

Comisiwn Iechyd Cymru (Gwasanaethau Arbenigol)

Health Commission Wales (Specialist Services)

**Asiantaeth Weithredol Llywodraeth Cynulliad Cymru
An Executive Agency of Welsh Assembly Government**



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

Health Commission Wales

Financial Statements

For the Year Ended 31st March 2010

ANNUAL REPORT

Directors Report

1. Form of Accounts

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 17th April 2008 in pursuance of Section 131 of the Government of Wales Act 2006.

2. Background to Health Commission Wales (Specialist Services)

Health Commission Wales (Specialist Services) (HCW) is an Executive Agency of the Welsh Assembly Government. Prior to the NHS restructuring in 2003, specialised health services were either commissioned by individual Health Authorities or were delegated to the Specialised Health Services Commission for Wales (SHSCW). This organisation had been set up as a joint venture of the five Welsh Health Authorities, and operated as a sub-committee of Dyfed Powys Health Authority. On 1st April 2003 Dyfed Powys Health Authority ceased to exist and the responsibility for commissioning all designated specialised health services for the residents of Wales formally transferred to HCW including those specialised services formerly commissioned directly by health authorities. The functions of HCW were established under “The Health Authorities (Transfer of Functions, Staff, Property, Rights and Liabilities and Abolition) (Wales) Order 2003 (SI 2003/813)”.

3. Accountability structures

Until the abolition of HCW on 31st March 2010, Stuart Davies was the Acting Chief Executive and Accounting Officer and was directly accountable to Paul Williams, the Health and Social Services Director General. During the year, four directors reported to HCW’s Chief Executive: Robert Tovey was the Director of Finance until his departure on 29th January 2010, Daniel Phillips is the Director of Planning and Performance, Geoffrey Carroll is the Medical Director and Vicky Warner was the Nursing Director until her departure on 24th March 2010. Following Robert Tovey’s departure, Stuart Davies took on a dual role of Acting Chief Executive and Director of Finance.

Further information on the abolition of HCW and the creation of the new Welsh Health Specialised Services Committee is set out in the Management Commentary.

4. Principal Activities

HCW’s role is to commission tertiary and other highly specialised services for the population of Wales. HCW also has commissioning responsibility for a range of designated services provided on a national basis, including blood and screening services and NHS Direct. HCW also has a role in giving advice to NHS Wales on the commissioning of specialised services.

5. The National Commissioning Advisory Board

The National Commissioning Advisory Board (the Board) meets periodically as required. The Board advises the Chief Executive of HCW and its key role is to consider and sign off the HCW National Commissioning Strategy and Annual Commissioning Plans.

The Board will make recommendations to the Health and Social Services Director General, Welsh Assembly Government through the Chief Executive and monitor the implementation of the approved plan. Further information on the Board and its membership can be found in the Statement on Internal Control.

6. Pension liabilities

The accounting policy for the treatment of pension liabilities is explained in Note 1.e. to the Accounts.

7. Disabled Persons

HCW follows the Civil Service Code of Practice on Employment of Disabled People. Its policy is to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities.

8. Employee Consultation

HCW is part of the Welsh Assembly Government, which has established Whitley Committees, with employee representatives, to discuss matters of concern. Staff are also consulted over the planning process and regular consultation meetings are held between senior and junior staff.

9. Creditors Payment Policy

HCW follows the principles of the Government's Better Payment Practices Code and is committed to paying all undisputed invoices within 30 days of receipt. For the financial year 2009-10, 97% of payments by number met this target (2008-09: 91 per cent).

10. Auditors

The Accounts have been audited by the Auditor General for Wales in accordance with Section 131 of the Government of Wales Act 2006. No non-audit work has been undertaken by HCW's auditors.

Management Commentary

Position, development and performance of HCW during the financial year

The 2009-10 financial year was another major financial challenge for HCW with further significant savings achieved in order to meet the agreed financial target. HCW has fully met its financial target for 2009-10.

Annual Operating Framework

In order to deliver the requirements of the Annual Operating Framework for the financial year 2009-10, HCW identified a savings plan of £12.1m that would be required in order to achieve a balanced financial position and still meet all of the needs of the Commissioning Plan.

The agreed savings plan included the following areas:

- Strategic schemes (£3.5m) that commission and procure services in different ways.
- Efficiency schemes (£6.0m) that deliver services at reduced cost and focus commissioning resources more effectively.
- Disinvestment schemes (£2.6m) that reduce the range and/or volume of services being commissioned against a prioritisation framework.

HCW was able to achieve £11.47m of these planned savings and was able to achieve its overall financial target by the management of reserves and development programmes.

PROGRAMME EXPENDITURE

The following charts present two alternative analyses of the way in which HCW utilises its Programme budget. The first chart provides an indicative analysis of HCW’s programme expenditure by major service. The second chart provides an analysis of HCW’s programme spend by major service provider:

Chart 1 – Indicative Analysis of Programme Expenditure

The following chart provides an indication of the services across which HCW utilises its expenditure of £609,084,000.

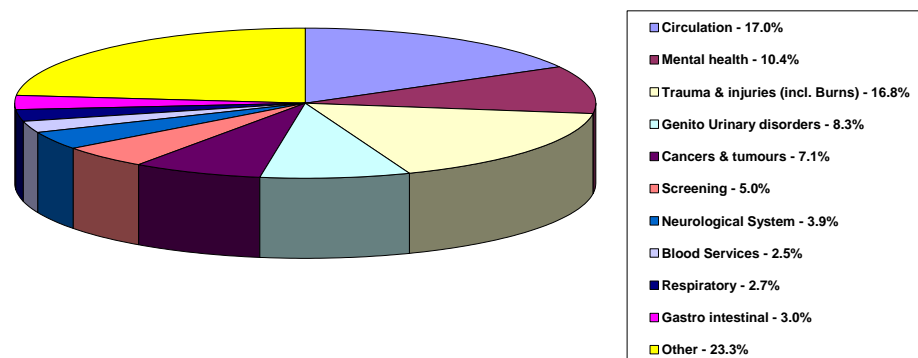
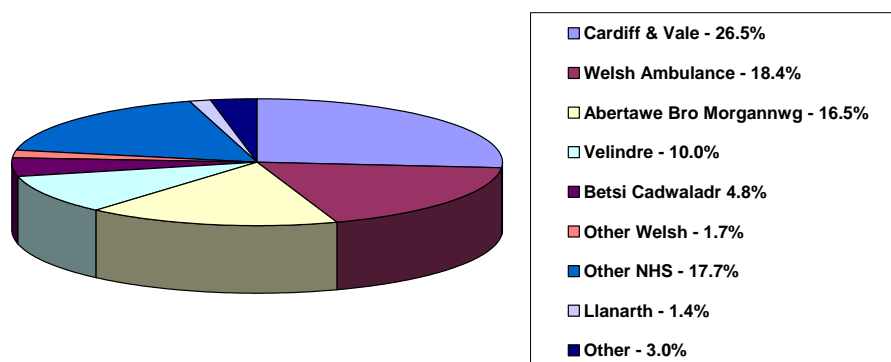


Chart 2 – Analysis of Programme Spend by Major Service Provider

The values associated with the spend of each provider can be found in Note 4 to these financial statements

**Core Business Achievements**

HCW delivered a significant programme of service improvements set out in its Commissioning Plan:

- Delivery of all ministerial targets including:
 - Reduction in waiting times in important areas such as cancer and cardiac services
 - Improvement in ambulance response times was achieved by year end with an all-Wales average performance of 65% for category A response times and improvement in response times in rural areas
 - Further improvement in specialist Child and Adolescent Mental Health Services with the opening of a new in patient service in North Wales delivering self sufficiency for the area and providing emergency access
- Working in partnership with the Renal Networks, the Renal Advisory Group and Professor John Williams further progress was made towards implementing the Renal plan with improved access to dialysis services. Significant capacity improvements were secured for unit haemodialysis and home dialysis across Wales. New satellite dialysis capacity was opened in the new Community Hospital in Alltwn serving the local population in Gwynedd. Improvements were also made in the ambulance transport infrastructure to improve the overall travelling times for patients requiring transportation to and from unit haemodialysis.
- Maintaining the safety and sustainability of services in Wales including the Neonatal Intensive Care service and Neurosurgery service.
- Meeting continued increases in demand for specialist services including:

- Haemophilia – significant investment in delivery of inhibitor reduction programmes
- Pulmonary hypertension – continued trend of increased numbers of patients with longer survival
- Home parenteral nutrition – continued trend of increased patient numbers and the continued development of a local treatment initiation programme in Wales at UHW, Cardiff
- Arrhythmia services – further investment in capacity in Cardiff and Swansea
- Developing angioplasty capacity in North Wales

Business Process Improvements

In order to ensure the delivery of core business and the delivery of the SCEP HCW has developed business process in the areas highlighted below:

- Individual Patient Commissioning – HCW has continued to invest management resource in ensuring that the processes are in place to deal with the increasing (>2,000 p.a.) requests for individually commissioned activity.
- Commissioning Policies – HCW has continued to develop a range of commissioning policies which set out the extent to which HCW will commission or otherwise specified specialist services.
- Tertiary Referral Management – HCW continues to maximise the use of local services.
- Clinical Governance Process – HCW has strengthened and developed the clinical governance process in the year to provide added scrutiny of the clinical performance of specialist services. The work programme has included the development of an outcome measurement framework.
- Health Care Standards Process – HCW has developed the Health Care Standards assurance process during the year and improved delivery against the core standards.

Going concern basis of accounting

This set of accounts represents the final set of accounts for Health Commission Wales as an Executive Agency of the Welsh Assembly Government.

As part of the wider NHS reorganisation in Wales, the function, services, assets, liabilities and commitments of Health Commission Wales legally transferred to the NHS under a Joint Committee of the seven new 7 Health Boards called the Welsh Health Specialised Services Committee (WHSSC). Unlike the 7 Health Boards, WHSSC is not itself a legal entity and is therefore hosted by and legally part of Cwm Taf Local Health Board.

On the basis that the business of Health Commission Wales has been transferred to another organisation in its entirety, these accounts have been prepared on a going concern basis.

HCW has a negative balance on the General Fund, which at 31st March 2010 stood at £11.8m, but is still a going-concern. This position arises from the existence of significant creditor balances on the Balance Sheet that form part of the resource allocation provided to it by the Welsh Assembly Government but which was not drawn down in cash during the year.

Treasury accounting rules do not allow bodies to accrue for grant in aid, the net effect being a negative balance on HCW's General Fund. As HCW has kept within its resource allocation each year, the cash will be made available by the Welsh Assembly Government as and when the liabilities are discharged.

NHS Reform in Wales

As part of the wider NHS reorganisation in Wales, Health Commission Wales ceased to operate in its current form on 31st March 2010 with its function becoming the responsibility of a new national service named the Welsh Health Specialised Services Committee (WHSSC).

This change took effect on 1st April 2010 with a legal transfer order being enacted by Welsh Ministers confirming the transfer to WHSSC. WHSSC is not itself a legal entity but is a sub-committee of the new Health Boards and will take decisions on national specialised services on behalf of the Health Boards under a clear framework.

The framework agreement incorporates governance arrangements designed to overcome the problems identified with the previous arrangements for HCW and incorporates the following:

- The WHSSC will be accountable directly to the Health Boards and will have an independent Chair.
- The work of the WHSSC will be delivered by the Welsh Health Specialist Services Team (WHSST).
- The membership of WHSSC will comprise the Chair, Senior Members of each of the Health Boards, additional members from Health Trusts and the Executive Directors of WHSST including the Director, Medical Director, Nurse Director and Finance Director.

In terms of size and scope the new organisation will assume the responsibilities of HCW but over time it is expected to be planning and funding between 65% and 70% of current range of services by number and value. The final list of responsibilities will be for Health Boards to determine and it is recognised that they may wish to discharge additional responsibilities via WHSSC.

The transfer order enacted on 1st April 2010, provides for the closing balance sheet of HCW as presented in these accounts to be legally transferred to WHSSC as hosted and supported by Cwm Taf Health Board. Given the nature of HCW's balance sheet, in particular the level of creditors and negative general fund, WHSSC and Cwm Taf have sought and obtained assurances from WAG that cash will be made available to allow it to manage and extinguish the balance sheet.

Accounting Issues

Welsh Arbitration Process

In accordance with WHC (2007) 031, HCW monitors any disputes it has with other Welsh NHS organisations in relation to its payables and receivables. Where disputes reach the defined time limits without being resolved, HCW submits arbitration cases to the Welsh Assembly Government for consideration and ruling.

The financial statements take account of the outcome of all known cases and also include appropriate provision for cases in progress. HCW undertook a series of actions with Health Boards designed to reduce and eliminate areas of dispute.

Environmental matters

As part of the 'Greening Operations' from the Welsh Assembly Government, HCW had to reach a Level 5 Green Dragon Award. All offices under WAG are trying to achieve this award by maximising all recycling and environmental issues. To achieve Level 5 HCW had to recycle as much as possible and try to cut back on using excessive electricity, water and consumables. HCW continued to recycle paper, cardboard, wooden pallets, plastic bottles, aluminium cans and waste toners.

Social and community issues

HCW continues to engage fully with health communities and patient networks. HCW involves and consults on substantial changes to health services in accordance with WHC(2004)84 - 'Shaping Health Services Locally'.

Sickness Absence

Staff absence data for 2009-10 is as follows:

	2009-10
Total staff days lost	177
Total staff years	50
Average days lost	3.5

Paul Williams
Health and Social Services Director General & Accounting Officer

26 July 2010

Remuneration Report

Remuneration Policy

HCW follows the remuneration policy of the Welsh Assembly Government. HCW participates in an ongoing performance appraisal process. The performance management process links to the HCW's strategic planning process ensuring that individual objectives reflect wider team and corporate goals.

The level of pay awarded to each pay grade has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- variations in labour markets and their effects on the recruitment and retention of staff;
- the Welsh Assembly Government's policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available in the Welsh Assembly Government's expenditure limits;
- the Welsh Assembly Government's inflation target.

All seconded staff from NHS bodies are subject to a performance appraisal process in the same way as permanent employees. Further details on the remuneration policy of individual NHS bodies can be found in their published annual accounts.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Mr Stuart Davies' appointment was open-ended until he reached the normal retiring age of 60. The other directors who have held post during the year have been on fixed-term secondment agreements from various NHS bodies. Details of the secondments are explained below. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Salary

'Salary' includes gross salary; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on payments made by HCW and thus recorded in these accounts. No bonuses or allowances were payable and no element of senior manager remuneration is subject to performance conditions.

