Caerphilly, Carmarthenshire, Ceredigion, Newport, Powys and Swansea Local Health Boards failed their statutory financial duty and they received qualified regularity audit opinions from the Auditor General for Wales as a result of this statutory failure. At the time of the completion of the audit of the accounts of these bodies no FRP had been accepted by the Assembly Government. Between the audit of the underlying accounts and the production of the summarised account, FRPs from Blaenau Gwent, Caerphilly and Newport LHBs have been accepted by the Assembly Government.
14. WHC (2007) 049, which defines the statutory financial duties of Local Health Boards, was issued in June 2007. The circular removes the obligation on the Assembly Government to provide resource cover in support of accepted FRPs. Although the effect of this will be for more organisations to breach their statutory duty than previously, the underlying position in the accounts of the Assembly Government remains unaltered and the Department of Health and Social Services

remained within its overall budget for 2006-07.

**(b) NHS trusts**

15. WHC (2007) 49 states the two statutory duties of NHS Trusts in relation to breakeven. These are
1. Every NHS trust shall ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account.
  2. Each NHS Trust must achieve such financial objectives as may from time to time be set by the Welsh Ministers with the consent of the Treasury and are applicable to it.

The definitions of performance against these duties are set out in Annex 1.

16. During 2006-07, seven of the fourteen Trusts met both of their financial duties as described above, or they were deemed to have met their targets because they were within the materiality thresholds set out in the WHC (2007) 49 circular. The Auditor General for Wales issued unqualified opinions to all trusts in Wales in 2006-07, however, in providing his audit opinion for Carmarthenshire, Ceredigion and Mid Wales, Conwy and Denbighshire, Gwent Healthcare, North East Wales, Pembrokeshire and Derwen. Swansea and Welsh Ambulance Services NHS trusts, the AGW drew attention to the financial deficits and the financial performance disclosures reported for these organisations in 2006/07.
17. WHC (2007) 049, which defines the statutory financial duties of NHS Trusts, was issued in June 2007. The circular removes the obligation on the Assembly Government to provide resource cover in support of accepted FRPs by amending a Trust's breakeven target. Although the effect of this will be for more organisations to breach their statutory duty than previously, the underlying position in the accounts of the Assembly Government remains unaltered and the Department of Health and Social Services remained within its overall budget for 2006-07.
18. The overall income and expenditure deficit of the fourteen NHS trusts in Wales for 2006-07 was £14.329 million, compared with a deficit of £25.879 million in 2005-06.

***Recovery of accumulated Trust deficits and Local Health Board overspends.***

19. All Trust deficits and Local Health Board overspends must be recovered under the Financial Recovery Plan (FRP) requirements set out in WHC (2007) 49. Assistance has been provided previously to both Trusts and Local Health Boards and the total repayable assistance and deficits to be recovered under FRPs for each NHS organisation as at the end of 2006/07 is set out in Annex 4.

### ***External financing limit***

20. As part of the process of controlling public expenditure, the Assembly sets external financing limits for each NHS trust. The calculation of each limit determines the amount a trust can receive from external sources, normally the Assembly Government, to finance capital expenditure. Trusts are not permitted to borrow in advance of need and must submit detailed cash flow statements to the Assembly in order to receive authorisation to draw public dividend capital. This target is not applicable to Local Health Boards.
21. In 2006-07, the overall external financing limit for NHS trusts was £71.156 million and all trusts in Wales met their external financing limits.

### **Prompt Payment Performance**

22. Local Health Boards and NHS trusts are required to pay their non NHS creditors in accordance with HM Treasury's public sector payment compliance target. This target is to pay all 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.
23. The performance of each Local Health Board and NHS trust in Wales, showing the percentage of bills paid within the 30-day target, the percentage of the total value of bills they represent, and any interest costs incurred under the Late Payment of Commercial Debts (Interest) Act 1998 is shown in the table at Annex 5 to this Foreword. The number of bills paid within 30 days ranged from 85.3% to 99.7% for NHS bodies with an average for the year of 97.5% for Local Health Boards and 95.1% for Trusts in comparison to last years figures of 97.0% and 95.2% respectively.

### **Summary of achievement of financial duties**

24. A summary of performance for each financial duty by individual organisation is provided as follows:
- |         |   |
|---------|---|
| Annex 1 | Trust performance against the Break-even and External Financing limit duties.                       |
| Annex 2 | Local Health Boards' performance against allocated Resource Limits                                  |
| Annex 3 | Trust surpluses and deficits.   |
| Annex 4 | Recovery of assistance in relation to accumulated Trust deficits and Local Health Board overspends. |
| Annex 5 | Trust and Local Health Board Public Sector Payment performance.                                     |
| Annex 6 | Assembly loans to Local Health Boards and NHS Trusts.   |

## **Balance Sheet Issues**

### **NHS Debt**

25. The Assembly has provided cash assistance to Local Health Boards and NHS Trusts as part of their recovery plans. This loan assistance has to be repaid and the repayment terms are agreed as part of the approved recovery plans. The cumulative debt for this assistance that is included within the Local Health Board summarised account is £0.622 million and in the NHS trust account £48.785 million. There has been a net decrease in these loans of £12.539 million in 2006-07. Details of the debt for each NHS organisation is provided in Annex 6.

### **Clinical Negligence Provisions**

26. At 31 March 2007 liabilities for clinical negligence totalled £166.828 million in NHS trusts and a further £54.787 million in Local Health Boards. These provisions and creditors are calculated on the basis of claims against the organisation, where it is assessed that there is a probable chance of the claim being settled.
27. Excluded from the provisions calculations included within the summarised accounts is a further estimated £266.301 million for disputed claims for alleged medical or employer negligence. These are disclosed in the notes to the accounts as contingent liabilities.

### **Welsh Risk Pool**

28. The Welsh Risk Pool (the Pool) was established to assist all Welsh NHS organisations with risk management and settlement of claims. The Pool is a mutual self-insurance arrangement covering all risks associated with NHS activities, with the exception of business interruption and motor insurance.
29. The Pool is operated by the Conwy and Denbighshire NHS Trust and is managed by a Management Group comprising representatives from NHS trusts, Local Health Boards and the Assembly.
30. The Conwy and Denbighshire NHS Trust's liability is limited to the funds available in the Pool. The ultimate liability to meet claims rests jointly with the members of the Pool and is underwritten by the Assembly.
31. During the year, the Pool incurred expenditure of £39.267million (2005-06: £22.428 million).

## Post Balance Sheet Events

32. On the 18th July 2007 the Health Minister announced her agreement to the formal merger of North Glamorgan and Pontypridd and Rhondda NHS trusts to form the Cwm Taff NHS Trust from 1st April 2008, subject to further staff consultation. The assets and liabilities of the demised Trusts will be transferred to the newly established Trust.

A handwritten signature in black ink, appearing to read "Ann Lloyd", is written on a light yellow rectangular background. Below the signature is a long, thin, slightly curved horizontal line.

Ann Lloyd  
Chief Executive NHS Wales, Head of Department for Health & Social Services

6th August 2007

## Trust Performance against the Break-even and External Financing Limit duties

	Achievement of Break-even Duty		External Financing Limit
	Statutory Duty 1	Statutory Duty 2	
<b>Mid &amp; West Wales Region</b>			
Bro Morgannwg NHS Trust	✓	✓	✓
Carmarthenshire NHS Trust	×	✓	✓
Ceredigion & Mid Wales NHS Trust	×	×	✓
Pembrokeshire & Derwen NHS Trust	×	✓	✓
Swansea NHS Trust	×	✓	✓
<b>North Wales Region</b>			
Conwy & Denbighshire NHS Trust	✓	×	✓
North East Wales NHS Trust	✓	✓	✓
North West Wales NHS Trust	✓	✓	✓
Welsh Ambulance Services NHS Trust	✓	×	✓
<b>South East Region</b>			
Cardiff & Vale NHS Trust	✓	✓	✓
Gwent Healthcare NHS Trust	×	×	✓
North Glamorgan NHS Trust	✓	✓	✓
Pontypridd & Rhondda NHS Trust	✓	✓	✓
Velindre NHS Trust	✓	✓	✓

A trust's in year break-even performance is subject to a materiality threshold of the lesser of 0.5% of total income or £500k.

WHC (2007) 049 sets down the two statutory duties of NHS Trusts in relation to breakeven. These are

- (1) Every NHS trust shall ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account.
- (2) Each NHS Trust must achieve such financial objectives as may from time to time be set by the Welsh Ministers with the consent of the Treasury and are applicable to it.

Where a Trust is forecasting that it will be unable to meet this target in year, its Accountable Officer must prepare a recovery plan, to be known as a Financial Recovery Plan (FRP), in order to address the deficit position. Where a Trust fails to achieve financial balance in a financial year and there is no approved FRP in place, the Trust will be considered to have breached both of its statutory duties in relation to breakeven.

Where a Trust fails to achieve financial balance in a financial year and an approved FRP is in place the Trust will be considered to have met the first of its statutory duties. It will nevertheless have failed to meet its second statutory duty.

Where a Trust has achieved financial balance in year but has cumulative deficits which it is expected to recover, the Trust must produce a FRP in order to show how the position is to be recovered. If the Trust does not have a FRP that has been accepted by the Welsh Assembly Government it will have failed its duty under Part (1) of the Act.

It will be regarded as more serious by the Welsh Assembly Government if both duties under the Act are breached than if just the second duty is breached.



## Local Health Board Performance against Allocated Resource Limits

### Underspend / (overspend) against resource limit

	2006-07 £000	2005-06 £000
<b>Mid &amp; West Wales Region</b>		
Bridgend Local Health Board	21	4
Carmarthenshire Local Health Board	(4,211)	19
Ceredigion Local Health Board	(586)	(598)
Neath Port Talbot Local Health Board	13	20
Pembrokeshire Local Health Board	70	29
Powys Local Health Board	(3,208)	-
Swansea Local Health Board	(3,500)	(4,580)
<b>North Wales Region</b>		
Anglesey Local Health Board	70	4
Conwy Local Health Board	13	5
Denbighshire Local Health Board	3	5
Flintshire Local Health Board	26	5
Gwynedd Local Board	32	21
Wrexham Local Health Board	55	13
<b>South East Region</b>		
Blaenau Gwent Local Health Board	(531)	35
Caerphilly Local Health Board	(368)	21
Cardiff Local Health Board	5	13
Merthyr Tydfil Local Health Board	5	14
Monmouthshire Local Health Board	6	4
Newport Local Health Board	(589)	94
Rhondda Cynon Taf Local Health Board	28	27
Torfaen Local Health Board	8	1
Vale of Glamorgan Local Health Board	-	-
All Local Health Boards	(12,638)	(4,844)
Number of Local Health Boards achieving resource limit	15	20
Percentage of Local Health Boards achieving resource limit	68%	91%

## NHS Wales Trust Surpluses and Deficits

	2006-07 £000	2005-06 £000
<b>Mid &amp; West Wales Region</b>		
Bro Morgannwg NHS Trust	68	58
Carmarthenshire NHS Trust	25	(4,624)
Ceredigion & Mid Wales NHS Trust	(886)	(341)
Pembrokeshire & Derwen NHS Trust	(444)	(2,492)
Swansea NHS Trust	40	(2,208)
	<b>(1,197)</b>	<b>(9,607)</b>
<b>North Wales Region</b>		
Conwy & Denbighshire NHS Trust	(1,157)	(4,184)
North East Wales NHS Trust	(35)	(3,631)
North West Wales NHS Trust	12	81
Welsh Ambulance Services NHS Trust	(6,341)	7
	<b>(7,521)</b>	<b>(7,727)</b>
<b>South East Region</b>		
Cardiff & Vale NHS Trust	77	(1,428)
Gwent Healthcare NHS Trust	(6,520)	(6,088)
North Glamorgan NHS Trust	892	(875)
Pontypridd & Rhondda NHS Trust	(88)	18
Velindre NHS Trust	28	(172)
	<b>(5,611)</b>	<b>(8,545)</b>
All NHS Trusts	<b>(14,329)</b>	<b>(25,879)</b>

## Recovery of Accumulated LHB Overspends

<u>Organisation</u>	<b>Outstanding amounts to be recovered</b>	<b>Underspend / Repaid 2006-07</b>	<b>Total accumulated Overspend 2006/07</b>	<b>Total accumulated overspends to be recovered.</b>
	<b>As at 1<sup>st</sup> April 2006</b>			<b>As at 31<sup>st</sup> March</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b><u>Local Health Boards</u></b>				
<b>Mid &amp; West Region</b>				
Carmarthenshire Local Health Board	772	-	4,211	<b>4,983</b>
Ceredigion Local Health Board	598	-	586	<b>1,184</b>
Powys Local Health Board	1,759	(832)	3,208	<b>4,135</b>
Swansea Local Health Board	4,580	-	3,500	<b>8,080</b>
	<hr/> 7,709	<hr/> (832)	<hr/> 11,505	<hr/> <b>18,382</b>
<b>South East Region</b>				
Blaenau Gwent Local Health Board	-	-	531	<b>531</b>
Caerphilly Local Health Board	-	-	368	<b>368</b>
Cardiff Local Health Board	11,576	(2,266)	-	<b>9,310</b>
Monmouthshire Local Health Board	1,400	(6)	-	<b>1,394</b>
Newport Local Health Board	900	-	589	<b>1,489</b>
Vale of Glamorgan Local Health Board	2,960	-	-	<b>2,960</b>
	<hr/> 16,836	<hr/> (2,272)	<hr/> 1,488	<hr/> <b>16,052</b>
<b>Total for Local Health Boards</b>	<hr/> <b>24,545</b>	<hr/> <b>(3,104)</b>	<hr/> <b>12,993</b>	<hr/> <b>34,434</b>

