

PUBLIC AUDIT (WALES) ACT 2004  
GOVERNMENT OF WALES ACT 2006  
NATIONAL HEALTH SERVICE (WALES) ACT 2006

Summarised accounts of local health boards and NHS trusts in Wales for the year ended  
31 March 2008

Presented pursuant to NHS (Wales) Act 2006 Section 178 Schedule 9 Para5(2)

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# **NHS (Wales) Summarised Accounts 2007-08**

# NHS Wales Summarised Accounts 2007-08

## FOREWORD

### Introduction

1. Section 178, Schedule 9 Para5(2) of the National Health Service (NHS) Wales Act 2006 requires all NHS organisations in Wales to prepare annual accounts and to submit them to the Welsh Assembly Government.
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 2006 all audits are undertaken by the Auditor General for Wales and reported to the Welsh Assembly Government. In addition to these summarised accounts, the accounts for each NHS body must be laid before the Welsh Assembly Government.
3. The Welsh Ministers are 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 Welsh Assembly Government for 2007-08.
5. In my capacity as Additional 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 Additional 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 2007-08.

**(b) NHS trusts**

10. NHS trusts established under section 18 Schedule 3 of the National Health Service (Wales) Act 2006. 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 2007-08.
12. The individual 2007-08 accounts of Carmarthenshire NHS Trust, Ceredigion and Mid Wales NHS Trust and Pembrokeshire and Derwen NHS Trust included provisions for severance costs totalling £1,763,000. Within their respective audit opinions, it was stated that these provisions should have been accounted for as a charge in the 2008-09 financial year.

## **Performance against statutory financial duties**

**(a) Local Health Boards**

13. The statutory financial duty of Local Health Boards is set out in Part 11, Chapter 6 Para 175 of the National Health Service (Wales) Act 2006. 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 Welsh Assembly Government. As set out in Welsh Health Circular (WHC (2007) 49), Local Health Boards that are forecasting overspends against resource limits must prepare a Financial Recovery Plan (FRP) and the plan must be accepted by the Welsh Assembly Government.
14. In 2007-08, all 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.
15. An extra £24million was allocated to Local Health Boards in March 2008 to meet the escalation on costs of continuing healthcare. As an illustration total continuing healthcare costs rose from over £120m to over £180m in 2007-08. Swansea and Powys Local Health Boards both reported in their annual accounts that they achieved operational Financial Balance as a result of brokerage support which was provided by the other 20 Local Health Boards, from this allocation. The brokerage is repayable to other LHBs in 2008-09.

16. WHC (2007) 049, which defines the statutory financial duties of Local Health Boards, was issued in June 2007. The circular removed the obligation on the Welsh Assembly Government to provide resource cover in support of accepted FRPs.

*(b) NHS trusts*

17. 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.

18. During 2007-08 twelve of the fourteen trusts broke even in year and Welsh Ambulance Services NHS Trust was within their target deficit of their accepted Financial Recovery Plan with a favourable variance of £0.573m.

19. Overall ten of the fourteen Trusts met both of their financial breakeven 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 (AGW) issued unqualified opinions to all trusts in Wales in 2007-08, however, in providing his audit opinion the AGW drew attention to the financial position and the actions being taken to achieve financial balance at two of the NHS Trusts.

20. WHC (2007) 049, which defines the statutory financial duties of NHS Trusts, was issued in June 2007. The circular removed the obligation on the Welsh Assembly Government to provide resource cover in support of accepted FRPs by amending a Trust's breakeven target.

21. The overall income and expenditure deficit of the fourteen NHS trusts in Wales for 2007-08 was £2.745 million, compared with a deficit of £14.329 million in 2006-07.

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

22. 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 2007-08 is set out in Annex 4.

## **External financing limit**

23. As part of the process of controlling public expenditure, the Welsh Assembly Government 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 Welsh Assembly Government, to finance capital expenditure. Trusts must submit detailed cash flow statements to the Welsh Assembly Government in order to receive authorisation to draw public dividend capital. This target is not applicable to Local Health Boards.
24. In 2007-08, the overall external financing limit for NHS trusts was £175.564 million and all trusts in Wales met their external financing limits.

## **Prompt Payment Performance**

25. 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.
26. 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 72.4% to 99.9% for NHS bodies with an average for the year of 98.9% for Local Health Boards and 92.0% for Trusts in comparison to last years figures of 97.5% and 95.1% respectively.

The fall in prompt payment performance for NHS Trusts was due to the changeover to a new financial management system in one West Wales NHS Trust and the introduction of the Business Services Partnership which provides shared services for the Trusts in North Wales. The North Wales Trusts have worked with the Business Services Partnership throughout the year to improve this performance.

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

27. 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 Welsh Assembly Government loans to Local Health Boards and NHS Trusts.

## **Balance Sheet Issues**

### **NHS Debt**

28. The Welsh Assembly Government has provided cash assistance to NHS Trusts and Health Authorities 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 that is included within the Local Health Board summarised account, in relation to the previous Health Authority, is £0.622 million and in the NHS trust account £51.645 million. There has been a net increase in the NHS Trust loans of £2.860 million in 2007-08. Detail of the debt for each NHS organisation is provided in Annex 6.

### **Clinical Negligence Provisions**

29. At 31 March 2008 liabilities for clinical negligence totalled £172.019 million in NHS trusts and a further £34.667 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.

30. Excluded from the provisions calculations included within the summarised accounts is a further estimated £294.654 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**

31. 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.

32. In 2007-08 the Pool was operated by the Conwy and Denbighshire NHS Trust and was managed by a Management Group comprising representatives from NHS trusts, Local Health Boards and the Welsh Assembly Government.

33. The Conwy and Denbighshire NHS Trust's liability was limited to the funds available in the Pool. The ultimate liability to meet claims rests jointly with the members of the Pool and was underwritten by the Welsh Assembly Government.

34. During the year, the Pool incurred expenditure of £47.728 million (2006-07: £39.267 million).

## Reorganisation

35. On 1<sup>st</sup> April 2008 seven NHS Wales trusts, from the South East and Mid & West regions merged to form three new NHS trusts.

- Bro Morgannwg and Swansea NHS Trusts to form Abertawe Bro Morgannwg University NHS Trust;
- Carmarthenshire, Ceredigion & Mid Wales and Pembrokeshire & Derwen NHS Trusts to form Hywel Dda NHS Trust
- North Glamorgan and Pontypridd & Rhondda NHS Trusts to form Cwm Taf NHS Trust.

On the 1st July 2008 two NHS trusts from the North Wales Region merged to form a new trust.

- Conwy & Denbighshire and North East Wales NHS Trusts formed North Wales NHS Trust. North Wales NHS Trust is responsible for the management of the Welsh Risk Pool.

36. On 16<sup>th</sup> July 2008, the Minister for Health and Social Services announced the result of her consultation paper "Proposals to Change the Structure of the NHS in Wales". The Minister intends to work upon proposals for the establishment of seven health organisations to take on the functions carried out by both NHS Trusts and Local Health Boards. Work upon these proposals will be developed after the summer 2008 recess.

A handwritten signature in black ink, appearing to read "Ann Lloyd", with a long horizontal line underneath it.

Ann Lloyd  
Chief Executive NHS Wales, Head of Department for Health & Social Services  
31-July-2008

## 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	x	✓	✓
Ceredigion & Mid Wales NHS Trust	x	x	✓
Pembrokeshire & Derwen NHS Trust	x	✓	✓
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	✓	x	✓
<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

	2007-08 £000	2006-07 £000
<b>Mid &amp; West Wales Region</b>		
Bridgend Local Health Board	12	21
Carmarthenshire Local Health Board	12	(4,211)
Ceredigion Local Health Board	76	(586)
Neath Port Talbot Local Health Board	9	13
Pembrokeshire Local Health Board	65	70
Powys Local Health Board	12	(3,208)
Swansea Local Health Board	9	(3,500)
<b>North Wales Region</b>		
Anglesey Local Health Board	27	70
Conwy Local Health Board	23	13
Denbighshire Local Health Board	54	3
Flintshire Local Health Board	14	26
Gwynedd Local Board	53	32
Wrexham Local Health Board	69	55
<b>South East Region</b>		
Blaenau Gwent Local Health Board	48	(531)
Caerphilly Local Health Board	5	(368)
Cardiff Local Health Board	5	5
Merthyr Tydfil Local Health Board	24	5
Monmouthshire Local Health Board	2	6
Newport Local Health Board	82	(589)
Rhondda Cynon Taf Local Health Board	19	28
Torfaen Local Health Board	19	8
Vale of Glamorgan Local Health Board	-	-
All Local Health Boards	639	(12,638)
Number of Local Health Boards achieving resource limit	22	15
Percentage of Local Health Boards achieving resource limit	100%	68%

## NHS Wales Trust Surpluses and Deficits

	Surplus/(deficit)	
	2007-08 £000	2006-07 £000
<b>Mid &amp; West Wales Region</b>		
Bro Morgannwg NHS Trust	119	68
Carmarthenshire NHS Trust	41	25
Ceredigion & Mid Wales NHS Trust	(1,195)	(886)
Pembrokeshire & Derwen NHS Trust	10	(444)
Swansea NHS Trust	11	40
	<b>(1,014)</b>	<b>(1,197)</b>
<b>North Wales Region</b>		
Conwy & Denbighshire NHS Trust	132	(1,157)
North East Wales NHS Trust	96	(35)
North West Wales NHS Trust	66	12
Welsh Ambulance Services NHS Trust	(1,738)	(6,341)
	<b>(1,444)</b>	<b>(7,521)</b>
<b>South East Region</b>		
Cardiff & Vale NHS Trust	46	77
Gwent Healthcare NHS Trust	75	(6,520)
North Glamorgan NHS Trust	20	892
Pontypridd & Rhondda NHS Trust	(31)	(88)
Velindre NHS Trust	(397)	28
	<b>(287)</b>	<b>(5,611)</b>
	<b>(2,745)</b>	<b>(14,329)</b>
All NHS Trusts	<b>(2,745)</b>	<b>(14,329)</b>

**Recovery of Accumulated LHB Overspends**

<u>Organisation</u>	<b>Outstanding amounts to be recovered</b>	<b>Underspend / Repaid</b>	<b>Overspend</b>	<b>Total accumulated overspends to be recovered</b>
	<b>As at 1<sup>st</sup> April 2007</b>	<b>2007-08</b>	<b>2007-08</b>	<b>As at 31<sup>st</sup> March 2008</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	4,983	-	-	<b>4,983</b>
Ceredigion Local Health Board	1,184	-	-	<b>1,184</b>
Powys Local Health Board	4,135	-	-	<b>4,135</b>
Swansea Local Health Board	8,080	-	-	<b>8,080</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	18,382	-	-	<b>18,382</b>
<b>South East Region</b>				
Blaenau Gwent Local Health Board	531	-	-	<b>531</b>
Caerphilly Local Health Board	368	(368)	-	<b>-</b>
Cardiff Local Health Board	9,310	(1,000)	-	<b>8,310</b>
Monmouthshire Local Health Board	1,394	(200)	-	<b>1,194</b>
Newport Local Health Board	1,489	-	-	<b>1,489</b>
Vale of Glamorgan Local Health Board	2,960	(435)	-	<b>2,525</b>
	<hr/>	<hr/>	<hr/>	<hr/>
	16,052	(2,003)	-	<b>14,049</b>
<b>Total for Local Health Boards</b>	<hr/>	<hr/>	<hr/>	<hr/>
	<b>34,434</b>	<b>(2,003)</b>	<b>-</b>	<b>32,431</b>

