

# Gwent Healthcare NHS Trust

## Foreword

These accounts for the year ended 31 March 2007 have been prepared by the Gwent Healthcare NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form in which the National Assembly for Wales has, with the approval of Treasury, directed.

The main function of the trust is to provide secondary healthcare in the Newport, Caerphilly, Torfaen, Monmouth and Blaenau Gwent Local Health Board areas.

## INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2007

	Note	£000	2005-06 £000
<b>Income from activities</b>	3	<b>476,651</b>	450,026
<b>Other operating income</b>	4	<b>29,673</b>	28,145
<b>Total income</b>		<b>506,324</b>	478,171
<b>Operating expenses</b>	5	<b>(504,606)</b>	(476,236)
<b>Operating surplus/(deficit)</b>		<b>1,718</b>	1,935
Costs of fundamental reorganisation/restructuring		<b>0</b>	0
Profit/(loss) on disposal of fixed assets	8	<b>(43)</b>	(50)
<b>Surplus/(deficit) before interest</b>		<b>1,675</b>	1,885
Interest receivable		<b>1,127</b>	990
Interest payable	9	<b>(221)</b>	(239)
Other finance costs	16	<b>(140)</b>	(206)
<b>Surplus/(deficit) for the financial year</b>		<b>2,441</b>	2,430
Public Dividend Capital dividends payable		<b>(8,961)</b>	(8,518)
<b>Retained surplus/(deficit) for the year</b>	17	<b>(6,520)</b>	(6,088)

The Trust has recorded an Income and Expenditure deficit of £6.5m for the financial year 2006-2007. At the conclusion of the Service and Financial Framework for 2006-2007 the Trust was left with a recurring funding shortfall of £21m. The Trust developed a Strategic Change and Efficiency Programme (SCEP) to meet this shortfall which identified £12m savings in 2006-2007 rising to recurrent savings of over £23m. The programme forecast that a deficit of £9.0m would arise in 2006-2007.

The Trust achieved £2.5m in excess of the original planned savings; this reduced the planned deficit of £9.0m to a deficit of £6.5m.

The SCEP has been agreed by its partners and submitted to WAG as the basis for restoring financial balance in 2007-2008.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 MARCH 2007**

		2005-06
	£000	£000
	Note	
Surplus/(deficit) for the financial year before dividend payments		2,430
Fixed asset impairment losses	17	(48)
Unrealised surplus/(deficit) on fixed assets revaluations/indexation	17	5,628
Increases in the donated asset and government grant reserves due to receipt of donated and government grant finance assets	17	650
Reduction in the donated asset and government grant reserves due to the depreciation, impairment and disposal of donated and government grant financed assets	17	(276)
Additions/(reductions) in "other reserves"	17	0
Defined benefit scheme actuarial gains & losses		0
		<u>0</u>
Total recognised gains and losses for the financial year		8,384
Prior period adjustment	17	0
		<u>0</u>
<b>Total gains and losses recognised in the financial year</b>		<b><u>8,384</u></b>

**BALANCE SHEET AS AT 31 MARCH 2007**

	Note	£000	£000	31 March 2006 £000
<b>Fixed assets</b>				
Intangible assets	10	0		0
Tangible assets	11	278,625		261,073
Investment assets	11.4	0		0
			<u>278,625</u>	261,073
<b>Current assets</b>				
Stocks and work-in-progress	12	3,422		3,472
Debtors	13	83,751		65,297
Investments	14	0		5,500
Cash at bank and in hand	18.3	1,524		1,524
<b>Total current assets</b>			<u>88,697</u>	75,793
Creditors: amounts falling due within 1 year	15		<u>(29,558)</u>	(32,583)
<b>Net current assets/(liabilities)</b>			<u>59,139</u>	43,210
<b>Total assets less current liabilities</b>			<u>337,764</u>	304,283
Creditors: amounts falling due after more than one year	15		<u>(2,179)</u>	(2,423)
Provisions for liabilities and charges	16		<u>(65,215)</u>	(47,757)
<b>Total assets employed</b>			<u>270,370</u>	254,103
<b>Financed by:</b>				
<b>Taxpayer's equity</b>				
Public dividend capital	23.2		<u>182,058</u>	171,379
Revaluation reserve	17		<u>102,071</u>	90,177
Donated asset reserve	17		<u>1,759</u>	1,677
Government grant reserve	17		<u>0</u>	0
Other reserves	17		<u>0</u>	0
Income and expenditure reserve	17		<u>(15,518)</u>	(9,130)
<b>Total taxpayer's equity</b>			<u>270,370</u>	254,103

Signed on behalf of the Board on .....

Chairman .....

Chief Executive .....

Adopted by the Board on .....

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007**

	Note	£000	£000	2005-06 £000
<b>Operating activities</b>				
Net cash inflow from operating activities	18.1		<b>12,538</b>	24,839
<b>Returns on investments and servicing of finance</b>				
Interest received		<b>1,105</b>		990
Interest paid		<b>0</b>		(1)
Interest element of finance leases		<b>(221)</b>		(239)
<b>Net cash inflow/(outflow) from returns on investments and servicing of finance</b>			<b>884</b>	750
<b>Capital expenditure</b>				
Payments to acquire tangible fixed assets		<b>(25,021)</b>		(19,893)
Receipts from sale of tangible fixed assets		<b>144</b>		318
Payments to acquire/ receipts from sale of intangible assets		<b>0</b>		0
<b>Net cash inflow/(outflow) from capital expenditure</b>			<b>(24,877)</b>	(19,575)
Public dividend capital dividends paid			<b>(8,985)</b>	(8,138)
<b>Management of liquid resources</b>				
Purchase of current asset investments		<b>0</b>		(5,500)
Sale of investments		<b>5,500</b>		0
<b>Net cash inflow/(outflow) from management of liquid resources</b>			<b>5,500</b>	(5,500)
<b>Net cash inflow/(outflow) before financing</b>			<b>(14,940)</b>	(7,624)
<b>Financing</b>				
Public dividend capital received		<b>10,679</b>		7,982
Public dividend capital repaid (not previously accrued)		<b>(730)</b>		(151)
Public dividend capital repaid (accrued in previous period)		<b>0</b>		0
Government loans received: short term		<b>0</b>		0
Government loans repaid: short term		<b>0</b>		0
Loan advances/brokerage received		<b>5,216</b>		0
Loan advances/brokerage repaid		<b>0</b>		0
Other capital receipts		<b>0</b>		0
Capital element of finance leases		<b>(225)</b>		(207)
<b>Net cash inflow/(outflow) from financing</b>			<b>14,940</b>	7,624
<b>Increase/(decrease) in cash</b>	18.2		<b>0</b>	0

## Notes to the accounts

### 1. Accounting policies and other information

The National Assembly for Wales has directed that the financial statements of NHS trusts in Wales shall meet the accounting requirements of the NHS trust manual for accounts which shall be agreed with HM Treasury. The accounting policies contained in the manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Resource Accounting Manual to the extent that they are meaningful and appropriate to the NHS, as determined by the National Assembly for Wales as approved by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. Standard accounting policies are laid down in the manual for accounts and the Capital Accounting Manual. If a change in accounting policy is made it will be disclosed and accounted for in accordance with FRS18 and FRS3.

#### 1.1 Accounting convention

This account has been prepared under the historical costs convention, modified to account for the revaluation of fixed assets at their value to the business by reference to their current cost. NHS Trusts are not required to provide a reconciliation between current costs surpluses and deficits and historical cost surpluses and deficits.

#### 1.2 Acquisitions and discontinued operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer outside the public sector.

#### 1.3 Income recognition

Income is accounted for applying the accruals convention. The main source of income for the trust is from commissioners in respect of healthcare services provided under Service and Financial Framework agreements. Income for patient care provided for other NHS bodies is recognised in accordance with the terms and conditions of the NHS contracts. Where non NHS income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

#### 1.4 Intangible fixed assets

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.

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

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

#### 1.5 Tangible fixed assets

##### i. 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, they 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 more than £5000 and individually have a cost of more than £250; or
- form part of the initial equipping and setting up cost of a new building, ward or unit irrespective of their individual or collective cost.