## Recovery of Trust Deficits and Strategic Assistance

	Deficit to be recovered @ 1st April 2006* £000	2006-07 Deficits £000	Deficit recovered/ reclassified £000	Deficit to be recovered @ 31 March 2007 £000
<b>Mid &amp; West Wales Region</b>				
Carmarthenshire NHS Trust	19,626	-	-	19,626
Ceredigion & Mid Wales NHS Trust	3,103	886	-	3,989
Pembrokeshire & Derwen NHS Trust	10,730	444	-	11,174
Swansea NHS Trust	2,208	-	(40)	2,168
<b>North Wales Region</b>				
Conwy & Denbighshire NHS Trust	4,184	1,157	-	5,341
North East Wales NHS Trust	3,631	35	-	3,666
Welsh Ambulance Services NHS Trust	-	6,341	-	6,341
<b>South East Region</b>				
Cardiff & Vale NHS Trust	9,676	-	(9,676)	-
Gwent Healthcare NHS Trust	6,088	6,520	-	12,608
North Glamorgan NHS Trust	875	-	(875)	-
Pontypridd & Rhondda NHS Trust	-	88	(88)	-
All NHS Trusts	60,121	15,471	(10,679)	64,913
<b>Strategic Assistance to be recovered @ 1st April 2006* £000</b>				
		<b>Strategic Assistance issued £000</b>	<b>Strategic Assistance reclassified £000</b>	<b>Strategic Assistance to be recovered @ 31 March 2007 £000</b>
<b>Mid &amp; West Wales Region</b>				
Carmarthenshire NHS Trust	18,302	-	-	18,302
Ceredigion & Mid Wales NHS Trust	2,762	1,300	-	4,062
Pembrokeshire & Derwen NHS Trust	8,738	893	-	9,631
<b>North Wales Region</b>				
North East Wales NHS Trust	-	3,000	-	3,000
<b>South East Region</b>				
Cardiff & Vale NHS Trust	9,676	-	(9,676)	-
Gwent Healthcare NHS Trust	-	5,216	-	5,216
North Glamorgan NHS Trust	2,600	-	-	2,600
All NHS Trusts	42,078	10,409	(9,676)	42,811

\* excludes historic loans

## Local Health Board Public Sector Payment Policy Performance

	2006-07		2005-06	
	Non NHS	Non NHS	Non NHS	Non NHS
	Value of bills %	Number of bills %	Value of bills %	Number of bills %
<b>Mid &amp; West Wales Region</b>				
Bridgend Local Health Board	99.2	98.3	99.0	99.1
Carmarthenshire Local Health Board	98.1	98.3	95.9	98.3
Ceredigion Local Health Board	99.8	99.1	99.4	97.9
Neath Port Talbot Local Health Board	98.5	98.2	98.1	99.0
Pembrokeshire Local Health Board	98.5	98.5	98.6	98.0
Powys Local Health Board	98.2	96.2	95.0	95.1
Swansea Local Health Board	97.8	97.8	97.5	97.6
<b>North Wales Region</b>				
Anglesey Local Health Board	99.4	97.9	99.6	99.0
Conwy Local Health Board	99.3	98.7	99.7	98.7
Denbighshire Local Health Board	99.1	98.0	99.8	99.6
Flintshire Local Health Board	99.2	99.6	100.0	99.8
Gwynedd Local Board	98.9	97.9	97.9	97.4
Wrexham Local Health Board	99.6	98.9	99.4	98.2
<b>South East Region</b>				
Blaenau Gwent Local Health Board	99.6	98.4	99.5	98.0
Caerphilly Local Health Board	98.6	97.6	99.3	98.2
Cardiff Local Health Board	99.6	98.9	99.2	98.1
Merthyr Tydfil Local Health Board	97.6	97.1	98.5	97.7
Monmouthshire Local Health Board	96.3	97.9	99.8	98.7
Newport Local Health Board	99.2	96.2	99.7	98.3
Rhonnda Cynon Taf Local Health Board	98.7	98.5	99.8	98.7
Torfaen Local Health Board	98.8	95.3	98.9	96.6
Vale of Glamorgan Local Health Board	99.9	99.7	99.7	99.3
<b>All Local Health Boards</b>	<b>98.7</b>	<b>97.5</b>	<b>97.9</b>	<b>97.0</b>

## NHS Trust Public Sector Payment Policy Performance

	2006-07		2005-06	
	Non NHS	Non NHS	Non NHS	Non NHS
	Value of bills %	Number of bills %	Value of bills %	Number of bills %
<b>Mid &amp; West Wales Region</b>				
Bro Morgannwg NHS Trust	95.7	95.7	93.8	95.4
Carmarthenshire NHS Trust	97.4	95.6	96.4	93.9
Ceredigion & Mid Wales NHS Trust	98.8	97.3	98.9	98.0
Pembrokeshire & Derwen NHS Trust	95.3	95.0	96.6	95.1
Swansea NHS Trust	88.8	85.3	96.7	95.6
<b>North Wales Region</b>				
Conwy & Denbighshire NHS Trust	95.2	92.5	94.9	90.1
North East Wales NHS Trust	97.5	95.2	97.7	96.1
North West Wales NHS Trust	97.9	96.6	97.8	97.6
Welsh Ambulance Services NHS Trust	96.5	95.7	97.3	96.6
<b>South East Region</b>				
Cardiff & Vale NHS Trust	94.8	95.9	92.5	94.0
Gwent Healthcare NHS Trust	96.6	96.4	95.6	95.1
North Glamorgan NHS Trust	95.6	95.8	95.9	95.6
Pontypridd & Rhondda NHS Trust	99.5	98.4	99.4	98.7
Velindre NHS Trust	98.3	97.6	98.0	98.3
<b>All NHS Trusts</b>	<b>95.7</b>	<b>95.1</b>	<b>95.6</b>	<b>95.2</b>

Under the Late Payment of Commercial Debts (Interest) Act 1998, £283 (2005-06 £731) was paid to cover debt recovery costs at Gwent Healthcare NHS Trust.

## Assembly loans to local health boards and NHS trusts

	<b>Loans outstanding as at 01-Apr-06 £000</b>	<b>Movements in 2006-07 £000</b>	<b>Loans outstanding as at 31 March 2007 £000</b>
<b>Local Health Boards</b>			
<b>Mid &amp; West Wales Region</b>			
Carmarthenshire Local Health Board	622	-	622
Powys Local Health Board	832	(832)	-
	1,454	(832)	622
<b>South East Region</b>			
Cardiff Local Health Board	2,261	(2,261)	-
	2,261	(2,261)	-
<b>Total for Local Health Boards</b>	3,715	(3,093)	622
<b>NHS Trusts</b>			
<b>Mid &amp; West Wales Region</b>			
Carmarthenshire NHS Trust	21,476	-	21,476
Ceredigion & Mid Wales NHS Trust	2,762	1,300	4,062
Pembrokeshire & Derwen NHS Trust	11,538	893	12,431
	35,776	2,193	37,969
<b>North Wales Region</b>			
North East Wales NHS Trust	-	3,000	3,000
	-	3,000	3,000
<b>South East Wales Region</b>			
Cardiff & Vale NHS Trust	19,855	(19,855)	-
Gwent NHS Trust	-	5,216	5,216
North Glamorgan NHS Trust	2,600	-	2,600
	22,455	(14,639)	7,816
<b>Total for NHS Trusts</b>	58,231	(9,446)	48,785
<b>Total Assembly Loans</b>	61,946	(12,539)	49,407

LHB Source Note 6.3 Audited LHB Accounts adjusted to WAG records

NHS Trust source Note 15.2 Audited NHS Trust Accounts adjusted to WAG records

# **Local Health Boards in Wales**



## **Statement of the National Assembly for Wales and Accounting Officer's responsibilities**

Section 98 of the Government of Wales Act 1998 requires the Treasury to designate the Permanent Head of the National Assembly for Wales' (the Assembly's) staff as the Assembly's Principle Accounting Officer. Section 63 of the same Act requires the Permanent Head to make arrangements for delegating responsibility for the exercise of Assembly functions to staff. This enables the Permanent Head, as the Assembly's Principle Accounting Officer, to designate senior managers within the Assembly as Sub Accounting Officers where he considers it in the interests of effective financial management to do so.

Under these arrangements, the Head, Department for Health and Social Services and Chief Executive, NHS Wales has been appointed as the Accounting Officer for the Summarised Account of Local Health Boards in Wales. Her relevant responsibilities, including her responsibilities for the propriety and regularity of public finances for which she is answerable, for the keeping of proper records and the preparation of accounts have been assigned to her through the Assembly's Sub Accounting Officers' Memorandum.

Section 98(4) of the National Health Service Act 1977 requires the Assembly to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view on the state of affairs of the Local Health Boards in Wales at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Assembly is required to:

- observe the accounts direction issued by the 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 have been followed and disclose any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so.

## **Statement on Internal Control**

### **1. Scope of responsibility**

As the Accounting Officer for the NHS in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Assembly for Wales' (the Assembly's) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Permanent Head of the Assembly under section 63 of the Government of Wales Act 1998.

I am responsible for the propriety and regularity of public finances for the NHS in Wales; for the keeping of proper records; the preparation of accounts; for prudent behaviour and economical administration; the avoidance of waste and extravagance; and for the efficient use of all resources.

To enable me to fulfil these responsibilities I appoint Chief Executives of Local Health Boards (LHBs) to serve as Accountable Officers. It is their responsibility to ensure that there is an effective system of internal control within their individual organisations. Regional Directors act as my agents on a day to day basis in holding to account Chief Executives of LHBs. I also lead an annual review process for which I receive support from my Regional Directors.

Within the Department for Health and Social Services (DHSS) of the Assembly, I require Heads of Directorates to take responsibility for ensuring the effective, efficient and economic management of and proper accounting for the resources delegated to them within a robust internal control and risk management framework.

### **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 a continuing process designed to identify and prioritise the risks to the achievement of the Assembly's 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 for the year ended 31 March 2007 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

### **3. Capacity to handle risk**

Guidance has been issued to each Accountable Officer regarding corporate governance, clinical governance, risk management and internal control systems.

I require the Board of each organisation to take overall responsibility for risk management and to have risk management, control and review processes in place. In 2006-07 LHB Boards are required to self assess against the Healthcare standards, which incorporate the Welsh risk management standards and use

the 5 core risk management standards extant across NHS Wales as a toolkit to inform LHB Boards of the significant risks within their organisations. The standards assist Boards to identify risks, determine unacceptable levels of risk, and to then decide on where best to direct limited resources to eliminate or reduce those risks. A central theme across the standards is the importance of ensuring that staff have the information, training and access to expert advice which they need to exercise their responsibilities effectively.

An agreement is in place with the Welsh Risk Pool that requires the Pool to support NHS organisations in the development of risk management systems by providing advice, developing education in healthcare risk management and facilitating the exchange of information on good practice and lessons learnt. The Chief Executive of Conwy and Denbighshire NHS Trust is accountable to me for the work of the Welsh Risk Pool.

#### **4. Healthcare Standards for Wales**

*Healthcare Standards for Wales* sets out the Welsh Assembly Government's common framework of healthcare standards to support the NHS and partner organisations in providing effective, timely and quality services across all healthcare settings. One of the key aims of *Healthcare Standards for Wales* is to simplify and consolidate existing standards into one set of overarching standards for all healthcare organisations in Wales, including independent and voluntary healthcare providers. In line with these objectives, the system of self-assessment that is being developed will incorporate key elements from the current Welsh Risk Management Standards (WRMS) with the aim of ultimately developing a single assessment process of assurance within NHS Wales from April 2008.

The transition from the existing WRP arrangements to the new system that Health Inspectorate Wales (HIW) required careful handling to ensure that there is effective continuity of assurance while the new system became established. 2006-07 has been a developmental year in this respect and the WRP undertook assessments that focused only on those risk standards that are imperative to each NHS organisation's Statement of Internal Control and the WRP's core functions to provide assurance for the period 2006-07.

#### **5. The risk and control framework**

I require all LHBs to have a risk management framework that ensures a systematic approach to internal control. LHBs are free to choose a framework of their choice. Whichever framework is chosen, organisations must ensure that they have evidence that they deem sufficient to demonstrate they have implemented processes appropriate to their circumstances.

LHBs are required to link risk management to their key organisational objectives in order that objectives and their associated risks may form an integrated part of the organisation's management activity.

Objectives, at the strategic level include those linked to:

- "Designed for Life", the health and social care strategy for Wales for 2005-2015, which sets out a clear 10 year ambition, the start of a transformation in services and the first of a series of 3-year action plans based on tough targets to drive the improvements needed;

"Improving Health in Wales", the response to the Review of Health and Social Care ('Wanless Report');

- Welsh Priorities and Planning Guidance, Annual Strategic and Financial Framework Guidance, the Balanced Scorecard and the Annual operating framework;
- National clinical quality improvement targets, and financial responsibilities;
- Public Service VFM agreements;
- Compliance with governance and risk management standards; and
- Health improvement and partnerships.

The Continuous Improvement Framework forms the context for development for both LHBs and NHS trusts. LHBs are responsible for developing local Health, Social Care and Wellbeing Strategies, which form the basis of their commissioning plans. These commissioning plans together with the Health Commission Wales (Specialist Services) Annual Commissioning Plan will help establish the planning context for NHS trusts and also to a more limited extent for local authorities. Each LHB's commissioning plan and the achievement of outcomes set out in those plans form an integral part of an organisation's objectives and as a result its risk management framework.

For 2006-07 LHBs were required to achieve a score of at least 75% against the 5 core risk management standards. The core standards are those that are deemed key to the management of health service risk. They are:

- Risk Management Policy and Strategy
- Risk Assessment and Treatment
- Incident and Hazard Reporting
- Governance
- Financial Management

The Risk Management Policy and Strategy standard is of particular importance in that it focuses on the need to ensure that the organisation has agreed a risk management policy and strategy. It also requires each Board to demonstrate its full commitment to managing risk and provides explicit guidance to its managers, and all other staff of their individual and collective responsibilities. Taken together the 5 core standards ensure that NHS organisations have key controls across the riskier organisational areas. The standards are subject to annual review and audit.

All LHBs are required to submit their self-assessment to HIW on or before 30th June 2007. The 2006-07 assessments will be used to set the baseline for future inspection and improvement. This initial baseline assessment will also help to support the transition process during 2007-08 and to ensure that a single robust system of assurance is achieved from April 2008.

In 2006-07 18 LHBs achieved full compliance against the 5 standards deemed core to the management of risk. Flintshire LHB, Newport LHB and Monmouth LHB failed risk management, and Swansea LHB failed risk management, risk assessment and the overall score.

### **Clinical governance**

LHBs and partner organisations are required to ensure that a framework is in place for continuously improving the quality and safeguarding high standards of care. Boards are required to take responsibility and account for:

- The overall quality and safety of care;
- Specification of standards and competencies;
- Participation in clinical audit, benchmarking activities and processes for monitoring clinical care;
- Strict adherence to the Complaints Procedure at all stages; and
- Clear policies for managing risk to ensure and improve patient safety.