This section is subject to audit.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. No benefits in kind were provided during the year.

Senior Staff Emoluments

	Salary (2009-10) £000	Salary (2008-09) £000	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/10 and related lump sum £000	CETV at 31/03/10 £000	CETV at 01/04/09 £000	Real increase in CETV £000
HCW Employees:							
Stuart Davies Acting Chief Executive/Director of Finance and Contracting (i)	85 - 90	75 - 80	2.5 -5.0	35 - 40	513	430*	53
Secondees:							
Robert Tovey Director of Finance and Contracting (ii)	55 – 60 (70 – 75)	70-75	(2.5) – 0 plus lump sum of (2.5) – 0	25 – 30 plus lump sum of 80 - 85	519	481	14
Dr Geoffrey Carroll Medical Director (iii)	130 - 135	130 - 135	(5.0) – (2.5) Plus lump Sum of (12.5) – (10.0)	50 – 55 plus lump sum of 155 – 160	N/A **	1,313	**
Daniel Phillips Director of Planning & Performance (iv)	85 - 90	80 – 85	0 – 2.5 plus lump sum of 0 – 2.5	25 – 30 plus lump sum of 80 – 85	468	423	24
Vicky Warner Nursing Director (v)	25 – 30 (65 – 70)	N/A	2.5 – 5.0 Plus lump sum of 7.5 – 10.0	15 – 20 Plus lump sum of 55 - 60	360	267	80

* The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008.

** This member of staff reached the pensionable age of 60 and is now in receipt of his pension. Therefore no CETV value is applicable at 31st March 2010.

- (i) Mr Stuart Davies has been employed by HCW since 1st April 2003. On 19th October 2007, Mr Davies was appointed as Acting Chief Executive. He also undertook the role of Director of Finance and Contracting following the departure of Mr Robert Tovey on 29th January 2010. His contract was subject to a three-month notice period.
- (ii) Mr Robert Tovey was appointed as Director of Finance and Contracting from 18th February 2008 onwards and was seconded in from Powys LHB. Mr Tovey's contract ended on 29th January 2010 and therefore the costs shown for 2009/10 represents the actual costs for this period, with full year equivalents in brackets.
- (iii) Dr Geoffrey Carroll is employed by National Public Health Service as a consultant. NPHS is a division of Velindre NHS Trust and HCW is re-charged by Velindre NHS Trust under an SLA agreement. This agreement is subject to a three-month notice period.
- (iv) Mr Daniel Phillips is employed by Cardiff & Vale University Local Health Board and seconded to HCW. The secondment agreement ended on 31st March 2008 and Mr Phillips was re-appointed to his role and a new two-year secondment agreed. This contract is subject to a three-month notice period.
- (v) Mrs Vicky Warner is employed by Aneurin Bevan LHB and was seconded to HCW on a 2.5 day week basis. Mrs Warner's secondment ran from 1st June 2009 to 24th March 2010. The above costs represent actual costs on this basis with the full-time equivalent in brackets.

Pensions

Pension benefits for all HCW employees are provided through the Principal Civil Service Pension Scheme (PCSPS). All seconded staff remain covered by the provisions of the NHS Pension Scheme through their employment with their home organisations.

Staff who have joined HCW with existing membership of the PCSPS may participate in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). New entrants to the PCSPS after 1st October 2002 had the choice between membership of premium or joining a 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

(a) Classic Scheme

Benefits accrue at the rate of $\frac{1}{80}$ th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years pensionable salary is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on commuting the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years.

Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial valuation and with service enhanced as for widow(er) pensions.

(b) Premium Scheme

Benefits accrue at the rate of $1/60^{\text{th}}$ of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of $3/80^{\text{th}}$ of final pensionable earnings for each year's service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for £1 of pension given up). Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of $3/80^{\text{th}}$ of the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of 3 times pensionable earnings and also provides a service enhancement on commuting the spouse's pension.

The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued to the age of 60.

(c) Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1st October 2002 calculated broadly as per classic. Pensions payable under classic, premium and classic plus are increased in line with the Retail Price Index.

(d) Partnership Pension Account

This is a stakeholder type arrangement where the employer pays a basic contribution of between 3 and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up to 25 per cent of the fund as a lump sum.

No employees have opened partnership pension accounts.

(e) Nuvos

In Nuvos a member builds up a pension based on his pensionable earnings during their period of scheme membership.

At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and, immediately after the scheme year end, the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

There were no pension contributions prepaid at the balance sheet date.

NHS Pension Scheme

This scheme is an unfunded, defined benefit scheme that covers NHS employees, General Practices and other bodies allowed under the direction of Secretary of State, in England and Wales. The cost of the employer contributions due in respect of the seconded staff has been reimbursed by HCW and is shown in Note 2a. Further information about the scheme and details of the latest actuarial valuation are contained in the NHS Pension Scheme (England and Wales) Resource Account, available on the NHS Pensions Agency website www.nhspa.gov.uk or from The Stationery Office Ltd.

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries, and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Paul Williams

Health and Social Services Director General & Accounting Officer

26 July 2010

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 131 of the Government of Wales Act 2006, HM Treasury has directed Health Commission Wales to prepare a statement of accounts for each financial year in the form and on the basis set out in the accounts direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Health Commission Wales and of the net resource outturn, net resources applied to objectives, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the *Financial Reporting Manual* issued by the Welsh Assembly Government, and in particular to:

- Observe the accounts direction issued by HM Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the *Financial Reporting Manual*, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on the going concern basis.

Until 31st March 2010, the Welsh Assembly Government designated the Acting Chief Executive of Health Commission Wales as the Accounting Officer of Health Commission Wales. The Chief Executive's responsibilities, as Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Health Commission Wales' assets, are set out in the Welsh Assembly Government Accounting Officers' Memorandum, issued by HM Treasury.

The Accounting Officer responsibility for preparation and signature of the 2009-10 financial statements of HCW passed to the Assembly Government's Director General for Health and Social Services on 1st April 2010.

Statement of disclosure of information to auditors

So far as the Accounting Officer is aware, there is no relevant audit information of which Health Commission Wales' auditors are unaware, and the accounting officer has taken all the steps that ought to have taken in order to make himself aware of any relevant audit information and to establish that Health Commission Wales' auditors are aware of that information.

STATEMENT ON INTERNAL CONTROL

On 1 April 2010, I took on the Accounting Officer responsibility for the demised Health Commission Wales from Mr Stuart Davies, the former Acting Chief Executive of Health Commission Wales.

The following material has been provided to me from Stuart Davies, to support my consideration of the information that I am required to include within this Statement on Internal Control.

1. Scope of responsibility

For the period 1 April 2009 to 31 March 2010, during which I was the Acting Chief Executive and Accounting Officer, I had responsibility for maintaining a sound system of internal control within HCW, which supports the achievement of HCW's policies, aims and objectives. I was also responsible for safeguarding the public funds and assets for which I was responsible, in accordance with the responsibilities assigned to me in managing public money.

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 HCW policies, aims and objectives. It evaluates the likelihood of those risks being realised, the impact should they be realised, and allows for efficient, effective and economical management of those risks. For the year ended 31st March 2010 there has been a system of internal control in place in HCW which complies with HM Treasury guidance.

3. Capacity to handle risk

As Accounting Officer, I had the responsibility of ensuring that appropriate activities take place within HCW to manage risk. I was accountable to the Chief Executive of NHS Wales and I was required to report risks to the Department for Health & Social Services.

