

## **FOREWORD TO THE ACCOUNTS**

### **1. Form of Accounts**

The accounts have been prepared in accordance with a direction given by HM Treasury in pursuance of Section 97 of the Government of Wales Act 1998.

### **2. Background to Health Commission Wales (Specialist Services)**

Health Commission Wales (Specialist Services) (HCW) is an Executive Agency of 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 1 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. Principal Activities**

HCW’s role is to provide a strengthened specialist health services commissioning body to commission tertiary and other highly specialised services throughout 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.

### **4. The National Specialised Services Commissioning Board**

The National Specialised Services Commissioning Board (the Board) meets bi-monthly. 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 Director, Health and Social Care Department and Minister for Health and Social Services, Welsh Assembly Government through the Chief Executive and monitor the implementation of the approved plan.

### **5. 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.

### **6. Employee Consultation**

HCW 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.

## **7. Financial Review**

The results for the period are reported in detail in the attached accounts. HCW recorded net expenditure for the year of £445,013,000. (2003-04: £368,926,000). The increase between financial years is accounted for by increases in the costs of services and an increase in the portfolio of services commissioned by HCW. The increase in portfolio accounted for £17.6m of the movement between financial years. The most significant area of cost movement was an £11m increase in the cost of pensions within the service costs of NHS providers.

In common with other NHS Commissioners the vast majority of the financial expenditure of HCW is committed to cover the ongoing cost of services currently being delivered under service level agreements with provider organisations. HCW has few legally binding contracts, these being limited to agreements with the new Foundation Trusts in England and individual patient placement contracts for secure mental health services. Full details of the expenditure programme for HCW will be published in the Annual Report for 2004-05.

The 2004-05 financial position included additional resource limit support of £10.2m. HCW is required to agree a Strategic Change and Efficiency Plan (SCEP) with Welsh Assembly Government by the end of September 2005. The SCEP is designed to demonstrate how HCW will return to financial balance with interim financial support totalling £10m in 2005-06, £5m in 2006-07. The final plan will further consider how the total level of financial support of £25m can be repaid over a three year period commencing 2008-09.

## **8. 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 2004-05 69 per cent of payments by number met this target. (2003-04: 82 per cent).

Actions to improve payment performance were taken in year and as a result of changes in systems and procedures payment performance in the last two months of the financial year reached a minimum of 95.3 per cent by number (98.9 per cent by value). It is also significant that the volume of invoices paid in 2004-05 increased by 63 per cent by number (21 per cent by value) compared to 2003-04 without a corresponding increase in administration resources. It is hoped that payment performance at this level can be sustained.

## **9. Auditors**

The Accounts have been audited by the Auditor General for Wales in accordance with Section 97 of the Government of Wales Act 1998.

**Stuart Fletcher**  
**Chief Executive**  
**31 August 2005**

## **STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES**

Under Section 97 of the Government of Wales Act 1998, the 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 accrual basis and must give a true and fair view of the Agency's state of affairs at the year end and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Agency is required to:

- observe the accounts direction issued by the 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 have been followed, and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The HM Treasury has designated the Chief Executive of Health Commission Wales as the Accounting Officer for the Agency. The Chief Executive's responsibilities as Accounting Officer includes the responsibility for the propriety and regularity of the public finances, and for the keeping of proper records and preparing the financial statements. These are set out in the National Assembly for Wales Accounting Officers' Memorandum, issued by the HM Treasury.

## **STATEMENT ON INTERNAL CONTROL**

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

As Accounting Officer, I have responsibility for maintaining a sound system of internal control within HCW, which supports the achievement of HCW's policies, aims and objectives. I am also responsible for safeguarding the public funds and assets for which I am responsible.

### **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 agency 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 HCW for the year ended 31 March 2005 and up to the date of approval of the annual accounts, and accords with Treasury guidance.

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

As Accounting Officer, I have the responsibility of ensuring that appropriate activities take place within HCW to manage risk.

HCW's Foundation Document provided a risk analysis for each specialist service. This risk analysis was used to inform the relative priorities for action in HCW's Commissioning Plan for 2004-05 - a risk-based approach to commissioning that has continued to be enhanced during 2004-05 by a number of processes and documents, including a detailed risk register and risk and management meetings.

The National Specialised Services Commissioning Board (the Board) meets bi-monthly. The Board's main role is to make recommendations to the Welsh Assembly Government through me and monitor the implementation of the National Specialised and Tertiary services commissioning plan. In addition to agreeing and monitoring the commissioning plan, the Board also advises me on service risks and on the strategic direction of HCW.