### **Department for Health and Social Services - Risk Management**

The DHSS is subject to the Assembly's Risk Management framework. Risks are controlled at both Executive Board and directorate level, with the bulk of the work to identify, evaluate and monitor the risks falling to individual Heads of Directorate. The main record for documenting the identification, assessment and management of risk is through the directorate risk register. The DHSS Audit Committee continuously reviews the directorate risk registers and any associated action plans and report their findings to the Executive Board. Heads of Directorate, including Regional Directors, are responsible for ensuring that:

- systems are in place to enable them to be kept informed of new activities and other changes so that risk can be assessed; and
- there are performance indicators in place, which allow the monitoring of key business and financial activities and the directorate's progress towards its objectives.

For the 2006-07 financial year, each Head of Directorate within the DHSS (including regional offices) has reviewed their process of internal control and completed a certificate of assurance, which underpins the departmental Internal Control Questionnaire.

## 6. Review of effectiveness

As the Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system on internal control is informed by the work of the internal auditors, the Assembly's Corporate Governance Committee, which oversees the work of the internal auditors, the reports submitted to the Executive Board by the DHSS Audit Committee and comments made by the external auditors in their management letter and other reports.

LHB Chief Executives have submitted a Statement on Internal Control for the year ending 31 March 2007. These statements and the associated audit reports are reviewed so that I can be satisfied that any issues raised by the Accountable Officers do not pose a significant threat to internal control and that they are being dealt with appropriately by Accountable Officers.

A handwritten signature in black ink, appearing to read 'Ann Lloyd', is written on a light yellow rectangular background. A long, thin horizontal line is drawn below the signature, extending to the right.

Ann Lloyd  
Chief Executive NHS Wales, Head of Department of Health and Social Services  
6th August 2007

## **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 the Summarised Account of the NHS Local Health Boards in Wales for the year ended 31 March 2007 under Section 61 of the Public Audit (Wales) Act 2004. These financial statements have been prepared under the accounting policies set out on pages 14 to 19.

### **Respective responsibilities of the Accounting Officer and Auditor**

The Director of NHS Wales as Accounting Officer is responsible for the preparation of the financial statements in accordance with the National Health Service Act 1977 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities on page 2.

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 my opinion to you as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the National Health Service Act 1977 and HM Treasury directions made thereunder. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the National Assembly for Wales 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 other transactions is not disclosed.

I review whether the statement on pages 3 to 7 reflects the National Assembly for Wales' compliance with the HM Treasury 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 National Assembly for Wales' corporate governance procedures or its risk and control procedures.

### **Basis of audit 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 relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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.

Without qualifying my regularity opinion on these accounts, I draw attention to the qualification of my regularity opinion on the accounts of 7 Local Health Boards [Blaenau Gwent, Caerphilly, Carmarthenshire, Ceredigion, Newport, Powys and Swansea] in respect of expenditure in excess of their approved resource limits totalling £12.993 million in the financial year 2006/2007. I consider that these breaches are not material to my opinion on the Summarised Account. Further information on the circumstances of these breaches is set out in the Foreword to the accounts.

### **Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Local Health Boards in Wales as at 31 March 2007 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 HM Treasury;
- the financial statements have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by HM Treasury; and
- 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 have no observations to make on these financial statements.

Jeremy Colman  
Auditor General for Wales  
13th August 2007

Wales Audit Office  
2-4 Park Grove  
Cardiff  
CF10 3PA



## Operating Cost Statement for the year ended 31 March 2007

### Continuing operations

	Notes	2006-07 £000	2005-06 £000
<b>Expenditure</b>	3,4,5,6,7	<b>4,081,854</b>	3,680,030
<b>Miscellaneous income</b>	2	<u><b>80,469</b></u>	<u>62,601</u>
<b>Net operating cost</b>		<u><b>4,001,385</b></u>	<u>3,617,429</u>

## Statement of Recognised Gains and Losses for the year ended for the year ended 31 March 2003

### 31 March 2007

		2006-07 £000	2005-06 £000
Unrealised surplus on revaluation / indexations of fixed assets	16,17	<b>9,159</b>	5,172
Net decrease in General Fund due to transfers of assets	15	<b>(5,516)</b>	(4,184)
Increase in donated assets reserves	16	<u><b>(23)</b></u>	<u>(36)</u>
<b>Recognised gain for the financial year</b>		<u><b>3,620</b></u>	<u>952</u>

*The notes at pages 14 to 33 form part of this account.*

**Balance Sheet as at 31 March 2007**

		<b>31 March 2007</b>	31 March 2006
	<b>Notes</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>			
Intangible Fixed assets	11.1	<b>35</b>	39
Tangible Fixed assets	11.2	<b>173,586</b>	174,127
		<b>173,621</b>	174,166
<b>Current assets</b>			
Stocks	12	<b>706</b>	711
Debtors	13	<b>98,814</b>	98,062
Cash at bank and in hand		<b>14,914</b>	12,667
		<b>114,434</b>	111,440
<b>Creditors</b>			
Creditors: amounts falling due within one year	14.1	<b>269,389</b>	252,202
<b>Net current liabilities</b>		<b>(154,955)</b>	(140,762)
<b>Total assets less current liabilities</b>		<b>18,666</b>	33,404
Creditors: amounts falling due after more than one year	14.2	<b>1,090</b>	4,329
Provisions for liabilities and charges	18	<b>77,497</b>	81,809
<b>Net liabilities</b>		<b>(59,921)</b>	(52,734)
<b>Taxpayers' equity</b>			
General Fund	15	<b>(181,204)</b>	(169,848)
Donated Assets Reserve	16	<b>4,935</b>	4,909
Revaluation Reserve	17	<b>116,348</b>	112,205
		<b>(59,921)</b>	(52,734)

The notes at pages 14 to 33 form part of this account.



Ann Lloyd

Chief Executive NHS Wales, Head of Department of Health and Social Services

6th August 2007

## Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000 (Restated)
<b>Net operating costs</b>		<b>(4,001,374)</b>	(3,616,260)
Adjust for non-cash transactions	b	<b>6,320</b>	25,863
Adjust for movements in working capital other than cash	a	<b>12,232</b>	(19,836)
Utilisation of provisions		<b>(9,653)</b>	(14,506)
<b>Net cash outflow from operating activities</b>		<b><u>(3,992,475)</u></b>	<u>(3,624,739)</u>
<b>Servicing of Finance :</b>			
Interest received		<b>237</b>	182
Interest paid		<b>(248)</b>	(1,351)
<b>Net cash inflow from servicing of finance</b>		<b><u>(11)</u></b>	<u>(1,169)</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		<b>(11)</b>	-
Payments to acquire tangible fixed assets		<b>(1,834)</b>	(2,548)
Receipts from the sale of fixed assets		<b>8,714</b>	4,426
<b>Net cash inflow from investing activities</b>		<b><u>6,869</u></b>	<u>1,878</u>
<b>Financing</b>			
Assembly revenue funding		<b>3,993,154</b>	3,627,612
Surrender of income from sale of fixed assets		<b>(5,516)</b>	(4,184)
Donations		<b>226</b>	477
<b>Net cash inflow from financing</b>		<b><u>3,987,864</u></b>	<u>3,623,905</u>
<b>Increase / (decrease) in cash</b>		<b><u>2,247</u></b>	<u>(125)</u>

The prior period servicing of finance total has been restated to give a full disclosure of gross interest paid and received at Powys LHB in accordance with FRS1 Cash Flow Statements. As a result of this treatment, the net operating cost brought forward to the Cash Flow Statement has also been adjusted to reflect effect of the movement in interest paid and received in year.

*The notes at pages 14 to 33 form part of this account.*

## Notes to the cashflow statement

	Notes	2006-2007 £000	2005-2006 £000
<b>Adjust for movements in working capital other than cash</b>			
a	Increase / (decrease) in stock and work-in-progress	5	(330)
	Increase / (decrease) in operating debtors	(1,833)	(16,333)
	Increase / (decrease) in operating creditors	14,060	(3,173)
		<b>12,232</b>	<b>(19,836)</b>
<b>b Adjustment for non-cash transactions</b>			
	Depreciation and other write-offs	5,506	5,204
	Impairment of fixed assets	-	50
	Profit on disposal of fixed assets	(1,952)	(1,463)
	Non-cash provisions	5,341	24,659
	Capital charge interest	(2,575)	(2,587)
		<b>6,320</b>	<b>25,863</b>
<b>c Reconciliation of net cash flow to movement in net debt</b>			
			2006-2007 £000
	Increase in cash in the period		2,247
	Cash inflow from new debt		-
	Cash outflow from debt repaid		3,093
	Change in net debts resulting from cash flows		5,340
	Non cash changes in debt		-
	<b>At 1 April</b>		<b>8,952</b>
	<b>At 31 March</b>		<b>14,292</b>
<b>d Analysis of changes in net debt</b>			
	As at 1 April 2006 £000	Cash flows £000	As at 31 March 2007 £000
	Cash at bank and in hand	12,667	2,247
	Debt due after one year	(3,715)	3,093
		<b>8,952</b>	<b>14,292</b>

The amount held in Office of Paymaster General bank accounts at 31 March 2007 was £14.995 million.

## **1. Accounting policies**

### **1.1 Accounting convention**

The financial statements have been prepared in accordance with the Financial Reporting Manual issued by HM Treasury to the extent that the National Assembly for Wales has directed as being appropriate to Local Health Boards. 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.

### **1.2 Income and Funding**

The main source of funding for LHBs is funding allocated by the National 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.

Operating income is income which relates directly to the operating activities of the LHB. It principally comprises fees and charges for services provided on a full cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Vote and income to the consolidated fund which HM Treasury has agreed should be treated as operating income.

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

### **1.3 Taxation**

LHBs are 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.

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 are 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 license 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.

### **b. Valuation**

Tangible fixed assets are stated at Depreciated Replacement Cost. 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 in accordance with FRS 15 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 (BCIS). 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 Losses. 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.

IT Equipment is depreciated over 5 years.

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 relates 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**

The NHS Pension scheme is a multi-employer scheme as defined by FRS 17.

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 the Secretary of State. As a consequence it is not possible for the LHBs to identify their 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. Employers' contribution rates are 14% of pensionable pay with effect from 1 April 2003.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. 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 report on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from the Stationery Office.

NHS bodies are directed by the National Assembly to charge employers pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. The contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation employer contribution rates for 2003-04 were set at 14% of pensionable pay. Until 2002-03 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full.

For 2003-04 the additional funding was retained as a Central Budget by the Assembly and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-05 this funding was devolved in full to NHS Pension Scheme and the employers contribution rate rose to 14%. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.



The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the members 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 years pensionable pay for death in service, and up to five times their annual pension for death 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 contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of 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 LHBs, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in the 2006-07 financial year was 3.5%.

### **1.11 Provisions**

The LHBs provide 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 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.

### **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 LHBs do 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 an 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 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 Operating Cost Statement on a straight line basis.

### **1.14 Contingent liabilities**

At 31 March 2007 litigation claims were made against the LHB; the detail is included in note 19. These claims are disputed and until they are resolved, it is not possible to determine any LHB's liability.

### **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 Stocks**

Stocks comprise raw materials and consumables and are valued at the lower of cost or net realisable value.

### **1.17 New Dental Contract**

On 1 April a new dental contract was introduced in England and Wales. LHB's are now responsible for commissioning dental services and ongoing payment through the Dental Practice Division of the Business Services Authority.

Contractors who have underperformed against their contracted level of Units of Dental Activity, (UDA's) by a margin of 5% or less, are contractually allowed to retain their payments for the year and deliver the under-performance of UDA's within the new financial year 2007-08.

The valuation in the annual accounts is based on an estimate provided by the Dental Practice Division in May 2007. The final outturn will not be available until after the publication of the annual accounts and any variance will be recognised in the accounts for 2007-08.

The LHBs superannuation liability is contingent upon:  
the actual UDA performance against the annual contracted target to arrive at a final gross earnings for the year; the declared split of the gross final earnings over the performers registered on each individual contract.

To calculate the LHB's liability in respect of year end under or over performance, the baseline financial value of any under or over achievement against contracted activity is multiplied by a factor of 0.439, (the standard superannuation assumption for the profit element of gross earnings with the dental sector) and 0.14 (the superannuation employee contribution rate.)

<b>2 Miscellaneous income</b>	<b>2006-2007</b>	2005-2006
	<b>£000</b>	£000
Programme income: Fees & Charges	5,631	9,357
Prescription charge income	40,780	24,491
Release of Deferred Income	304	4
NHS bodies	3,933	594
Local Authorities	355	514
Education, Training and Research	234	209
Non-NHS private patients	47	45
Road Traffic Act	51	39
Charitable and other contributions to expenditure	238	212
Transfers from the Donated Asset Reserve	249	236
Other	28,647	26,900
	<b>80,469</b>	<b>62,601</b>

"Other" income includes £10.031 million for the Second Offer Scheme administered by Rhondda Cynon Taff Local Health Board (2005-06 £12.912 million).

Prescription income includes £21.143 million in respect of dental prescription charges.

**3 Purchase of primary health care services**

	<b>Cash limited</b>	<b>Non-cash limited</b>	<b>2006-2007 Total</b>	<b>2005-2006 Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Medical services	429,185	-	<b>429,185</b>	418,775
Pharmaceutical services	100,157	4,230	<b>104,387</b>	103,216
General Dental services	136,572	(76)	<b>136,496</b>	2,609
General Ophthalmic services	6	24,045	<b>24,051</b>	23,674
Other Primary health care expenditure	24,068	(1,365)	<b>22,703</b>	20,925
Prescribed drugs and expenditure	498,005	335	<b>498,340</b>	476,658
	<b>1,187,993</b>	<b>27,169</b>	<b>1,215,162</b>	1,045,857

£20,000 of expenditure under Cash limited General Medical Services relates to depreciation on fixed assets purchased by Flintshire Local Health Board for the Local Health Board run General Medical Services Out of Hours Service.