Whilst I had ultimate responsibility for managing risk, I delegated the responsibility for managing specific risks to other directors as follows:

The Director of Planning and Performance was responsible for leading on and the development of a corporate approach to risk management for HCW.

The Director of Nursing was responsible for ensuring that all aspects of Clinical Governance are maintained and that service areas are risk assessed as appropriate.

The Director of Finance and Contracting was responsible for ensuring that financial control exists within the organisation and that there are mechanisms for reporting and monitoring HCW's budget.

All staff were made aware of their responsibilities in respect of risk management, including identifying and reporting risks, and had a range of risk management courses available to them to ensure they were able to meet these responsibilities. All staff also had access to the organisation's risk register and were well aware of the process for submitting new risks into the risk management process.

In 2009-2010, the HCW Commissioning Plan was amalgamated into the Annual Operating Framework, performance against which is monitored by WAG as part of the quarterly performance reviews.

Underpinning my approach to risk management and internal control is the Healthcare Standards Self-Assessment process, which is a system of demonstrating continuous improvement in areas of governance, risk management and corporate probity. I put in place processes to ensure that this was managed internally on a regular basis, throughout the year, and submitted the self-assessment for external validation to Health inspectorate Wales.

4. The risk and control environment

HCW's governance and risk management arrangements are outlined in the Framework document and validated through the Healthcare Standards process. Internal accountabilities were discharged through the committees and directors for which I had agreed an accountability process as follows:

Scheme of Delegations

HCW had a Scheme of Delegation document which described the system of internal control in terms of each of the groups/committees that I had put in place and how they linked to one another.

Risk Management Group

This group was chaired by the Director of Planning and Performance and comprised the Director of Nursing, Director of Finance, Business Manager, Clinical Governance Manager and Financial Accountant. The Group's main objectives were to:

- Record, assess and monitor all risks associated with HCW;
- Record and monitor the implementation of audit recommendations
- Review the Statement on Internal Control
- Maintain the organisation wide risk register, incorporating the clinical risk register.

In order to capture all risks, the Risk Management Group had developed an internal form that was available to all staff that provided them with a mechanism for reporting to the group any risks they perceive to exist. This form required comment by the identified risk owner and was then assessed at the next available risk group meeting. The notes of the risk group meetings and the risk register were also made available to all staff. The risk register was reported into the HCW Audit Group and the Health & Social Services Directorate General risk management process. The Chief Nursing Officer and Chief Medical Officer at WAG received copies to ensure any clinical risks were drawn to their attention.

Links between the Clinical Governance Committee and the Risk Management Group were maintained by sharing the Corporate risk register and the Clinical risk register at each of the meetings for cross review and consideration.

Clinical Governance Committee

This Committee was an advisory group that reviewed the clinical governance arrangements within HCW and advised me on clinical issues. The group included health professionals from a range of specialised areas across NHS Wales, including LHBs, representatives from the Community Health Councils, NHS Wales' regional offices, and the Clinical Governance Support and Development Unit in the Welsh Assembly Government. An independent member, who also sits on HCW's National Commissioning Advisory Board, Chaired this Committee.

Clinical risks were identified through a number of methods, including:

- (a) clinical reviews that involved assessing current practices, risk assessments and a review of the management and quality of care and
- (b) major clinical governance assessments that were undertaken as required.

As part of this Committee's role in risk management, the corporate risk register was reviewed in conjunction with its own clinical risk register.

The Clinical Governance Committee has been satisfied with HCW's processes and reports during the year.

Audit Group

The Audit Group acted in an advisory capacity by commenting on both internal and external audit matters and sought to provide assurance to me as Accounting Officer on the operation of internal controls, financial management, budgetary control and risk management. The Group consisted of 3 members and a number of other attendees. The members made up the quorum of the group and were represented by HCW's Chief Executive and two non-executive officers. Other attendees included, Internal and External audit, HCW directors, HCW's Business Manager, HCW's Financial accountant and WAG central Finance staff. During the year the group met 5 times.

Issues arising from the Risk Management Group, Clinical Governance Committee, Information Governance Group and progress against implementation of audit recommendations were reported into the Audit Group. During the year, except for the issues surrounding HCW's governance arrangements which I comment on below, no group members have raised any concern about the effectiveness of the system of internal control I put in place.

Information Governance Group

The Information Governance Group met every two months and its primary purpose was to develop and monitor information governance within Health Commission Wales and to ensure that the organisation met with national standards and legislation.

The group oversaw all aspects of information collection, storage and dissemination, paying particular attention to patient identifiable information. The remit included information security, risk management, data protection, Caldicott and confidentiality, ethical requirements and records management.

The Chair of the Clinical Governance Committee, the Medical Director, was responsible for the Information Governance Group, delegating this on a day to day basis to the Clinical Governance Manager. The Information Governance Group reported to Health Commission Wales' Clinical Governance Committee, with minutes distributed to Health Commission Wales' Risk Management and Audit Groups.

Membership of the group comprised the Medical Director (Caldicott Guardian) as chair, plus the Clinical Governance Manager (Vice Chair), Specialist IPC adviser, Information Manager, Financial Accountant, Specialist Commissioner, Business Support Manager, Assistant Commissioner for Mental Health, Head of Information Management Governance and the Information Analyst.

Staff Meetings

Staff meetings took place which provided me with a forum to update staff on current issues affecting them and HCW. This forum was also used for staff to voice any concerns they may have had or issues they wished to bring to my attention. Any actions needed from these meetings were then directed through the appropriate group/committee. For the financial year 2009-2010 this was a useful method to inform staff regarding the transition process into NHS Wales and to allow staff to raise any issues they may have had.

Directors Meetings

On a weekly basis I met with the other directors on the operational issues and plans of HCW. Reports were discussed and appropriate action agreed for managing identified risks. This included reviewing progress made against the Healthcare Standards Implementation Plan and consideration of commissioning priorities and financial performance.

Financial/Budgetary Control/Quarterly Review Process

I put in place a monthly reporting mechanism for monitoring the financial position of the organisation. In addition, there was a formal SCEP monitoring process, in which I participated, to ensure control existed over the management of the identified savings schemes. The financial performance of HCW was submitted to the Welsh Assembly Government on a monthly basis for consideration as part of the overall performance of the HSSDG business.

Quarterly Performance Reviews

On a quarterly basis the HCW Directors and I, attended a performance review with the Director of HSSDG and the Director of Service Delivery and Performance Management, where we were held to account for HCWs financial and services performance over the preceding quarter. Quarterly reports were supplied updating our progress against our Healthcare Standards Improvement Plan (HCSIP). All senior staff and directors had a responsibility to provide information to show progress against our Improvement Plan.

Reports were also presented from each Governance lead, including Risk Management, Clinical Governance and Audit Group. Our commissioning intentions for the coming quarter were discussed and I had an opportunity to raise any predicted issues or risks.

The National Commissioning Advisory Board (the Board)

The National Commissioning Advisory Board advised the Chief Executive of Health Commission Wales and its key role was to consider and sign off the HCW National Commissioning Strategy and Annual Operating Framework.

The Board made recommendations to the Director, HSSDG and Minister for Health and Social Services through the Chief Executive of Health Commission Wales and monitored the implementation of the approved plan.