**ii. Valuation**

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

Land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years and in the intervening years by the use of indices. The buildings index is based on the 'All in Tender Price Index' published by the Building Cost Information Service. The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

Valuations are carried out by the District Valuers of the Inland Revenue at 5 yearly intervals. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Assembly and HM Treasury. The last asset valuations were carried out as at 30 September 2002 and were reflected in the 2002-03 balance sheet values.

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

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

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

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

Residual interests in off-balance sheet Private Finance Initiative properties are included in tangible fixed assets as 'assets under construction and payments on account' where the PFI contract specifies the amount, or a nil value, at which the assets will be transferred to the Trust at the end of the contract. The residual interest is built up, on an actuarial basis, during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected fair value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer. The District Valuer should provide an estimate of the anticipated fair value of the assets on the same basis as the District Valuer values the NHS Trusts estate.

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

**iii. 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.

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Trust, 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.

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 the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale. Where there have been any significant changes to the useful economic life or residual values of assets, the reason and effect should be disclosed in the year of change. Where, under Financial Reporting Standard 11 a fixed asset impairment is charged to the Income and Expenditure account, offsetting income is paid by the Assembly via the Trust's main commissioner, to offset the charge. The income is used to repay Public Dividend Capital.

### **1.6 Fixed Asset Investments**

Fixed asset invests should be disclosed where the Trust has a participating interest held for the long-term, with a view to exercising control. Each category of investment should be separately disclosed

### **1.7 Donated fixed assets**

Donated 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 sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

### **1.8 Government grants**

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed.

### **1.9 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."

### **1.10 Leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Income and Expenditure Account 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 Income and Expenditure Account on a straight-line basis over the term of the lease.

### **1.11 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. PFI schemes are schemes under which the PFI operator receives an annual payment from the Trust for the services provided by the PFI operator in operating a property and for access to the property itself .

Where the balance of risks and rewards of ownership is borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the 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 the trust, the difference between the expected fair value of the residual 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 the trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

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

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

### **1.13 Research and development**

Expenditure on research is not capitalised. Expenditure on development is capitalised if it meets the following criteria:

- \* there is a clearly defined project;
- \* the related expenditure is separately identifiable;
- \* the outcome of the project has been assessed with reasonable certainty as to:
  - \* its technical feasibility;
  - \* its resulting in a product or service which will eventually be brought into use;
- \* adequate resources exist, or are reasonably expected to be available, to enable the project to be completed and to provide any consequential increases in working capital.

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. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. The trust is 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.

Fixed assets acquired for use in research and development are amortised over the life of the associated project.

### **1.14 Provisions**

The trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. In accordance with FRS 12 provisions are only recognised where the transfer of economic benefit is probable, and the amount can be reasonably estimated. 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. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 16.

### **1.15 Contingent Liabilities**

Contingent liabilities are recognised where the NHS Trust has

- 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.

Contingent assets are disclosed where a possible asset exists as a result of past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the NHS Trust's control". Contingent assets are disclosed only where the future outflow of economic benefit is considered to be probable".

### **1.16 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. 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.

The Trust accounts for all losses and special payments gross (including assistance from the Welsh Risk Pool). The Trust accrues or provides for the best estimate of its future payouts for certain or probable or liabilities and discloses all other potential payments as contingent liabilities, unless the probability of the liabilities becoming payable is remote.

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.

### **1.17 Pension costs**

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

The Scheme is subject to a full valuation for FRS17 purposes every four years. The last valuation took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employers contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. The next FRS17 valuation will be in 2008, in line with the Government Actuary full valuation review for employers' contribution rates. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Service Agency - Pensions Division website at [www.nhs.gov.uk](http://www.nhs.gov.uk). Copies can also be obtained from The Stationery Office.

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

NHS bodies are directed by the Secretary of State to charge employer's pension cost contributions to operating expenses as and when they become due.

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

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

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

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

#### **1.18 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 Trust does not hold any investments with maturity dates exceeding one year from the date of purchase.](#)

#### **1.19 Value added tax**

Most of the activities of the Trust 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.

#### **1.20 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.

#### **1.21 Third party assets**

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in note 27 to the accounts.

**1.22 Public Dividend Capital Dividends**

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

**1.23 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.

**2. Segmental reporting**

The Trust has no business segments as defined in SSAP25 - Segmental Reporting.

**3. Income from activities**

	£000	2005-06 £000
Local health boards	456,712	421,373
Health Commission Wales	2,512	2,132
NHS trusts	4,205	4,281
Strategic health authorities and primary care trusts	1,759	770
Foundation Trusts	0	0
Local authorities	2,254	1,841
National Assembly for Wales	5,293	15,948
Non NHS:		
Private patient income	1,119	1,344
Overseas patients (non-reciprocal)	37	19
Road Traffic Act charges/NHS Injury Costs Recovery (ICR) Scheme	1,247	1,458
Other income from activities	1,513	860
<b>Total</b>	<b>476,651</b>	<b>450,026</b>

RTA/ICR income is subject to a provision for doubtful debts of 7.7% to reflect expected rates of collection.

National Assembly income includes £4,696,000 to fund accelerated depreciation charge for 11 properties that will be surplus to requirements on completion of the Caerphilly and Blaenau Gwent new builds. See also Note 5.1

**4. Other operating income**

	£000	2005-06 £000
Patient transport services	0	0
Education, training and research	11,469	11,311
Charitable and other contributions to expenditure	799	0
Transfer from the donated asset reserve	349	276
Transfer from the government grant reserve	0	0
Non-patient care income generation schemes	5,399	5,254
Other income:		
Provision of laundry, pathology, payroll services	280	112
Accommodation and catering charges	3,052	3,011
Mortuary fees	127	114
Staff payments for use of cars	638	592
Laundry Services	2,187	2,219
Other	5,373	5,256
<b>Total</b>	<b>29,673</b>	<b>28,145</b>

2006-2007 is the first year that the Trust has reported Income from Charitable contributions in Note 4 to the accounts. Expenditure equal to this income has been charged to the appropriate operating expenses in Note 5.1 to the accounts.

## 5. Operating expenses

### 5.1 Operating expenses comprise

	£000	2005-06 £000
Goods and services from other NHS bodies	5,640	5,020
Goods and services from other NHS Foundation Trusts	0	0
Purchase of healthcare from non-NHS bodies	17,779	11,928
Directors' costs	954	952
Staff costs	360,417	350,922
Supplies and services - clinical	54,057	50,684
Supplies and services - general	10,994	11,515
Establishment	7,541	8,379
Transport	3,561	3,592
Premises	15,365	14,811
<b>Depreciation</b>	<b>19,041</b>	<b>13,370</b>
<b>Amortisation</b>	<b>0</b>	<b>0</b>
Fixed asset impairments and reversals	126	42
Audit fees	185	146
Other auditors' remuneration	0	0
Losses, special payments and irrecoverable debts	1,794	2,210
Other operating expenses	7,152	2,665
<b>Total</b>	<b>504,606</b>	<b>476,236</b>

Depreciation includes an accelerated depreciation charge of £4,696,000 for 11 properties that will be surplus to requirements on completion of the Caerphilly and Blaenau Gwent new builds. See also Note 3.

### 5.2 Losses, special payments and irrecoverable debts: charges to operating expenses

	£000	2005-06 £000
<b>Increase/decrease in provision for future payments:</b>		
Clinical negligence	21,271	3,183
Personal injury	599	2,092
All other losses and special payments	30	29
Defence legal fees and other administrative costs	506	390
Gross increase/decrease in provision for future payments	22,406	5,694
Contribution to Welsh Risk Pool	0	0
Premium for other insurance arrangements	0	0
Irrecoverable debts	304	116
<b>Less: income received/ due from Welsh Risk Pool</b>	<b>(20,916)</b>	<b>(3,600)</b>
<b>Total charge</b>	<b>1,794</b>	<b>2,210</b>

Personal injury includes £146,776 (2005-06 £484,366) in respect of permanent injury benefits.