**4 Purchase of secondary healthcare services**

	<b>2006-2007</b>	<b>2005-2006</b>
	<b>£000</b>	<b>£000</b>
Welsh NHS trusts	<b>2,402,174</b>	2,222,908
Non-Welsh NHS bodies	<b>74,548</b>	64,493
Local Authorities	<b>16,012</b>	16,814
Voluntary organisations	<b>13,400</b>	13,361
NHS Funded Nursing Care	<b>42,042</b>	40,317
Continuing Care	<b>118,431</b>	88,692
Private providers	<b>12,138</b>	13,952
Specific projects funded by the NAW	<b>19,335</b>	18,303
Other	<b>9,593</b>	8,453
	<b>2,707,673</b>	<b>2,487,293</b>

**5 Other programme expenditure**

	<b>2006-2007</b>	<b>2005-2006</b>
	<b>£000</b>	<b>£000</b>
Salaries and wages	<b>16,724</b>	<b>12,420</b>
National Public Health Service	<b>17,899</b>	<b>16,227</b>
Losses, special payments and irrecoverable debts	<b>264</b>	<b>(1,097)</b>
Miscellaneous	<b>7,330</b>	<b>4,044</b>
	<b>42,217</b>	<b>31,594</b>

<b>6 Administration expenditure</b>	<b>2006-2007 £000</b>	2005-2006 £000
Non-executive directors' remuneration	2,010	2,043
Other salaries and wages	20,443	19,827
Establishment expenses	2,931	3,115
Transport and moveable plant	54	141
Premises	2,482	2,215
External contractors	511	416
Auditors' remuneration - audit fee	1,616	1,647
Auditors' remuneration - other fees	8	-
Interest payable- unwinding of discount	4	-
Capital - depreciation	155	142
Capital Charge Interest	(8,048)	(7,941)
Profit on disposal of fixed assets	-	(95)
Other	394	410
	<b>22,560</b>	<b>21,920</b>
<b>7 Provision of secondary care services</b>	<b>2006-2007 £000</b>	2005-2006 £000
Goods and services from other NHS bodies	3,814	3,989
Salaries and wages	62,961	62,217
Supplies and services -clinical	3,812	3,129
Supplies and services -general	1,038	1,429
Establishment expenses	4,946	4,904
Transport and moveable plant	414	404
Premises	5,734	5,700
Audit Fees	521	501
Capital - depreciation	5,565	5,268
Amortisation	15	30
Interest	5,473	5,354
Impairment	-	32
Profit on disposal of fixed assets	(1,952)	(1,368)
Costs of disposal	-	-
Other operating expenses	1,901	1,777
	<b>94,242</b>	<b>93,366</b>

These expenses relate solely to costs directly attributable to provider services at Powys Local Health Board.

**8 Operating lease rentals**

**Operating expenses include the following amounts  
in respect of hire and operating lease rentals:**

	<b>2006-2007</b>	2005-2006
	<b>£000</b>	£000
Hire of plant and machinery	<b>150</b>	125
Other operating leases	<b>2,618</b>	2,664
	<b>2,768</b>	2,789

**Annual commitments under non-cancellable  
operating leases are:**

	<b>Land and buildings</b>	<b>Other Leases</b>
	<b>£000</b>	<b>£000</b>
<b>Operating leases which expire:</b>		
Within 1 year	<b>63</b>	<b>295</b>
Between 1 and 5 years	<b>808</b>	<b>295</b>
After 5 years	<b>1,500</b>	-

**9 Local Health Board Directors' remuneration**

	<b>2006-2007</b>	2005-2006
	<b>£000</b>	£000
Non-executive Directors' remuneration	<b>1,952</b>	1,983
Executive Directors' remuneration:		
basic salaries	<b>6,660</b>	6,450
benefits	<b>78</b>	73
performance related bonuses	<b>5</b>	-
pension contributions	<b>916</b>	895
Compensation for loss of office	<b>151</b>	13
Pensions to former directors (early retirees)	<b>239</b>	-
	<b>10,001</b>	9,414

Detailed disclosures relating to Directors' remuneration, including cash equivalent transfer values, are included within the remuneration reports of the individual Local Health Board accounts.

<b>10.1 Executive director's and staff costs</b>	<b>2006-2007 £000</b>	2005-2006 £000
Wages and salaries	<b>91,439</b>	83,265
Social security costs	<b>6,777</b>	6,442
Employment contributions to NHS Pensions Agency	<b>11,677</b>	10,715
Other pension costs	<b>141</b>	1,389
Agency staff	<b>4,376</b>	3,553
	<b>114,410</b>	105,364

Remuneration costs are included in note 3 Purchase of primary health care services, note 4 Purchase of secondary health care services, note 5 other programme expenditure, note 6 Administration expenditure and note 7 Provision of secondary care services.

The details of the salary bandings for LHB employees can be obtained from the underlying accounts.

## 10.2 Average number of employees during the year was:

	<b>Permanent Staff</b>	<b>Agency Staff</b>	<b>Inward Secondment</b>	<b>2006-2007 Total</b>	2005-2006 Average Number (Restated)
Executive Board Members	90	1	2	<b>93</b>	93
Medical and dental	32	-	-	<b>32</b>	61
Administrative and estates	808	25	1	<b>834</b>	865
Healthcare assistants and other support staff	179	-	-	<b>179</b>	149
Nursing, midwifery and health visiting staff	819	-	-	<b>819</b>	799
Scientific, therapeutic and technical staff	173	-	-	<b>173</b>	159
Other Local Health Board Staff	1,129	40	20	<b>1189</b>	1,016
Recharged staff	10	1	35	<b>46</b>	27
	<b>3,240</b>	<b>67</b>	<b>58</b>	<b>3,365</b>	3,169

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.

The average number of employees for 2005-06 has been restated at Powys LHB as Community Health Council employee numbers were excluded in 2005-06.

## 10.3 Retirements due to ill-health

During 2006-07 there were 5 early retirements 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 £170,050 for 4 cases at Powys LHB. No details were provided to Merthyr LHB for an early retirement case disclosed in their annual accounts by the accounts completion date.

In 2005-06 there were 17 early retirements at a cost of £631,590.

## 10.4 Staff Benefits

Local Health Boards disclosed staff benefits of £23,954 paid for leased cars in 2006-07 (2005-06 £14,730).

**11.1 Intangible fixed assets**

	<b>Total £000</b>
<b>Gross replacement cost at 1 April 2006</b>	<b>341</b>
Additions	11
Disposals	(236)
<b>At 31 March 2007</b>	<u><b>116</b></u>
<b>Accumulated amortisation at 1 April 2006</b>	<b>302</b>
Provided during the year	15
Disposals	(236)
<b>At 31 March 2007</b>	<u><b>81</b></u>
<b>Net book value at 31 March 2007</b>	<u><b>35</b></u>
Net book value at 31 March 2006	<u><b>39</b></u>

All intangible assets held by LHBs are software licences.



**11.2 Tangible assets at the balance sheet date:**

Cost or valuation	Assets under construction and payments on account								Total £000
	Land £000	Buildings, excluding dwellings £000	Dwellings	on account £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	
At 1 April 2006	56,394	131,378	515	638	6,121	215	5,213	668	<b>201,142</b>
Indexation	3,019	10,289	41	51	161	6	8	14	<b>13,589</b>
Additions - purchased	-	301	-	419	197	76	238	263	<b>1,494</b>
Additions - donated government	-	-	-	-	226	-	-	-	<b>226</b>
Transfers	-	386	-	(689)	303	-	-	-	<b>-</b>
Other in-year revaluations	-	(3,336)	-	-	(266)	-	-	-	<b>(3,602)</b>
Disposals	(2,464)	(4,762)	-	-	(344)	-	(1,089)	-	<b>(8,659)</b>
<b>At 31 March 2007</b>	<b>56,949</b>	<b>134,256</b>	<b>556</b>	<b>419</b>	<b>6,398</b>	<b>297</b>	<b>4,370</b>	<b>945</b>	<b>204,190</b>

**Depreciation**

At 1 April 2006	-	20,414	49	-	3,425	116	2,736	275	<b>27,015</b>
Indexation	-	1,577	4	-	93	3	2	4	<b>1,683</b>
Additions - purchased	-	-	-	-	-	-	1	1	<b>2</b>
Other in-year revaluations	-	(801)	-	-	(55)	-	1	-	<b>(855)</b>
Disposals	-	(1,577)	-	-	(313)	-	(1,089)	-	<b>(2,979)</b>
Provided during the year	-	4,674	16	-	323	17	594	114	<b>5,738</b>
<b>At 31 March 2007</b>	<b>-</b>	<b>24,287</b>	<b>69</b>	<b>-</b>	<b>3,473</b>	<b>136</b>	<b>2,245</b>	<b>394</b>	<b>30,604</b>
<b>Net book value at 31 March 2006</b>	<b>56,394</b>	<b>110,964</b>	<b>466</b>	<b>638</b>	<b>2,696</b>	<b>99</b>	<b>2,477</b>	<b>393</b>	<b>174,127</b>
<b>Net book value at 31 March 2007</b>	<b>56,949</b>	<b>109,969</b>	<b>487</b>	<b>419</b>	<b>2,925</b>	<b>161</b>	<b>2,125</b>	<b>551</b>	<b>173,586</b>

**Net book value of assets held under finance leases and hire purchase contracts**

<b>Total</b>	-	-	-	-	-	-	-	-	<b>-</b>
--------------	---	---	---	---	---	---	---	---	----------

**The total amount of depreciation charged in the Operating Cost Statement in respect of assets held under finance leases and hire purchase contracts:**

<b>Total</b>	-	-	-	-	-	-	-	-	<b>-</b>
--------------	---	---	---	---	---	---	---	---	----------

**Fixed Assets (continued)**

<b>The net book value of land and buildings comprises:</b>	<b>31 March 2007 £000</b>	31 March 2006 £000
Freehold	<b>146,422</b>	144,798
Long Leasehold	<b>20,982</b>	23,026
	<b><u>167,404</u></b>	<u>167,824</u>
<b>Net profit on disposal of fixed assets</b>	<b>2006-2007 £000</b>	2005-2006 £000
Gross proceeds of sale	<b>7,632</b>	3,882
Less net book values of fixed asset disposals	<b>5,680</b>	2,419
Profit on disposal of fixed assets	<b><u>1,952</u></b>	<u>1,463</u>

No Fixed Assets were held under Finance leases.

£ 4.637 million of the disposal proceeds has been remitted to the Assembly by Welsh Health Estates on behalf of Powys Local Health Board for disposals in 2006-07 and £0.875million for disposals in 2005-06.

<b>12 Stocks and Work in Progress</b>	<b>31 March 2007 £000</b>	31 March 2006 £000
Raw materials and consumables	<b>706</b>	711
<b>Total</b>	<b>706</b>	711

<b>13 Debtors</b>	<b>31 March 2007 £000</b>	31 March 2006 £000
<b>Amounts falling due within one year</b>	<b>£000</b>	£000
National Assembly for Wales	<b>8,430</b>	8,189
Health Commission Wales	<b>1,307</b>	543
Primary Care Trusts	<b>456</b>	425
NHS Trusts	<b>10,130</b>	4,631
Welsh Risk Pool	<b>37,223</b>	32,561
Capital debtors	<b>-</b>	1,081
Other debtors	<b>11,188</b>	12,559
Provision for irrecoverable debts	<b>(1,186)</b>	(605)
Prepayments and accrued income	<b>9,482</b>	8,722
	<b>77,030</b>	68,106
<b>Amounts falling due after one year</b>		
Welsh Risk Pool	<b>20,248</b>	29,927
Other debtors	<b>142</b>	29
Prepayments and accrued income	<b>1,394</b>	-
	<b>21,784</b>	29,956
	<b>98,814</b>	98,062

<b>14.1 Creditors:</b>	<b>31 March</b>	31 March
	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Amounts falling due within one year</b>		
National Assembly for Wales	8,538	7,488
Health Commission Wales	65	222
NHS Trusts	36,356	28,996
Primary Care Trusts	916	664
Income tax and social security	1,574	669
Non-NHS creditors	131,797	127,333
Capital Creditors	416	530
GPFH savings	6	438
Pensions: staff	1,119	1,142
Accruals	88,258	84,298
Deferred Income	344	422
	<u>269,389</u>	<u>252,202</u>

<b>14.2 Creditors:</b>	<b>31 March</b>	31 March
	<b>2007</b>	2006
	<b>£000</b>	£000
<b>Amounts falling due over one year</b>		
NHS creditors	186	337
Assembly loans	622	3,715
Pensions: staff	282	277
	<u>1,090</u>	<u>4,329</u>
	<u>270,479</u>	<u>256,531</u>

<b>15 General Fund</b>	<b>31 March</b>
	<b>2007</b>
	<b>£000</b>
<b>At 1 April 2006</b>	<b>(169,848)</b>
Net operating cost for the financial year	<b>(4,001,385)</b>
Net Assembly funding (including capital)	<b>3,993,154</b>
Capital charge interest	<b>(2,575)</b>
Transfers to NHS bodies	<b>(5,516)</b>
Transfer to general fund of realised elements of the revaluation reserve	<b>4,966</b>
<b>At 31 March 2007</b>	<b>(181,204)</b>

<b>16 Donated Asset Reserve</b>	<b>31 March</b>
	<b>2007</b>
	<b>£000</b>
<b>At 1 April 2006</b>	<b>4,909</b>
Additions	<b>226</b>
Revaluation and indexation	<b>49</b>
Depreciation	<b>(249)</b>
<b>At 31 March 2007</b>	<b>4,935</b>

<b>17 Revaluation Reserve</b>	<b>31 March</b>
	<b>2007</b>
	<b>£000</b>
<b>At 1 April 2006</b>	<b>112,205</b>
Revaluation	<b>(2,483)</b>
Indexation	<b>11,592</b>
Transfer to general fund - realised revaluation	<b>(4,966)</b>
<b>At 31 March 2007</b>	<b>116,348</b>

**18 Provisions for liabilities and charges**

	At at 1 April 2006 £000	Transfer of provisions to creditors £000	Arising during the year £000	Reversed unused £000	Utilised during the year £000	Unwinding of discount £000	At 31 March 2007 £000
Clinical negligence	60,131	-	12,625	(13,472)	(4,497)	-	54,787
Personal injury	327	-	611	(160)	(105)	-	673
All other losses and special payments	890	(95)	448	(319)	(229)	-	695
Defence legal fees & other administrative costs	2,208	-	746	(451)	(323)	-	2,180
	<u>63,556</u>	<u>(95)</u>	<u>14,430</u>	<u>(14,402)</u>	<u>(5,154)</u>	<u>-</u>	<u>58,335</u>
Staff pensions	11,386	(216)	1,273	(1,204)	(1,988)	247	9,498
Other	6,867	-	6,874	(1,567)	(2,511)	1	9,664
	<u>81,809</u>	<u>(311)</u>	<u>22,577</u>	<u>(17,173)</u>	<u>(9,653)</u>	<u>248</u>	<u>77,497</u>

Expected timing of cashflows :

	Within one year £000	1-5 years £000	Over 5 years £000	Total £000
Clinical negligence	35,689	19,098	-	54,787
Personal injury	673	-	-	673
All other losses and special payments	695	-	-	695
Defence legal fees and other administration	996	1,184	-	2,180
Pensions	854	3,353	5,291	9,498
Other	8,449	963	252	9,664
<b>Total</b>	<u>47,356</u>	<u>24,598</u>	<u>5,543</u>	<u>77,497</u>

Powys LHB has estimated in 2007-08 they will receive £37.223 million and £ 20.248 million in subsequent years from the Welsh Risk Pool in respect of losses and special payments.