Membership of the group was structured in such a way that there was representation from each of the regional stakeholder panels, including LHB's, as well as HCW's Chief Executive and other directors.

In addition to its main role of monitoring and reviewing HCW's Annual Operating Framework and strategy, the Board also received, for review and comment, HCW's commissioning policies, financial position and minutes of Audit Group and Clinical Governance Committee.

Internal/External Audit

The internal audit function for HCW was provided by the WAG Internal Audit Services which operates to Government Internal Audit Standards. There was a five year audit strategy in place and audits were carried out in accordance with this plan.

However, for 2009-2010, the Internal Audit plan was re-designed to reflect the transitional status of the organisation and, as a result, focussed on the follow up of previous Internal Audit reports and recommendations with respect to compliance with Welsh Assembly processes and priorities.

HCW's external auditors are the Wales Audit Office who undertake audit work to provide assurances on the integrity of the financial statements and report on recommendations for improvements in processes/controls. The results from both internal and external audits have been agreed by management and have been considered by the Audit Group. The risk management group oversees implementation of any recommendations arising.

Strategic Change and Efficiency Plan (SCEP)

One of the most significant risks facing HCW was its ability to maintain a balanced financial position whilst still providing the services and achieving the targets described in its Annual Operating Framework. Following additional funding from the Welsh Assembly Government in previous financial years, HCW had developed a SCEP plan in order to achieve overall financial balance for 2009-2010 and repay existing financial support from the Welsh Assembly Government in subsequent years. The plan included a number of strategic service changes, efficiency improvements and service disinvestments in order to ensure HCW delivered Ministerial priorities along with achieving financial balance. Monitoring of progress against the SCEP was a feature of

the Quarterly Performance Review with the Welsh Assembly Government.

Healthcare Standards

HCW was required to submit an annual self-assessment against Healthcare Standards and from this to produce a Healthcare Standards Improvement Plan (HCSIP) which schedules the actions and improvements which are worked on during the coming year. This work was taken forward by the whole organisation during the year and has been submitted to the Clinical Governance Committee, Audit Group and ultimately to Directors for approval.

Healthcare Standards for Wales Self-assessment 2009 - 10

HCW has consolidated the knowledge and experience of previous Healthcare Standards Self Assessment submissions and the recommendations from the March 2009 Internal Audit report. The Standards and the self assessment processes were embedded in our ways of working and work programmes. I had ensured we had clear delegation of responsibilities and that each year a grid showing this was provided to senior staff and Directors, the Audit Group and the Clinical Governance Committee. The grid listed the staff concerned, designated lead directors and supporting senior staff. I am confident that all senior staff and directors in HCW thus knew their role in providing information and evidence for the self assessment.

AOF 2009 - 10

In this past year we responded to and worked on The NHS Wales: Annual Operating Framework 2009/10 Performance assessment section 6, Governance Dimension which requires

“Organisations to demonstrate progress towards the integration of governance by embedding the Healthcare Standards within organisational arrangements. An organisation’s compliance with the Healthcare Standards will therefore be used as an important indicator of the effectiveness of governance arrangements. The assessment of the governance domain will consist of two elements:

Overall Governance:

The assessment of effective governance arrangements will be based on the overall assessment made by Healthcare Inspectorate Wales, focusing on the healthcare governance domain of the Healthcare Standards for Wales.

Risk Management:

The improvements made by an organisation in its Healthcare Standards Improvement Plan. Particular focus will be placed on the Healthcare Standards central to the management of risk, which are particularly relevant to an organisation’s Statement of Internal Control: Standard 14, Standard 16, Standard 27 & Standard 28

In 2009 – 2010 we are expected to reach a rating of “Practising” i.e. level 4, in these standards. In our previous HCSSA (2008-09) we rated ourselves at levels 4, 3, 4, 3 respectively. This gave us an overall score of 3, which made us a “Developing” organisation on the maturity matrix. HIW agreed with our self assessment in this respect. Having reviewed the process in March 2009, Internal Audit did not undertake a

review in 2009-10. The final HIW report for 2009-10 is not expected to be published until September 2010.

Internal Audit Recommendations: in March 2009 the Internal Audit Services audited our self assessment and submission process and made recommendations regarding the way in which we prepared and executed our submission. In the overall conclusion the IAS provided **Substantial Assurance** on the controls in place over the reporting of Compliance with Healthcare Standards. Their recommendations were drawn to the attention of all staff who completed sections of the Tool and provided evidence of practice. The follow-up audit of compliance with the IAS recommendations in February 2010 satisfied the auditor that our submission demonstrated we had observed them and that the submission was of a higher standard than previously. We received similar feedback from HIW. I am therefore confident that our approach and execution of the self assessment, including clear descriptions of activities and evidence to support them, was at a most suitable standard and continued to improve.

Healthcare Standards Self Improvement Plan (HCSIP) 2009

In respect of the four core governance standards, HCW's scoring was as follows:

<u>No</u>	<u>Standard Name</u>	<u>2009/10 score</u>	<u>08/09 Score</u>	<u>07/08 Score</u>
14	Healthcare Governance	4	4	3
16	Healthcare Governance	4	3	3
27	Healthcare Governance	4	4	3
28	Healthcare Governance	4	3	3

Healthcare Standards Improvement Plan (HCSIP) 2009-10

The HCW 2009-10 HCSIP was agreed with the WAG Director of Planning and performance. I was pleased to submit progress reports to the quarterly review meetings. These showed a consistent line of improvement as the targets we had set ourselves were being met.

5. Review of effectiveness

As Accounting Officer, I had responsibility for reviewing the effectiveness of the system of internal control. My review was informed by the work of the internal auditors and the executive officers within HCW who had responsibility for the development and maintenance of the internal control framework. I also took into account 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 by the Board, the Audit Group and the Risk Management Group, and a plan to address weaknesses and ensure continuous improvement of the system was in place.

The Internal Audit Annual Report 2009-2010 was completed and submitted to me in July 2010. The report concluded that HCW did have in place an effective framework of control, which enabled Internal Audit to give substantial assurance on HCW's overall arrangements for risk management, control and governance.

There are two areas in which the effectiveness of the system of internal control has been exposed to risk as follows:

(a) Staffing

Staffing levels had continued to be a concern and a risk faced by HCW, particularly in light of the NHS reform in Wales. As Accounting Officer I had taken appropriate steps to address this issue, including the agreement with WAG to extend the contracts of agency and secondees, throughout the year and continuing through the transition process to ensure business continuity during this time.

HCW was without a full time substantive Director of Finance for March 2010. I was able to make arrangements to part cover this role with an inward secondment for 2 days a week to ensure that the financial elements of the NHS Transition Process received appropriate support.

(b) Governance Arrangements

During 2009-10 HCW, by agreement from the Chief Executive, NHS Wales, continued to operate without having a permanent independent Chair and the necessary Non-Executive Directors with the understanding that independent external advice is provided via the Clinical Governance Committee and Audit Group.

(c) The National Commissioning Advisory Board

As a result of the reorganisation of NHS Wales and the subsequent changes of key personnel, it became increasingly difficult to ensure adequate membership of the National Commissioning Advisory Board. Therefore the Board only met twice in the period 1st April to 30th September 2009 and did not meet again after that date. In order to ensure adequate external assurance, I relied on the quarterly performance reviews with the HSSDG as an appropriate alternative review of the system of internal control.