## Recovery of Trust Deficits and Strategic Assistance

	Deficit to be recovered @ 1st April 2007* £000	2007-08 Deficits £000	Deficit recovered £000	Deficit to be recovered @ 31 March 2008 £000
<b>Mid &amp; West Wales Region</b>				
Carmarthenshire NHS Trust	19,626	-	(66)	<b>19,560</b>
Ceredigion & Mid Wales NHS Trust	3,989	1,195	-	<b>5,184</b>
Pembrokeshire & Derwen NHS Trust	11,174	-	(10)	<b>11,164</b>
Swansea NHS Trust	2,168	-	(11)	<b>2,157</b>
<b>North Wales Region</b>				
Conwy & Denbighshire NHS Trust	5,341	-	(132)	<b>5,209</b>
North East Wales NHS Trust	3,666	-	(96)	<b>3,570</b>
Welsh Ambulance Services NHS Trust	6,341	1,738	-	<b>8,079</b>
<b>South East Region</b>				
Gwent Healthcare NHS Trust	12,608	-	(75)	<b>12,533</b>
Pontypridd & Rhondda NHS Trust	-	31	(31)	-
Velindre NHS Trust	-	397	(397)	-
All NHS Trusts	<u>64,913</u>	<u>3,361</u>	<u>(818)</u>	<u><b>67,456</b></u>
	<b>Strategic Assistance to be recovered @ 1st April 2007* £000</b>	<b>Strategic Assistance issued £000</b>	<b>Strategic Assistance repaid £000</b>	<b>Strategic Assistance to be recovered @ 31 March 2008 £000</b>
<b>Mid &amp; West Wales Region</b>				
Carmarthenshire NHS Trust	18,302	-	-	<b>18,302</b>
Ceredigion & Mid Wales NHS Trust	4,062	1,400	-	<b>5,462</b>
Pembrokeshire & Derwen NHS Trust	9,631	1,100	-	<b>10,731</b>
<b>North Wales Region</b>				
Conwy & Denbighshire NHS Trust	-	3,000	-	<b>3,000</b>
North East Wales NHS Trust	3,000	1,676	-	<b>4,676</b>
Welsh Ambulance Services NHS Trust	-	3,500	-	<b>3,500</b>
<b>South East Region</b>				
Gwent Healthcare NHS Trust	5,216	-	(5,216)	-
North Glamorgan NHS Trust	2,600	-	(2,600)	-
All NHS Trusts	<u>42,811</u>	<u>10,676</u>	<u>(7,816)</u>	<u><b>45,671</b></u>

\* excludes historic loans

## Local Health Board Public Sector Payment Policy Performance

	2007-08		2006-07	
	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	99.9	99.2	98.3
Carmarthenshire Local Health Board	97.6	99.5	98.1	98.3
Ceredigion Local Health Board	99.8	99.8	99.8	99.1
Neath Port Talbot Local Health Board	98.1	99.5	98.5	98.2
Pembrokeshire Local Health Board	97.1	99.5	98.5	98.5
Powys Local Health Board	94.5	96.1	98.2	96.2
Swansea Local Health Board	97.0	99.6	97.8	97.8
<b>North Wales Region</b>				
Anglesey Local Health Board	99.3	98.4	99.4	97.9
Conwy Local Health Board	99.6	98.2	99.3	98.7
Denbighshire Local Health Board	99.4	97.9	99.1	98.0
Flintshire Local Health Board	98.4	97.5	99.2	99.6
Gwynedd Local Board	98.2	96.5	98.9	97.9
Wrexham Local Health Board	99.4	97.8	99.6	98.9
<b>South East Region</b>				
Blaenau Gwent Local Health Board	99.9	99.2	99.6	98.4
Caerphilly Local Health Board	99.5	98.7	98.6	97.6
Cardiff Local Health Board	99.5	98.9	99.6	98.9
Merthyr Tydfil Local Health Board	96.2	95.0	97.6	97.1
Monmouthshire Local Health Board	99.6	99.9	96.3	97.9
Newport Local Health Board	99.8	99.5	99.2	96.2
Rhondda Cynon Taf Local Health Board	96.7	96.7	98.7	98.5
Torfaen Local Health Board	99.7	99.0	98.8	95.3
Vale of Glamorgan Local Health Board	100.0	99.7	99.9	99.7
<b>All Local Health Boards</b>	<b>98.0</b>	<b>98.9</b>	<b>98.7</b>	<b>97.5</b>

## NHS Trust Public Sector Payment Policy Performance

	2007-08		2006-07	
	Non NHS Value of bills %	Non NHS Number of bills %	Non NHS Value of bills %	Non NHS Number of bills %
<b>Mid &amp; West Wales Region</b>				
Bro Morgannwg NHS Trust	95.4	96.9	95.7	95.7
Carmarthenshire NHS Trust	97.9	96.2	97.4	95.6
Ceredigion & Mid Wales NHS Trust	99.2	97.8	98.8	97.3
Pembrokeshire & Derwen NHS Trust	97.5	97.0	95.3	95.0
Swansea NHS Trust	83.6	72.4	88.8	85.3
<b>North Wales Region</b>				
Conwy & Denbighshire NHS Trust	89.3	87.2	95.2	92.5
North East Wales NHS Trust	88.4	84.1	97.5	95.2
North West Wales NHS Trust	90.9	87.0	97.9	96.6
Welsh Ambulance Services NHS Trust	93.3	92.6	96.5	95.7
<b>South East Region</b>				
Cardiff & Vale NHS Trust	96.2	95.9	94.8	95.9
Gwent Healthcare NHS Trust	95.7	95.4	96.6	96.4
North Glamorgan NHS Trust	96.5	95.5	95.6	95.8
Pontypridd & Rhondda NHS Trust	99.5	98.3	99.5	98.4
Velindre NHS Trust	98.0	95.8	98.3	97.6
<b>All NHS Trusts</b>	<b>94.0</b>	<b>92.0</b>	95.7	95.1

Under the Late Payment of Commercial Debts (Interest) Act 1998, £368 was paid to cover debt recovery costs at three NHS Trusts. (2006-07 £283 was paid to cover debt recovery costs at Gwent Healthcare NHS Trust)

### Assembly loans to local health boards and NHS trusts

	Loans outstanding as at 1 April 2007 £000	Movements in 2007-08 £000	Loans outstanding as at 31 March 2008 £000
<b>Local Health Boards</b>			
<b>Mid &amp; West Wales Region</b>			
Carmarthenshire Local Health Board	622	-	622
	<u>622</u>	<u>-</u>	<u>622</u>
<b>Total for Local Health Boards</b>	622	-	622
<b>NHS Trusts</b>			
<b>Mid &amp; West Wales Region</b>			
Carmarthenshire NHS Trust	21,476	-	21,476
Ceredigion & Mid Wales NHS Trust	4,062	1,400	5,462
Pembrokeshire & Derwen NHS Trust	12,431	1,100	13,531
	<u>37,969</u>	<u>2,500</u>	<u>40,469</u>
<b>North Wales Region</b>			
Conwy & Denbighshire NHS Trust	-	3,000	3,000
North East Wales NHS Trust	3,000	1,676	4,676
Welsh Ambulance Services NHS Trust	-	3,500	3,500
	<u>3,000</u>	<u>8,176</u>	<u>11,176</u>
<b>South East Wales Region</b>			
Gwent NHS Trust	5,216	(5,216)	-
North Glamorgan NHS Trust	2,600	(2,600)	-
	<u>7,816</u>	<u>(7,816)</u>	<u>-</u>
<b>Total for NHS Trusts</b>	48,785	2,860	51,645
<b>Total Assembly Loans</b>	<u>49,407</u>	<u>2,860</u>	<u>52,267</u>

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 Welsh Assembly Government and Accounting Officer's responsibilities**

Section 126 (6) of the Government of Wales Act 2006 requires that the Principal Accounting Officer for the Welsh Ministers, is the Permanent Secretary to the Welsh Assembly Government. Section 133 (2) of the same Act enables the Principal Accounting Officer for the Welsh Ministers to designate other members of the Welsh Assembly Government staff as Additional Accounting Officers.

Under these arrangements, the Head, Department for Health and Social Services and Chief Executive, NHS Wales has been appointed as an Additional Accounting Officer. Her relevant responsibilities, for the Summarised Account of Local Health Boards in Wales, 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 Memorandum for Additional Accounting Officers.

Section 178, Schedule 9, Para 5(2) of the National Health Service (Wales) Act 2006 requires the Welsh Assembly Government 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 net operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts Welsh Ministers are 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 Additional Accounting Officer for the NHS in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Welsh Assembly Government'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 Secretary in their role as Principal Accounting Officer under section 133(2) of the Government of Wales Act 2006.

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 Welsh Assembly Government, 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 Welsh Assembly Government'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 2008 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 2007-08 LHB Boards were required to self assess against the Healthcare Standards, which incorporate the Welsh risk management standards 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 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 former 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 has been developed to incorporate key elements from the Welsh Risk Management Standards (WRMS) for a single assessment process of assurance within NHS Wales.

2007-08 is the second year that Healthcare Standards for Wales have been used across Wales and this is the first year that they have been used to underpin the statement of internal control.

#### **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 and the Balanced Scorecard;
- 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 2007-08 LHBs were required to outline their 2007-08 self assessment of performance against the Healthcare Standards for Wales and in particular those that underpin the management of risk across all Standards:

- Healthcare standard 14 – Health & Safety of Patients, Staff and the Public.
- Healthcare standard 16 – A Learning Process from Incidents.
- Healthcare standard 27 – Best Practice Governance Arrangements.
- Healthcare standard 28 – High Quality Clinical Governance.

Performance against most, if not all healthcare standards contribute to overall good risk management across the range of the organisations' activities, therefore organisations should:

- Confirm that they have completed a self-assessment against all healthcare standards for 2007/08, to include a description of the process in place for completing the process, including Board engagement and sign off.
- Confirm that a healthcare standards improvement plan for the year is in place which has been agreed by the Board and how the Board is assured of progress against it
- Describe key ways in which healthcare standards are embedded in the activity of the organisation.

Each of the 32 Healthcare Standards for Wales were assessed on the following matrix:

Maturity Level	1- Aware	2 – Responding	3 – Developing	4 – Practicing	5- Leading
Corporate					
Operational					
User Experience					
Overall					

For consistency across Wales in respect of the Healthcare standards and particularly the work in relation to the Statement of Internal Control, it was agreed that in 2007-08 Internal Auditors would undertake the following work as a minimum:

- Review the self assessment input on the HIW HCS tool for the 4 key standards specified in the SIC. To include a review of the explanation, the evidence that supports the explanation and the appropriateness of the self-assessed score in consideration of the maturity matrix requirements.
- Assess the process adopted by each organisation in preparing and completing the self assessment.
- Review action plans and the process for monitoring progress, evaluating what improvements have been demonstrated for those areas that were reported as being aware and/or responding.
- Confirm that the Board are appropriately engaged.

All LHBs were required to submit their Healthcare standard self-assessment scores to HIW on or before 19<sup>th</sup> June 2008. The 2006-07 assessments were used to set the baseline for inspection and improvement in 2007-08. In 2007-08 the 22 LHBs achieved the following overall self assessment performance against the 4 Healthcare Standards for Wales that underpin the management of risk across all Standards.