Contributions to the Welsh Risk Pool are paid by the Welsh Assembly Government.

**5.3 Commitments under non-cancellable operating leases**

	<b>Land and buildings</b>		<b>Other leases</b>	
	<b>£000</b>	2005-06 £000	<b>£000</b>	2005-06 £000
Operating leases which expire:				
Within 1 year	<b>20</b>	29	<b>1,742</b>	641
Between 1 and 5 years	<b>163</b>	20	<b>2,741</b>	3,549
After 5 years	<b>60</b>	149	<b>283</b>	329
<b>Total</b>	<b>243</b>	198	<b>4,766</b>	4,519

Operating expenses include £3,647,541 for operating lease rentals (2005-06 £3,621,716) and £1,369,304 for hire of plant/machinery (2005-06 £1,530,609).

**5.4 Directors' remuneration**

	<b>Remuneration as Director £000</b>	<b>Other remuneration £000</b>	<b>Total £000</b>	2005-06 £000
Non-executive directors' remuneration	<b>138</b>	<b>0</b>	<b>138</b>	141
Executive directors' remuneration:				
basic salaries	<b>498</b>	<b>150</b>	<b>648</b>	634
benefits	<b>10</b>	<b>0</b>	<b>10</b>	9
performance related bonuses	<b>0</b>	<b>0</b>	<b>0</b>	0
pension contributions paid	<b>66</b>	<b>17</b>	<b>83</b>	80
Sub-total	712	167	<b>879</b>	864
Compensation for loss of office	<b>0</b>	<b>0</b>	<b>0</b>	0
Pensions for directors and former directors (other than from the NHS pension scheme)	<b>0</b>	<b>0</b>	<b>0</b>	0
<b>Total</b>	<b>712</b>	<b>167</b>	<b>879</b>	864

**5.4 Directors' remuneration (continued):**

The remuneration of the chairman, chief executive and (where the chief executive is not the highest paid member) the highest paid director is as follows:

	Remuneration as director £000	Other remuneration £000	Total £000	2005-06 £000
<b>Chairman</b>				
Basic remuneration	52	0	52	52
Benefits	1	0	1	2
	53	0	53	54
<b>Chief Executive</b>				
Basic salaries	160	0	160	158
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	160	0	160	158
Pension contributions	23	0	23	22
	183	0	183	180
<b>Highest paid director*</b>				
Basic salaries	34	150	184	179
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	34	150	184	179
Pension contributions	0	18	18	17
<b>Total</b>	34	168	202	196

The Medical Director was the highest paid director in 2006-07 and 2005-06.

The Trust only has to pay employer's pension contributions on the Medical Director's remuneration as a Consultant; his additional programme activity payments payable under the new Consultants Contract deal are non-superannuable.

## 6. Employee costs and numbers

### 6.1 Employee costs

	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2005-06
	£000	£000	£000	£000	£000
Salaries and wages	294,568	263	8,853	303,684	297,965
Social security costs	23,134	0	0	23,134	20,958
Pension costs	34,570	0	0	34,570	32,513
Other pension costs	(166)	0	0	(166)	289
<b>Total</b>	<b>352,106</b>	<b>263</b>	<b>8,853</b>	<b>361,222</b>	<b>351,725</b>

### 6.2 Average number of employees

	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2005-06
	Number	Number	Number	Number	Number
Medical and dental	873	1	3	877	886
Ambulance staff	0	0	0	0	0
Administrative and estates	1,864	2	4	1,870	1,973
Healthcare assistants and other support staff	2,538	0	19	2,557	2,728
Nursing, midwifery and health visiting staff	3,224	0	121	3,345	3,476
Nursing, midwifery and health visiting learners	0	0	0	0	0
Scientific, therapeutic and technical staff	1,427	0	14	1,441	1,484
Social care staff	0	0	0	0	0
Other	0	0	0	0	0
<b>Total</b>	<b>9,926</b>	<b>3</b>	<b>161</b>	<b>10,090</b>	<b>10,547</b>

### 6.3 Employee benefits

The Trust does not have an employee benefit scheme and no benefits were paid.

**6.4 Trust management costs**

	£000	Percentage of total income	2005-06	
			£000	Percentage of total income
Trust management costs	17,899	3.6%	18,391	3.8%
Income	501,330		478,129	

This cost information is collected using the definition for Trust management costs from WHC(2000)113.

**6.5 Retirement costs due to ill-health**

During 2006-07 (prior year 2005-06) there were 35 (20) early retirements from the Trust 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 Business Services Authority - Pensions Division) will be £2,160,026 (£890,194).

**7. Public Sector Payment Policy - Measure of Compliance****7.1 Prompt payment code - measure of compliance**

The Assembly requires that Trusts pay all their trade creditors in accordance with the CBI prompt payment code and Government Accounting rules. The Assembly has set as part of the Trust financial targets a requirement to pay 95% of the number of non-NHS creditors within 30 days of delivery or receipt of a valid invoice, whichever is the sooner.

	Number	£000	2005-06 £000
<b>NHS</b>			
Total bills paid 2006-07	2,812	11,794	10,775
Total bills paid within target	2,750	11,698	10,654
Percentage of bills paid within target	97.8%	99.2%	98.9%
<b>Non-NHS</b>			
Total bills paid 2006-07	168,078	140,826	132,728
Total bills paid within target	162,090	136,063	126,875
Percentage of bills paid within target	96.4%	96.6%	95.6%
<b>Total</b>			
Total bills paid 2006-07	170,890	152,620	143,503
Total bills paid within target	164,840	147,761	137,529
Percentage of bills paid within target	96.5%	96.8%	95.8%

**7.2 The Late Payment of Commercial Debts (Interest) Act 1998**

	£	2005-06 £
Amounts included within Interest Payable (note 9) arising from claims made under this legislation and compensation paid to cover debt recovery costs.	283	731

**8. Profit (loss) on disposal of fixed assets**

Profit / (loss) on the disposal of fixed assets is made as follows:

	2005-06	
	£000	£000
Profit on disposal of land and buildings	37	56
Loss on disposal of land and buildings	(34)	(2)
Profit on disposal of plant and equipment	0	0
Loss on disposal of plant and equipment	(46)	(104)
Profit on disposal of intangible fixed assets	0	0
Loss on disposal of intangible fixed assets	0	0
	<b>(43)</b>	<b>(50)</b>

Profit on disposal of Fairwater Clinic was £37,000; loss on disposal of Penllyn Clinic was £2,000. An additional loss of £32,000 on the sale of St. Lawrence Hospital arose due to a Section 32 payment being made to Monmouth County Council; this payment results in the total loss on the Sale of St Lawrence Hospital reported in the 2002-03 accounts increasing from £84,000 to £116,000.

Loss on the disposal of 149 items of equipment was £ 46,000; 13 items of equipment were not fully depreciated when disposed.

**9. Interest payable**

	2005-06	
	£000	£000
Government borrowing	0	0
Finance leases and PFI schemes	221	238
Other	0	1
	<b>221</b>	<b>239</b>

**10. Intangible fixed assets**

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2006	0	0	0	0	0
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluations	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
Gross cost at 31 March 2007	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Accumulated amortisation at 1 April 2006	0	0	0	0	0
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluations	0	0	0	0	0
Provided during the year	0	0	0	0	0
Disposals	0	0	0	0	0
Accumulated amortisation at 31 March 2007	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net book value at 1 April 2006	0	0	0	0	0
<b>Net book value at 31 March 2007</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Intangible Fixed Assets consist of software licences, trademarks, patents and development expenditure. The Trust has incurred no material expenditure that could be categorised as Intangible Fixed Assets.