**19 Contingent liabilities**

	2006-2007 £000	2005-2006 £000
<b>Local Health Boards reported contingent liabilities as follows:</b>		
Legal claims for alleged medical or employer negligence	79,961	86,198
Other	14,851	1,563
	<u>94,812</u>	<u>87,761</u>

These claims are disputed and until they are resolved, the LHBs liability, if any cannot be determined. In accordance with the requirements of FRS 12, no provision has been made in the 2006-07 accounts for these items.

In January 2006 the High Court concluded that if, following a health care assessment, a person's health care needs formed the primary reason for their residence in a nursing home the NHS should fund the totality of their care (Grogan v Bexley NHS PCT). The judgement will also apply to retrospective reviews where requested. No provision has been made in these accounts in respect of cases arising specifically from the Grogan judgement. The LHB has limited knowledge of the value or extent of potential cases. This means that, at this stage, it is not possible for a reliable estimate to be made of the financial impact of the judgement.

**20 Losses and special payments**

	<b>2006-2007</b>	2005-2006
	<b>£000</b>	£000
Clinical negligence	<b>(847)</b>	20,002
Personal injury	<b>451</b>	555
All other losses and special payments	<b>147</b>	257
Defence legal fees and other administrative costs	<b>318</b>	79
Gross increase / (decrease) in provision for future payments	<b>69</b>	20,893
Welsh Risk Pool/insurance premiums	-	5
Irrecoverable debts	<b>19</b>	27
Less: income received/due from Welsh Risk Pool	<b>176</b>	(22,022)
<b>Net cost</b>	<b>264</b>	(1,097)

**21 Losses and special payments**

	<b>Number of cases</b>	<b>Value £</b>
Medical Negligence	25	4,497,143
Personal injury	9	104,997
All other losses and special payments	745	177,192
	<b>779</b>	<b>4,779,332</b>
Of which, cases over £250,000, paid out during the year:		
Clinical negligence	3	3,793,676
	<b>3</b>	<b>3,793,676</b>
Also, of which, cases of cumulative interim payments over £250,000		
Clinical negligence	7	12,040,051
	<b>7</b>	<b>12,040,051</b>

## **22 Capital commitments**

Local Health Boards had £128,000 contracted capital commitments as at 31 March 2007 (2005-06 £256,000).

---

## **23 Related party transactions**

The National Assembly for Wales was regarded as a related party. During the year the local health boards had a significant number of material transactions with the Assembly and with other NHS bodies such as NHS trusts.

All 22 local health boards undertook related party transactions. The details of these can be found in the underlying accounts.

---

## **24 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 local health boards 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 local health boards 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 local health boards in undertaking their activities.

### **Liquidity Risk**

The local health boards' 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 local health boards' 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 local health boards have negligible foreign currency income or expenditure. Therefore, they are not exposed to significant foreign currency risk.



## **THE NATIONAL HEALTH SERVICE IN WALES**

### **SUMMARISED ACCOUNTS DIRECTION GIVEN BY H M TREASURY IN ACCORDANCE WITH SECTION 98(4) OF THE NATIONAL HEALTH SERVICE ACT 1977**

#### **LOCAL HEALTH BOARDS IN WALES**

1. H M Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 2006 and subsequent financial years in respect of the Local Health Boards in Wales. The basis of preparation and form and content shall be as set out in the following paragraphs and schedules.

#### **BASIS OF PREPARATION**

2. The summarised account of the Local Health Boards in Wales shall be prepared from the audited accounts of the individual Local Health Boards to which it relates.

#### **FORM AND CONTENT**

3. The summarised account of the Local Health Boards in Wales shall be prepared in compliance with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) issued by H M Treasury which is in force for the financial year, but specifically excluding a Statement of Parliamentary Supply and Consolidated Statement of Operating Costs by Departmental Aim and Objectives and any other divergences as have been formally agreed for that year by H M Treasury.

4. The summarised account of the Local Health Boards shall be prepared so as to:

- a. give a true and fair view of the state of affairs as at 31 March 2006 (and subsequent financial years) and of net operating costs, total recognised gains and losses and cash flows for the financial year(s) then ended; and
- b. provide disclosure of any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

5. The main Annual Report to all summarised accounts shall include the Local Health Boards.

6. The Annual Report, Statement of Internal Control and Balance Sheet shall be signed by the Accounting Officer and dated.

#### **MISCELLANEOUS**

7. The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

8. This direction supersedes the direction dated 24 November 2004.

David Watkins  
Head of the Financial Reporting Team, HM Treasury

## **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 in Wales unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Directors Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the Annual Report.
3. NHS bodies are not required to provide the historical cost information described in paragraph (33) of schedule 4 to the Companies Act.

#### **Accounting Standards**

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

## **Schedule 2**

### **Additional requirements**

1. The Annual Report shall include a statement that the summarised account has been prepared to comply with a Direction given by H M Treasury in accordance with section 98(4) of the NHS Act 1977.
2. The Annual Report shall also contain a description of the statutory background and the main functions of the NHS bodies to which it relates, together with a fair review of their operational and financial activities and a summary of their performance against targets.

# **NHS Trusts in Wales**

## **Statement of the National Assembly for Wales and Accounting Officer's responsibilities**

Section 98 of the Government of Wales Act 1998 requires the Treasury to designate the Permanent Head of the National Assembly for Wales' (the Assembly's) staff as the Assembly's Principle Accounting Officer. Section 63 of the same Act requires the Permanent Head to make arrangements for delegating responsibility for the exercise of Assembly functions to staff. This enables the Permanent Head, as the Assembly's Principle Accounting Officer, to designate senior managers within the Assembly as Accounting Officers where he considers it in the interests of effective financial management to do so.

Under these arrangements, the Head, Department for Health and Social Services and Chief Executive, NHS Wales has been appointed as the Accounting Officer for the Summarised Account of NHS Trusts in Wales. Her relevant responsibilities, including her responsibilities for the propriety and regularity of public finances for which she is answerable, for the keeping of proper records and the preparation of accounts have been assigned to her through the Assembly's Accounting Officers' Memorandum.

Section 98(4) of the National Health Service Act 1977 requires the Assembly to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view on the state of affairs of the NHS Trusts in Wales at the year end and their income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Assembly is required to:

- observe the accounts direction issued by the 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 have been followed and disclose any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so.

## **Statement on Internal Control**

### **1. Scope of responsibility**

As the Accounting Officer for the NHS in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Assembly for Wales' (the Assembly's) policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible in accordance with the responsibilities assigned to me by the Permanent Head of the Assembly under section 63 of the Government of Wales Act 1998.

I am responsible for the propriety and regularity of public finances for the NHS in Wales; for the keeping of proper records; the preparation of accounts; for prudent behaviour and economical administration; the avoidance of waste and extravagance; and for the efficient use of all resources.

To enable me to fulfil these responsibilities I appoint Chief Executives of NHS Trusts to serve as Accountable Officers. It is their responsibility to ensure that there is an effective system of internal control within their individual organisations. Regional Directors act as my agents on a day to day basis in holding to account Chief Executives of NHS Trusts. I also lead an annual review process for which I receive support from my Regional Directors.

Within the Department for Health and Social Services (HSS) of the Assembly, I require Heads of Directorates to take responsibility for ensuring the effective, efficient and economic management of and proper accounting for the resources delegated to them within a robust internal control and risk management framework.

### **2. The purpose of the system of internal control**

The system of internal control is designed to manage rather than eliminate the 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 a continuing process designed to identify the principal risks to the achievement of the Assembly's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### **3. Capacity to handle risk**

Guidance has been issued over a number of years to each Accountable Officer regarding corporate governance, clinical governance, risk management and internal control systems.

I require the Board of each organisation to take overall responsibility for risk management and to have risk management, control and review processes in place. In 2006-07 Trust Boards are required to self assess against the Healthcare Standards, which incorporate the Welsh risk management standards and the 5 core Welsh management standards extant across NHS Wales as a toolkit to inform NHS Trust Boards of the significant risks within their organisations. The standards assist Boards to identify risks, determine unacceptable levels of risk, and to then decide on where best to direct limited resources to eliminate or reduce those risks. A central theme across the standards is the importance of ensuring that staff has the information, training and access to expert advice which they need to exercise their responsibilities effectively.

An agreement is in place with the Welsh Risk Pool that requires the Pool to support NHS organisations in the development of risk management systems by providing advice, developing education in healthcare risk management and facilitating the exchange of information on good practice and lessons learnt. The Chief Executive of Conwy and Denbighshire NHS Trust is accountable to me for the work of the Welsh Risk Pool.

#### **4. Healthcare Standards for Wales**

*Healthcare Standards for Wales* set out the Welsh Assembly Government's common framework of healthcare standards to support the NHS and partner organisations in providing effective, timely and quality services across all healthcare settings. One of the key aims of the *Healthcare Standards for Wales* is to simplify and consolidate existing standards into one set of overarching standards for all healthcare organisations in Wales, including independent and voluntary healthcare providers. In line with these objectives, the system of self-assessment that is being developed will incorporate key elements from the current Welsh Risk Management Standards (WRMS) with the aim of ultimately developing a single assessment process of assurance within NHS Wales from April 2008.

It is recognised that the transition from the existing WRP arrangements to the new system that Health Inspectorate Wales (HIW) will need careful handling to ensure that there is effective continuity of assurance while the new system becomes established. 2006-07 will be a developmental year in this respect and the WRP will undertake assessments that will focus only on those risk standards that are imperative to each NHS organisation's Statement of Internal Control and the WRP's core functions to provide assurance for the period 2006-07.

#### **5. The risk and control framework**

I require all NHS Trusts to have a risk management framework that ensures a systematic approach to internal control. Trusts are free to choose a framework of their choice. Whichever framework is chosen, organisations must ensure that they have evidence that they deem sufficient to demonstrate they have implemented processes appropriate to their circumstances.

Supplementary Guidance on the Statement on Internal Control (SIC) proforma and the elements relevant in considering whether appropriate risk management, control, and review processes are in place to support the SIC was issued to all Trusts in September 2003 and is extant for 2006-07.

Trusts are required to link risk management to their key organisational objectives in order that objectives and their associated risks may form an integrated part of the organisation's management activity.

Objectives, at the strategic level include those linked to:

- Designed for Life, the health and social care strategy for Wales for 2005-2015, which sets out a clear 10-year ambition, the start of a transformation in services and the first of a series of 3-year action plans based on tough targets to drive the improvements needed.
- "Improving Health in Wales", the response to the Review of Health and Social Care ('Wanless Report'),
- Welsh Priorities and Planning Guidance, Annual Strategic and Financial Framework Guidance, the Balanced Scorecard and the Annual operating framework,
- National clinical quality improvement targets, and financial responsibilities,

- Public Service VFM agreements,
- Compliance with governance and risk management standards,
- Health improvement and partnerships

The Continuous Improvement framework forms the context for development for both LHBs and NHS trusts. LHBs are responsible for developing local Health, Social Care and Wellbeing Strategies, which form the basis of their commissioning plans. These commissioning plans together with the Health Commission Wales (Specialist Services) Annual Commissioning Plan will help establish the planning context for NHS trusts and also to a more limited extent for local authorities, with which trusts will need to co-ordinate their service delivery. Each Trust's Local Delivery Plan and the achievement of outcomes set out in those plans form an integral part of an organisation's objectives and as a result its risk management framework.

For 2006-07 NHS Trusts were required to achieve a score of at least 75% against the 5 core risk management standards. The core standards are those that are deemed key to the management of health service risk. They are:

- Risk Management Policy and Strategy
- Risk Assessment and Treatment
- Incident and Hazard Reporting
- Governance
- Financial Management

The Risk Management Policy and Strategy standard is of particular importance in that it focuses on the need to ensure that the organisation has agreed a risk management policy and strategy. It also requires each Board to demonstrate its full commitment to managing risk and provides explicit guidance to its managers, and all other staff of their individual and collective responsibilities. Taken together the 5 core standards ensure that NHS organisations have key controls across the riskier organisational areas. The standards are subject to annual review and audit.

All trusts were required to submit their Healthcare standard self-assessment scores to HIW on or before 30<sup>th</sup> June 2007. The 2006-07 assessments will be used to set the baseline for future inspection and improvement. This initial baseline assessment will also help to support the transition process during 2007-08 and to ensure that a single robust system of assurance is achieved from April 2008.

In 2006-07 all of the 14 Welsh NHS trusts achieved full compliance against the 5 Welsh risk management standards deemed core to the management of risk.

### **Clinical governance**

Trusts and partner organisations are required to ensure that a framework is in place for continuously improving the quality and safeguarding high standards of care. Boards are required to take responsibility and account for:

- The overall quality and safety of care;
- Specification of standards and competencies;
- Participation in clinical audit, benchmarking activities and processes for monitoring clinical care;
- Strict adherence to the Complaints Procedure at all stages;

- Clear policies for managing risk to ensure and improve patient safety.

### **Department for Health and Social Services - Risk Management**

The DHSS is subject to the Assembly's Risk Management framework. Risks are controlled at both Executive Board and directorate level, with the bulk of the work to identify, evaluate and monitor the risks falling to individual Heads of Directorate. The main record for documenting the identification, assessment and management of risk is through the directorate risk register. The DHSS Corporate Governance Committee continuously reviews the directorate risk registers and any associated action plans and report their findings to the Executive Board. Heads of Directorate, including Regional Directors, are responsible for ensuring that:

- systems are in place to enable them to be kept informed of new activities and other changes so that risk can be assessed; and
- there are performance indicators in place, which allow the monitoring of key business and financial activities and the directorate's progress towards its objectives.

For the 2006-07 financial year, each Head of Directorate within the DHSS (including regional offices) have reviewed their process of internal control and completed a certificate of assurance, which underpins the departmental Internal Control Questionnaire.

### **6. Review of effectiveness**

As the Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system on internal control is informed by the work of the internal auditors, the Assembly's Corporate Governance Committee, which oversees the work of the internal auditors, the reports submitted to the Executive Board by the DHSS Governance Committee and comments made by the external auditors in their management letter and other reports.