	Standard 14	Standard 16	Standard 27	Standard 28
	%	%	%	%
3 - Developing	55	64	59	36
4 - Practising	45	36	41	64

### **Dental Payments**

The underlying LHB statements on internal control do not raise any issues regarding the regularity of payments to dentists, but fifteen LHBs reported in their statements that, further work is being undertaken to provide assurance on the processes and controls to ensure that irregular payments to dentists are not made.

### **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 Welsh Assembly Government'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 2007-08 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 Additional 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 Welsh Assembly Government'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 2008. 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.



Ann Lloyd  
Head, Department for Health and Social Services,  
Chief Executive, NHS Wales and Additional Accounting Officer for the NHS in Wales  
31<sup>st</sup> July 2008

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

I certify that I have audited the financial statements of the Summarised Account of the NHS Local Health Boards in Wales for the year ended 31 March 2008 under paragraph 5 of schedule 9 to the National Health Service (Wales) Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Director of NHS Wales as Additional Accounting Officer is responsible on behalf of Welsh Ministers for preparing the financial statements in accordance with paragraph 5 of schedule 9 to the National Health Service (Wales) Act 2006 and HM Treasury directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Additional Accounting Officer's Responsibilities.

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

I report my opinion to you as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with paragraph 5 of schedule 9 of the National Health Service (Wales) Act 2006 and HM Treasury directions made there under. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition I report to you if in my opinion, the Welsh Assembly Government 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 Internal Control reflects the Additional Accounting Officer's and Local Health Boards in Wales' compliance with HM Treasury guidance and report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the Welsh Assembly Government's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

I conducted my audit in accordance with the National Health Service (Wales) Act 2006 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Additional Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Local Health Boards in Wales' circumstances, and are 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 error and that in all material respects, the expenditure and income have been applied to the purposes intended by the

National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In my opinion:

- the financial statements give a true and fair view in accordance with the National Health Service (Wales) Act 2006 and directions made thereunder by the HM Treasury of the state of affairs of the Local Health Boards in Wales as at 31 March 2008 and of their net operating costs, recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by HM Treasury.

### **Opinion on Regularity**

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

### **Report**

I have no observations to make on these financial statements.

Jeremy Colman

Auditor General for Wales

11 August 2008

Wales Audit Office

24 Cathedral Road

Cardiff

CF11 9LJ

## Operating Cost Statement for the year ended 31 March 2008

### Continuing operations

	Notes	2007-08 £000	2006-07 £000
<b>Expenditure</b>	3,4,5,6,7	<b>4,278,210</b>	4,081,854
<b>Miscellaneous income</b>	2	<u><b>70,097</b></u>	<u>80,469</u>
<b>Net operating cost</b>		<u><b>4,208,113</b></u>	<u>4,001,385</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

		2007-08 £000	2006-07 £000
Unrealised surplus on revaluation / indexations of fixed assets	16,17	<b>26,552</b>	9,159
Net decrease in General Fund due to transfers of assets	15	<b>(31)</b>	<b>(5,516)</b>
Other movements in donated assets reserves	16	<u><b>(536)</b></u>	<u><b>(23)</b></u>
<b>Recognised gain for the financial year</b>		<u><b>25,985</b></u>	<u>3,620</u>

*The notes at pages 13 to 33 form part of this account.*

**Balance Sheet as at 31 March 2008**

		<b>31 March 2008</b>	31 March 2007
	<b>Notes</b>	<b>£000</b>	£000
<b>Fixed assets</b>			
Intangible Fixed assets	11.1	<b>19</b>	35
Tangible Fixed assets	11.2	<b>184,766</b>	173,586
		<b>184,785</b>	173,621
<b>Current assets</b>			
Stocks	12	<b>203</b>	706
Debtors	13	<b>65,133</b>	98,814
Cash at bank and in hand		<b>10,808</b>	14,914
		<b>76,144</b>	114,434
<b>Creditors</b>			
Creditors: amounts falling due within one year	14.1	<b>283,435</b>	269,389
<b>Net current liabilities</b>		<b>(207,291)</b>	<b>(154,955)</b>
<b>Total assets less current liabilities</b>		<b>(22,506)</b>	18,666
Creditors: amounts falling due after more than one year	14.2	<b>953</b>	1,090
Provisions for liabilities and charges	18	<b>65,581</b>	77,497
<b>Net liabilities</b>		<b>(89,040)</b>	<b>(59,921)</b>
<b>Taxpayers' equity</b>			
General Fund	15	<b>(228,804)</b>	(181,204)
Donated Assets Reserve	16	<b>4,806</b>	4,935
Revaluation Reserve	17	<b>134,958</b>	116,348
		<b>(89,040)</b>	<b>(59,921)</b>

*The notes at pages 13 to 33 form part of this account.*



*Ann Lloyd*

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

31<sup>st</sup> July 2008

## Cash Flow Statement for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Net operating costs</b>		<b>(4,208,206)</b>	<b>(4,001,374)</b>
Adjust for non-cash transactions	b	26,365	6,320
Adjust for movements in working capital other than cash	a	48,210	12,232
Utilisation of provisions	18	(34,760)	(9,653)
<b>Net cash outflow from operating activities</b>		<b>(4,168,391)</b>	<b>(3,992,475)</b>
<b>Servicing of Finance :</b>			
Interest received		300	237
Interest paid		(207)	(248)
<b>Net cash inflow / (outflow) from servicing of finance</b>		<b>93</b>	<b>(11)</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		-	(11)
Payments to acquire tangible fixed assets		(2,187)	(1,834)
Receipts from the sale of fixed assets		10,218	8,714
<b>Net cash inflow from investing activities</b>		<b>8,031</b>	<b>6,869</b>
<b>Financing</b>			
WAG funding		4,156,163	3,993,154
Surrender of income from sale of fixed assets		(31)	(5,516)
Donations		29	226
<b>Net cash inflow from financing</b>		<b>4,156,161</b>	<b>3,987,864</b>
<b>(Decrease) / increase in cash</b>		<b>(4,106)</b>	<b>2,247</b>

The notes at pages 13 to 33 form part of this account.

**Notes to the cashflow statement**

		2007-2008	2006-2007	
		£000	£000	
<b>Adjust for movements in working capital other than cash</b>				
<b>a</b>	Decrease in stock and work-in-progress	503	5	
	Decrease in operating debtors	33,681	(1,833)	
	Increase in operating creditors	<u>14,026</u>	<u>14,060</u>	
		<u>48,210</u>	<u>12,232</u>	
<b>b Adjustment for non-cash transactions</b>			2006-2007	
			£000	
	Depreciation and amortisation	5,698	5,506	
	Impairment of fixed assets	904	-	
	Loss on disposal of fixed assets	73	(1,952)	
	Non-cash provisions	22,844	5,341	
	Capital charge interest	<u>(3,154)</u>	<u>(2,575)</u>	
		<u>26,365</u>	<u>6,320</u>	
<b>c</b>	<b>Reconciliation of net cash flow to movement in net debt</b>		2007-2008	
			£000	
	Increase in cash in the period		(4,106)	
	Non cash changes in debt		-	
	<b>At 1 April</b>		<u>14,292</u>	
	<b>At 31 March</b>		<u>10,186</u>	
<b>d</b>	<b>Analysis of changes in net debt</b>	<b>As at</b>		<b>As at</b>
		<b>1 April</b>	<b>Cash</b>	<b>31 March</b>
		<b>2007</b>	<b>flows</b>	<b>2008</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
	Cash at bank and in hand	14,914	(4,106)	-
	Debt due after one year	(622)	-	-
		<u>14,292</u>	<u>(4,106)</u>	<u>10,186</u>

The amount held in Office of Paymaster General bank accounts at 31 March 2008 was £11,932,000 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 Welsh Assembly Government 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 Welsh Assembly Government 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 Welsh Assembly Government 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 Welsh Assembly Government 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 1 April 2007.

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. All other impairments are recognised against the revaluation reserve where the assets have previously received a positive revaluation and otherwise are charged to the Operating Cost Statement. 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 there from 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 in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme: the cost to the NHS body participating in the scheme is equal to the contributions payable to the scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years. The main purpose of which is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such investigation, on the conclusions of which scheme contribution rates are currently based, had an effective date of valuation on this basis and took place as at 31 March 2004 and covered the period from 1 April 1999 to that date. Between valuations, the Government Actuary provides an annual update of the scheme liabilities for FRS 17 purposes. 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 Scheme Resource Account, published annually. These accounts can be viewed on the Business Service Authority - Pensions Division website at [www.nhs.gov.uk](http://www.nhs.gov.uk). Copies can also be obtained from the Stationery Office.

The conclusion of the 2004 investigation was that the scheme had accumulated a notional deficit of £3.3 billion against notional assets as at 31 March 2004. This is after making some allowance for the one-off effect of pay modernisation, but before taking into account any of the scheme changes which come into effect on 1 April 2008. Taking into account the changes in the benefit and contribution structure effective from 1 April 2008, employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008 employees paid contributions of 6% (manual staff 5%) of their pensionable pay. From 1 April 2008 employees will pay contributions according to a tiered scale from 5% up to 8.5% 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 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 the final years pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final years 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 Operating Cost Statement at the time the LHB commits itself to the retirement, regardless of the method of payment.

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

### **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 2007-08 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 2008 litigation claims were made against the LHB; the detail is included in note 19. These claims are disputed 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.

<b>2</b>	<b>Miscellaneous income</b>	<b>2007-2008</b> <b>£000</b>	2006-2007 £000 Restated
	Programme income: Fees & Charges	5,226	5,631
	Prescription charge income	7,854	20,739
	Dental charge income	26,945	20,511
	Release of Deferred Income	284	304
	NHS bodies	3,756	3,933
	Local Authorities	32	355
	Patient Transport Services	12	-
	Education, Training and Research	294	234
	Non-NHS private patients	38	47
	Road Traffic Act	39	51
	Charitable and other contributions to expenditure	164	238
	Transfers from the Donated Asset Reserve	565	249
	Other	24,888	28,177
		<b>70,097</b>	<b>80,469</b>

"Other" income includes £2.608 million for the Second Offer Scheme administered by Rhondda Cynon Taff Local Health Board (2006-07 £10.031 million).

The prior year figures have been restated due to the separate identification of dental charge income in 2007-08.