## 11. Tangible fixed assets

### 11.1 Tangible assets at the balance sheet date:

Cost or valuation	Buildings, excluding		Assets under construction and payments on account		Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	Land	dwelling	Dwellings	on account					
	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2006	45,523	220,222	5,177	7,679	45,746	506	8,185	758	333,796
Indexation	2,439	17,729	417	618	1,259	14	0	21	22,497
Additions									
- purchased	0	7,584	48	11,328	4,223	0	1,005	261	24,449
- donated	0	0	0	0	349	0	0	0	349
- government granted	0	0	0	0	0	0	0	0	0
Reclassifications	0	6,460	0	(6,460)	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	1,087	(7,937)	0	0	0	0	0	0	(6,850)
Disposals	(118)	(22)	0	0	(3,460)	0	0	0	(3,600)
<b>At 31 March 2007</b>	<b>48,931</b>	<b>244,036</b>	<b>5,642</b>	<b>13,165</b>	<b>48,117</b>	<b>520</b>	<b>9,190</b>	<b>1,040</b>	<b>370,641</b>
<b>Depreciation</b>									
At 1 April 2006	0	31,536	571	0	33,830	400	5,911	475	72,723
Indexation	0	2,539	46	0	930	11	0	13	3,539
Reclassifications	0	0	0	0	0	0	0	0	0
Impairments	0	126	0	0	0	0	0	0	126
Reversal of impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	(3,413)	0	0	0	(3,413)
Provided during the year	0	15,305	150	0	3,051	37	431	67	19,041
<b>At 31 March 2007</b>	<b>0</b>	<b>49,506</b>	<b>767</b>	<b>0</b>	<b>34,398</b>	<b>448</b>	<b>6,342</b>	<b>555</b>	<b>92,016</b>
Net book value at 1 April 2006	45,523	188,686	4,606	7,679	11,916	106	2,274	283	261,073
<b>Net book value at 31 March 2007</b>	<b>48,931</b>	<b>194,530</b>	<b>4,875</b>	<b>13,165</b>	<b>13,719</b>	<b>72</b>	<b>2,848</b>	<b>485</b>	<b>278,625</b>
<b>Net book value of assets held under finance leases and hire purchase contracts</b>									
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</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>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 11.2 Fixed asset investments at the balance sheet included in Note 11.1 comprise:

The Trust had no fixed asset investments at the balance sheet date.

	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2006	0	2,484	0	0	478	0	0	0	2,962
Indexation	0	200	0	0	13	0	0	0	213
Additions	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
Depreciation	0	(149)	0	0	(243)	0	0	0	(392)
<b>At 31 March 2007</b>	<b>0</b>	<b>2,535</b>	<b>0</b>	<b>0</b>	<b>248</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,783</b>

<b>11.3 The net book value of land and buildings at the balance sheet date comprise:</b>	31 March 2006	
	<b>£000</b>	£000
Freehold	<b>245,801</b>	236,331
Long leasehold	<b>2,535</b>	2,484
Short leasehold	<b>0</b>	0
<b>Total</b>	<b>248,336</b>	238,815

**11.4 Fixed asset investments at the balance sheet date excluded from Note 11.1 comprise:**

**The Trust has no fixed asset investments.**

## **12. Stocks and work-in-progress**

	31 March 2006	
	<b>£000</b>	£000
Raw materials and consumables	<b>3,422</b>	3,472
Work-in-progress	<b>0</b>	0
Finished processed goods	<b>0</b>	0
<b>Total</b>	<b>3,422</b>	3,472

## **13. Debtors**

	31 March 2006	
	<b>£000</b>	£000
<b>Amounts falling due within one year:</b>		
Welsh Risk Pool	<b>15,574</b>	15,299
NHS debtors	<b>20,028</b>	16,071
PDC dividend debtors	<b>43</b>	19
Other debtors	<b>6,792</b>	6,114
Provision for irrecoverable debts	<b>(1,045)</b>	(1,056)
Other prepayments and accrued income	<b>4,076</b>	4,695
Sub-total	<b>45,468</b>	41,142
<b>Amounts falling due after more than one year:</b>		
Welsh Risk Pool	<b>34,184</b>	19,835
NHS debtors	<b>0</b>	0
Other prepayments and accrued income	<b>4,099</b>	4,320
Other debtors	<b>0</b>	0
Sub-total	<b>38,283</b>	24,155
<b>Total</b>	<b>83,751</b>	65,297

**14. Current Asset Investments**

		31 March 2006
	£000	£000
Government securities	0	5,500
Local authorities	0	0
Other	0	0
<b>Total</b>	<b>0</b>	<b>5,500</b>

**15. Creditors****15.1 Creditors at the balance sheet date are made up of:**

		31 March 2006
	£000	£000
<b>Amounts falling due within one year:</b>		
Bank overdrafts	0	0
Interest payable	0	0
Loan advance/brokerage	5,216	0
Payments received on account	178	173
NHS creditors	2,102	2,745
Non-NHS trade creditors - revenue	7,895	7,679
Non-NHS trade creditors - capital	576	1,147
Non-NHS trade creditors - losses and special payments	0	0
Tax and social security costs	642	7,478
PDC dividend payable	0	0
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	244	225
Other creditors - superannuation	215	4,115
Other creditors - all other creditors	8,768	6,723
Accruals	3,722	2,298
Deferred income	0	0
Sub-total	<b>29,558</b>	<b>32,583</b>
<b>Amounts falling due after more than one year:</b>		
Loan advance/brokerage	0	0
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	2,179	2,423
NHS creditors	0	0
Non-NHS trade creditors - losses and special payments	0	0
Deferred income	0	0
Other	0	0
Sub-total	<b>2,179</b>	<b>2,423</b>
<b>Total</b>	<b>31,737</b>	<b>35,006</b>

**15.2 Loan advance/strategic assistance funding**31 March  
2006

<b>Amounts falling due:</b>	<b>£000</b>	<b>£000</b>
In one year or less	5,216	0
Between one and two years	0	0
Between two and five years	0	0
In five years or more	0	0
Sub-total	<u>5,216</u>	<u>0</u>
Wholly repayable within five years	5,216	0
Wholly repayable after five years, not by instalments	0	0
Wholly or partially repayable after five years by instalments	0	0
Sub-total	<u>5,216</u>	<u>0</u>
Total repayable after five years by instalments	0	0

**15.3 Finance lease obligations**31 March  
2006

<b>Payable:</b>	<b>Total £000</b>	<b>£000</b>
Within one year	0	0
Between one and two years	0	0
Between two and five years	0	0
After five years	0	0
Sub-total	<u>0</u>	<u>0</u>
Less finance charges allocated to future periods	0	0
<b>Total</b>	<u><b>0</b></u>	<u><b>0</b></u>

**15.4 Finance lease commitments**

The Trust had no finance lease commitments as at 31 March 2007.

## 16. Provisions for liabilities and charges

	At 1 April 2006 £000	Structured settlement cases trans- ferred to Risk Pool £000	Transfer of prov- isions to creditors £000	Arising during the year £000	Reversed unused £000	Utilised during the year £000	Unwinding of discount £000	At 31 March 2007 £000
Clinical negligence	33,389	0	0	28,874	(7,603)	(7,111)	0	47,549
Personal injury	3,123	0	0	1,254	(655)	(1,333)	24	2,413
All other losses and special payments	0	0	0	30	0	(30)	0	0
Defence legal fees and other administration	1,133	0	0	873	(367)	(333)		1,306
<b>Sub-total</b>	<b>37,645</b>	<b>0</b>	<b>0</b>	<b>31,031</b>	<b>(8,625)</b>	<b>(8,807)</b>	<b>24</b>	<b>51,268</b>
Pensions relating to:								
former directors	0			0	0	0	0	0
other staff	5,284			198	(364)	(353)	116	4,881
Restructurings	0			0	0	0		0
Other	4,828			6,260	(26)	(1,996)		9,066
<b>Total</b>	<b>47,757</b>	<b>0</b>	<b>0</b>	<b>37,489</b>	<b>(9,015)</b>	<b>(11,156)</b>	<b>140</b>	<b>65,215</b>

### Expected timing of cash flows:

	Between			Totals £000
	Within 1 year £000	2 and 5 years £000	After 5 years £000	
Clinical negligence	13,555	33,994	0	47,549
Personal injury	1,254	375	784	2,413
All other losses and special payments	0	0	0	0
Defence legal fees and other administration	731	575	0	1,306
Pensions - former directors	0	0	0	0
Pensions - other staff	360	1,440	3,081	4,881
Restructuring	0	0	0	0
Other	9,066	0	0	9,066
<b>Total</b>	<b>24,966</b>	<b>36,384</b>	<b>3,865</b>	<b>65,215</b>

The Trust estimates that in 2007-2008 it will receive £13,531,000 and in 2008-2009 and beyond £34,184,000 from the Welsh Risk Pool in respect of clinical negligence and personal injury payments.