NHS Trust Chief Executives have submitted a statement on Internal Control for the year ending March 2007. These statements and the associated audit reports are reviewed so that I can be satisfied that any issues raised by the Accountable Officers do not pose a significant threat to internal control and that they are being dealt with appropriately.



Ann Lloyd  
Head, Department for Health and Social Services,  
Chief Executive, NHS Wales and Accounting Officer for the NHS in Wales  
6th August 2007



## **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 the Summarised Account of the NHS Trusts in Wales for the year ended 31 March 2007 under the Public Audit Wales Act 2004. These financial statements have been prepared under the accounting policies set out on pages 13 to 19.

### **Respective responsibilities of the Accounting Officer and Auditor**

The Director of NHS Wales as Accounting Officer is responsible for the preparation of the financial statements in accordance with the National Health Service Act 1977 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for preparation of the Foreword. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities on page 2.

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 my opinion to you as to whether the financial statements give a true and fair view and whether the financial statements are properly prepared in accordance with the National Health Service Act 1977 and HM Treasury directions made thereunder. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the National Assembly for Wales 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 other transactions is not disclosed.

I review whether the statement on pages 3 to 6 reflects the National Assembly for Wales' compliance with the Treasury and HM Treasury 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 National Assembly for Wales' corporate governance procedures or its risk and control procedures.

### **Basis of audit 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 relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. 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 appropriate to the 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 are free from material misstatement, whether caused by fraud, 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.

## Opinion

In my opinion:

- the financial statements give a true and fair view of the state of the NHS Trusts in Wales as at 31 March 2007 and of its deficit, total 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 HM Treasury;
- the financial statements have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by HM Treasury ; and
- 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 have no observations to make on these financial statements.

Jeremy Colman  
Auditor General for Wales  
13th August 2007

Wales Audit Office  
2-4 Park Grove  
Cardiff  
CF10 3PA

## Income and Expenditure for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
Income from activities	2	2,971,613	2,820,675
Other operating income	3	353,100	303,848
Total income		<u>3,324,713</u>	<u>3,124,523</u>
Operating expenses	4	<u>(3,287,008)</u>	<u>(3,096,759)</u>
<b>Operating surplus</b>		<b>37,705</b>	<b>27,764</b>
Profit / (Loss) on disposal of fixed assets		<u>2,709</u>	<u>938</u>
<b>Surplus before interest</b>		<b>40,414</b>	<b>28,702</b>
Interest receivable		10,789	8,807
Interest payable	6	(864)	(914)
Other finance costs	12	<u>(590)</u>	<u>(1,148)</u>
<b>Surplus on ordinary activities</b>		<b>49,749</b>	<b>35,447</b>
Public dividend capital dividends payable		<u>(64,078)</u>	<u>(61,326)</u>
<b>Deficit for the year</b>		<b><u>(14,329)</u></b>	<b><u>(25,879)</u></b>

All operations are continuing

*The notes on pages 13 to 34 form part of this account.*

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	Note	2006-07 £000	2005-06 £000
<b>Surplus on ordinary activities</b>		<b>49,749</b>	35,447
Indexation and revaluation of tangible fixed assets	14	<b>109,519</b>	(5,056)
Adjustment to reserves on impairment	14	<b>(3,244)</b>	(1,754)
Other movements on the donated and government granted asset reserves	14	<b>(885)</b>	2,680
Additions in other reserves	14	<b>(121)</b>	500
		<hr/>	<hr/>
Total gains recognised for the financial year		<b>155,018</b>	31,817
Prior period adjustment	14	-	(1)
		<hr/>	<hr/>
<b>Total gains recognised in the financial year</b>		<b>155,018</b>	31,816

*The notes on pages 13 to 34 form part of this account.*

**Balance Sheet as at 31 March 2007**

		31 March 2007	31 March 2006
	Notes	£000	£000
<b>Fixed assets</b>			
Intangible assets	7	9,986	12,265
Tangible assets	8.1	2,154,455	1,989,624
Investment Assets	8.3	379	500
		<u>2,164,820</u>	<u>2,002,389</u>
<b>Current assets</b>			
Stocks and work-in-progress		35,255	34,547
Debtors:			
amounts falling due within one year	9	237,441	196,414
Investments	10	39,292	42,755
Cash at bank and in hand	17	13,735	13,384
		<u>325,723</u>	<u>287,100</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	11.1	<u>(230,599)</u>	<u>(214,941)</u>
<b>Net current assets</b>			
		<u>95,124</u>	<u>72,159</u>
Debtors			
amounts falling due after more than one year	9	82,263	85,022
Creditors: amounts falling due after more than one year	11.2	(49,633)	(67,708)
Provisions for liabilities and charges	12	<u>(277,304)</u>	<u>(252,823)</u>
<b>Total net assets</b>		<u>2,015,270</u>	<u>1,839,039</u>
<b>Financed by:</b>			
<b>Capital</b>			
Public dividend capital	13	1,333,651	1,258,036
<b>Reserves</b>			
Revaluation reserve	14	703,722	602,867
Donated asset reserve	14	41,688	41,287
Government grant reserve	14	467	450
Other reserves	14	379	500
Income and expenditure reserve	14	(64,637)	(64,101)
		<u>2,015,270</u>	<u>1,839,039</u>

The notes on pages 13 to 34 form part of this account.



Ann Lloyd

Chief Executive NHS Wales, Head of Department for Health & Social Services

6th August 2007

## Cash Flow Statement for the year ended 31 March 2007

		2006-07	2005-06
	Note	£000	£000
<b>Net cash inflow from operating activities</b>	15	<b>130,762</b>	171,277
<b>Returns on investments and servicing of finance</b>			
Interest received		10,698	8,796
Interest paid		(121)	(117)
Interest element of finance leases		(797)	(867)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>9,780</b>	7,812
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets		(169,638)	(136,115)
Receipts from sale of tangible fixed assets		5,943	9,451
Payments to acquire intangible fixed assets		(4,195)	(4,109)
<b>Net cash outflow from capital expenditure</b>		<b>(167,890)</b>	(130,773)
<b>Public dividend capital dividends paid</b>		<b>(63,464)</b>	(61,584)
<b>Management of liquid resources</b>			
Purchase of current asset investments		(627,350)	(353,755)
Sale of investments		630,830	331,200
<b>Net cash outflow from management of liquid resources</b>		<b>3,480</b>	(22,555)
<b>Net cash outflow before financing</b>		<b>(87,332)</b>	(35,823)
<b>Financing</b>			
Public dividend capital received		87,205	37,771
Public dividend capital repaid		(11,590)	(13,403)
Government loans received: short term		2,500	2,000
Government loans repaid: short term		(2,500)	(2,000)
Loan advances/brokerage received		10,409	8,019
Loan advances/brokerage repaid		-	(1,000)
Other capital receipts		2,260	4,383
Capital element of finance leases and on Balance Sheet PFI rentals		(461)	(434)
<b>Net cash inflow from financing</b>		<b>87,823</b>	35,336
<b>Increase/(Decrease) in cash</b>	16	<b>491</b>	(487)

*The notes on pages 13 to 34 form part of this account.*

## Notes to the accounts

### 1. Accounting policies

#### 1.1 Accounting convention

This account has been prepared under the historical costs convention, modified by the revaluation of tangible fixed assets and in accordance with directions issued by the Treasury, to show a true and fair view and to comply with accounting standards issued or adopted by the Accounting Standards Board insofar as these are appropriate to NHS trusts. The account is a consolidation of the individual audited accounts of the fourteen Welsh NHS trusts.

#### 1.2 Income Recognition

Income is accounted for applying the accruals convention. The main source of income for the trusts is from their commissioners in respect of healthcare services provided under the Service and Financial Framework agreements. Income is recognised in the period in which services are provided. Where income is received from outside NHS Wales for a specific activity which is to be delivered in the following financial year, that income is deferred.

#### 1.3 Intangible fixed assets

##### a. Capitalisation

Intangible assets are capitalised when they are capable of being used in a trust's activities for more than one year; they can be valued and they have a cost of at least £5,000.

##### b. Valuation

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

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

##### c. Depreciation

Intangible assets are amortised on a straight line basis over the estimated lives of the assets up to a maximum of 20 years. 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.

#### 1.4 Tangible fixed assets

##### a. Capitalisation

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

- individually have a cost of at least £5,000; or

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

#### **b. Valuation**

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

**Land and buildings** are restated to current value using professional valuations in accordance with FRS15 every five years and in the intervening years by the use of indices. The buildings index is based on the "All in Tender Price Index" published by the Building Cost Information Service. The land index is based on the residential building 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 at 5 yearly intervals. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Assembly and HM Treasury. The last asset valuations were carried out as at 30 September 2002 and were reflected in the 2002-03 balance sheet values.

The valuations are carried out primarily on the basis of depreciated replacement cost for specialised operational property and existing use value for non-specialised operational property. The value of land for existing use purposes is assessed at existing use value. For non-operational properties, including surplus land, the valuations are carried out at open market value.

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 Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

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

Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.



### **c. Depreciation**

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

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 over the estimated life of the asset.

Impairment losses resulting from short-term changes in price that are considered to be recoverable in the longer term are taken in full to the revaluation reserve. These include impairments resulting from the revaluation of fixed assets from their cost to their value in existing use when they become operational. This may lead to a negative revaluation reserve in certain instances.

Where, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income is received from the Assembly. The income is used to repay Public Dividend Capital.

### **1.5 Fixed Asset Investment**

Fixed asset investments should be disclosed where Trusts have a participating interest held for the long term, with a view to exercising control. Each category of investment should be separately disclosed.

### **1.6 Donated assets**

Donated tangible fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Donated assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluation are also taken to the donated asset reserve and each year, an amount equal to the depreciation charge is released from this reserve to the Income and Expenditure Account. Similarly, any impairment on donated assets charged to the Income and Expenditure Account is matched by a transfer from the donated asset reserve. On sale of donated assets, the value of the sales proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

### **1.7 Government grants**

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed. Government grants in respect of capital expenditure are credited to a Government Grant Reserve and are released to the Income and Expenditure Account over the useful expected lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

### **1.8 Leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the Trust, the asset is recorded as a Finance Lease. Assets held under finance leases and hire purchase contracts

are capitalised in the Balance Sheet and are depreciated over their useful lives. The interest element of the finance lease payment is charged to the Income and Expenditure Account over the period of the lease at a constant rate in relation to the balance outstanding. Rentals under operating leases are charged on a straight line basis over the terms of the leases.

### **1.9 Private Finance Initiative**

The NHS follows HM Treasury's 'Technical Note 1 (Revised) How to account for PFI transactions which provides practical guidance for the application of the FRS5 amendment. Where the balance of risks and rewards of ownership are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where a trust has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Income and Expenditure Account. Where, at the end of the PFI contract, a property reverts to a trust, the difference between the expected fair value of the residual asset on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

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

### **1.10 Stocks and work-in-progress**

Stocks and work-in-progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to the current cost due to the high turnover of stocks. Work in progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

### **1.11 Cash Bank and Overdrafts**

Cash, Bank and Overdrafts are recorded at current values and are only set-off where a formal agreement exists with the bank. Interest earned on bank accounts and interest charged on overdrafts are recorded as, respectively, 'Interest receivable' and 'Interest Payable' in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

### **1.12 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as it relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Income and Expenditure Account on a systematic basis over the period expected to benefit from the project. Trusts are unable to disclose the total amount of research and development expenditure charged in the income and expenditure account (a requirement of SSAP 13) because some research and development activity cannot be separated from patient care activity.

### **1.13 Provisions**

Trusts provide 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.

### **1.14 Losses and special payments**

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

Trusts account for all losses and special payments gross (including assistance from the Welsh Risk Pool). They accrue for the best estimate of their future payouts for certain, probable or contingent liabilities and disclose all other potential payments. Losses and special payments are charged to the income and expenditure account on an accruals basis. However, note 21 is compiled directly from the losses and compensations register which is prepared on a cash basis.

All claims for losses and special payments are provided for, where the probability of settlement of an individual claim is over 50%. Where reliable estimates can be made, incidents of clinical negligence against which a claim has not, as yet, been received are provided in the same way. Expected reimbursements from the Welsh Risk Pool are included in debtors. For those claims where the probability of settlement is below 50%, the liability is disclosed as a contingent liability.

### **1.15 Pension costs**

The NHS Pension scheme is a multi-employer scheme as defined by FRS17.

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

The Scheme is subject to a full valuation for FRS17 purposes every four years. The last valuation 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. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS pensions Agency website at [www.nhs.gov.uk](http://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 were 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 Secretary of State to charge employer's pension cost 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 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final 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 sum for those who die after retirement, is payable.

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 income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

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

### **1.16 Value Added Tax**

Most of the activities of trusts are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### **1.17 Foreign exchange**

Transactions that are denominated in a foreign currency are translated into Sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the Income and Expenditure Account.

### **1.18 Deferred income**

Income received from sources other than the National Assembly for Wales, has been deferred into the next financial year where a clear indication existed that funds provided were for a specific purpose, and that a future obligation exists to utilise these resources.

### **1.19 Welsh Risk Pool**

On 1 April 1999, responsibility for administration of the Welsh Risk Pool (the Pool) transferred to the Conwy and Denbighshire NHS Trust from the former Welsh Health Common Services Authority.

This account consolidates the NHS trust accounts and excludes the assets and liabilities of the Pool as it acts on an agency basis for all health bodies in Wales. The provisions reported in note 12 are the aggregate amount reported by all trusts in Wales, irrespective of whether claims will be settled directly by trusts or the Pool acting as agent.

### **1.20 Third party assets**

NHS trusts hold money on behalf of patients but have no beneficial interest. To comply with revised HM Treasury guidance these balances should not be recognised within the accounts.

### **1.21 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 Trusts does not hold any investments with maturity dates exceeding one year from the date of purchase.

### **1.22 Public Dividend Capital Dividends**

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General.

### **1.23 Contingent Liabilities**

Contingent liabilities are recognised where the NHS Trusts have

- A possible obligation arising from past events whose existence will be confirmed by the occurrence of future events not wholly within the Trust'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.

### **1.24 EU Emission Trading Scheme**

EU emission trading scheme allowances are accounted for as Government granted current asset investments, valued at open market value. As the NHS body makes emissions a provision is recognised with an offsetting transfer from the Government Grant Reserve. The provision is settled on surrender of the allowances. The current asset investment, provision and Government Grant Reserve are valued at current market value at the balance sheet date.