6. Matters of note

Public Sector Payment Performance

HCW's average payment performance rate for the year is 97%, which is an improvement against the 2008/09 comparative of 91%, and exceeds the Public Sector Payment Performance target rate of 95%.

NHS Re-organisation

Background

On 11th September 2009, HCW received confirmation from the Minister for Health & Social Services that Welsh Health Services Specialist Committee (the Joint Committee of the seven LHBs) would be established in shadow form from the 1st October 2009, with full implementation from the 1st April 2010.

The Minister also agreed that Directions would be drafted to:

- (i) direct the seven Local Health Boards to work together as the Joint Committee in shadow form from the 1st October 2009 to the 31st March 2010, to be fully operational from the 1st April 2010; and
- (ii) retain for Welsh Ministers those functions currently undertaken by Health Commission Wales during the shadow period.

Therefore, HCW continued to operate fully through to the new arrangements and continued to be responsible for agreeing the Commissioning Plan and Annual operating framework for 2009/10. HCW continued to enter into new financial commitments to ensure its functions are delivered.

Project Management

As part of HCW's system of internal control, I considered the need to have controls in place to manage the transfer of HCW into the NHS, whilst still maintaining the day-to-day operation.

I therefore established a transition project Board whose remit was to ensure that the transitional arrangements between HCW and the new Joint Committee were agreed and that the transfer was conducted smoothly and in a timely manner. Internal Audit also attended this Group in an advisory capacity, commenting particularly on the effectiveness of the HCW's transition project within the wider NHS reorganisation review.

The Board met every month and was supported by several teams who were responsible for progressing each of the workstreams of the project. These workstreams included IT & Accommodation, Finance, HR, Business Continuity, Clinical governance and Corporate governance.

Each team comprised of HCW staff, WAG staff and Cwm Taf LHB staff with input from other LHBs as necessary. Teams met on a regular basis to monitor and review progress of the work required to achieve the transfer. Each work-stream lead was responsible for ensuring that a risks and issues log was maintained and that this log, together with a progress report, was submitted to the main HCW Transition Project Board each month for consideration.

The overall progress of HCW's transition project was reported by the Board into the main NHS Transition Project Board.

In September 2009, a Transitional Director was appointed to HCW to manage the overall process. In addition, the Chair of WHSSC was appointed during the year which has provided further independent scrutiny to the process.

Main Risks

The principal risk facing HCW was the ability to retain and recruit staff throughout the transition process and into the new NHS regime. This risk has been mitigated by reaching agreement with WAG HR department to extend the secondee contracts to 31st March 2010 and the agency contracts to 30th June 2010.

The HR transition work-stream took forward the process of transferring WAG staff into the NHS regime.

This process was not without risk and I have monitored progress throughout the year.

Statement of assurance

In light of the above, I am satisfied that a sound system of control has operated within the areas for which I was the Accounting Officer.

Stuart Davies
Acting Chief Executive & Accounting Officer
26 July 2010

Based on the above assurances from the former Accounting Officer, which I have discussed with him, and from my own review of the matters required to be included within this Statement on Internal Control, I am satisfied that for the period 1 April 2009 to 31 March 2010 a sound system of internal control was in place, which supported the achievement of HCW's aims and objectives, whilst safeguarding the public funds and assets for which the Accounting Officer was personally responsible.

Paul Williams
Health and Social Services Director General & Accounting Officer
26 July 2010

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

I certify that I have audited the financial statements of Health Commission Wales (Specialist Services) for the year ended 31 March 2010 under the Government of Wales Act 2006. These comprise the Operating Cost Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government of Wales Act 2006 and HM Treasury's directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury's directions issued under the Government of Wales Act 2006. I report to you whether, in my opinion, the information which comprises only the Directors' Report and the Management Commentary, included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by National Assembly for Wales and the financial transactions conform to the authorities which govern them.

In addition, I report to you if in my opinion Health Commission Wales (Specialist Services) 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 HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Health Commission Wales (Specialist Services)'s compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of Health Commission Wales (Specialist Services)'s corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the unaudited part of the Remuneration Report. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Health Commission Wales (Specialist Services)'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 the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government of Wales Act 2006 and directions made thereunder by HM Treasury, of the state of Health Commission Wales (Specialist Services)'s affairs as at 31 March 2010, and the net operating cost and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury's directions issued under the Government of Wales Act 2006; and
- information which comprises only the Directors' Report and the Management Commentary included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Gillian Body
Auditor General for Wales
24 Cathedral Road
Cardiff
CF11 9LJ
16 August 2010

OPERATING COST STATEMENT FOR YEAR ENDED 31 MARCH 2010

		2009-10		2008-09	
	<i>Note</i>	£000	£000	£000	£000
Administration costs:					
Staff costs	3	1,867		1,876	
Other administration costs	5	<u>106</u>		<u>49</u>	
			1,973		1,925
Programme Costs					
Staff costs	3	485		449	
Programme costs	4	<u>608,599</u>		<u>577,188</u>	
			609,084		577,637
NET OPERATING COST			<u>611,057</u>		<u>579,562</u>

All activities are continuing. There are no recognised gains or losses during the year.

The notes on pages 32 to 40 form part of these accounts

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2010

	Notes	31 March 2010	31 March 2009	1 April 2008
CURRENT ASSETS				
Trade and other receivables	6	2,457	3,388	2,741
Cash and cash equivalents	7	<u>13</u>	<u>402</u>	<u>2,547</u>
Total current assets		2,470	3,790	5,288
CURRENT LIABILITIES				
Trade and other payables	8	<u>(14,312)</u>	<u>(19,864)</u>	<u>(19,180)</u>
Total current liabilities		(14,312)	(19,864)	(19,180)
NET CURRENTS ASSETS/LIABILITIES		<u>(11,842)</u>	<u>(16,074)</u>	<u>(13,892)</u>
NON-CURRENT LIABILITIES				
Trade payables	8	-	-	(166)
ASSETS LESS LIABILITIES		<u>(11,842)</u>	<u>(16,074)</u>	<u>(14,058)</u>
TAXPAYERS EQUITY				
General fund		(11,842)	(16,074)	(14,058)
TOTAL TAXPAYERS EQUITY		<u>(11,842)</u>	<u>(16,074)</u>	<u>(14,058)</u>

Paul Williams
Health and Social Services Director General & Accounting Officer
26 July 2010

The notes on pages 32 to 40 form part of these accounts

STATEMENT OF CASHFLOWS
for the year ended 31 March 2010

	<i>Note</i>	2009-10 £000	2008-09 £000
<u>Cash flows from operating activities</u>			
Net operating cost		(611,057)	(579,562)
Adjustments for non-cash transactions	5	(25)	(120)
(Increase)/Decrease in trade and other receivables	6	931	(647)
Increase/(Decrease) in trade payables	8	(5,552)	684
Net cash outflow from operating activities		(615,703)	(579,645)
<u>Cash flows from financing activities</u>			
Financing from the Welsh Assembly Government		615,314	577,500
Net increase/(decrease) in cash and cash equivalents		(389)	(2,145)
Cash and cash equivalents at the beginning of the period	7	402	2,547
Cash and cash equivalents at the end of the period	7	13	402