Other Provisions include £5,929,000 for Agenda for Change for the period 1 October 2004 to 31 March 2007, £2,333,000 for Early Release, £607,000 for General Practitioner Out of Hours payments and £195,000 for Ancillary Staff Banked Annual Leave payments.

## 17. Movements on reserves

Movements on reserves in the year comprised the following:

	Revaluation reserve £000	Donated asset reserve £000	Govern- ment grant reserve £000	Other reserves £000	Income & expenditure reserve £000	Total £000
At 1 April 2006 as previously stated	90,177	1,677	0	0	(9,130)	82,724
Prior period adjustment					0	0
At 1 April 2006 as restated	90,177	1,677	0	0	(9,130)	82,724
Transfer from income and expenditure account					(6,520)	(6,520)
Impairments	0	0	0			0
Surplus (deficit) on revaluation / indexation of fixed assets	12,032	76	0			12,108
Transfer of realised profits/ (losses)	(132)	0	0		132	0
Receipt of donated/government granted assets		349	0			349
Depreciation, impairment and disposal of donated/government granted assets		(349)	0			(349)
Other transfers between reserves	(6)	6	0	0	0	0
Other reserve movements				0		0
<b>At 31 March 2007</b>	<b>102,071</b>	<b>1,759</b>	<b>0</b>	<b>0</b>	<b>(15,518)</b>	<b>88,312</b>

**18. Notes to the cash flow statement**

<b>18.1 Reconciliation of operating surplus to net cash inflow from operating activities:</b>	<b>£000</b>	2005-06 £000
Total operating surplus/(deficit)	<b>1,718</b>	1,935
Depreciation charge	<b>19,041</b>	13,370
Fixed asset impairment and reversals	<b>126</b>	42
Transfer from the donated asset reserve	<b>(349)</b>	(276)
Transfer from the government grant reserve	<b>0</b>	0
(Increase)/decrease in stocks	<b>50</b>	(31)
(Increase)/decrease in debtors	<b>(17,677)</b>	1,047
Increase/(decrease) in creditors	<b>(7,829)</b>	3,022
Increase/(decrease) in provisions	<b>17,458</b>	5,730
<b>Net cash inflow from operating activities before restructuring costs</b>	<b>12,538</b>	24,839
Payments in respect of fundamental reorganisation/restructuring	<b>0</b>	0
<b>Net cash inflow from operating activities</b>	<b>12,538</b>	24,839

<b>18.2 Reconciliation of net cash flow to movement in net debt</b>	<b>£000</b>	2005-06 £000
Increase/(decrease) in cash in the period	<b>0</b>	0
Cash inflow from new debt	<b>0</b>	0
Cash inflow from loan advance/brokerage	<b>(5,216)</b>	0
Cash outflow from debt repaid and finance lease capital payments	<b>225</b>	207
Cash (inflow)/outflow from (decrease)/increase in liquid resources	<b>(5,500)</b>	5,500
<b>Change in net debt resulting from cash flows</b>	<b>(10,491)</b>	5,707
Non-cash changes in debt	<b>0</b>	(871)
Net debt at 1 April	<b>4,376</b>	(460)
<b>Net debt at 31 March</b>	<b>(6,115)</b>	4,376

**18.3 Analysis of changes in net debt**

	At 1 April 2006 £000	Cash flows £000	Non-cash changes £000	At 31 March 2007 £000
OPG cash at bank	2,218	(932)	■	1,286
Commercial Cash at bank and in hand	(694)	932	■	238
Bank overdrafts	0	0	■	0
Debt due within one year	0	0	0	0
Debt due after one year	0	0	0	0
Debt due from loan advance/brokerage	0	(5,216)	0	(5,216)
Finance leases	(2,648)	225	0	(2,423)
Current asset investments	5,500	(5,500)	0	0
	<u>4,376</u>	<u>(10,491)</u>	<u>0</u>	<u>(6,115)</u>

**19. Capital commitments**

Commitments under capital expenditure contracts at the balance sheet date were £14,435,000 and in 2005-06 were £5,858,000.

**20. Post balance sheet events**

The Trust had no post balance sheet events having a material effect on the accounts.

**21. Contingencies****Contingent Liabilities**

Provision has not been made in the 2006-07 accounts for the following amounts:	£000	31 March 2006 £000
Legal claims for alleged medical or employer negligence	41,732	54,818
Doubtful debts	0	0
Other	0	0
Total value of disputed claims	<u>41,732</u>	<u>54,818</u>
Amount recovered under insurance arrangements in the event of these claims being successful	<u>(39,144)</u>	<u>(52,207)</u>
Net contingent liability	<u>2,588</u>	<u>2,611</u>

Other litigation claims could arise in the future due to known incidents. The expenditure which may arise from such claims cannot be determined and no provision has been made for them.

The Trust has received some equal pay claims from staff under equal pay legislation. The process of assessing these claims is at an early stage and as a result there is significant uncertainty over both the likelihood of their success and any additional costs that might be incurred. As a result, no provision has been made for any potential costs which might arise.

**Contingent Assets**

The Trust has no contingent assets.

## 22. Losses and special payments

Losses and special payments are charged to the income and expenditure account in accordance with UK GAAP but are recorded in the losses and special payments register when payment is made. Therefore this note is compiled on a cash basis.

### Gross loss to the Exchequer

Number of cases and associated amounts paid out or written-off during the financial year

	<u>Amounts paid out in year</u>		<u>Approved to write-off in year</u>	
	Number	£	Number	£
Clinical negligence	66	7,111,326	29	3,960,491
Personal injury	74	1,332,532	32	390,639
All other losses and special payments	316	355,851	315	355,601
<b>Total</b>	<b>456</b>	<b>8,799,709</b>	<b>376</b>	<b>4,706,731</b>

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

	<u>Amounts paid out in year</u>	<u>Cumulative amount</u>	<u>Approved to write-off in year</u>
	£	£	£
<b>Cases exceeding £250,000</b>			
02RVFPI0018	263,022	263,022	0
03RVFMN0004	270,000	270,000	0
04RVFPI0007	250,084	255,554	0
94RKMMN0001	510,831	510,831	0
97RKMMN0004	0	1,604,722	1,604,722
97RQAMN0007	0	1,663,000	1,663,000
97RVFMN0007	260,000	260,000	0
99RVFMN0019	4,895,000	5,435,000	0
<b>Sub-total</b>	<b>6,448,937</b>	<b>10,262,129</b>	<b>3,267,722</b>
<b>All other cases</b>	<b>2,350,772</b>	<b>4,218,810</b>	<b>1,439,009</b>
<b>Total cases</b>	<b>8,799,709</b>	<b>14,480,939</b>	<b>4,706,731</b>

**23.1 Movements in Government funds**

2005-06

	£000	£000
Surplus/(deficit) for the financial year	2,441	2,430
Public dividend capital dividends	<b>(8,961)</b>	(8,518)
<b>Subtotal</b>	<b>(6,520)</b>	(6,088)
Gains/(losses) from revaluation/indexation of purchased fixed assets	11,900	5,423
Impairment of fixed assets	0	(48)
New public dividend capital	11,409	7,903
Public dividend capital repaid	(730)	(151)
Public dividend capital repayable	0	0
New loans from Government	5,216	0
Government loans repaid	0	0
Transfers from the donated asset reserve	(6)	0
Additions to/ transfers from the government grant reserve	0	0
Addition/(reduction) in other reserves	132	181
Net addition/(reduction) to Government funds	21,401	7,220
Opening Government funds at 1 April	252,426	245,206
Before deducting prior period adjustment of	0	0
<b>Closing Government funds</b>	<b>273,827</b>	252,426

**23.2 Movements in public dividend capital**

2005-06

	£000	£000
At 1 April 2006	171,379	163,627
New PDC issued in year	10,679	7,903
PDC due but not issued	730	0
PDC repaid in year	(730)	(151)
PDC repayable	0	0
<b>At 31 March 2007</b>	<b>182,058</b>	171,379

## 24. Financial performance targets

The Trust has met 2 out of its 3 of its financial targets. Details are given below:

<b>24.1 Breakeven</b>	<b>£000</b>
Target retained surplus	0
Actual retained surplus	<b>(6,520)</b>
Variance	<b><u>6,520</u></b>

The Trust has not met its breakeven target.