<b>2. Income from activities</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Local Health Boards	<b>2,437,100</b>	2,248,295
Health Commission Wales	<b>398,739</b>	379,570
Strategic health authorities and primary care trusts	<b>20,314</b>	12,429
Foundation Trusts	<b>33</b>	39
Local Authorities	<b>15,684</b>	13,338
National Assembly for Wales	<b>57,004</b>	136,142
Non NHS:		
Private patient income	<b>9,770</b>	9,390
Overseas patients non-reciprocal	<b>1,264</b>	357
Road Traffic Act charges	<b>9,691</b>	9,138
Other income from activities	<b>22,014</b>	11,977
	<b>2,971,613</b>	2,820,675

<b>3. Other operating income</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Education, training and research	<b>152,184</b>	144,566
Charitable and other contributions to expenditure	<b>14,642</b>	10,595
Transfer from the donated asset reserve	<b>4,859</b>	4,083
Transfer from the government grant reserve	<b>8</b>	-
Non-patient care income generation schemes	<b>14,996</b>	14,650
Patient transport services	<b>32</b>	55
Other income:		
Provision of laundry, pathology, payroll services	<b>14,882</b>	14,156
Accommodation and catering charges	<b>16,094</b>	16,249
Mortuary fees	<b>1,066</b>	1,021
Staff payments for use of cars	<b>2,377</b>	2,312
Other	<b>131,960</b>	96,161
	<b>353,100</b>	303,848

The main contributors to other income of £131,960k within other operating income, other income are:

National Public Health Service for Wales £23,971k  
Welsh Risk Pool Income £6,844k  
Non Staff SLA with Cardiff University £3,672k  
Non ambulance transport £2,675k  
Minor services £2,321k  
Programme Management Unit funding £2,139k  
Staff recharges £1,748k  
ARRP £1,334k  
Informing Healthcare Funding £1,033k  
CSCG £987k  
Leased Rents £981k  
WCISU £911k  
NCCC £828k

Further details are available in the individual NHS Trust Accounts.

**4. Operating expenses**

<b>4.1 Operating expenses comprise</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Goods and services from other NHS bodies	4,529	3,782
Goods and services from other NHS Foundation Trusts	190	82
Goods and services from non-NHS bodies	24,860	16,526
Directors' costs	10,962	10,381
Staff costs	2,354,799	2,269,809
Supplies and services - clinical	405,315	378,066
Supplies and services - general	47,512	51,446
Establishment	69,679	71,710
Transport	31,089	25,949
Premises	124,953	121,711
Amortisation	2,640	5
Depreciation	113,861	98,859
Fixed asset impairments and reversals	1,230	1,035
Audit fees	2,408	2,231
Other auditors' remuneration	5	-
Losses, special payments and irrecoverable debts	60,573	24,996
Other	32,403	20,171
	<b>3,287,008</b>	<b>3,096,759</b>

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

	<b>2006-07</b>	2005-06
<b>Increase/decrease in provision for future payments:</b>	<b>£000</b>	£000
Clinical negligence	53,099	15,590
Personal injury	2,999	7,069
All other losses and special payments (excluding bad debts)	488	315
Defence legal fees and other administrative costs	2,292	1,165
Gross increase/decrease in provision for future payments	<b>58,878</b>	24,139
Premium for other insurance arrangements	18	17
Irrecoverable debts	1,677	840
<b>Total charge</b>	<b>60,573</b>	<b>24,996</b>

Personal injury includes £1,089k (2005-06 £1,698k) in respect of permanent injury benefits.

**4.3 Annual commitments under non-cancellable operating leases**

	<b>Land and buildings</b>		<b>Other leases</b>	
	<b>2006-07</b>	2005-06	<b>2006-07</b>	2005-06
	<b>£000</b>	£000	<b>£000</b>	£000
Operating leases which expire:				
Within 1 year	<b>990</b>	1,043	<b>3,962</b>	2,636
Between 1 and 5 years	<b>313</b>	200	<b>8,515</b>	10,135
After 5 years	<b>847</b>	845	<b>636</b>	2,477
	<b>2,150</b>	2,088	<b>13,113</b>	15,248

Operating expenses include £16,205k for operating lease rentals (2005-06: £16,372k) and £3,350k for hire of plant/machinery (2005-06: £3,734k).

**4.4 Board members' remuneration**

	<b>Remuneration</b>	<b>Other</b>	<b>2006-07</b>	2005-06
	<b>as Director</b>	<b>remuneration</b>	<b>Total</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Non-executive directors' remuneration	1,397	-	<b>1,397</b>	1,399
Executive directors' remuneration:				
basic salaries	6,882	1,263	<b>8,145</b>	7,714
benefits	140	4	<b>144</b>	147
pension contributions paid	921	140	<b>1,061</b>	998
Pensions for directors and former directors (other than from the NHS pension scheme)	-	30	<b>30</b>	31
	<b>9,340</b>	<b>1,437</b>	<b>10,777</b>	10,289

£12k remuneration was waived by one director at Swansea NHS Trust. No allowances were paid in lieu.

Detailed disclosures relating to Directors' remuneration, including cash equivalent transfer values, are included within the individual NHS Trust annual reports.



## 5. Staff costs and numbers

### 5.1 Employee costs

	Permanent Staff	Staff on Inward Secondment	Agency Staff	2006-07 Total	2005-06 Total
	£000	£000	£000	£000	£000
Salaries and wages	1,942,074	3,877	39,961	<b>1,985,912</b>	1,920,939
Social security costs	148,897	11	687	<b>149,595</b>	143,589
Pension costs	227,443	14	1,124	<b>228,581</b>	213,365
Other pension costs	183	-	-	<b>183</b>	791
	<b>2,318,597</b>	<b>3,902</b>	<b>41,772</b>	<b>2,364,271</b>	<b>2,278,684</b>

### 5.2 Average number of employees

No of staff expressed as whole time equivalents:

	Permanent Staff	Staff on Inward Secondment	Agency Staff	2006-07 Total	2005-06 Total
	Number	Number	Number	Number	Number
Medical and dental	5,548	29	148	<b>5,725</b>	5,533
Ambulance staff	2,164	-	-	<b>2,164</b>	2,070
Administrative and estates	13,356	16	155	<b>13,527</b>	13,443
Healthcare assistants and other support staff	10,911	4	135	<b>11,050</b>	9,905
Nursing, midwifery and health visiting staff	25,574	3	310	<b>25,887</b>	26,750
Nursing, midwifery and health visiting learners	34	-	1	<b>35</b>	123
Scientific, therapeutic and technical staff	9,057	4	85	<b>9,146</b>	9,402
Social Care Staff	2	1	-	<b>3</b>	7
Other	385	12	8	<b>405</b>	395
	<b>67,031</b>	<b>69</b>	<b>842</b>	<b>67,942</b>	<b>67,628</b>

### 5.3 Retirement costs due to ill-health

During 2006-07 there were 172 (2005-06: 178) early retirements from trusts 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 £10,472k (2005-06: £10,723k).

**6. Interest payable**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Further Government borrowing	<b>62</b>	43
Finance leases	<b>802</b>	861
Other	-	10
	<b><u>864</u></b>	<u>914</u>

**7. Intangible assets**

	<b>Software Licences £000</b>
<b>Valuation</b>	
At 1 April 2006	<b>13,189</b>
Additions	<b>361</b>
<b>At 31 March 2007</b>	<b><u>13,550</u></b>
<b>Amortisation</b>	
At 1 April 2006	<b>924</b>
Provided during the year	<b>2,640</b>
<b>At 31 March 2007</b>	<b><u>3,564</u></b>
<b>Net book value at 31 March 2007</b>	<b><u>9,986</u></b>
Net book value at 31 March 2006	<u>12,265</u>

**8. Tangible fixed assets****8.1 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				Furniture and fittings £000	Total £000
				£000	£000	£000	£000		
At 1 April 2006	244,052	1,681,749	58,669	61,539	393,532	19,805	59,816	11,546	<b>2,530,708</b>
Indexation	13,000	135,402	4,756	4,438	10,804	545	63	328	<b>169,336</b>
Additions - purchased	2,569	44,967	103	89,595	27,284	4,848	6,243	759	<b>176,368</b>
Additions	-	-	-	-	-	-	-	-	-
Donated	-	1,271	-	499	2,081	-	81	-	<b>3,932</b>
Reclassifications	905	61,293	(387)	(64,646)	1,651	1,943	(1,043)	284	-
Impairments	-	(4,776)	-	-	(850)	-	(475)	-	<b>(6,101)</b>
Other in-year revaluations	3,988	(49,167)	627	(1,752)	(111)	-	-	-	<b>(46,415)</b>
Disposals	(3,435)	(1,008)	(1,490)	-	(18,147)	(1,819)	(533)	(17)	<b>(26,449)</b>
<b>At 31 March 2007</b>	<b>261,079</b>	<b>1,869,731</b>	<b>62,278</b>	<b>89,673</b>	<b>416,244</b>	<b>25,322</b>	<b>64,152</b>	<b>12,900</b>	<b>2,801,379</b>
<b>Depreciation</b>									
At 1 April 2006	(42)	214,036	9,264	646	257,035	13,130	40,415	6,600	<b>541,084</b>
Indexation	-	17,227	742	25	7,062	362	36	183	<b>25,637</b>
Reclassifications	42	3,668	(178)	(118)	(976)	-	(2,431)	(7)	-
Impairments	-	(538)	-	-	(663)	-	(71)	-	<b>(1,272)</b>
Other in-year revaluations	-	(11,981)	(142)	-	(111)	-	-	-	<b>(12,234)</b>
Disposals	-	(237)	(19)	-	(17,529)	(1,819)	(531)	(17)	<b>(20,152)</b>
Provided during the year	-	71,209	1,441	-	32,769	2,221	5,106	1,115	<b>113,861</b>
<b>At 31 March 2007</b>	<b>-</b>	<b>293,384</b>	<b>11,108</b>	<b>553</b>	<b>277,587</b>	<b>13,894</b>	<b>42,524</b>	<b>7,874</b>	<b>646,924</b>
<b>Net book value</b>									
<b>at 31 March 2006</b>	<b>244,094</b>	<b>1,467,713</b>	<b>49,405</b>	<b>60,893</b>	<b>136,497</b>	<b>6,675</b>	<b>19,401</b>	<b>4,946</b>	<b>1,989,624</b>
<b>Net book value</b>									
<b>at 31 March 2007</b>	<b>261,079</b>	<b>1,576,347</b>	<b>51,170</b>	<b>89,120</b>	<b>138,657</b>	<b>11,428</b>	<b>21,628</b>	<b>5,026</b>	<b>2,154,455</b>
<b>Net book value of assets held under finance leases and hire purchase contracts</b>									
<b>Total</b>	<b>13</b>	<b>4,324</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,337</b>
<b>The total amount of depreciation charged in the Income and Expenditure account in respect of assets held under finance leases and hire purchase contracts:</b>									
<b>Total</b>	<b>-</b>	<b>314</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>314</b>

Of the net book value totals at 31 March 2007, £1,030k related to land and £87k related to buildings installations and fittings valued at open market value.

**8.2 Fixed asset investments at the balance sheet date included in fixed assets comprise:**

	<b>Land</b>	<b>Buildings excluding dwellings</b>	<b>Dwellings</b>	<b>Plant and machinery</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 April 2006	4,679	27,213	185	478	<b>32,555</b>
Indexation	250	2,191	15	13	<b>2,469</b>
Additions - purchased	149	738	29	-	<b>916</b>
Depreciation	-	(149)	-	(243)	<b>(392)</b>
<b>At 31 March 2007</b>	<b>5,078</b>	<b>29,993</b>	<b>229</b>	<b>248</b>	<b>35,548</b>

**8.3 Fixed Asset Investments**

	<b>31 March 2007 £000</b>	31 March 2006 £000
Opening Investment	500	-
Additions	-	500
Revaluation	(121)	-
<b>Total</b>	<b>379</b>	<b>500</b>

The fixed asset investment relates to an investment at Bro Morgannwg in Zoobiotics Ltd maggot therapy. The Trust is represented on the Board of Zoobiotic Ltd by their Chief Executive and a Non-Executive Director.

**8.4 The net book value of land, buildings and dwellings**

	<b>31 March 2007 £000</b>	31 March 2006 £000
Freehold	<b>1,841,089</b>	1,716,663
Long leasehold	<b>44,848</b>	42,108
Short leasehold	<b>2,659</b>	2,441
	<b>1,888,596</b>	<b>1,761,212</b>

<b>9. Debtors</b>	<b>31 March 2007</b>	31 March 2006
	<b>£000</b>	£000
<b>Amounts falling due within one year:</b>		
NHS debtors	<b>167,967</b>	134,011
PDC dividend debtors	<b>1,690</b>	556
Other debtors	<b>49,573</b>	43,376
Provision for irrecoverable debts	<b>(6,143)</b>	(4,320)
Other prepayments and accrued income	<b>24,354</b>	22,791
	<b><u>237,441</u></b>	<u>196,414</u>
<b>Amounts falling due after more than one year:</b>		
NHS debtors	<b>68,793</b>	71,029
Other prepayments and accrued income	<b>11,130</b>	11,446
Other debtors	<b>2,340</b>	2,547
Subtotal	<b><u>82,263</u></b>	<u>85,022</u>
	<b><u>319,704</u></b>	<u>281,436</u>

**10. Current Asset Investments**

	<b>31 March 2007</b>	31 March 2006
	<b>£000</b>	£000
Government securities	<b>39,275</b>	42,755
Other	<b>17</b>	-
<b>Total</b>	<b><u>39,292</u></b>	<u>42,755</u>

**11. Creditors**

	<b>31 March</b>	31 March
<b>11.1 Amounts falling due within one year:</b>	<b>2007</b>	2006
	<b>£000</b>	£000
Bank overdrafts	573	713
Public dividend capital loan advance/brokerage	7,816	4,100
Payments received on account	1,094	1,564
NHS creditors	22,999	22,747
Non-NHS trade creditors - revenue	61,478	56,625
Non-NHS trade creditors - capital	23,424	19,680
Non-NHS trade creditors - losses and special payments	15	21
Tax and social security costs	28,930	37,640
PDC dividend payable	(883)	(894)
Obligations under finance leases and hire purchase contracts	214	225
Obligations under PFI schemes	672	653
Other creditors - superannuation	5,680	9,415
Other creditors - all other creditors	29,331	21,803
Accruals	48,444	38,996
Deferred income	812	1,653
	<b>230,599</b>	<b>214,941</b>