The notes on pages 32 to 40 form part of these accounts

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2010**

		General Fund £000
Balance at 31 March 2008		(14,030)
Changes in accounting policy		(28)
Restated balance at 1 April 2008		<u>(14,058)</u>
 Changes in taxpayers' equity for 2008-09		
Non-cash charges - cost of capital	(576)	
- notional costs	456	
- movement in general fund	166	
Net operating cost for the year	<u>(579,562)</u>	
Total recognised income and expenses for 2008-09		(579,516)
Welsh Assembly Government funding		577,500
Balance at 31 March 2009		<u>(16,074)</u>
 Changes in taxpayers' equity for 2009-10		
Non-cash charges - cost of capital	(493)	
- notional costs	468	
- movement in general fund	-	
Net operating cost for the year	<u>(611,057)</u>	
Total recognised income and expenses for 2009-10		(611,082)
Welsh Assembly Government funding		615,314
Balance at 31 March 2010		<u>(11,842)</u>

The notes on pages 32 to 40 form part of these accounts

NOTES TO THE ACCOUNTS

1. Accounting Policies

a. Basis of Accounting

The Accounts follow the requirements of the 2009/10 Government Financial Reporting Manual (FReM) issued by the Welsh Assembly Government and are based on the accruals concept of accounting and the historical cost convention. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Health Commission Wales for the purpose of giving a true and fair view has been selected. The particular policies adopted by Health Commission Wales are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

The financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 17th April 2008 pursuant to Section 131 of the Government of Wales Act 2006.

Subject only to compliance with the requirements set out in the Accounts Direction, the Accounts also:

- i. Comply with the accounting and disclosure requirements of the Companies Act 2006 in so far as they are consistent with the status of an Executive Agency of the Welsh Assembly Government; and
- ii. Comply with accounting standards issued or adopted by the Accounting Standards Board except to the extent that they are advised inapplicable by HM Treasury.

b. Funding

The main source of funding for HCW is from the Welsh Assembly Government and is credited to the General Fund on receipt.

c. Expenditure

Programme

The expenditure recognised in the accounts primarily represents the cost of treatments carried out in the year. There are also a small number of staff members that are funded from programme expenditure which are detailed at note 3(a).

In common with NHS commissioners HCW has in place service level agreements covering the provision of health services with all main providers. The majority of HCW's expenditure is incurred under cost and volume Service Level Agreements (SLAs). These SLAs, agreed on a rolling one-year basis are not legally binding. Contracts with NHS organisations on an individual patient commissioning (IPC) basis are also not legally binding.

A small proportion of HCW's expenditure is incurred under legally binding contracts with the Foundation Trusts in England or private sector providers of primarily secure mental health services.

Administration

This expenditure recognised in the accounts represents the costs of staff and other running costs incurred during the year.

d. Value Added Tax (VAT)

HCW is covered by the VAT registration of the Welsh Assembly Government. HCW recovers VAT on its business activities and on certain contracted out services, as agreed by HM Treasury. Expenditure shown in the Operating Cost Statement includes VAT except where VAT is recoverable in conjunction with the business activity or contracted-out service.

e. Pension Costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme, which is described at Note 3. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. HCW recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, HCW recognises the contributions payable for the year; these amounts are charged to the Operating Cost Statement in the year of payment.

Staff seconded from other NHS organisations are covered by other NHS pension schemes.

f. Notional Costs

Welsh Assembly Government recharge

A notional cost has been included to cover certain common services and support functions, such as IT, finance, personnel, accommodation and other office services, provided to HCW by the Welsh Assembly Government free of charge.

Cost of capital

A charge reflecting the cost of capital utilised by HCW, is included in operating costs. The charge is calculated at the real rate set by HM Treasury of 3.5% (2008-09 - 3.5%) on the average carrying amount of all assets less liabilities.

g. Capitalisation of equipment

Health Commission Wales does not hold any fixed assets .

2. First-time adoption of IFRS

	General Fund £000
Taxpayer's equity at 31 March 2009 under UK GAAP	(16,042)
Adjustment for holiday accrual (IAS 19)	(32)
Taxpayer's equity at 1 April 2009 under IFRS	<u>(16,074)</u>
Net operating cost for 2008/09 under UK GAAP	579,558
Adjustment for holiday accrual (IAS 19)	4
Net operating cost for 2008/09 under IFRS	<u>579,562</u>

3. Staff numbers and costs**a) Staff Costs**

				2009-10	2008-09
	HCW employees £000	Secondees £000	Agency £000	Total £000	Total £000
Wages & Salaries	1,148	620	178	1,946	1,950
Social Security Costs	124	61	-	185	151
Other Pension Costs	205	87	-	292	283
	<u>1,477</u>	<u>768</u>	<u>178</u>	<u>2,423</u>	<u>2,384</u>
Funding for seconded out staff	(71)	-	-	(71)	(59)
Funded from programme expenditure	(90)	(314)	(81)	(485)	(449)
Total funded from administration expenditure	<u>1,316</u>	<u>454</u>	<u>97</u>	<u>1,867</u>	<u>1,876</u>

The above staff costs of £1,867,000 represent 0.3 per cent of HCW's expenditure

b) Staff Numbers

The average number of whole-time equivalent persons (including Senior Staff) employed during the year was:

	2009-10	2008-09
HCW employees	39	31
Seconded	8	11
Agency	3	5
Total	50	47

c) Pension Schemes

Pension benefits for all HCW employees are provided through the Principal Civil Service Pension Scheme (PCSPS). All seconded staff remain covered by the provisions of the NHS Pension Scheme through their employment with their home organisations. The figures within this note therefore relate only to HCW employees.

Principal Civil Service Pension Scheme (PCSPS)

This is an unfunded multi-employer defined benefit scheme but HCW is unable to identify its share of the underlying assets and liabilities and therefore falls within the multi-employer exemption provided by FRS17, Retirement Benefits, and accounts for its contributions to the scheme as though this was a defined contribution scheme.

A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009-10, employers' contributions of £204,736 (2008-09: £193,618) were payable to the PCSPS at one of four rates in the range 16.7% to 25.8% of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners

NHS Pension Scheme

This scheme is an unfunded, defined benefit scheme that covers NHS employees, General Practices and other bodies allowed under the direction of Secretary of State, in England and Wales. The cost of the employer contributions due in respect of the seconded staff has been reimbursed by HCW and is shown in Note 3a. Further information about the scheme and details of the latest actuarial valuation are contained in the NHS Pension Scheme (England and Wales) Resource Account, available on the NHS Pensions Agency website www.nhspa.gov.uk or from The Stationery Office Ltd.

d) National Commissioning Advisory Board

Members of the National Commissioning Advisory Board do not receive any emoluments and were not reimbursed any expenses in respect of 2009-10.

4. Programme Expenditure

(a) Analysis by Provider

The note below gives an analysis of programme expenditure by Provider for the year.