The Trust has recorded an Income and Expenditure deficit of £6.5m for the financial year 2006-2007. At the conclusion of the Service and Financial Framework for 2006-2007 the Trust was left with a recurring funding shortfall of £21m. The Trust developed a Strategic Change and Efficiency Programme (SCEP) to meet this shortfall which identified £12m savings in 2006-2007 rising to recurrent savings of over £23m. The programme forecast that a deficit of £9.0m would arise in 2006-2007.

The Trust achieved £2.5m in excess of the original planned savings; this reduced the planned deficit of £9.0m to a deficit of £6.5m.

The SCEP has been agreed by its partners and submitted to WAG as the basis for restoring financial balance in 2007-2008.

### 24.2 External financing

The Trust is given an external financing limit which it is permitted to undershoot

	£000	£000	31 March 2006 £000
External financing limit set by the Assembly		<b>15,895</b>	7,831
Cash flow financing	<b>14,940</b>		7,624
Finance leases taken out in the year	<b>225</b>		207
Other capital receipts	<b>0</b>		0
External financing requirement		<b><u>15,165</u></b>	<u>7,831</u>
Undershoot (overshoot)		<b><u>730</u></b>	<u>0</u>

The Trust has achieved its external financing limit.

### 24.3 Creditor payment

The Trust is required to pay 95% of the number of non-NHS bills within 30 days of receipt of goods or a valid invoice (whichever is the later). The Trust has achieved the following results:

	<b>2006-07</b>	2005-06
Total number of non-NHS bills paid 2006-07	<b>168,078</b>	176,593
Total number of non-NHS bills paid within target	<b>162,090</b>	167,940
Percentage of non-NHS bills paid within target	<b>96.4%</b>	95.1%

The Trust has met its creditor payment target.

## 25. Related Party transactions

Gwent Healthcare NHS Trust is a body corporate established by order of the Secretary of State.

During the year, other than the individuals set out below, none of the board members or members of the key management staff or parties related to them has undertaken any material transactions with Gwent Healthcare NHS Trust.

Stephen Hunter, Executive Director of the Trust, is a member of the Board of Health Commission Wales.

Patricia Smail is a Non Executive Director of the Trust and her spouse Prof. Ian Butler is Policy Advisor for Children for the Welsh Assembly Government.

The National Assembly for Wales is regarded as a related party. During the year the Trust has had a significant number of material transactions with the Assembly and with other entities for which the Assembly is responsible, namely,

	<b>2006-2007</b>	2005-2006
	<b>£000</b>	£000
Newport Local Health Board	116,546	108,619
Caerphilly Local Health Board	109,840	99,586
Torfaen Local Health Board	88,107	80,631
Blaenau Gwent Local Health Board	71,852	64,990
Monmouth Local Health Board	65,668	59,125
National Assembly for Wales	34,437	25,298
Welsh Risk Pool	27,120	3,600
Powys Local Health Board	10,294	7,994
University of Wales College of Medicine	9,189	9,531
Velindre NHS Trust	5,458	4,410
Cardiff and Vale NHS Trust	3,459	3,166
Welsh Ambulance NHS Trust	3,314	3,076
Health Commissioning Wales	2,281	2,198
Newport City Council	1,910	1,661
Torfaen County Borough Council	1,486	1,195
Rhondda Cynon Taff LHB	1,448	2,104
Caerphilly Borough Council	1,337	1,144
Compensation Recovery Unit	1,247	1,458
Monmouthshire County Borough Council	1,201	1,118
Bro Morgannwg NHS Trust	1,098	1,415
Cardiff Local Health Board	1,071	2,540

The Trust has also received revenue and capital payments from a number of charitable funds, certain of the Trustees for which are also members of the Trust board.

## 26. Other/ Private finance transactions

### 26.1 The Trust has 4 PFI operational schemes deemed to be off-balance sheet

#### Newport Hospitals Energy Scheme

The provision of replacement heating and lighting systems within Newport Hospitals.

#### Chepstow Community Hospital

A new community hospital including the provision of ancillary support services.

#### Nevill Hall Hospital Energy Scheme

The provision of replacement heating and lighting systems within Nevill Hall Hospital.

#### Monnow Vale

A new health and social care facility - see Note 30 Pooled Budgets for additional information.

None of the above four schemes has resulted in guarantees, commitments, or other rights and obligations upon the Trust.

Details of the schemes are :

	Newport Hospitals Energy Scheme £000	Chepstow Community Hospital £000	Nevill Hall Hospital Energy Scheme £000	Monnow Vale £000	Total £000
Gross operating expenses	601	1,877	469	531	3,478
Amortisation deferred asset	0	(240)	0	(19)	(259)
Net operating expenses	<u>601</u>	<u>1,637</u>	<u>469</u>	<u>512</u>	<u>3,219</u>

The Trust is committed to make the following payments during the next year for schemes which expire:

Within one year	0	0	0	0	0
Years 2-5 (inclusive)	0	0	0	0	0
Years 6-10 (inclusive)	601	0	0	0	601
Years 11-15 (inclusive)	0	0	0	0	0
Years 16-20 (inclusive)	0	1,637	469	0	2,106
Years 21-25 (inclusive)	0	0	0	0	0
Years 26-30 (inclusive)	0	0	0	512	512
Estimated capital value	4,000	10,000	3,300	4,000	21,300
Contract start date:	01/11/1999	13/02/1998	18/12/2001	06/04/2006	
Contract end date:	01/11/2014	26/02/2025	18/12/2026	05/04/2036	

## 26. Other/ Private finance transactions continued

### 26.2 The Trust has 1 PFI operational scheme deemed to be on-balance sheet

#### Nevill Hall Hospital Day Surgery Unit

The financing of a purpose built day unit and including the provision of medical equipment for the unit.

The PFI partner has responsibility for maintaining the building and replacing equipment used within the unit.

Details of the scheme are :

	£000	2005-06 £000
Gross operating expenses	657	617
Amortisation deferred asset	(393)	(375)
Net operating expenses	<u>264</u>	<u>242</u>

The Trust is committed to make the following service payments during the next year for the scheme which expires 16 to 20 years (inclusive)

710	687
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#### Imputed PFI obligations comprise:

Within one year	446	446
Between one and two years	446	446
Between two and five years	674	895
After five years	2,745	2,969
Sub-total	<u>4,311</u>	<u>4,756</u>
Less interest element	(1,888)	(2,109)
<b>Total</b>	<u>2,423</u>	<u>2,647</u>

Capital value of scheme included in Fixed Assets Note 11.1

2,783	2,962
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Contract start date:

20/05/1998

Contract end date:

20/05/2023

### 26.3 The Trust has no Public Private Partnerships

## 27. Third party assets

The Trust held £434,753 cash at bank and in hand at 31 March 2007 (31 March 2006: £318,109) which relates to monies held by the Trust on behalf of patients. These assets have been excluded from the cash at bank and in hand figures reported in these accounts.

## 28. 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. Because of the continuing service provider relationships that the NHS Trust has previously had with Health Authorities and now with Health Commission Wales and Local Health Boards, and the way those Health bodies are financed, NHS 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 FRS 13 mainly applies. NHS 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 NHS Trusts in undertaking its activities.

### Liquidity Risk

NHS trusts' net operating costs are incurred under annual service agreements with various Health bodies, which are financed from resources voted annually by parliament. NHS Trusts also largely finance their capital expenditure from funds made available from Government under agreed borrowing limits. NHS Trusts are not, therefore, exposed to significant liquidity risks.