**11.2 Amounts falling due after more than one year:**

	<b>31 March</b>	31 March
	<b>2007</b>	2006
Public dividend capital loan advance/brokerage	40,969	54,131
Obligations under finance leases and hire purchase contracts	1,558	2,135
Obligations under PFI schemes	6,957	7,630
NHS creditors	149	37
Other	-	3,775
	<b>49,633</b>	<b>67,708</b>

**11.3 Finance lease obligations**

	<b>31 March</b>	31 March
	<b>2007</b>	2006
	<b>£000</b>	£000
The future minimum lease payments under finance leases to which the trusts were committed were as follows:		
Within one year	1,099	1,129
Between one and two years	1,078	760
Between two and five years	2,218	3,195
After five years	8,509	11,508
Less finance charges allocated to future periods	(8,711)	(11,584)
	<b>4,193</b>	<b>5,008</b>

**12. Provisions for liabilities and charges**

	At 1 April 2006 £000	New provisions arising during the year £000	Reversed Unused £000	Utilised during the year £000	Unwind -ing of discount £000	At 31 March 2007 £000
Clinical negligence	137,873	78,279	(25,180)	(24,144)	-	<b>166,828</b>
Personal injury	26,775	8,105	(5,106)	(4,678)	383	<b>25,479</b>
All other losses and special payments	283	685	(197)	(696)	-	<b>75</b>
Defence legal fees and other administration	7,204	5,603	(3,311)	(2,201)	-	<b>7,295</b>
Sub-total	172,135	92,672	(33,794)	(31,719)	383	<b>199,677</b>
Pensions relating to:						
former directors	95	-	2	(7)	2	<b>92</b>
other staff	15,130	691	(506)	(1,131)	205	<b>14,389</b>
Other	65,463	32,869	(7,577)	(27,609)	-	<b>63,146</b>
	<b>252,823</b>	<b>126,232</b>	<b>(41,875)</b>	<b>(60,466)</b>	<b>590</b>	<b>277,304</b>

**Expected timing of cash flows:**

	Within 1 year £000	Between 2 & 5 years £000	After 5 years £000	Overall Total £000
Clinical Negligence	98,532	68,296	-	166,828
Personal Injury	11,430	3,748	10,301	25,479
All other losses and special payments	75	-	-	75
Defence legal fees and other administration	5,886	1,409	-	7,295
Pensions - former directors	92	-	-	92
Pensions - other staff	2,191	4,145	8,053	14,389
Restructuring	-	-	-	-
Other	62,776	370	-	63,146
<b>Total</b>	<b>180,982</b>	<b>77,968</b>	<b>18,354</b>	<b>277,304</b>

As stated in accounting policy Note 1.12, trusts provide for all claims against them. Trusts' liability is limited to each Trust's variable excess level, the balance being recovered from the Welsh Risk Pool (the Pool). The above figures show the clinical negligence provisions of trusts. Conwy and Denbighshire NHS Trust manage the Pool on an agency basis for Trusts and Local Health Boards in Wales.

£32,494k of the other provision at the 31st March 2007 relates to the disclosure of the expected costs relating to the Agenda for Change initiative which provides nationally agreed new standardised pay scales for most staff working in the NHS (Medical and Dental and some very senior staff are the main exclusions).

<b>13. Analysis of changes in public dividend capital</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
At 1 April	<b>1,258,036</b>	1,233,668
Public dividend capital repaid	<b>(11,590)</b>	(13,403)
Public dividend capital advanced in year	<b>77,026</b>	37,771
Public dividend capital transfer	<b>10,179</b>	-
<b>At 31 March</b>	<b>1,333,651</b>	1,258,036

**14. Movements on reserves in the year**

	<b>Revaluation reserve £000</b>	<b>Donated asset reserve £000</b>	<b>Government grant reserve £000</b>	<b>Other reserve £000</b>	<b>Income &amp; expenditure reserve £000</b>	<b>Total £000</b>
At 1 April 2006 as previously stated	602,867	41,287	450	500	(64,101)	<b>581,003</b>
Transfer from Income and Expenditure Account	-	-	-	-	(4,653)	<b>(4,653)</b>
Revaluation / indexation of fixed assets	108,222	1,297	-	-	-	<b>109,519</b>
Transfer of realised profits / (losses)	(832)	-	-	-	832	-
Assets donated/government granted in year	-	3,957	25	-	-	<b>3,982</b>
Depreciation and disposal of donated assets	-	(4,859)	(8)	-	-	<b>(4,867)</b>
Impairments	(3,244)	-	-	-	-	<b>(3,244)</b>
Other transfers between reserves	(3,291)	6	-	-	3,285	-
Other reserve movements	-	-	-	(121)	-	<b>(121)</b>
<b>At 31 March 2007</b>	<b>703,722</b>	<b>41,688</b>	<b>467</b>	<b>379</b>	<b>(64,637)</b>	<b>681,619</b>

Impairments comprise the charges to the revaluation and donated asset reserves from the impairment of fixed assets.



**15. Reconciliation of operating surplus to net cash inflow from operating activities**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Operating surplus	<b>37,705</b>	27,764
Depreciation and amortisation charge	<b>116,501</b>	98,864
Fixed asset impairment	<b>1,230</b>	1,035
Transfer from the donated asset reserve	<b>(4,859)</b>	(4,084)
Transfer from the government grant reserve	<b>(8)</b>	-
(Increase) in stocks	<b>(708)</b>	(2,673)
(Increase) / Decrease in debtors	<b>(17,097)</b>	48,094
(Decrease) in creditors	<b>(26,092)</b>	(52,524)
Increase in provisions	<b>24,090</b>	54,801
<b>Net cash inflow from operating activities</b>	<b><u>130,762</u></b>	<u>171,277</u>

**16. Reconciliation of net cash flow to movement in net debt**

	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Increase / (Decrease) in cash in the period	<b>491</b>	(487)
Cash inflow from new debt	<b>(12,909)</b>	(10,019)
Cash outflow from debt repaid and finance lease capital payments	<b>2,961</b>	3,434
Cash outflow from increase in liquid resources	<b>(3,480)</b>	22,555
Change in net debt resulting from cash flows	<b><u>(12,937)</u></b>	<u>15,483</u>
Non-cash changes in debt	<b>20,219</b>	2
Net debt at 1 April	<b>(7,813)</b>	(23,298)
<b>Net debt at 31 March</b>	<b><u>(531)</u></b>	<u>(7,813)</u>

**17. Analysis of changes in net debt**

	<b>At 1 April</b>	<b>Cash</b>	<b>Non-cash</b>	<b>At 31 March</b>
	<b>2006</b>	<b>flows</b>	<b>changes</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	13,384	351	-	<b>13,735</b>
Bank overdrafts	(713)	140	-	<b>(573)</b>
Public dividend capital loans/brokerage	(58,231)	(10,409)	19,855	<b>(48,785)</b>
Finance leases	(5,008)	461	354	<b>(4,193)</b>
Current asset investments	42,755	(3,480)	10	<b>39,285</b>
	<b><u>(7,813)</u></b>	<b><u>(12,937)</u></b>	<b><u>20,219</u></b>	<b><u>(531)</u></b>

<b>18. Reconciliation of movements in funds</b>	<b>2006-07</b>	2005-06
	<b>£000</b>	£000
Surplus for the year	<b>49,749</b>	35,447
Reclassification of historic debt	<b>9,676</b>	-
Public dividend capital - dividends payable	<b>(64,078)</b>	(61,326)
	<b>(4,653)</b>	(25,879)
Indexation and revaluation of tangible fixed assets	<b>109,519</b>	(5,056)
Impairment to fixed assets	<b>(3,244)</b>	(1,754)
New public dividend capital and loans	<b>87,205</b>	37,771
Public dividend capital and Government loans repaid and extinguished	<b>(11,590)</b>	(13,403)
Movements on donated asset reserve	<b>(902)</b>	2,230
Movements on Government grant reserve	<b>17</b>	450
Other reserve movements	<b>(121)</b>	500
Net addition to Government funds	<b>176,231</b>	(5,141)
Government funds at 1 April	<b>1,839,039</b>	1,844,181
Before deducting prior period adjustments to I&E Reserve	-	(1)
<b>Government funds at 31 March</b>	<b>2,015,270</b>	1,839,039

## 19. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £99,031k (2005-06: £71,315k).

## 20. Contingent liabilities

At 31 March 2007, total disputed claims with a potential value of £186,940k (31 March 2006: £185,239k) had been made against NHS trusts in Wales, of which £186,340k (31 March 2006: £185,197k) related to clinical negligence and £600k (31 March 2006: nil) related to equal pay claims. The Trusts disclosed a further 531 formal claims under equal pay legislation, following A4C assimilation. 198 of these have been referred to employment tribunal. These claims are disputed and, until they are resolved, the trusts' financial liability, if any, cannot be determined. In accordance with the requirements of FRS12, no provision has been made in the 2006-07 accounts for these items. Other litigation claims could arise in the future due to incidents incurred but not reported. The expenditure which may arise from such claims cannot be determined with reasonable accuracy and no provision has been made for them.

<b>21. Losses and special payments</b>	<b>2006-07</b>	
<b>Paid out in year:</b>	<b>Number</b>	<b>Value</b>
<b>Title</b>	<b>of cases</b>	<b>£</b>
Clinical negligence	595	24,215,825
Personal injury	769	4,570,022
All other losses and special payments	2,964	1,435,881
	<b>4,328</b>	<b>30,221,728</b>
Of which, cases over £250,000, paid out during the year:		
Clinical negligence	17	16,010,701
Personal injury	2	513,106
	<b>19</b>	<b>16,523,807</b>
Also, of which, cases of cumulative interim payments over £250,000		
Clinical negligence	42	41,067,510
Personal injury	4	2,666,024
All other losses and special payments	1	393,487
	<b>47</b>	<b>44,127,021</b>

## 22. Related party transactions

The Assembly, Local Health Boards and NHS Trusts are regarded as related parties. During the year, Trusts had a significant number of material transactions with the Assembly and with other NHS bodies.

All Trusts disclosed other related party transactions, predominantly Local Authorities. Further details of transactions are given in the individual trust accounts.

## 23. Private finance transactions

During 2006-07, 7 trusts disclosed private finance transactions: Bro Morgannwg NHS Trust, Cardiff and Vale NHS Trust, Carmarthenshire NHS Trust, Conwy & Denbighshire NHS Trust, Gwent Healthcare NHS Trust, North Glamorgan NHS Trust and Pontypridd and Rhondda NHS Trust. These trusts reported 11 Private Finance Initiatives (PFI) and 4 Public Private Partnerships (PPP) schemes.

One PFI scheme is on balance sheet and 10 are off balance sheet. These have a total estimated capital value of £109,419k. £20,078k has been included within operating expenses for these schemes. Trusts are committed to pay £30,121k in annual payments under the schemes.

The 4 PPP schemes are off balance sheet. These have an estimated total capital cost of £8,682k. There is a £1,800k annual service charge and £313k has been credited within miscellaneous operating expenses. Further details are given in the individual trust accounts.

## **24. Third party assets**

Trusts held £2,195k cash at bank and in hand and on deposit at 31 March 2007 (31 March 2006: £1,584k) which relates to monies held by trusts on behalf of patients. This has been excluded from cash at bank and in hand reported in these accounts.

---

## **25. Financial instruments**

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationship that trusts have with local health boards and the way those bodies are financed, trusts 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 FRS13 mainly applies. Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing trusts in undertaking their activities.

As allowed by FRS13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile. Provisions are shown gross.

### **Liquidity risk**

Trusts net operating costs are incurred under annual service agreements with local health boards, which are financed from resources voted annually by Parliament. Trusts also largely finance their capital expenditure from funds made available from Government under agreed borrowing limits. They are not, therefore, exposed to significant liquidity risks.

### **Interest rate risk**

The great majority of NHS trusts' financial assets and financial liabilities carry nil or fixed rates of interest. NHS trusts are not, therefore, exposed to significant interest-rate risk.

### **Foreign currency risk**

NHS trusts have no or negligible foreign currency income or expenditure and therefore are not exposed to significant foreign currency risk.

---

## **26. Post Balance Sheet Events**

On the 18th July 2007 the Health Minister announced her agreement to the formal merger of North Glamorgan and Pontypridd and Rhondda NHS trusts to form the Cwm Taff NHS Trust from 1st April 2008, subject to further staff consultation. The assets and liabilities of the demised Trusts will be transferred to the newly established Trust.

---

## **THE NATIONAL HEALTH SERVICE – NHS TRUSTS IN WALES**

### **ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 98(4) OF THE NATIONAL HEALTH SERVICE ACT 1977**

1. The Treasury directs that an account, summarised by consolidation, of the NHS Trusts in Wales shall be prepared by the National Assembly for Wales in respect of the financial year ended 31 March 2000 and subsequent financial years. The basis of preparation and form of accounts shall be set out in the following paragraphs and Schedules.

2. In this direction, unless the context otherwise requires, “the NHS Trusts” means each and every NHS Trust in Wales.

#### **BASIS OF PREPARATION**

3. The consolidated account of the NHS Trusts shall be prepared from the audited accounts of the NHS Trusts to which it relates and 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 in Wales and are in force for the financial year for which the accounts are to be prepared;
- (d) all relevant guidance given in the NHS Trust Accounts (Wales) – Manual for accounts;
- (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**

4. The consolidated account of NHS Trusts shall comprise a foreword, an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts.

5. The consolidated account of NHS Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and of its income and expenditure, gains and losses, and cashflows during the year.

6. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

#### **MISCELLANEOUS**

7. The direction shall be reproduced as an appendix to the published accounts.

8. This direction supersedes the direction dated 16 February 1999.

Signed *B Glicksman*

**TREASURY OFFICER OF ACCOUNTS**

16 October 2000

**SCHEDULE 1**

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

**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 to the NHS, the information relating to NHS bodies shall be contained in the foreword.
3. NHS bodies are not required to provide the historical cost information described in paragraph 33 of Schedule 4 to the Companies Act.

**Accounting Standards**

4. NHS bodies are not required to include a note showing the historical cost profits and losses as described in FRS3.

**SCHEDULE 2**

**ADDITIONAL REQUIREMENTS**

1. The foreword shall include a statement that the consolidated accounts have been prepared to comply with a Direction given by the Treasury in accordance with Section 98(4) of the NHS Act 1977.
2. The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities, and a summary of their performance against targets.
3. The consolidated income and expenditure account and balance sheet shall have regard to the profit and loss account format 2 and the balance sheet format 1 prescribed in schedule 4 to the Companies Act, modified as appropriate.