The Chair of the Board is appointed by the Minister for Health & Social Services and is responsible for leading the Board and for ensuring that it functions properly and effectively. In addition to the Chair, the membership of the Board consists of representatives from NHS Trusts and Local Health Boards, the Voluntary sector, the Association of Welsh Community Health Councils, The National Public Health Service, Welsh Local Government Association and Cancer and Cardiac Networks.

HCW's Clinical Governance Committee is an external group that peer reviews the governance arrangements within HCW and provides advice to me. The membership includes health professionals from a range of specialised areas across NHS Wales as well as representatives from the Community Health Councils, NHS Wales' regional offices, and the Clinical Governance Support and Development Unit in Welsh Assembly Government.

Monthly meetings have been held for commissioners with the Medical Director and the Chair of the Clinical Governance Committee. This has provided the commissioners with an opportunity to discuss issues within the services for which they are responsible that relate to clinical governance.

The Audit Group acts in an advisory capacity for me and provides a forum for discussing both internal and external audit matters and seeks to provide assurance to HCW's Accounting Officer on the operation of internal controls. The members of the Audit Group were the Chairman of the Board and HCW's Accounting Officer in 2003-04. A review of HM Treasury guidance was carried out and the Audit Group was strengthened by the appointment of two additional members in 2004-05. One of these new appointees resigned in the year because of other commitments so additional members will be sought in 2005-06. In addition to the members, invitees and observers were drawn from the National Assembly for Wales (both Financial Accountability Division and Internal Audit Services), HCW senior management, and the Wales Audit Office.

The internal audit function for HCW is provided by Internal Audit Services of the National Assembly for Wales. Internal Audit Services operates to Government Internal Audit Standards. Its work and annual plans are informed by an analysis of the risks to which HCW is exposed. The Head of Internal Audit has provided reports on internal audit work in HCW, the results of which have been agreed by management and considered by the Audit Group. The accepted recommendations of Internal Audit have been implemented or are in the process of being implemented. Progress in implementing these recommendations is now monitored quarterly and reported to the Director of Corporate Services.

#### **4. The risk and control environment**

HCW has a number of processes for maintaining and reviewing the effectiveness of the system of internal control. The Directors meet weekly to consider the plans and strategic direction of HCW. Reports are discussed and appropriate action agreed for managing identified risks and maintenance of the HCW risk register.

At the start of 2004-05 I appointed a Director of Corporate Services to be responsible for ensuring the Corporate Governance responsibilities set out in the HCW Framework Document are fully met. In particular, this appointment should ensure that HCW has Accountability and Governance Frameworks with clear operational and performance responsibility to the Director NHS Wales. It is also the responsibility of the Director of Corporate Services to lead on the development of a risk management strategy for HCW.

Further to HM Treasury guidance, management has considered the risks facing the organisation and has an organisation-wide risk register. This risk register is a methodology for identifying and assessing the key risks facing the organisation that may adversely affect the achievement of HCW's objectives. Each risk is allocated an owner who is responsible for managing the risk and determining a control strategy. For each identified risk the controls in operation are documented.

In developing the risk register advice was sought from Financial Accountability Division of the National Assembly for Wales. The risk register has been made available to all staff and the identified risks are dealt with operationally at the regular Directors' meetings. At the strategic level the identified risks are incorporated into the Commissioning Plan.

During the year there was a formal review of the functions that have been delegated to me. These functions have, in turn, been delegated to my staff at HCW and this should be

formalised in 2005-06.

**5. Review of effectiveness**

As Accounting Officer I also have responsibility for the review of the effectiveness of the system of internal control. My review is informed by:

- the work of the internal auditors,
- the executive managers within HCW 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.

The result of my review of the effectiveness of the system of internal control has been discussed by the Audit Group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

**6. Matters of note**

There were no matters of note during the year.

**7. 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 am the Accounting Officer.

**Stuart Fletcher**  
**Chief Executive**  
**31 August 2005**

## **THE CERTIFICATE AND REPORT OF THE AUDITOR GENERAL FOR WALES TO THE MEMBERS OF THE NATIONAL ASSEMBLY FOR WALES**

I certify that I have audited the financial statements on pages 9 to 22 under Section 97(5) of the Government of Wales Act 1998. These financial statements have been prepared under the accounting policies set out on pages 12 to 13.