**3 Purchase of primary health care services**

	<b>Cash limited</b>	<b>Non-cash limited</b>	<b>2007-2008 Total</b>	<b>2006-2007 Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General Medical services	437,782	-	<b>437,782</b>	429,185
Pharmaceutical services	105,843	6,182	<b>112,025</b>	104,387
General Dental services	150,099	3	<b>150,102</b>	136,496
General Ophthalmic services	4	25,967	<b>25,971</b>	24,051
Other Primary health care expenditure	23,088	(1,632)	<b>21,456</b>	22,703
Prescribed drugs and expenditure	507,899	-	<b>507,899</b>	498,340
	<b>1,224,715</b>	<b>30,520</b>	<b>1,255,235</b>	<b>1,215,162</b>

£66,000 of expenditure under Cash limited General Medical services relates to depreciation (£19,000) and impairment (£47,000) on fixed assets 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>2007-2008</b>	<b>2006-2007</b>
	<b>£000</b>	<b>£000</b>
Welsh NHS trusts	<b>2,486,322</b>	2,402,174
Non-Welsh NHS bodies	<b>82,556</b>	74,548
Local Authorities	<b>18,804</b>	16,012
Voluntary organisations	<b>14,088</b>	13,400
NHS Funded Nursing Care	<b>40,213</b>	42,042
Continuing Care	<b>180,401</b>	118,431
Private providers	<b>14,705</b>	12,138
Specific projects funded by the Welsh Assembly Government	<b>10,119</b>	19,335
Other	<b>4,126</b>	9,593
	<b>2,851,334</b>	<b>2,707,673</b>

**5 Other programme expenditure**

	<b>2007-2008</b>	<b>2006-2007</b>
	<b>£000</b>	<b>£000</b>
Salaries and wages	<b>18,805</b>	16,724
National Public Health Service	<b>18,211</b>	17,899
Losses, special payments and irrecoverable debts	<b>217</b>	264
Miscellaneous	<b>9,016</b>	7,330
	<b>46,249</b>	<b>42,217</b>

<b>6 Administration expenditure</b>	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
		Restated
Non-executive directors' remuneration	2,035	2,010
Other salaries and wages	21,741	20,443
Consultancy services	312	159
Establishment expenses	2,489	2,829
Transport and moveable plant	57	54
Premises	2,783	2,482
External contractors	392	454
Auditors' remuneration - audit fee	1,956	1,616
Auditors' remuneration - other fees	9	8
Business Services Partnership recharge	1,024	-
Interest payable - unwinding of discount	-	4
Capital - Depreciation	155	155
Amortisation	2	-
Capital Charge Interest	(8,786)	(8,048)
Impairment	30	-
Other	706	394
	<b>24,905</b>	<b>22,560</b>
	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
		Restated
<b>7 Provision of secondary care services</b>		
Goods and services from other NHS bodies	4,253	3,814
Salaries and wages	64,879	62,961
Supplies and services -clinical	4,292	3,812
Supplies and services -general	961	1,038
Consultancy Services	185	235
Establishment expenses	4,942	4,946
Transport and moveable plant	444	414
Premises	4,914	5,734
Audit Fees	132	521
Capital - Depreciation	6,073	5,565
Amortisation	14	15
Capital Charge Interest	5,631	5,473
Impairment	827	-
Loss on disposal of fixed assets	73	(1,952)
Other operating expenses	2,867	1,666
	<b>100,487</b>	<b>94,242</b>

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

The prior year figures in notes 6 and 7 have been restated due to the separate identification of Consultancy Services costs in 2007-08.

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

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Hire of plant and machinery	141	150
Other operating leases	3,153	2,618
	<u>3,294</u>	<u>2,768</u>

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

	<b>Land and buildings</b> <b>£000</b>	<b>Other Leases</b> <b>£000</b>
<b>Operating leases which expire:</b>		
Within 1 year	128	251
Between 1 and 5 years	921	315
After 5 years	1,683	10

**9 Local Health Board Directors' remuneration**

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Non-executive Directors' remuneration	1,984	1,952
Executive Directors' remuneration:		
basic salaries	7,045	6,660
benefits	85	78
performance related bonuses	7	5
pension contributions	931	916
Compensation for loss of office	-	151
Pensions to former directors (early retirees)	-	239
	<u>10,052</u>	<u>10,001</u>

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 directors and staff costs</b>	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Wages and salaries	<b>98,001</b>	91,439
Social security costs	<b>7,079</b>	6,777
Employment contributions to NHS Pensions Agency	<b>12,389</b>	11,677
Other pension costs	<b>378</b>	141
Agency staff	<b>5,504</b>	4,376
	<b>123,351</b>	114,410

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>2007-2008 Total</b>	2006-2007 Average Number
Executive Board Members	91	-	6	<b>97</b>	93
Medical and dental	33	2	-	<b>35</b>	32
Administrative and estates	796	19	3	<b>818</b>	834
Healthcare assistants and other support staff	405	-	-	<b>405</b>	179
Nursing, midwifery and health visiting staff	535	-	-	<b>535</b>	819
Nursing, midwifery and health visiting learners	1	-	-	<b>1</b>	-
Scientific, therapeutic and technical staff	162	1	-	<b>163</b>	173
Other Local Health Board Staff	1,222	30	35	<b>1,287</b>	1,189
Recharged staff	30	3	28	<b>61</b>	46
	<b>3,275</b>	<b>55</b>	<b>72</b>	<b>3,402</b>	3,365

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.

### 10.3 Retirements due to ill-health

During 2007-08 there were 10 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 £294,000.

### 10.4 Staff Benefits

Local Health Boards disclosed staff benefits of £29,702 paid for leased cars in 2007-08 (2006-07 £23,954).

**11.1 Intangible fixed assets**

	<b>Total £000</b>
<b>Gross replacement cost at 1 April 2007</b>	<b>116</b>
Additions	-
Disposals	-
<b>At 31 March 2007</b>	<b>116</b>
<b>Accumulated amortisation at 1 April 2007</b>	<b>81</b>
Provided during the year	<b>16</b>
Additions	-
Disposals	-
<b>At 31 March 2008</b>	<b>97</b>
<b>Net book value at 31 March 2008</b>	<b>19</b>
Net book value at 31 March 2007	<b>35</b>

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 £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000		
At 1 April 2007	56,949	134,256	556	419	6,398	297	4,370	945	<b>204,190</b>
Additions - purchased	-	998	-	465	352	46	158	52	<b>2,071</b>
Transfers	-	220	-	(220)	-	-	-	-	-
Impairments	(30)	(854)	-	-	-	-	-	(47)	<b>(931)</b>
Other in-year revaluations	28,279	(25,191)	254	-	(242)	-	-	-	<b>3,100</b>
Disposals	(1,496)	(9,233)	-	-	(439)	-	(7)	-	<b>(11,175)</b>
<b>At 31 March 2008</b>	<b>83,702</b>	<b>100,196</b>	<b>810</b>	<b>664</b>	<b>6,069</b>	<b>343</b>	<b>4,521</b>	<b>950</b>	<b>197,255</b>

**Depreciation**

At 1 April 2007	-	24,287	69	-	3,473	136	2,245	394	<b>30,604</b>
Impairments	-	(27)	-	-	-	-	-	-	<b>(27)</b>
Other in-year revaluations	-	(23,195)	(69)	-	(187)	-	-	-	<b>(23,451)</b>
Disposals	-	(530)	-	-	(347)	-	(7)	-	<b>(884)</b>
Provided during the year	-	4,053	22	-	1,319	36	682	135	<b>6,247</b>
<b>At 31 March 2008</b>	<b>-</b>	<b>4,588</b>	<b>22</b>	<b>-</b>	<b>4,258</b>	<b>172</b>	<b>2,920</b>	<b>529</b>	<b>12,489</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>
<b>Net book value at 31 March 2008</b>	<b>83,702</b>	<b>95,608</b>	<b>788</b>	<b>664</b>	<b>1,811</b>	<b>171</b>	<b>1,601</b>	<b>421</b>	<b>184,766</b>

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

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

£100 million of Tangible Fixed Assets relate to the Residual Estate (£61 m land and £49 m buildings). The estate is comprised of properties previously owned by the former Health Authorities and now registered in the name of the Welsh Assembly Government. The properties are not owned by Powys Local Health Board but are held either for sale or are occupied by other health bodies across Wales. It is the intention of the Welsh Assembly Government to issue instructions to instigate the transfer of properties occupied by other health organisations to those bodies.

Land and buildings were revalued by the District Valuer at the 1st April 2007. This has resulted in a net increase in the value of the Residual Estate of £14.7 million.

**Fixed Assets  
(continued)**

<b>The net book value of land and buildings comprises:</b>	<b>31 March 2008 £000</b>	31 March 2007 £000
Freehold	<b>162,003</b>	146,422
Long Leasehold	<b>18,095</b>	20,982
	<b>180,098</b>	167,404
<b>Net profit on disposal of fixed assets</b>	<b>2007-2008 £000</b>	2006-2007 £000
Gross proceeds of sale	<b>10,218</b>	7,632
Less net book values of fixed asset disposals	<b>10,291</b>	5,680
(Loss) / Profit on disposal of fixed assets	<b>(73)</b>	1,952

No Fixed Assets were held under Finance leases.

£ 31,000 of the disposal proceeds has been remitted to the Welsh Assembly Government by Welsh Health Estates on behalf of Powys Local Health Board.

Disposals in 2007-08 include the Temple of Peace building (£0.965 m) which was transferred from the Residual Estate to Velindre NHS Trust, Wrexham Maelor (£9.049 m) and land at Halkyn Road (£0.165 m) to North East Wales NHS Trust.

<b>12 Stocks and Work in Progress</b>	<b>31 March 2008 £000</b>	31 March 2007 £000
Raw materials and consumables	<b>203</b>	706
<b>Total</b>	<b>203</b>	706

<b>13 Debtors</b>	<b>31 March 2008 £000</b>	31 March 2007 £000
<b>Amounts falling due within one year</b>	<b>£000</b>	£000
Welsh Assembly Government	<b>1,634</b>	8,430
Health Commission Wales	<b>536</b>	1,307
Primary Care Trusts	<b>254</b>	456
NHS Trusts	<b>9,401</b>	10,130
Welsh Risk Pool	<b>28,804</b>	37,223
Other debtors	<b>10,963</b>	11,188
Provision for irrecoverable debts	<b>(2,551)</b>	(1,186)
Prepayments and accrued income	<b>7,662</b>	9,482
	<b>56,703</b>	77,030
<b>Amounts falling due after one year</b>		
Welsh Risk Pool	<b>8,320</b>	20,248
Other debtors	<b>110</b>	142
Prepayments and accrued income	<b>-</b>	1,394
	<b>8,430</b>	21,784
	<b>65,133</b>	98,814

<b>14.1 Creditors:</b>	<b>31 March 2008 £000</b>	<b>31 March 2007 £000</b>
<b>Amounts falling due within one year</b>		
Welsh Assembly Government	4,314	8,538
Health Commission Wales	1,945	65
NHS Trusts	41,618	36,356
Primary Care Trusts	1,566	916
Income tax and social security	1,768	1,574
Non-NHS creditors	137,803	131,797
Capital Creditors	299	416
GPFH savings	-	6
Pensions: staff	1,107	1,119
Accruals	92,233	88,258
Deferred Income	780	344
Other creditors	2	-
	<b>283,435</b>	<b>269,389</b>

<b>14.2 Creditors:</b>	<b>31 March 2008 £000</b>	<b>31 March 2007 £000</b>
<b>Amounts falling due over one year</b>		
NHS creditors	-	186
Assembly loans	622	622
Pensions: staff	331	282
	<b>953</b>	<b>1,090</b>
	<b>284,388</b>	<b>270,479</b>

<b>15</b>	<b>General Fund</b>	<b>31 March 2008 £000</b>
	<b>At 1 April 2007</b>	<b>(181,204)</b>
	Net operating cost for the financial year	<b>(4,208,113)</b>
	Net Welsh Assembly Government funding (including capital)	<b>4,156,163</b>
	Capital charge interest	<b>(3,154)</b>
	Transfers to NHS bodies	<b>(31)</b>
	Transfer to general fund of realised elements of the revaluation reserve	<b>7,535</b>
	<b>At 31 March 2008</b>	<b>(228,804)</b>
<b>16</b>	<b>Donated Asset Reserve</b>	<b>31 March 2008 £000</b>
	<b>At 1 April 2007</b>	<b>4,935</b>
	Additions	<b>29</b>
	Revaluation	<b>407</b>
	Disposals and write-offs	<b>(29)</b>
	Depreciation	<b>(536)</b>
	<b>At 31 March 2008</b>	<b>4,806</b>
<b>17</b>	<b>Revaluation Reserve</b>	<b>31 March 2008 £000</b>
	<b>At 1 April 2007</b>	<b>116,348</b>
	Revaluation	<b>26,145</b>
	Transfer to general fund - realised revaluation	<b>(7,535)</b>
	<b>At 31 March 2008</b>	<b>134,958</b>