	2009-10	2008-09
	£000	Re-stated £000
NHS:		
Cardiff & Vale University LHB	161,283	154,471
Welsh Ambulance Services NHS Trust	111,770	108,828
Abertawe Bro Morgannwg University LHB	100,676	98,449
Velindre NHS Trust	61,071	57,941
Betsi Cadwaladr University LHB	29,521	26,328
Other Welsh LHB's	10,630	7,117
English NHS organisations	107,905	99,113
Non-NHS:		
Llanarth Court	8,287	8,877
Other providers of healthcare	17,865	16,454
Welsh Assembly Government	76	59
	609,084	577,637

Note: On 1st October 2009, all Welsh Trusts and LHB's were subject to a re-organisation whereby the 22 former LHB's and 9 Trusts were amalgamated into 7 new LHB's and 2 Trusts. The figures for 2008/09 have been re-stated to reflect the new organisational structure

- (i) The Cardiff & Vale expenditure includes inflation of £2.3m, the transfer in of Neuro services of £1.8m, growth in Haemophilia of £1m and growth in Cochlear Implants of £0.7m
- (ii) Other Welsh NHS LHB's has seen a reduction in the level of prior year reserves being released of £1.7m and also a reduction in the level of mental health step down income recharged of £0.7m which has been replaced by funding from WAG.
- (iii) English NHS organisations, has seen increases in expenditure resulting from the effects of Payment by Results of £4.6m and a reduction in the level of prior year reserves being released of £1.5m

(b) Operating Segments

In accordance with IFRS 8, HCW has determined its operating segments with reference to how its budget is monitored and reported to the Chief Operating Decision Maker. HCW's operating segments and associated expenditure is as follows:

	2009-10	2008-09
	£000	£000
Welsh SLA's	470,660	451,485
English SLA's	96,473	89,256

5. Administration expenditure

	2009-10	2008-09
	£000	£000
Central administration	34	33
Information technology	-	2
Travel, subsistence and meeting costs	58	60
Review Panel Remuneration	-	3
Auditor's remuneration	36	64
Other	3	7
	<u>131</u>	<u>169</u>
Non-cash items:		
- cost of capital credit	(493)	(576)
- notional charge for Welsh Assembly Government central services	335	326
- IT notional charge	133	130
	<u>(25)</u>	<u>(120)</u>
	<u>106</u>	<u>49</u>

6. Trade receivables and other current assets

	31 March 2010	31 March 2009 Re-stated	1 April 2008 Re-stated
	£000	£000	£000
Amounts falling due within one year:			
Trade receivables - NHS:			
Welsh NHS Trusts	226	-	-
Welsh Local Health Boards	1,695	2,121	795
English NHS Trusts	454	1,198	1,331
Trade receivables - Non NHS:			
Welsh Assembly Government	61	10	10
Other providers of healthcare	21	59	574
VAT Reclaimable		-	1
Prepayments and accrued income		-	30
	<u>2,457</u>	<u>3,388</u>	<u>2,741</u>

The prior year figures have been restated to reflect changes to the organisational structure of the NHS in Wales during 2009/10. Please refer to the explanation given at note 4

7. Cash and cash equivalents

	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000
Balance at 1 April	402	2,547	3,977
Net cash outflow	(389)	(2,145)	(1,430)
Balance at 31 March	13	402	2,547

The Office of HM Paymaster General (OPG) provides a current account banking service. The following balances were held at 31 March:

	31 March 2010	31 March 2009	1 April 2008
	£000	£000	£000
Balances at OPG	-	331	2,539
Commercial Banks and cash	13	71	8
	13	402	2,547

8. Trade payables and other current liabilities

	31 March 2010	31 March 2009	1 April 2008
	£000	Re-stated £000	Re-stated £000
Amounts falling due within one year:			
Trade payables - NHS:			
Welsh NHS Trusts	197	350	841
Welsh Local Health Boards	1,726	3,334	2,659
English NHS Trusts	9,710	11,803	11,111
Trade payables – non NHS:			
Welsh Assembly Government	676	569	272
Other providers of healthcare	2,003	3,776	4,269
Other payables	-	32	28
	14,312	19,864	19,180

Included in the above figures are accruals totalling £13.35m and provisions of £0.165m

Amounts falling due after more than one year:

Trade payables:			
Non NHS	-	-	166
	-	-	166

The prior year figures have been restated to reflect changes to the organisational structure of the NHS in Wales during 2009/10. Please refer to the explanation given at note 4

9. Other financial commitments

There were no capital commitments at 31st March 2010. HCW has entered into contracts relating to Individual Patient Commissioning Agreements, analysed as follows:

	31 March 2010 £	31 March 2009 £	1 April 2008 £
Not later than one year	1,299	956	526
	<u>1,299</u>	<u>956</u>	<u>526</u>

This represents the level of treatments agreed during 2009-10 not carried out prior to 1st April 2010.

10. Contingent liabilities

During the year HCW has continued to work towards reducing the level of contingent liabilities by resolving disputed invoices with service providers. HCW has also continued to be realistic in its level of accruals.

HCW's contingent liabilities amounted to £9,354 at 31st March 2010 (31 March 2009 - £38,757).

11. Financial Instruments

Due to the nature of non-trading nature of its activities and the way in which Agencies are financed, HCW is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with HCW's expected purchase and usage requirements and HCW is therefore exposed to little credit, liquidity or market risk. HCW has very limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing HCW in undertaking its activities.

- Liquidity Risk - HCW is financed by the Welsh Assembly Government and is therefore not exposed to liquidity risks. Cash funds are held within central government accounts with no external investments being made and therefore HCW has no exposure to banking losses.
- Interest Rate Risk and Foreign Currency Risk - HCW's financial assets and liabilities are not exposed to interest rate or foreign currency risks.

Fair Values - There is no difference between the book values and fair values of HCW's financial assets and liabilities as at 31st March 2010.

12. Related Party Transactions

HCW is an Executive Agency of the Welsh Assembly Government which is therefore regarded as a related party. Other related parties are all Local Health Boards and NHS Trusts in Wales.

A number of HCW senior staff held senior management positions in other NHS organisations. During the year, HCW had transactions with these organisations as follows:

Senior staff:	Organisation	Total Expenditure 2009-10 £000	Total Expenditure 2008-09 Restated £000
Robert Tovey	Powys LHB	26	84
Geoffrey Carroll	Velindre NHS Trust	61,238	58,106
Daniel Phillips	Cardiff & Vale University LHB	161,407	154,177
Vicky Warner	Aneurin Bevan LHB	2,806	-

Balances outstanding at 31st March 2010 with these organisations were:

Organisation	2009-10 Receivables £000	2009-10 Payables £000	2008-09 Receivables £000	2008-09 Payables £000
Powys LHB	14	59	33	161
Velindre NHS Trust	227	1	0	344
Cardiff & Vale University LHB	677	952	1,725	606
Aneurin Bevan LHB	319	131	-	-

Included in the above expenditure is the secondees' salaries as reported within Note 3a.

During the year HCW had transactions with the Welsh Assembly Government to the value of £1,561,812 which includes the staff salaries as reported in Note 3a.

The prior year figures have been restated to reflect changes to the organisational structure of the NHS in Wales during 2009/10. Please refer to the explanation given at note 4

13. Post Balance Sheet Events

NHS Re-organisation

As part of the wider NHS reorganisation in Wales, Health Commission Wales ceased to operate in its current form on 31st March 2010 with its function becoming the responsibility of a new national service named the Welsh Health Specialised Services Committee (WHSSC).

This change took effect on 1st April 2010 with a legal transfer order being enacted by Welsh Ministers confirming the transfer to WHSSC. The transfer order provides for the closing balance sheet of HCW as presented in these accounts to be legally transferred to WHSSC as hosted and supported by Cwm Taf Health Board. Given the nature of HCW's balance sheet, in particular the level of creditors and negative general fund, WHSSC and Cwm Taf have sought and obtained assurances from WAG that cash will be made available to allow it to manage and extinguish the balance sheet.

The Accounting Officer authorised these accounts for issue on 16th August 2010.