### **Respective responsibilities of the Agency, the Chief Executive and Auditor**

As described on page 3 the Agency and Chief Executive are responsible for the preparation of the financial statements in accordance with the Government of Wales Act 1998 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Agency and Chief Executive are also responsible for the preparation of the other contents of the Annual report. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government of Wales Act 1998 and with the directions made thereunder by the Treasury, 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 Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit. I read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent mis-statements or material inconsistencies with the financial statements.

I review whether the statement on pages 4 to 6 reflects the Agency's compliance with Treasury's guidance 'Corporate governance: statement on internal control'. I report if it does not meet the requirements specified by the Treasury, or if the statement 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 Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the entity's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency'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 are free from material mis-statement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

## **Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Health Commission Wales at 31 March 2005 and of the net expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government of Wales Act 1998 and directions made thereunder by the Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

**Jeremy Colman**  
**Auditor General for Wales**  
**14 September 2005**

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



**OPERATING COST STATEMENT FOR YEAR ENDED 31 MARCH 2005**

		<b>Year Ended 31 March 2005</b>		<b>Year Ended 31 March 2004</b>	
	<i>Note</i>	£000	£000	£000	£000
<b>INCOME</b>					
Other Income		<u>-</u>		<u>-</u>	
Total Income			-		-
<b>EXPENDITURE</b>					
Programme Expenditure	3	(443,268)		(367,765)	
Administration Expenditure:					
Staff	2	(1,450)		(907)	
Other administration	4	<u>(295)</u>		<u>(254)</u>	
Total Expenditure			<u>(445,013)</u>		<u>(368,926)</u>
NET COST OF ACTIVITIES			<u>(445,013)</u>		<u>(368,926)</u>
NET EXPENDITURE FOR THE YEAR			<u>(445,013)</u>		<u>(368,926)</u>

The movement on the General Fund is shown at Note 10

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

*The notes on pages 12 to 22 form part of these accounts*

**BALANCE SHEET AS AT 31 MARCH 2005**

		<b>31 March 2005</b>		<b>31 March 2004</b>	
	<i>Note</i>	£000	£000	<b>(Restated)</b> £000	£000
<b>CURRENT ASSETS</b>					
Debtors	7	2,174		1,099	
Cash at bank and in hand	8	2,131		1,754	
		<u>4,305</u>		<u>2,853</u>	
<b>CREDITORS</b>					
Amounts falling due within one year	9	<u>(11,914)</u>		<u>(13,810)</u>	
<b>NET CURRENT LIABILITES</b>			<u>(7,609)</u>	<u>(10,957)</u>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			(7,609)	(10,957)	
<b>CREDITORS</b>					
Amounts falling due after more than one year	9		(166)		(166)
<b>NET LIABILITIES</b>			<u>(7,775)</u>	<u>(11,123)</u>	
<b>FINANCED BY TAXPAYERS EQUITY</b>					
General fund	10		(7,775)		(11,123)
<b>TOTAL GOVERNMENT FUNDS</b>			<u>(7,775)</u>	<u>(11,123)</u>	

**Stuart Fletcher**  
**Chief Executive**  
**31 August 2005**

*The notes on pages 12 to 22 form part of these accounts*

**CASH FLOW STATEMENT  
for the year ended 31 March 2005**

	<i>Note</i>	<b>2004-05</b>	<b>2003-04</b>
		£000	£000
			(Restated)
Net cash outflow from operating activities		(447,910)	(360,972)
Financing from the National Assembly for Wales		448,287	362,726
<b>Increase in cash in the period</b>		<u><u>377</u></u>	<u><u>1,754</u></u>

**Reconciliation of net cost of operating activities to net cash outflow from operating activities**

Net cost of operating activities for the year		(445,013)	(368,926)
Adjustments for non-cash transactions	4	74	110
Adjustments for movements in working capital other than Cash	5	(2,971)	7,844
<b>Net cash outflow from operating activities</b>		<u><u>(447,910)</u></u>	<u><u>(360,972)</u></u>

**Reconciliation of Net Cash flow to movement in net funds**

Increase in cash		377	1,754
Net funds at 1 April 2004		<u>1,754</u>	<u>-</u>
<b>Net funds at 31 March 2005</b>		<u><u>2,131</u></u>	<u><u>1,754</u></u>

*The notes on pages 12 to 22 form part of these accounts*

## **NOTES TO THE ACCOUNTS**

### **1. Accounting Policies**

#### **a. Basis of Accounting**

The financial statements have been prepared in accordance with the Accounts Direction issued by HM Treasury on 30 January 2004 pursuant to Section 97 of the Government of Wales Act 1998.