**18 Provisions for liabilities and charges**

	As at 1 April 2007 £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 2008 £000
Clinical negligence	54,787	-	14,767	(3,726)	(31,161)	-	34,667
Personal injury	673	-	466	(173)	(307)	-	659
All other losses and special payments	695	-	2	(132)	(3)	-	562
Defence legal fees & other administrative costs	2,180	-	504	(406)	(292)	-	1,986
	<u>58,335</u>	<u>-</u>	<u>15,739</u>	<u>(4,437)</u>	<u>(31,763)</u>	<u>-</u>	<u>37,874</u>
Staff pensions	9,498	(207)	1,114	(749)	(659)	205	9,202
Other	9,664	-	12,778	(1,601)	(2,338)	2	18,505
	<u>77,497</u>	<u>(207)</u>	<u>29,631</u>	<u>(6,787)</u>	<u>(34,760)</u>	<u>207</u>	<u>65,581</u>

## Expected timing of cashflows :

	Within one year £000	1-5 years £000	Over 5 years £000	Total £000
Clinical negligence	26,670	7,997	-	34,667
Personal injury	659	-	-	659
Defence legal fees and other administration	1,653	333	-	1,986
Pensions	836	3,276	5,090	9,202
Other	16,026	2,955	86	19,067
<b>Total</b>	<u>45,844</u>	<u>14,561</u>	<u>5,176</u>	<u>65,581</u>

Powys LHB has estimated in 2008-09 they will receive £28.764 million and £8.320 million in subsequent years from the Welsh Risk Pool in respect of losses and special payments.

£36.481 million of provisions relates to the potential liabilities of the former health authorities in respect of clinical negligence and personal injury claims for incidents which occurred before the establishment of NHS trusts.

**19 Contingent liabilities**

	2007-2008 £000	2006-2007 £000
<b>Local Health Boards reported contingent liabilities as follows:</b>		
Legal claims for alleged medical or employer negligence	79,906	79,961
Other	16,966	14,851
	<u>96,872</u>	<u>94,812</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 2007-08 accounts for these items.

£69.313 million of contingent liabilities relate solely to the former health authorities in respect of clinical negligence and personal injury claims for incidents which occurred before the establishment of NHS trusts.

<b>20</b>	<b>Losses, special payments and irrecoverable debts: charge to other programme expenditure</b>	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
	Clinical negligence	<b>11,041</b>	<b>(847)</b>
	Personal injury	<b>293</b>	451
	All other losses and special payments	<b>113</b>	147
	Defence legal fees and other administrative costs	<b>105</b>	318
	Gross increase / (decrease) in provision for future payments	<b>11,552</b>	69
	Irrecoverable debts	<b>(2)</b>	19
	Less: income received/due from Welsh Risk Pool	<b>(11,333)</b>	176
	<b>Net cost</b>	<b>217</b>	264
<hr/>			
<b>21</b>	<b>Losses and special payments: cash payments</b>	<b>Number of cases</b>	<b>Value £</b>
	Clinical negligence	21	31,118,990
	Personal injury	8	349,099
	All other losses and special payments	1,111	45,580
		<b>1,140</b>	<b>31,513,669</b>
	Of which, cases over £250,000, paid out during the year:		
	Clinical negligence	10	30,599,903
		<b>10</b>	<b>30,599,903</b>
	Also, of which, cases of cumulative interim payments over £250,000:		
	Clinical negligence	12	35,059,403
		<b>12</b>	<b>35,059,403</b>

## **22 Capital commitments**

Local Health Boards had £1,332,000 contracted capital commitments and £1,455,000 non contracted commitments as at 31 March 2008 (2006-07 £128,000).

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## **23 Related party transactions**

The Welsh Assembly Government was regarded as a related party. During the year the local health boards had a significant number of material transactions with Welsh Assembly Government 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.

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## **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 the National Assembly for Wales. 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.

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## **25 Post Balance Sheet Event**

On 16 July 2008, the Minister for Health and Social Services announced her intention to work upon proposals for the establishment of seven health organisations to take on the functions carried out by both NHS trusts and local health boards. Work upon these proposals will be developed after the 2008 summer recess.

## **THE NATIONAL HEALTH SERVICE IN WALES - LOCAL HEALTH BOARDS IN WALES**

### **SUMMARISED ACCOUNTS DIRECTION GIVEN BY WELSH MINISTERS WITH THE APPROVAL OF H M TREASURY IN ACCORDANCE WITH SECTION 178, SCHEDULE 9, PARA 5(2) OF THE NATIONAL HEALTH SERVICE (WALES) ACT 2006**

1. Welsh Ministers with the approval of H M Treasury direct that a summarised account shall be prepared for the financial year ended 31 March 2008 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 2008 (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 Foreword, Statement of Internal Control and Balance Sheet shall be signed by the Accounting Officer and dated.

#### **MISCELLANEOUS**

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

7. This direction supersedes the direction dated 10 July 2006.

Signed Peter Ryland  
17th July 2008  
Chief Accountant  
Welsh Assembly Government

## **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 foreword to the accounts.
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 foreword to the accounts shall include a statement that the summarised account has been prepared to comply with a Direction given by Welsh Ministers with the approval of H M Treasury in accordance with Section 178, Schedule 9, Para 5 (2) of the NHS (Wales) Act 2006.
2. The foreword to the accounts 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 Welsh Assembly Government and Accounting Officer's responsibilities**

Section 129 (6) of the Government of Wales Act 2006 requires that the Principal Accounting Officer for the Welsh Ministers, is the Permanent Secretary to the Welsh Assembly Government. Section 133(2) of the same Act enables the Principal Accounting Officer for the Welsh Ministers to designate other members of the Welsh Assembly Government staff as Additional Accounting Officers.

Under these arrangements, the Head, Department for Health and Social Services and Chief Executive, NHS Wales has been appointed as an Additional Accounting Officer. Her relevant responsibilities, for the Summarised Account of NHS Trusts in Wales, 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 Memorandum for Additional Accounting Officers.

Section 178, Schedule 9, Para 5(2) of the National Health Service (Wales) Act 2006 requires the Welsh Assembly Government 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 Additional Accounting Officer for the NHS in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of Welsh Assembly Government'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 Secretary in their role as Principal Accounting Officer under section 133(2) of the Government of Wales Act 2006.

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 (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 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 2008 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 2007-08 Trust Boards were required to self assess against the Healthcare Standards, which incorporate the Welsh risk management standards 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 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 former 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 has been developed to incorporate key elements from the Welsh Risk Management Standards (WRMS) for a single assessment process of assurance within NHS Wales.

2007-08 is the second year that Healthcare Standards for Wales have been used across Wales and this is the first year that they have been used to underpin the Statement of Internal Control (SIC).

#### **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 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 2007-08.

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 and the Balanced Scorecard,
- 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 2007-08 NHS Trusts were required to outline their 2007-08 self assessment of performance against the Healthcare Standards for Wales and in particular those that underpin the management of risk across all Standards:

- Healthcare standard 14 – Health & Safety of Patients, Staff and the Public.
- Healthcare standard 16 – A Learning Process from Incidents.
- Healthcare standard 27 – Best Practice Governance Arrangements.
- Healthcare standard 28 – High Quality Clinical Governance.

Performance against most, if not all healthcare standards contribute to overall good risk management across the range of the organisations' activities, therefore organisations should:

- Confirm that they have completed a self-assessment against all healthcare standards for 2007/08, to include a description of the process in place for completing the process, including Board engagement and sign off.
- Confirm that a healthcare standards improvement plan for the year is in place which has been agreed by the Board and how the Board is assured of progress against it.
- Describe key ways in which healthcare standards are embedded in the activity of the organisation.

Each of the 32 Healthcare Standards for Wales were assessed on the following matrix:

Maturity Level	1- Aware	2 - Responding	3 - Developing	4 - Practicing	5- Leading
Corporate					
Operational					
User Experience					
Overall					

For consistency across Wales in respect of the Healthcare standards and particularly the work in relation to the Statement of Internal Control, it was agreed that in 2007-08 Internal Auditors would undertake the following work as a minimum:

- Review the self assessment input on the HIW HCS tool for the 4 key standards specified in the SIC. To include a review of the explanation, the evidence that supports the explanation and the appropriateness of the self-assessed score in consideration of the maturity matrix requirements.
- Assess the process adopted by each organisation in preparing and completing the self assessment.
- Review action plans and the process for monitoring progress, evaluating what improvements have been demonstrated for those areas that were reported as being aware and/or responding.
- Confirm that the Board are appropriately engaged.

All trusts were required to submit their Healthcare standard self-assessment scores to HIW on or before 19<sup>th</sup> June 2008. The 2006-07 assessments will be used to set the baseline for inspection and improvement.

In 2007-08 the 14 Welsh NHS trusts achieved the following self assessment overall performance against the 4 Healthcare Standards for Wales that underpin the management of risk across all Standards.

	Standard 14	Standard 16	Standard 27	Standard 28
	%	%	%	%
3 - Developing	36	43	43	29
4 - Practising	64	57	57	71

## **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.

## **Electronic Staffing Records**

During 2007-08 problems were encountered with the Employee Service Records (ESR) payroll system at a national level. Work undertaken by Internal Audit functions and the Wales Audit Office on the ESR system does not indicate that any material errors have occurred as a result. A National user group was established which is eliminating problems with the system. Individual Trusts have undertaken additional internal monitoring of payroll data in order to mitigate the control weaknesses and associated risks.

## **Public Sector Payment Policy**

The fall in prompt payment performance to 92% for NHS Trusts across Wales was due to the changeover to a new financial management system in one West Wales NHS Trust and the introduction of the Business Services Partnership which provides shared services for the Trusts in North Wales. The backlog due to the changeover to a new financial system was addressed and 95% compliance was achieved for the second half of 2007-08. The North Wales Trusts have worked with the Business Services Partnership throughout the year to improve this performance.

## **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 2007-08 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 Additional 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 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 31<sup>st</sup> March 2008. 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.

A handwritten signature in black ink, appearing to read 'Ann Lloyd', with a long horizontal line underneath it.

Ann Lloyd  
Head, Department for Health and Social Services,  
Chief Executive, NHS Wales and Additional Accounting Officer for the NHS in Wales  
31<sup>st</sup> July 2008

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

I certify that I have audited the financial statements of the Summarised Account of the NHS Trusts in Wales for the year ended 31 March 2008 under paragraph 5 of schedule 9 to the National Health Service (Wales) Act 2006. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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

The Director of NHS Wales as Additional Accounting Officer is responsible on behalf of Welsh Ministers for preparing the financial statements in accordance with paragraph 5 of schedule 9 to the National Health Service (Wales) Act 2006 and HM Treasury directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Additional Accounting Officer's Responsibilities.

