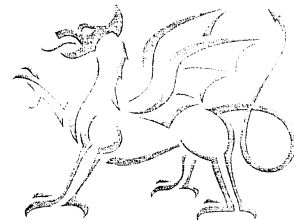
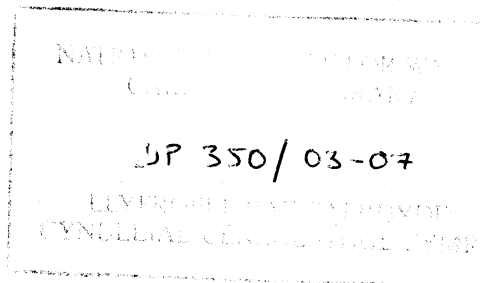


Jane Hutt AM
Minister for Health and Social Services



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Cardiff Bay
Cardiff
CF99 1NA



Our Ref: WAQ24062

Lynne Neagle AM
The National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

11 June 2003

Dear Lynne,

In WAQ24062 you asked how much debt each Health Authority had written off by either the former Welsh Office and the National Assembly for Wales over the past ten years, and for the figure to be broken down by health authority per year.

In my answer given on 21 May I promised to write to you and publish a copy of the letter on the intranet and internet. I am now able to tell you that during the last ten years the only debt to be written off by the Welsh Office/National Assembly for Wales was for £23.710 million at Dyfed Powys Health Authority in 2002-03.

I also announced in January 2002 that debt totaling £17.453 million held by NHS Trusts (including debt totaling £6.7 million formerly held by Bro Taf Health Authority and now transferred to Cardiff and Vale NHS Trust) would be written off when those Trusts demonstrated the ability to maintain financial balance for two years. The earliest date these Trusts would be eligible for write-off of their debt is 31 March 2004. However, all Trusts involved are still in a deficit situation and are currently developing plans for approval by the NHS Wales Department to demonstrate when financial balance will be restored.

For your information I attach a copy of the letter of 23 January 2002 sent by the Director of the NHS Wales Department to Trusts and Health Authorities.

Yours sincerely

Jane Hutt



- b. the decision that from 2000-01, where health bodies have agreed recovery plans the Assembly will, where agreed, provide non-repayable strategic assistance or income, so long as the recovery plan target is achieved, rather than provide further loans.

This policy only extends to loans before the current financial year. Any new loans issued after 1st April 2001 will be subject to the normal repayment requirements. The policy does not include loans provided to NHS Trusts from the Capital Modernisation Fund to pump prime "spend to save" schemes as these funds were largely to provide for self-financing re-structuring costs and the repayment has been factored into the relevant Trust recovery plans and the Assembly's own spending plans.

Maintaining Financial Discipline

The outcome of the policy review is an agreement in principle to cancel the current debts arising from historic deficits provided that the NHS bodies concerned delivered financial balance on an on-going basis.

Key features of the policy are:

- a. Debt cancellation is only applicable to Assembly loans issued prior to 2001-02.
- b. Any health body not achieving recovery plan targets from 2001-02, will continue to receive cash support in the form of strategic assistance up to the limit already agreed with the Assembly but the Welsh Assembly Government does not intend to issue any further strategic assistance to these or any other bodies.
- c. However, if NHS bodies fail to deliver their agreed recovery plans and consequently require additional cash support, that cash support will, in so far as the Assembly agrees to provide it, be provided on a repayable loan basis. The repayment of such loans will need to be factored into the revised recovery plans.

The aim is to not only achieve financial balance but sustained financial balance and so, rather than writing debts off immediately or at the end of the recovery period, the write-off will be conditional upon the relevant bodies achieving two consecutive years of financial balance (without strategic assistance funding). Thus the first opportunity for debt cancellation for NHS trusts will be at the end of 2003-04 and should not be anticipated in financial plans or forecasts.

Consideration was given to whether this policy could or should be extended to Health Authorities. The debts could be transferred to Local Health Boards as part of the dis-aggregation of the balance sheet but as these are a new type of statutory body and also it may be difficult to attribute the debts with reliability, it was considered that there were few advantages to this approach.

A further option is for Health Authority debts to be transferred to Trusts. In the case of Bro Taf, this is considered appropriate because although in the Assembly's accounts the loan is with the Health Authority, the Health Authority in turn has provided a loan to Cardiff and Vale Trust resulting in the debt already being reflected in the Trust's accounts.