The Accounts follow the requirements of the Resource Accounting Manual issued by HM Treasury and are based on the accruals concept of accounting and the historical cost convention.

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 1985 in so far as they are consistent with the status of an Agency of the National Assembly for Wales; 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 National Assembly for Wales and is credited to the General Fund on receipt.

Liabilities at the balance sheet date will largely be discharged by funding provided in later financial years as part of the Strategic Change and Efficiency Plan (SCEP) agreed with the Welsh Assembly Government (see note 10).

#### **c. Expenditure**

The expenditure recognised in the accounts represents the cost of treatments carried out in the year.

#### **d. Value Added Tax (VAT)**

HCW is covered by the VAT registration of the National Assembly for Wales. HCW recovers VAT on its business activities and on certain contracted out services, as agreed by HM Treasury. Expenditure shown in the Income and Expenditure Account includes VAT except where VAT is recoverable in conjunction with the business activity or contracted-out service.

#### **e. Leases**

Rentals payable under operating leases are charged on a straight line basis over the terms of the lease.

#### **f. Pension Costs**

Past and present employees are covered by the provisions of the Civil Service Pension Schemes, which are described at Note 2. 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 Income and Expenditure account in the year of payment.

#### **g. Notional Costs**

A notional cost has been included to cover certain common services and support functions, such as finance, personnel, information technology, accommodation and other office services, provided to HCW by the National Assembly for Wales free of charge.

A notional interest has been calculated at the appropriate government lending rate (3.5%) on the average value of net current liabilities in the year.

A notional external audit fee has also been included.

#### **h. Prior year adjustment (PPA)**

Local Health Boards (LHBs) have, since their inception on 1st April 2003, been within the Assembly's resource accounting boundary and their annual accounts should comply with HM Treasury's Resource Accounting Manual which directs that Assembly funding is treated as 'funding' rather than 'income' i.e. is used simply to facilitate expenditure; not be drawn down in advance of need and no debtor or creditor relating to Assembly funding should exist at the year end. In 2003-04 this aspect of resource accounting was not applied to LHB accounts for funding transactions made in 2003-04 or in relation to the balances they inherited from the former Health Authorities, hence the accounts of LHBs and HCW in 2003-04 included funding balances.

In order to achieve consistency wherever possible with Local Health Board accounts, and to ensure full compliance with the Resource Accounting Manual, a prior period adjustment has been made in HCW's account to eliminate the funding debtor shown in the 2003-04 account. The effect of this adjustment has been to increase the reported deficit on general fund brought forward (of £5,033,000) for 03-04 by £6,090,000.

The Assembly has formally directed LHBs that the PPA required to correct prior year capital charges arising from the changes in balances outlined above should not be made, as this has no overall effect on the general fund. HCW has followed this direction for consistency and comparability with LHB accounts. Therefore there is no effect on the reported net expenditure reported for 2003-04.

## 2. Staff numbers and costs

### a) Staff Costs

				2004-05	2003-04
	HCW employees	Secondees	Agency	Total	Total
	£000	£000	£000	£000	£000
Wages & Salaries	511	534	154	1,199	747
Social Security Costs	45	53	-	98	62
Other Pension Costs	80	73	-	153	98
<b>Total</b>	<b>636</b>	<b>660</b>	<b>154</b>	<b>1,450</b>	<b>907</b>

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

	2004-05	2003-04
HCW employees	15	17
Secondees	11	4
Agency	7	2
<b>Total</b>	<b>33</b>	<b>23</b>

2003-04 was the first year of operation for HCW and as such HCW operated with a significant proportion of vacancies. HCW has taken action over 2004-05 to recruit to levels closer to the departmental cost allowance approved for the organisation. This accounts for the increase in the average number of staff and the cost of those staff.