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

I report my opinion to you as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with paragraph 5 of schedule 9 of the National Health Service (Wales) Act 2006 and HM Treasury directions made there under. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition I report to you if in my opinion, the Welsh Assembly Government 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 Internal Control reflects the Additional Accounting Officer's and the NHS Trusts in Wales' compliance with HM Treasury guidance and report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of the Welsh Assembly Government's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

I conducted my audit in accordance with the National Health Service (Wales) Act 2006 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Additional Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the NHS Trusts in Wales' circumstances, and are 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 error and that in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial

transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Without qualifying my opinion, I draw your attention to additional paragraphs within my audit certificates on the individual accounts for 2007-08 of the Carmarthenshire NHS Trust, the Ceredigion and Mid Wales NHS Trust and the Pembrokeshire and Derwen NHS Trust. In those paragraphs, I highlighted to the reader the inclusion of provisions for severance costs totalling £1,763,000. In my opinion, these provisions were not compliant with the requirements of Financial Reporting Standard 12 and should instead have been accounted for as a charge in the 2008-09 financial year.

### **Opinion**

In my opinion:

- the financial statements give a true and fair view in accordance with the National Health Service (Wales) Act 2006 and directions made thereunder by HM Treasury of the state of the affairs of the NHS Trusts in Wales as at 31 March 2008 and of their deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by HM Treasury.

### **Opinion on Regularity**

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

### **Report**

I have no observations to make on these financial statements.

Jeremy Colman  
Auditor General for Wales  
11 August 2008

Wales Audit Office  
24 Cathedral Road  
Cardiff  
CF11 9LJ

## Income and Expenditure for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
Income from activities	2	3,183,263	2,971,613
Other operating income	3	<u>354,752</u>	<u>353,100</u>
Total income		<b>3,538,015</b>	<b>3,324,713</b>
Operating expenses	4	<u>(3,481,138)</u>	<u>(3,287,008)</u>
<b>Operating surplus</b>		<b>56,877</b>	<b>37,705</b>
(Loss) / Profit on disposal of fixed assets		<u>(586)</u>	<u>2,709</u>
<b>Surplus before interest</b>		<b>56,291</b>	<b>40,414</b>
Interest receivable		13,937	10,789
Interest payable	6	(689)	(864)
Other finance costs	13	<u>(775)</u>	<u>(590)</u>
<b>Surplus on ordinary activities</b>		<b>68,764</b>	<b>49,749</b>
Public dividend capital dividends payable		<u>(71,509)</u>	<u>(64,078)</u>
<b>Deficit for the year</b>		<b><u>(2,745)</u></b>	<b><u>(14,329)</u></b>

All operations are continuing

*The notes on pages 14 to 36 form part of this account.*

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	Note	2007-08 £000	2006-07 £000
<b>Surplus on ordinary activities</b>		<b>68,764</b>	49,749
Indexation and revaluation of tangible fixed assets	15	<b>109,256</b>	109,519
Adjustment to reserves on impairment	15	<b>(7,608)</b>	(3,244)
Other movements on the donated and government granted asset reserves	15	<b>1,512</b>	(885)
Additions in other reserves	15	<b>(379)</b>	(121)
<b>Total gains recognised in the financial year</b>		<b><u>171,545</u></b>	<u>155,018</u>

*The notes on pages 14 to 36 form part of this account.*

**Balance Sheet as at 31 March 2008**

	Notes	31 March 2008 £000	31 March 2007 £000
<b>Fixed assets</b>			
Intangible assets	7	8,204	9,986
Tangible assets	8.1	2,411,189	2,154,455
Investment Assets	8.3	-	379
		<b>2,419,393</b>	<b>2,164,820</b>
<b>Current assets</b>			
Stocks and work-in-progress	9	39,600	35,255
Debtors:			
amounts falling due within one year	10	262,311	237,441
Investments	11	55,651	39,292
Cash at bank and in hand	18	17,329	13,735
		<b>374,891</b>	<b>325,723</b>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	12.1	(266,330)	(230,599)
<b>Net current assets</b>			
		<b>108,561</b>	<b>95,124</b>
<b>Debtors</b>			
amounts falling due after more than one year	10	73,769	82,263
<b>Creditors: amounts falling due</b>			
after more than one year	12.2	(60,827)	(49,633)
Provisions for liabilities and charges	13	(258,276)	(277,304)
<b>Total net assets</b>			
		<b>2,282,620</b>	<b>2,015,270</b>
<b>Financed by:</b>			
<b>Capital</b>			
Public dividend capital	14	1,500,965	1,333,651
<b>Reserves</b>			
Revaluation reserve	15	801,922	703,722
Donated asset reserve	15	40,664	41,688
Government grant reserve	15	613	467
Other reserves	15	-	379
Income and expenditure reserve	15	(61,544)	(64,637)
		<b>2,282,620</b>	<b>2,015,270</b>

*The notes on pages 14 to 36 form part of this account.*



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

31 July 2008

## Cash Flow Statement for the year ended 31 March 2008

		2007-08	2006-07
	Note	£000	£000
<b>Net cash inflow from operating activities</b>	16	<b>159,810</b>	130,762
<b>Returns on investments and servicing of finance</b>			
Interest received		13,915	10,698
Interest paid		(62)	(121)
Interest element of finance leases		(694)	(797)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>13,159</b>	9,780
<b>Capital expenditure</b>			
Payments to acquire tangible fixed assets		(264,821)	(169,638)
Receipts from sale of tangible fixed assets		11,687	5,943
Payments to acquire intangible fixed assets		(4,749)	(4,195)
<b>Net cash outflow from capital expenditure</b>		<b>(257,883)</b>	(167,890)
<b>Public dividend capital dividends paid</b>		<b>(70,130)</b>	(63,464)
<b>Management of liquid resources</b>			
Purchase of current asset investments		(863,795)	(627,350)
Sale of investments		847,420	630,830
<b>Net cash outflow from management of liquid resources</b>		<b>(16,375)</b>	3,480
<b>Net cash outflow before financing</b>		<b>(171,419)</b>	(87,332)
<b>Financing</b>			
Public dividend capital received		184,467	87,205
Public dividend capital repaid		(17,153)	(11,590)
Government loans received: short term		620	2,500
Government loans repaid: short term		(620)	(2,500)
Loan advances/brokerage received		10,676	10,409
Loan advances/brokerage repaid		(7,816)	-
Other capital receipts		3,825	2,260
Capital element of finance leases and on Balance Sheet PFI rentals		106	(461)
<b>Net cash inflow from financing</b>		<b>174,105</b>	87,823
<b>Increase in cash</b>	17	<b>2,686</b>	491

*The notes on pages 14 to 36 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. 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.

#### **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.

Valuations are carried out by the District Valuers of the Inland Revenue Government Department 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 1 April 2007 and are reflected in the 2007-08 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.

Adjustments arising from indexation and five-yearly revaluations are in the first instance taken to the relevant 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 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, via the Trust's main commissioner. 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 Welsh Assembly Government 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**

Whilst it is accounting convention that stocks and work-in-progress are valued at the lower of cost and net realisable value, it should be recognised that the NHS is a special case in that stocks are not generally held for the intention of resale and indeed there is no market readily available where such items could be sold. Thus due to the high turnover of stocks, items are valued at cost. 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 Current Asset Investments**

Current asset investments are readily disposable investments held by the NHS Trusts that may be disposed of without curtailing or disrupting the NHS Trust's business. Trusts may only invest in instruments and institutions approved by the Welsh Assembly Government.

### **1.12 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.

### **1.13 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.

### **1.14 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.

### **1.15 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 22 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.

### **1.16 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 actuarial investigation every four years. The main purpose of which is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such investigation, on the conclusions of which scheme contribution rates are currently based, had an effective date of valuation on this basis and took place as at 31 March 2004 and covered the period from 1 April 1999 to that date. Between the full actuarial valuations, the Government Actuary provides an annual update of the scheme liabilities for FRS 17 purposes. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Service Authority - Pensions Division website at [www.nhs.gov.uk](http://www.nhs.gov.uk). Copies can also be obtained from The Stationery Office.

The conclusion of the 2004 investigation was that the scheme had accumulated a notional deficit of £3.3 billion against notional assets as at 31 March 2004. This is after making some allowance for the one-off effective of pay modernisation, but before taking into account any of the scheme changes which come into effect on 1 April 2008. Taking into account the changes in the benefit and contribution structure effective from 1 April 2008, employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008 employees paid contributions of 6% (manual staff 5%) of their pensionable pay. From 1 April 2008, employees will pay contributions according to a tiered scale from 5% up to 8.5% 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 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.

### **1.17 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.

### **1.18 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.

**1.19 Deferred income**

Income received from sources other than the Welsh Assembly Government, 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.

**1.20 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 13 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.

**1.21 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.

**1.22 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.

**1.23 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.

**1.24 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.

**1.25 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>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Local Health Boards	2,526,033	2,437,100
Health Commission Wales	421,251	398,739
Strategic health authorities and primary care trusts	23,597	20,314
Foundation Trusts	24	33
Local Authorities	19,854	15,684
Welsh Assembly Government	149,914	57,004
Non NHS:		
Private patient income	9,262	9,770
Overseas patients non-reciprocal	438	1,264
Road Traffic Act charges	11,746	9,691
Other income from activities	21,144	22,014
	<b>3,183,263</b>	<b>2,971,613</b>

The increase in income from the Welsh Assembly Government is predominantly due to the transfer of the Workforce Development Education and Contracting Unit (WEDCU) budgets to Bro Morgannwg NHS Trust as from 1 June 2007.

<b>3. Other operating income</b>	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Education, training and research	157,480	152,184
Charitable and other contributions to expenditure	14,415	14,642
Transfer from the donated asset reserve	4,479	4,859
Transfer from the government grant reserve	16	8
Non-patient care income generation schemes	15,842	14,996
Patient transport services	14	32
Other income:		
Provision of laundry, pathology, payroll services	14,736	14,882
Accommodation and catering charges	15,995	16,094
Mortuary fees	1,146	1,066
Staff payments for use of cars	2,356	2,377
Other	128,273	131,960
	<b>354,752</b>	<b>353,100</b>

The main contributors to other income of £128,273k within other operating income, other income are:

National Public Health Service	25,585	23,971
Ambulance Radio Re-procurement Project	7,506	1,334
Welsh Risk Pool Income	5,261	6,844
Other	4,548	4,161
Funding re capital charges and minor capital schemes	4,305	30
Non Staff SLA's with Cardiff University	3,749	3,672
Other minor services income	3,028	3,095
Non-ambulance transport for other NHS Trusts	2,708	2,675
Staff Recharges	2,279	2,292
Program Management Unit Funding	2,061	2,139
Pharmacy Income	1,704	415
Informing Healthcare Funding	1,067	1,470
	<b>63,801</b>	<b>52,098</b>

Further details are available in the individual NHS Trust Accounts.