### Interest-rate risks

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 Trust 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

The powers of NHS Trusts to invest and borrow are limited. The Board has determined that in order to maximise income from cash balances held, any balance of cash which is not required will be invested. The amount of investment is capped by Direction of the Assembly at an average daily cleared balance of £50,000 and NHS Trusts may only invest in instruments and institutions approved by the Assembly. The Trust does not borrow from the private sector. All other financial instruments are held for the sole purpose of managing the cash flow of the Trust on a day to day basis or arise from the operating activities of the Trust. The management of risks around these financial instruments therefore relates primarily to the Trust's overall arrangements for managing risks to their financial position, rather than the Trust's treasury management procedures.

**29. Intra Government balances**

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
<b>2006-07:</b>				
National Assembly for Wales	6,275	0	5,216	0
Welsh Local Health Boards	12,110	0	1,444	0
Welsh NHS Trusts	18,902	34,184	452	0
Health Commission Wales	115	0	0	0
All English Health Bodies	547	0	421	0
All N. Ireland Health Bodies	2	0	0	0
All Scottish Health Bodies	6	0	0	0
Miscellaneous	0	0	0	0
Credit note provision	-312	0		
Sub total	<b>37,645</b>	<b>34,184</b>	<b>7,533</b>	<b>0</b>
Other Central Government Bodies				
Other Government Departments*	0	0	0	0
Revenue & Customs	1,536	0	657	0
Local Authorities	890	0	407	0
Balances with Public Corporations and trading func	0	0	0	0
Balances with bodies external to Government	5,397	4,099	20,960	2,179
<b>TOTAL</b>	<b>45,468</b>	<b>38,283</b>	<b>29,557</b>	<b>2,179</b>
<b>2005-06:</b>				
National Assembly for Wales	5,203	0	743	0
Welsh Local Health Boards	9,875	0	1,041	0
Welsh NHS Trusts	17,164	19,835	800	0
Health Commission Wales	458	0	0	0
All English Health Bodies	352	0	4,210	0
All N. Ireland Health Bodies	0	0	0	0
All Scottish Health Bodies	0	0	0	0
Miscellaneous	0	0	66	0
Credit note provision	-681	0		
Sub total	<b>32,371</b>	<b>19,835</b>	<b>6,860</b>	<b>0</b>
Other Central Government Bodies				
Other Government Departments*	0	0	0	0
Revenue & Customs	1,032	0	7,481	0
Local Authorities	745	0	176	0
Balances with Public Corporations and trading func	0	0	0	0
Balances with bodies external to Government	6,994	4,320	18,066	2,423
<b>TOTAL</b>	<b>41,142</b>	<b>24,155</b>	<b>32,583</b>	<b>2,423</b>

### 30. Pooled budgets

The Trust has entered into a pooled budget arrangement with Monmouthshire Local Health Board and Monmouthshire County Council. Under the arrangement funds are pooled under Section 31 of the Health Act 1999 to provide health and social care inpatient, outpatient, clinic and day care facilities to individuals who have medical, social, community or rehabilitation needs.

The pool is hosted by Gwent Healthcare NHS Trust. The income from Monmouthshire Local Health Board is recorded as Local Health Board income and the income from Monmouthshire County Council is recorded Local Authority Income in Note 3 to these accounts. Expenditure for services provided under the arrangement are recorded under the appropriate expense headings in Note 5.1 to these accounts.

The property has been provided by a Private Finance Partner; the contract with the PFI partner is for 30 years and is categorised as an off balance sheet PFI scheme - see Note 26.1 of these accounts for further details. The Trust will hold a residual interest in the property at the end of the 30 year contract, estimated value £1,000,000. The residual interest is built up during the life of the contract by capitalising part of the unitary charge and recording the value as a deferred asset under the heading other prepayments and accrued income falling due after more than 1 year in Note 13 to these accounts.

This memorandum note to the accounts provides details of the joint income and expenditure incurred under the arrangement which is known as the Monnow Vale Health and Social Care Facility.

	Cash £	Own Contribution £	Grants £	Total £
<b>Funding</b>				
Gwent Healthcare NHS Trust	0	1,500,782	0	1,500,782
Monmouthshire Local Health Board	158,437	294,596	0	453,033
Monmouthshire County Council	248,446	485,806	0	734,252
<b>Total Funding</b>	<b>406,883</b>	<b>2,281,184</b>	<b>0</b>	<b>2,688,067</b>
<b>Expenditure</b>				
Staff	100,838	1,882,812	0	1,983,650
Non staff	16,693	175,601	0	192,294
Unitary charge	289,352	222,771	0	512,123
<b>Total Expenditure</b>	<b>406,883</b>	<b>2,281,184</b>	<b>0</b>	<b>2,688,067</b>
<b>Net under/over spend</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

#### Certificate of Director of Finance

I certify that the above pooled fund memorandum account accurately discloses the income received and the expenditure incurred in accordance with the partnership agreement, as amended by any subsequent agreed variations, entered into under Section 31 of the Health Act 1999.

Director of Finance A Cottom

Date: 27 June 2007

### 31. Other

**STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES  
AS ACCOUNTABLE OFFICER OF THE TRUST**

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

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as an Accountable Officer.

Date: 27 June 2007

M Turner

Chief Executive

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

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

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

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

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

### By Order of the Board

#### Signed:

Date: 27 June 2007

Chairman: B Willets

Date: 27 June 2007

Chief Executive: M Turner

Date: 27 June 2007

Director of Finance: A Cottom

## Statement on Internal Control

### 1. Scope of responsibility

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

The accountability arrangements for effective management of risk are discharged through the management arrangements described below.

- The Medical Director was responsible for ensuring that the Trust's overall duty for risk management is discharged appropriately and for ensuring that effective operational arrangements are in place.
- Executive Directors, General Managers, Chief's of Staff and Divisional Lead Nurses are responsible for ensuring that risk is managed within their area of responsibility in accordance with Trust policies and procedures. They have a responsibility to identify, evaluate and manage risk and identify early warning indicators to feed Divisional Risk Profiles. Additionally each Division employs a Clinical Governance facilitator to co-ordinate, promote and share governance activity locally.
- Corporate departments including Personnel and Support Services (which for the period 2006-2007 encompassed Risk Management, Infection Control, Health and Safety, Education and Training), Finance, Corporate Services and others assist managers by providing advice and support in their specialist areas.
- Internal Audit provides annual assurance and evaluates the effectiveness of existing controls and risk management processes.

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

**The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the organisation for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with Welsh Assembly Government guidance.**

### 3. Capacity to handle risk

Leadership of the risk management process is provided by the Medical Director supported by Executive Directors, General Managers, Chief's of Staff and Divisional Lead Nurses. The complexity and diversity of the Trust means that Risk Management must have a comprehensive policy framework and be embedded into the organisation at all levels. This framework is in place and directed by the Risk Management Strategy which is reviewed annually. Key to the delivery of the strategy is strong clinical leadership within the Risk Management function in addition to support from the Risk Management Support Team.

The Trust's approach to health and safety is under constant review resulting in the implementation of a new health and safety management system. The focus is on the development of risk profiles and safety audits at a local level which, in turn populate division profiles and corporate profile and therefore embedding safe practise into all areas of the Trust.

Managers and staff have a responsibility for identifying ongoing developmental needs not only in relation to risk management but all aspects of their role as part of the Individual Personnel Review process and will form part of the Knowledge Skills Framework (KSF) profiles, many of which have been developed over the past year.

The Trust has continued to invest in a number of E-learning programmes to help those staff who find it more difficult to leave the work place to attend training, it allows those who work in non clinical areas easier access to this type of training. In addition, the Trust is exploring the possibility of developing an electronic method of reporting incidents and identifying 'hot spots' of risk.

#### 4. The risk and control framework

The organisational risk profile and the local risk profiles developed by Directorates and Divisions are regularly reviewed and acted upon.