### c) Senior Staff Emoluments

	Salary £000	Real increase in pension and related lump sum at age 60 £000	Total accrued pension at age 60 at 31/03/05 and related lump sum £000	CETV (*) at 31/03/05 Nearest £000	CETV at 01/04/04 Nearest £000	Real increase in CETV as funded by employer Nearest £000
<b>HCW Employees:</b>						
Stuart Davies Director of Finance	60 - 65	0 - 2.5 plus 0 lump sum	0 - 2.5 plus 0 lump sum	21	10	8
<b>Secondees:</b>						
Stuart Fletcher Acting Chief Executive (i)	95 - 100	0 - 2.5 plus 0 lump sum	45 - 50 plus 135 - 140 lump sum	877	825	30
Dr Geoffrey Carroll Medical Director (ii)	110 - 115	0 - 2.5 plus 0 - 2.5 lump sum	25 - 30 plus 75 - 80 lump sum	454	416	27
Daniel Phillips Director of Corporate Services (iii)	70 - 75	0 - 2.5 plus 2.5 - 5 lump sum	15 - 20 plus 55 - 60 lump sum	221	196	20

- (i) Mr Fletcher is employed by Pembrokeshire and Derwen NHS Trust. He is seconded to HCW, the salary shown above for 2004-05 is now fully chargeable to HCW. In 2003-04 only a proportion of salary was chargeable. There were no benefits in kind.
- (ii) Dr Carroll is employed by Velindre NHS Trust. He is seconded to HCW, the salary shown above represents amounts charged to HCW. This figure includes £801 of benefits in kind. The salary shown includes an NHS Distinction award.
- (iii) Mr Phillips is employed by Cardiff & Vale NHS Trust. He is seconded to HCW, the salary shown above represents amounts charged to HCW. There were no benefits in kind.

The salary of the Chief Executive and other senior staff consists of a gross salary only. No bonuses or allowances were payable with the exception of the NHS Distinction award.

### **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.

#### **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 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2004-05, employers' contributions of £79,834 (2003-04: £82,334) were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. For 2005-06 employers contributions are payable to the PCSPS at one of four rates in the range of 16.2 to 24.6 per cent. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

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 1 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 1/80<sup>th</sup> 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<sup>th</sup> 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<sup>th</sup> 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<sup>th</sup> 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 1 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.

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.nhs.gov.uk](http://www.nhs.gov.uk) or from the Stationary Office.



### **\* Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarial 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, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme arrangement which the individual has transferred to the PCSPS arrangements and a transfer payment commensurate to the additional pension liabilities being assumed has been received. 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.

### **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 arrangement) and uses common market valuation factors for the start and end of the period.

### **d) Chair of Advisory Board**

Professor Ken Woodhouse is Chairman of the National Specialist Services Commissioning Board. HCW paid his employer University of Wales College of Medicine £11,738 during the year for his services. Expenses amounting to £110 were reimbursed to him in respect of 2004-05.

Members of the National Specialist Services Commissioning Board do not receive any emoluments and were not reimbursed any expenses in respect of 2004-05.

### 3. Programme Expenditure

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

	2004-05	2003-04
	£000	£000
NHS:		
Cardiff & Vale NHS Trust	120,188	106,086
Welsh Ambulance Services NHS Trust	65,069	62,094
Swansea NHS Trust	72,768	51,119
Velindre NHS Trust	43,192	41,127
North East Wales NHS Trust	8,604	7,758
Bro Morgannwg NHS Trust	9,743	7,696
Other Welsh NHS Trusts	15,602	9,772
Other NHS Organisations	74,940	57,892
Non-NHS:		
Llanarth Court	9,744	9,646
Other providers of health care	23,418	14,575
	<b>443,268</b>	<b>367,765</b>

During 2004-05 additional specialist services were identified and commissioning responsibility and resource limit transferred to HCW from Local Health Boards. In 2004-05 an additional resource allocation of £17,602,000 was provided to HCW to pay for these newly transferred services.

### 4. Administration expenditure

	2004-05	2003-04
	£000	£000
Accommodation running costs	-	9
Central administration	65	50
Travel, subsistence and hospitality	103	70
Review Panel Remuneration	51	-
Other	2	15
Non-cash items:		
- cost of capital charge	(331)	(176)
- notional charge for National Assembly for Wales services	350	226
- auditor's remuneration	55	60
	<b>295</b>	<b>254</b>

## 5. Movements in working capital other than cash

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
		(Restated)
(Increase) / decrease in debtors	(1,075)	272
Increase / (decrease) in creditors falling due within one year	(1,896)	7,572
	<u>(2,971)</u>	<u>7,844</u>

## 6. Hire and operating lease rentals

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
Hire of plant and machinery	3	3
	<u>3</u>	<u>3</u>

The £3,000 operating lease rental charge is included within Administration Expenditure reported in Note 4.