**4. Operating expenses**

<b>4.1 Operating expenses comprise</b>	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
Goods and services from other NHS bodies	7,903	4,529
Goods and services from other NHS Foundation Trusts	317	190
Goods and services from non-NHS bodies	8,871	24,860
Directors' costs	11,086	10,962
Staff costs	2,464,891	2,354,799
Supplies and services - clinical	437,856	405,315
Supplies and services - general	47,292	47,512
Consultancy services	9,581	9,211
Establishment	75,780	69,679
Transport	29,202	31,089
Premises	129,588	124,953
Amortisation	2,744	2,640
Depreciation	114,081	113,861
Fixed asset impairments and reversals	1,435	1,230
Audit fees	2,690	2,408
Other auditors' remuneration	3	5
Losses, special payments and irrecoverable debts	44,656	60,573
Other	93,162	23,192
	<b>3,481,138</b>	<b>3,287,008</b>
Included within Other Operating costs of £93,162k are:		
Workforce Development Education and Contracting Unit	76,292	
Ambulance Radio Re-procurement Project	6,300	
Losses	6,019	
Potential Redundancy costs	2,236	
	<b>90,847</b>	
<b>4.2 Losses, special payments and irrecoverable debts: charges to operating expenses</b>		
	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
<b>Increase in provision for future payments:</b>		
Clinical negligence	32,772	53,099
Personal injury	7,368	2,999
All other losses and special payments (excluding bad debts)	701	488
Defence legal fees and other administrative costs	2,887	2,292
Gross increase/decrease in provision for future payments	43,728	58,878
Premium for other insurance arrangements	19	18
Irrecoverable debts	909	1,677
<b>Total charge</b>	<b>44,656</b>	<b>60,573</b>

Personal injury includes £1,004k (2006-07 £1,089k) 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>2007-08</b>	2006-07	<b>2007-08</b>	2006-07
	<b>£000</b>	£000	<b>£000</b>	£000
Operating leases which expire:				
Within 1 year	<b>64</b>	990	<b>3,816</b>	3,962
Between 1 and 5 years	<b>1,580</b>	313	<b>7,758</b>	8,515
After 5 years	<b>8,254</b>	847	<b>744</b>	636
	<b>9,898</b>	2,150	<b>12,318</b>	13,113

Operating expenses include £13,924k for operating lease rentals (2006-07: £16,205k) and £4,871k for hire of plant/machinery (2006-07: £3,350k).

**4.4 Board members' remuneration**

	<b>Remuneration as Director</b>	<b>Other remuneration</b>	<b>2007-08 Total</b>	2006-07
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Non-executive directors' remuneration	1,384	-	<b>1,384</b>	1,397
Executive directors' remuneration:				
basic salaries	6,916	1,225	<b>8,141</b>	8,145
benefits	127	3	<b>130</b>	144
pension contributions paid	943	127	<b>1,070</b>	1,061
Compensation for loss of office	218	1,793	<b>2,011</b>	-
Pensions for directors and former directors (other than from the NHS pension scheme)	-	41	<b>41</b>	30
	<b>9,588</b>	3,189	<b>12,777</b>	10,777

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

	<b>Permanent Staff</b>	<b>Staff on Inward Secondment</b>	<b>Agency Staff</b>	<b>2007-08 Total</b>	2006-07 Total
	£000	£000	£000	£000	£000
Salaries and wages	2,027,052	4,481	42,674	<b>2,074,207</b>	1,985,912
Social security costs	154,169	16	938	<b>155,123</b>	149,595
Pension costs	242,255	19	1,578	<b>243,852</b>	228,581
Other pension costs	1,327	-	-	<b>1,327</b>	183
	<b>2,424,803</b>	<b>4,516</b>	<b>45,190</b>	<b>2,474,509</b>	<b>2,364,271</b>

### 5.2 Average number of employees

No of staff expressed as whole time equivalents:

	<b>Permanent Staff</b>	<b>Staff on Inward Secondment</b>	<b>Agency Staff</b>	<b>2007-08 Total</b>	2006-07 Total
	Number	Number	Number	Number	Number
Medical and dental	5,529	39	246	<b>5,814</b>	5,725
Ambulance staff	2,142	-	-	<b>2,142</b>	2,164
Administrative and estates	13,760	10	206	<b>13,976</b>	13,527
Healthcare assistants and other support staff	11,185	1	143	<b>11,329</b>	11,050
Nursing, midwifery and health visiting staff	25,111	10	313	<b>25,434</b>	25,887
Nursing, midwifery and health visiting learners	143	-	-	<b>143</b>	35
Scientific, therapeutic and technical staff	9,775	6	73	<b>9,854</b>	9,146
Social Care Staff	2	-	5	<b>7</b>	3
Other	86	-	2	<b>88</b>	405
	<b>67,733</b>	<b>66</b>	<b>988</b>	<b>68,787</b>	<b>67,942</b>

### 5.3 Retirement costs due to ill-health

During 2007-08 there were 150 (2006-07: 172) 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 £7,440k (2006-07: £10,472k).

**6. Interest payable**

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Further Government borrowing	-	62
Finance leases	<b>689</b>	802
	<b>689</b>	864

**7. Intangible assets**

	<b>Software Licences £000</b>
<b>Valuation</b>	
At 1 April 2007	<b>13,550</b>
Additions	<b>973</b>
Disposals	<b>(24)</b>
<b>At 31 March 2008</b>	<b>14,499</b>
<b>Amortisation</b>	
At 1 April 2007	<b>3,564</b>
Provided during the year	<b>2,744</b>
Disposals	<b>(13)</b>
<b>At 31 March 2008</b>	<b>6,295</b>
<b>Net book value at 31 March 2008</b>	<b>8,204</b>
Net book value at 31 March 2007	9,986

**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	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	Total £000
				£000					
At 1 April 2007	261,079	1,869,731	62,278	89,673	416,244	25,322	64,152	12,900	<b>2,801,379</b>
Indexation	-	-	-	-	293	-	-	2	<b>295</b>
Additions	3,894	50,461	32	170,935	41,310	707	11,667	787	<b>279,793</b>
Reclassifications	674	75,879	(3,093)	(103,409)	12,662	17,069	1,650	(1,432)	-
Impairments	(4)	(7,427)	(40)	-	(1,164)	-	(86)	-	<b>(8,721)</b>
Other in-year revaluations	275,216	(369,241)	(3,456)	(5,833)	85	-	(52)	(2)	<b>(103,283)</b>
Disposals	(7,173)	(813)	(347)	-	(39,810)	(2,024)	(6,977)	(31)	<b>(57,175)</b>
<b>At 31 March 2008</b>	<b>533,686</b>	<b>1,618,590</b>	<b>55,374</b>	<b>151,366</b>	<b>429,620</b>	<b>41,074</b>	<b>70,354</b>	<b>12,224</b>	<b>2,912,288</b>
<b>Depreciation</b>									
At 1 April 2007	-	293,384	11,108	553	277,587	13,894	42,524	7,874	<b>646,924</b>
Indexation	-	-	-	-	162	-	-	1	<b>163</b>
Reclassifications	-	1,053	(13)	(96)	979	-	(302)	(1,621)	-
Impairments	-	488	-	-	(175)	-	-	-	<b>313</b>
Reversal of impairments	-	-	-	-	-	-	-	-	-
Other in-year revaluations	-	(202,423)	(9,571)	(324)	(25)	-	(52)	(2)	<b>(212,397)</b>
Disposals	-	(150)	14	-	(38,889)	(1,979)	(6,950)	(31)	<b>(47,985)</b>
Provided during the year	-	66,182	1,409	-	34,545	4,761	6,339	845	<b>114,081</b>
<b>At 31 March 2008</b>	<b>-</b>	<b>158,534</b>	<b>2,947</b>	<b>133</b>	<b>274,184</b>	<b>16,676</b>	<b>41,559</b>	<b>7,066</b>	<b>501,099</b>
<b>Net book value 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 at 31 March 2008</b>	<b>533,686</b>	<b>1,460,056</b>	<b>52,427</b>	<b>151,233</b>	<b>155,436</b>	<b>24,398</b>	<b>28,795</b>	<b>5,158</b>	<b>2,411,189</b>
<b>Net book value of assets held under finance leases and hire purchase contracts</b>									
<b>Total</b>	<b>15</b>	<b>3,688</b>	<b>-</b>	<b>3,443</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,146</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>466</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>466</b>

Of the net book value totals at 31 March 2008, £2,083k related to land and £2,777k related to buildings installations and fittings valued at open market value.

## 8.2 Fixed asset investments as a result of PFI contracts as at the balance sheet date included within Note 8.1

	<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 2007	5,078	29,993	229	248	<b>35,548</b>
Revaluation	9,853	(2,128)	-	-	<b>7,725</b>
Additions - purchased	740	1,333	29	-	<b>2,102</b>
Depreciation	-	(59)	-	(248)	<b>(307)</b>
<b>At 31 March 2008</b>	<b><u>15,671</u></b>	<b><u>29,139</u></b>	<b><u>258</u></b>	<b><u>-</u></b>	<b><u>45,068</u></b>

## 8.3 Fixed Asset Investments

	<b>31 March 2008 £000</b>	<b>31 March 2007 £000</b>
Opening Investment	379	500
Revaluation	(379)	(121)
<b>Total</b>	<b><u>-</u></b>	<b><u>379</u></b>

The fixed asset investment relates to an investment at Bro Morgannwg in Zoobiotics Ltd maggot therapy. Given the trading position of the company, the Trust has written out the reserve from its balance sheet.

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

	<b>31 March 2008 £000</b>	<b>31 March 2007 £000</b>
Freehold	<b>1,991,515</b>	1,841,089
Long leasehold	<b>53,598</b>	44,848
Short leasehold	<b><u>1,056</u></b>	<u>2,659</u>
	<b><u>2,046,169</u></b>	<u>1,888,596</u>

<b>9. Stock</b>	<b>31 March</b>	31 March
	<b>2008</b>	2007
	<b>£000</b>	£000
Raw materials and consumables	39,572	35,213
Work-in-progress	-	-
Finished processed goods	28	42
<b>Total</b>	<b>39,600</b>	<b>35,255</b>

<b>10. Debtors</b>	<b>31 March</b>	31 March
	<b>2008</b>	2007
	<b>£000</b>	£000
<b>Amounts falling due within one year:</b>		
NHS debtors	181,789	167,967
PDC dividend debtors	2,810	1,690
Other debtors	53,519	49,573
Provision for irrecoverable debts	(7,019)	(6,143)
Other prepayments and accrued income	31,212	24,354
	<b>262,311</b>	<b>237,441</b>
<b>Amounts falling due after more than one year:</b>		
NHS debtors	58,216	68,793
Other prepayments and accrued income	10,806	11,130
Other debtors	4,747	2,340
Subtotal	<b>73,769</b>	<b>82,263</b>
	<b>336,080</b>	<b>319,704</b>

<b>11. Current Asset Investments</b>	<b>31 March</b>	31 March
	<b>2008</b>	2007
	<b>£000</b>	£000
Government securities	55,650	39,275
Other	1	17
<b>Total</b>	<b>55,651</b>	<b>39,292</b>

**12. Creditors**

	<b>31 March</b>	31 March
<b>12.1 Amounts falling due within one year:</b>	<b>2008</b>	2007
	<b>£000</b>	£000
Bank overdrafts	1,481	573
Public dividend capital loan advance/brokerage	2,825	7,816
Payments received on account	1,225	1,094
NHS creditors	27,149	22,999
Non-NHS trade creditors - revenue	70,151	61,478
Non-NHS trade creditors - capital	29,635	23,424
Non-NHS trade creditors - losses and special payments	23	15
Tax and social security costs	30,724	28,930
PDC dividend payable	1,617	(883)
Obligations under finance leases and hire purchase contracts	525	214
Obligations under PFI schemes	693	672
Other creditors - superannuation	11,807	5,680
Other creditors - all other creditors	30,341	29,331
Accruals	55,416	48,444
Deferred income	2,718	812
	<u>266,330</u>	<u>230,599</u>

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

	<b>31 March</b>	31 March
	<b>2008</b>	2007
Public dividend capital loan advance/brokerage	48,820	40,969
Obligations under finance leases and hire purchase contracts	5,041	1,558
Obligations under PFI schemes	6,265	6,957
NHS creditors	-	149
Other	701	-
	<u>60,827</u>	<u>49,633</u>