The Trust continually reviews the processes in place to achieve full compliance with the Welsh Risk Management Standards. The scores achieved against the core standards for 2006-2007 were:

• Risk Management Policy & Strategy	98%
• Risk Profile	86%
• Adverse Incident and Hazard Reporting	93%
• Governance	90%
• Financial Management	94%

The Welsh Risk Pool review the Risk Management Policy & Strategy and the Risk Profile core standards.

The Trust has an overall score in 2006-2007 of 78% against the Welsh Risk Pool standards; this score is consistent with the overall self-assessment score. The score for 2005-2006 was 74%. The Welsh Risk Pool review identified a number of areas of good practice; namely Transport of specimens, Estates Handbook on safe systems and E-Learning packages.

Internal Audit review and assess compliance of all 5 core standards and have concluded that the systems of control are sufficient to give assurance. However, limited assurance has been given for the Risk Management Policy and Strategy and Adverse Incident and Hazard Reporting standards as a number of compliance issues exist which the Trust has agreed to address.

A number of Trust committees and forums provide assurance to the Chief Executive and the Trust Board. Corporate meetings such as the Executive Team, Risk Management Group and Health and Safety Committees all help to confirm that the management of risk is embedded in the organisation. In addition assurance to the Trust Board continues to be given through the Audit, Quality, Clinical and Governance Committees.

As an employer with staff entitled to membership of the NHS Pension Scheme control measures are in place to ensure all employer obligations contained within the scheme regulations are complied with.

#### 5. Review of effectiveness

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

The effectiveness of risk management processes is monitored in a number of ways:

- The Trust Board consider and approve the Risk Management Annual Report. The Board receive reports, via their sub committees, specifically updating them on risk management and compliance together with a number of other issues that were related to the management of risk, e.g. CHI review of Mental Health Services and Community Services, serious incident reviews and performance reports.
- The Audit Committee act on behalf of the Trust Board in carrying out objective monitoring and review financial information and systems, compliance with and self assessments of the Welsh Risk Management Standards, compliance with law, guidance and codes of practice. The Committee provide a channel of communication between external and internal auditors and the Trust Board. They also consider and determine external audit reports which look at the broader issues of cost effectiveness and recommend the appropriate mechanisms to progress such reports.
- The Clinical Governance Committee provided the Trust Board with assurance relating to issues of a clinical nature.
- The Trust Health and Safety Committee receive a number of reports and policies relating to health, safety and welfare. Membership of the Committee is made up of accredited staff side health and safety representatives, managers of the Trust and various risk advisors.
- Internal Audit provide an annual report identifying the effectiveness of the system of internal controls in place. The 2006-2007 report stated that the Trust had adequate and effective risk management, control and governance processes to manage the achievement of the organisations objectives. The statement was based upon the work undertaken by Internal Audit as set out in the Audit Committee approved plan.
- In addition assurance is also provided by the Executive Team and Operational Management Group.

The development of processes and systems to ensure that the Trust has robust controls assurance and risk management arrangements in place has continued to show steady progress. Work is underway to continue this development throughout the forthcoming year.

I will ensure that during 2007-2008 the Trust will make continued progress in this area.

Signed: M Turner  
Chief Executive  
(on behalf of board)

Date: 27 June 2007

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

I certify that I have audited the financial statements on pages 1 to 36 under Section 61 of the Public Audit (Wales) Act 2004. These financial statements have been prepared under the accounting policies set out on pages 6 to 12.

I certify that I have audited that part of the remuneration report to be audited.

**Respective responsibilities of Directors, the Chief Executive and Auditor**

As described on pages 37 and 38 the Directors and the Chief Executive are responsible for the preparation of the financial statements in accordance with Section 98(2) of the National Health Service Act 1977 and Welsh Ministers' directions made thereunder and for ensuring the regularity of financial transactions. The Directors and the Chief Executive are also responsible for the preparation of the Foreword and the contents of the Annual Report. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion to you as to whether the financial statements give a true and fair view and whether the financial statements and part of the remuneration report to be audited are properly prepared in accordance with the National Health Service Act 1977 and Welsh Ministers' directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Trust has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I have been unable to read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements as it was not available at the time of the audit.

I review whether the statement on pages 39 to 41 reflects the Trust's compliance with the Treasury and Welsh Ministers' guidance on the Statement on Internal Control and I report if it does not, or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and that part of the remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and that part of the remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements and that part of the remuneration report to be audited.

Without qualifying my opinion, I draw your attention to Note 24.1, which sets out the financial position of the Trust and in particular, the actions being taken by the Trust to achieve a break-even position in 2007-08.

## Opinion

In my opinion:

the financial statements give a true and fair view of the state of affairs of Gwent Healthcare NHS Trust as at 31 March 2007 and of its deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Welsh Ministers;

the financial statements and that part of the remuneration report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Welsh Ministers; and

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

I have no observations to make on these financial statements.

My conclusion on Gwent Healthcare NHS Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007 will be reported separately in the published Annual Audit Letter.

Jeremy Colman  
Auditor General for Wales  
28-Jun-07

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

**NATIONAL HEALTH SERVICE ACT 1977**  
**THE NATIONAL HEALTH SERVICE TRUSTS (WALES)**  
**ACCOUNTS DIRECTIONS**

The National Assembly for Wales, in pursuance of Section 98(2) of the National Health Service Act 1977 with the approval of the Treasury, hereby gives the following directions:

1. In these directions, unless the context otherwise requires:  
"the Act" means the National Health Service Act 1977;  
"Trust" means each and every NHS Trust in Wales.

**FORM OF ACCOUNTS**

2. The accounts required by Section 98(2) of the Act to be prepared by the Trust in respect of the financial year ended 31 March 1997 and subsequent years shall be as set out in the following paragraphs and Schedules.

**ACCOUNTS OF THE TRUST**

3. The accounts in respect of the funds attributable to the performance of functions by the Trust shall comprise:

- a. a foreword;
- b. an income and expenditure account;
- c. a balance sheet;
- d. a cash flow statement;
- e. a statement of total recognised gains and losses; and
- f. such notes as may be necessary for the purposes referred to in paragraph 4 below.

4. The accounts shall give a true and fair view of the income and expenditure and cash flow for the year, and the state of affairs as at the end of the financial year. Subject to the foregoing requirement, the accounts shall also, without limiting the information given and as described in the Schedule, meet:

- a. the accounting and disclosure requirements of the Companies Act. The disclosure exemptions permitted by the Companies Act will not apply unless specifically authorised by the Assembly with the approval of the Treasury;

- b. best commercial accounting practice including accounting standards issued or adopted by the Accounting Standards Board, with the exception of the requirement contained in FRS 3 for the inclusion of a note showing historical cost profits and losses;

- c. all relevant guidance given in "Government Accounting" and in "Trading Accounts: A Guide for the Government Departments and Non-Departmental Public Bodies" and in "The NHS Trust Manual for Accounts":

- d. any disclosure and accounting requirements which the Assembly or Treasury may issue from time to time;

insofar as these are appropriate to the Trust and are in force for the financial period for which the accounts are to be prepared.

5. The income and expenditure account and balance sheet shall be prepared under the historical cost convention, modified by the inclusion of fixed assets at their value to the business by reference to current costs.

Dated.....

Signed by the authority of the National Assembly for Wales

Signed.....

Member of the Senior Civil Service  
**National Assembly for Wales**

## **SCHEDULE**

### **Foreword**

1. The foreword shall include a statement that the accounts have been prepared in accordance with these Directions given by the National Assembly for Wales.
2. The foreword shall describe the statutory background and main functions of the Trust.

### **Income and Expenditure Account and Balance Sheet**

3. The income and expenditure account and balance sheet shall follow the prescribed format shown in Annex C to the "Trading Accounts" booklet, modified as appropriate.

### **Cash Flow Statement**

4. The recommendations of Financial Reporting Standard No. 1 (revised) shall be followed in preparing the cash flow statement.

### **Notes to the Account**

5. The notes to the account shall, inter alia, include details of the accounting policies adopted.
6. Notes providing further explanations of figures in the account shall be made where it is considered appropriate for a proper understanding of the account.
7. The account shall be signed and dated by the Chief Executive and Chairman of the Trust.
8. The accounts direction shall be reproduced as an appendix to the account.