The position is not the same in Dyfed Powys and transferring this debt now would place a further burden on NHS Trusts in achieving their statutory break-even duty. Also there could be difficulty in both agreeing how the liability is to be attributed and gaining acceptance by Trust Boards to these new liabilities. It is further complicated by the fact the Powys NHS Trust is to



Cynulliad Cenedlaethol Cymru
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Eich cyf/Your Ref:

Ein cyf/Our Ref: AJL/clr/01/437

Dyddiad/Date: 23 January 2002

Dear

DEBT CANCELLATION POLICY

The Finance and Health & Social Services Ministers want to give all NHS bodies under the new structures a fresh start free from the burden of repaying historic debt. They have therefore agreed in principle that:

- a. Health Authority and NHS Trust debts with the Assembly as detailed in the attached annex should be cancelled or written off;
- b. in the case of NHS Trusts, the actual write off will be subject to the trusts concerned delivering a balanced in-year financial position for a period of two consecutive financial years.

This letter provides the detail behind the announcement made today.

Background

You will be aware that a number of Health bodies in Wales have needed to take out long term loans or strategic assistance over a number of years to finance deficits. Those areas have produced and, where necessary will be required to revise, their recovery plans to ensure they restore financial balance. The Assembly itself has a commitment, set out in betterwales.com, Plan for Wales and Improving Health in Wales to restore underlying financial balance by April 2003. It is also committed to eliminating underlying deficits in all parts of Wales by 2003-04.

It is recognised by the Assembly that eliminating deficits is in itself a very challenging task and the issue of minimising the service impact of debt repayment has already been the subject of Ministers' consideration resulting in:

- a. the provision of non-recurrent £24.248 million funding to all Health Authorities in Wales in 2000-01 to allow the provision of additional services, the reduction the repayment of £4.127 million of debt held by the Swansea NHS Trust, and to reduce the requirement for strategic assistance (see below);

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be abolished on 31st March 2003 and subsumed within the new Powys LHB. Therefore in the case of Dyfed Powys, the intention is to cancel Health Authority debt before abolition.

Technical Accounting

The technical accounting impact of the debt cancellation can be described as follows:-

a. Bro Taf Health Authority

In 2002-03, the Assembly will provide a long-term loan to Cardiff and Vale NHS Trust which, in turn, will enable the Trust to clear its creditor with Bro Taf Health Authority. These two transactions will be neutral for the Trust.

In turn, this will allow Bro Taf Health Authority to repay its debt with the Assembly thus clearing out the Health Authority creditor and the Assembly's debtor.

The results of the above transaction will be a direct relationship between the Trust and the Assembly for the debt with no financial consequences on either party.

b. Dyfed Powys Health Authority

The Health Authority debt will be cancelled on 31 March 2003 resulting in a cancellation of the creditor in the Health Authority's accounts and reducing expenditure in the I&E account for 2002-03. The Health Authority will be required to exclude this technical surplus from its financial forecasts and break-even duty definition.

Because of previous internal discussions regarding this policy, a provision for write-off for Health Authority debt already exists in the Assembly's balance sheet. The impact of the write-off will therefore be to cancel the existing debtor but also the relating provision for write-off, resulting in a neutral impact on the Assembly's Operating Cost Statement.

c. NHS Trusts

No provision exists in the Assembly's balance sheet for writing off NHS Trust debt (except for the £6.679 million currently with Bro Taf which is to be transferred to Cardiff and Vale) and so a new provision will be created in the 2001-02 accounts. Because provisions are currently included in Annually Managed Expenditure (AME), appropriate resource cover can be provided so that the Assembly's resource limit is not breached.

When NHS Trusts have demonstrated that they have achieved two consecutive years of (unassisted) financial balance, then the current debt will be cancelled. This will remove the creditor from the balance sheet and reduce expenditure thereby creating a technical surplus.

NHS Trusts are under a statutory obligation to achieve break-even which is normally calculated over a three year period. In light of this decision, the Assembly will extend this to a five year period so that those Trusts that were created in 1999-2000 or after will be able to meet their statutory duty, if the conditions set out above are achieved.

Carmarthenshire and Pembrokeshire & Derwen NHS Trusts have already had their break-even duty period extended to five years, and for these Trusts arrangements have already been made

DYFED POWYS AREA

	£m
Dyfed Powys Health Authority	23.710
Carmarthenshire NHS Trust	3.174
Ceredigion & Mid Wales NHS Trust	1.300
Pembrokeshire & Derwen NHS Trust	2.800
Total Dyfed Powys area	30.984

BRO TAF AREA

	£m
Bro Taf Health Authority	6.679
Cardiff and Vale NHS Trust	3.500
Total Bro Taf area	10.179