**12.3 Finance lease obligations**

	<b>31 March</b>	31 March
The future minimum lease payments under finance leases to which the trusts were committed were as follows:	<b>2008</b>	2007
	<b>£000</b>	£000
Within one year	1,298	1,099
Between one and two years	1,318	1,078
Between two and five years	3,323	2,218
After five years	8,288	8,509
Less finance charges allocated to future periods	(6,482)	(8,711)
	<u>7,745</u>	<u>4,193</u>

**13. Provisions for liabilities and charges**

	At 1 April 2007 £000	New provisions arising during the year £000	Reversed Unused £000	Utilised during the year £000	Unwind -ing of discount £000	At 31 March 2008 £000
Clinical negligence	166,828	70,447	(37,675)	(27,581)	-	<b>172,019</b>
Personal injury	25,479	10,121	(2,753)	(6,791)	426	<b>26,482</b>
All other losses and special payments	75	813	(112)	(594)	-	<b>182</b>
Defence legal fees and other administration	7,295	6,135	(3,248)	(2,664)	-	<b>7,518</b>
Sub-total	199,677	87,516	(43,788)	(37,630)	426	<b>206,201</b>
Pensions relating to:						
former directors	92	-	3	(7)	2	<b>90</b>
other staff	14,389	1,159	(142)	(1,197)	347	<b>14,556</b>
Other	63,146	18,954	(10,868)	(33,803)	-	<b>37,429</b>
	<b>277,304</b>	<b>107,629</b>	<b>(54,795)</b>	<b>(72,637)</b>	<b>775</b>	<b>258,276</b>

**Expected timing of cash flows:**

	Within 1 year £000	Between 2 & 5 years £000	After 5 years £000	Overall Total £000
Clinical Negligence	113,808	58,211	-	172,019
Personal Injury	12,609	3,544	10,329	26,482
All other losses and special payments	139	43	-	182
Defence legal fees and other administration	6,173	1,345	-	7,518
Pensions - former directors	90	-	-	90
Pensions - other staff	2,104	4,503	7,949	14,556
Other	37,327	106	(4)	37,429
<b>Total</b>	<b>172,250</b>	<b>67,752</b>	<b>18,274</b>	<b>258,276</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.

£19,612k of the other provision at the 31st March 2008 relates to the disclosure by ten of the NHS Trusts, 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>14. Analysis of changes in public dividend capital</b>	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
At 1 April	<b>1,333,651</b>	1,258,036
Public dividend capital repaid	<b>(17,153)</b>	(11,590)
Public dividend capital advanced in year	<b>184,467</b>	77,026
Public dividend capital transfer	<b>-</b>	10,179
<b>At 31 March</b>	<b><u>1,500,965</u></b>	<u>1,333,651</u>

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

	<b>Revaluation</b>	<b>Donated</b>	<b>Govern-</b>	<b>Other</b>	<b>Income &amp;</b>	<b>Total</b>
	<b>reserve</b>	<b>asset</b>	<b>ment</b>	<b>reserve</b>	<b>expenditure</b>	<b>£000</b>
	<b>£000</b>	<b>reserve</b>	<b>grant</b>	<b>£000</b>	<b>reserve</b>	<b>£000</b>
	<b>£000</b>	<b>£000</b>	<b>reserve</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 1 April 2007 as previously stated	703,722	41,688	467	379	(64,637)	<b>681,619</b>
Transfer from Income and Expenditure Account	-	-	-	-	(2,745)	<b>(2,745)</b>
Revaluation / indexation of fixed assets	112,527	(3,271)	-	-	-	<b>109,256</b>
Transfer of realised profits / (losses)	(356)	-	-	-	356	-
Assets donated/government granted in year	-	5,846	162	-	-	<b>6,008</b>
Depreciation and disposal of donated assets	-	(4,480)	(16)	-	-	<b>(4,496)</b>
Impairments	(7,608)	-	-	-	-	<b>(7,608)</b>
Other transfers between reserves	(6,363)	881	-	-	5,482	-
Other reserve movements	-	-	-	(379)	-	<b>(379)</b>
<b>At 31 March 2008</b>	<b><u>801,922</u></b>	<b><u>40,664</u></b>	<b><u>613</u></b>	<b><u>-</u></b>	<b><u>(61,544)</u></b>	<b><u>781,655</u></b>

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

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

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Operating surplus	<b>56,877</b>	37,705
Depreciation and amortisation charge	<b>116,825</b>	116,501
Fixed asset impairment	<b>1,435</b>	1,230
Transfer from the donated asset reserve	<b>(4,480)</b>	(4,859)
Transfer from the government grant reserve	<b>(16)</b>	(8)
(Increase) in stocks	<b>(4,345)</b>	(708)
(Increase) in debtors	<b>(8,351)</b>	(17,097)
Increase / (Decrease) in creditors	<b>20,921</b>	(26,092)
(Decrease) / Increase in provisions	<b>(19,056)</b>	24,090
<b>Net cash inflow from operating activities</b>	<b><u>159,810</u></b>	<u>130,762</u>

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

	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Increase in cash in the period	<b>2,686</b>	491
Cash inflow from new debt	<b>(11,296)</b>	(12,909)
Cash outflow from debt repaid and finance lease capital payments	<b>8,330</b>	2,961
Cash outflow from increase in liquid resources	<b>16,375</b>	(3,480)
Change in net debt resulting from cash flows	<b>16,095</b>	(12,937)
Non-cash changes in debt	<b>(3,443)</b>	20,219
Net debt at 1 April	<b>(531)</b>	(7,813)
<b>Net debt at 31 March</b>	<b><u>12,121</u></b>	<u>(531)</u>

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

	<b>At 1 April</b>	<b>Cash</b>	<b>Non-cash</b>	<b>At 31 March</b>
	<b>2007</b>	<b>flows</b>	<b>changes</b>	<b>2008</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	13,735	3,594	-	<b>17,329</b>
Bank overdrafts	(573)	(908)	-	<b>(1,481)</b>
Public dividend capital loans/brokerage	(48,785)	(2,860)	-	<b>(51,645)</b>
Finance leases	(4,193)	(106)	(3,443)	<b>(7,742)</b>
Current asset investments	39,285	16,375	-	<b>55,660</b>
	<b><u>(531)</u></b>	<b><u>16,095</u></b>	<b><u>(3,443)</u></b>	<b><u>12,121</u></b>

<b>19. Reconciliation of movements in funds</b>	<b>2007-08</b>	2006-07
	<b>£000</b>	£000
Surplus for the year	<b>68,764</b>	49,749
Reclassification of historic debt	-	9,676
Public dividend capital - dividends payable	<b>(71,509)</b>	(64,078)
	<b>(2,745)</b>	(4,653)
Indexation and revaluation of tangible fixed assets	<b>109,256</b>	109,519
Impairment to fixed assets	<b>(7,608)</b>	(3,244)
New public dividend capital and loans	<b>184,467</b>	87,205
Public dividend capital and Government loans repaid and extinguished	<b>(17,153)</b>	(11,590)
Movements on donated asset reserve	<b>1,366</b>	(902)
Movements on Government grant reserve	<b>146</b>	17
Other reserve movements	<b>(379)</b>	(121)
Net addition to Government funds	<b>267,350</b>	176,231
Government funds at 1 April	<b>2,015,270</b>	1,839,039
<b>Government funds at 31 March</b>	<b>2,282,620</b>	2,015,270

## 20. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £69,078k. (2006-07: £99,031k).

## 21. Contingent liabilities

At 31 March 2008, total disputed claims with a potential value of £215,348k (31 March 2007: £186,940k had been made against NHS trusts in Wales, of which £214,748k (31 March 2007: £186,340k) related to medical or employer negligence. 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 2007-08 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.

### Equal Pay Claims

The process of assessing these claims is at an early stage and as a result there is significant uncertainty regarding both the likelihood of success of any claims and the liability of the Trusts if any claims were to be successful. As a result of this uncertainty, no provision has been made for any potential costs which may arise.

**22. Losses and special payments**

	<b>Number of cases</b>	<b>2007-08 Value £</b>
<b>Paid out in year:</b>		
<b>Title</b>		
Clinical negligence	527	27,563,475
Personal injury	866	6,703,331
All other losses and special payments	2,975	1,185,480
	<b>4,368</b>	<b>35,452,286</b>
Of which, cases over £250,000, paid out during the year:		
Clinical negligence	23	17,902,654
Personal injury	1	1,975,444
All other losses and special payments	-	-
	<b>24</b>	<b>19,878,098</b>
Also, of which, cases of cumulative interim payments over £250,000		
Clinical negligence	53	51,814,837
Personal injury	4	4,446,904
All other losses and special payments	1	394,487
	<b>58</b>	<b>56,656,228</b>

**23. Related party transactions**

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

**24. Private finance transactions**

During 2007-08, 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 £107,800k. £20,692k has been included within operating expenses for these schemes. Trusts are committed to pay £30,498k 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 £789k has been credited within miscellaneous operating expenses. Further details are given in the individual trust accounts.

## 25. Third party assets

Trusts held £2,692k cash at bank and in hand and on deposit at 31 March 2008 (31 March 2007: £2,195k) 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.

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## 26. 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 the National Assembly for Wales. 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.

The NHS Trusts may hold any of the following financial assets and liabilities:

Assets: investments, long-term debtors and accrued income, short-term debtors and accrued income (not disclosed in this note as permitted by FRS 13), cash.

Liabilities: loans and overdrafts, long-term creditors, short-term creditors (not disclosed in this note as permitted by FRS 13), provisions arising from contractual arrangements, finance lease obligations, Public Dividend Capital.

## **27. Post Balance Sheet Events**

### **Reorganisation**

On the 1st April 2008 7 NHS Wales trusts, from the South East and Mid & West regions merged to form three new NHS Trusts.

- Bro Morgannwg and Swansea NHS Trusts to form Abertawe Bro Morgannwg University NHS Trust;
- Carmarthenshire, Ceredigion & Mid Wales and Pembrokeshire & Derwen NHS Trusts to form Hywel Dda NHS Trust
- North Glamorgan and Pontypridd & Rhondda NHS Trusts to form Cwm Taf NHS Trust.

On the 1st July 2008 2 NHS Trusts from the North Wales Region merged to form a new Trust.

- Conwy & Denbighshire and North East Wales NHS Trusts will form North Wales NHS Trust.

On 16th July 2008, the Minister for Health and Social Services announced the result of her consultation paper "Proposals to Change the Structure of the NHS in Wales". The Minister intends to work upon proposals for the establishment of seven health organisations to take on the functions carried out by both NHS Trusts and Local Health Boards. Work upon these proposals will be developed after the summer 2008 recess.

### **Summarised NHS Wales Trust Accounts 2007-08**

The Additional Accounting Officer authorised these financial statements for issue on 31st July 2008.

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

### **SUMMARISED ACCOUNTS DIRECTION GIVEN BY WELSH MINISTERS WITH THE APPROVAL OF HM TREASURY IN ACCORDANCE WITH SECTION 178, SCHEDULE 9, PARA 5(2) OF THE NATIONAL HEALTH SERVICES (WALES) ACT 2006**

1. The Welsh Ministers with the approval of H M Treasury direct that an account, summarised by consolidation, of the NHS Trusts in Wales shall be prepared in respect of the financial year ended 31 March 2008 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 October 2000.

Signed Peter Ryland  
17th July 2008  
Chief Accountant  
Welsh Assembly Government

## **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 178, Schedule 9, Para 5 (2) of the NHS (Wales) Act 2006.
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.