### Commitments under non-cancellable operating leases:

	£000	£000
Within 1 year	3	3
Between 1 and 5 years	10	10
After 5 years	-	5
	<u>13</u>	<u>18</u>

## 7. Debtors

	<b>31 March</b>	<b>31 March</b>
	<b>2005</b>	<b>2004</b>
	£000	£000
		(Restated)
<b>Amounts falling due within one year:</b>		
Trade debtors:		
Welsh NHS Trusts	1,076	89
Welsh Local Health Boards	319	446
English NHS Trusts	714	249
Non NHS	-	14
Other Central Government bodies	52	287
VAT Reclaimable	11	5
Prepayments and accrued income	2	9
	<u>2,174</u>	<u>1,099</u>

## 8. Cash at bank and in hand

	<b>31 March 2005 £000</b>	<b>31 March 2004 £000</b>
Balance at 1 April	1,754	-
Net cash inflow	377	1,754
<b>Balance at 31 March</b>	<b>2,131</b>	<b>1,754</b>

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

	<b>31 March 2005 £000</b>	<b>31 March 2004 £000</b>
Balances at OPG	2,129	1,752
Commercial Banks and cash	2	2
	<b>2,131</b>	<b>1,754</b>

## 9. Creditors

	<b>31 March 2005 £000</b>	<b>31 March 2004 £000</b>
<b>Amounts falling due within one year:</b>		
Trade creditors:		
Welsh NHS Trusts	3,352	2,354
Welsh Local Health Boards	486	1,913
English NHS Trusts	5,404	7,011
English Primary Care Trusts	13	-
Non NHS	2,600	2,470
Other creditors	59	62
	<b>11,914</b>	<b>13,810</b>
<b>Amounts falling due after more than one year:</b>		
Trade creditors:		
Other Central Government bodies	166	166
	<b>166</b>	<b>166</b>

## 10. General Fund

	<b>2004-05 £000</b>	<b>2003-04 £000 (Restated)</b>
Funding	448,287	362,726
Net expenditure for the year	(445,013)	(368,926)
Notional cost adjustments:		
- cost of capital	(331)	(176)
- notional charge for National Assembly for Wales services	350	226
- auditors remuneration	55	60
<b>Net increase / (decrease) in general fund</b>	<b>3,348</b>	<b>(6,090)</b>
General fund at 1 April 2004	(11,123)	(5,033)
<b>General fund at 31 March 2005</b>	<b>(7,775)</b>	<b>(11,123)</b>

### **Strategic Change and Efficiency Plan (SCEP)**

The funding for 2004-05 included additional resource limit support of £10.2m. HCW is required to agree a Strategic Change and Efficiency Plan (SCEP) with Welsh Assembly Government by the end of September 2005. The SCEP is designed to demonstrate how HCW will return to financial balance with interim financial support receivable totalling £10m in 2005-06, £5m in 2006-07. The final plan will further consider how the total level of financial support of £25m can be repaid over a three year period commencing 2008-09 through a combination of commissioning restrictions, service efficiencies and cost reductions in the programme budget.

### **11. Reconciliation of movements in government funds**

	<b>2004-05</b>	<b>2003-04</b>
	£000	£000
		(Restated)
Movement on General Fund for the year	3,348	(6,090)
Government funds at 1 April 2004	(11,123)	(5,033)
<b>Government funds at 31 March 2005</b>	<u><b>(7,775)</b></u>	<u><b>(11,123)</b></u>

### **12. Commitments**

There were no capital commitments at 31 March 2005.

Other commitments relating to Named Patient Service Agreements amounted to £1,463,677 at 31 March 2005. This represents the level of treatments agreed during 2004-05 but not carried out prior to 1 April 2005. 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 agreements agreed on a rolling one year basis. NHS service level agreements are not legally binding. A small proportion of HCW's expenditure is incurred under legally binding contracts with the new Foundation Trusts in England or private sector providers of secure mental health services.

### **13. Contingent liabilities**

There were no contingent liabilities at 31 March 2005.

### **14. Financial Instruments**

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the 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 changing risk than would be typical of the listed companies to which FRS 13 mainly applies. 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 National Assembly for Wales and is therefore not exposed to liquidity risks.
- 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 of HCW's financial assets and liabilities as at 31 March 2005.

## 15. Related Party Transactions

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

During the year HCW had various material transactions with the National Assembly for Wales.

A number of HCW senior staff held senior management positions in organisations that HCW had transactions with during 2004-05.

	Organisation	Programme Expenditure £000
<b>Senior staff:</b>		
Stuart Fletcher	Pembrokeshire and Derwen NHS Trust	Nil
Geoffrey Carroll	Velindre NHS Trust	43,192
Daniel Phillips	Cardiff & Vale NHS Trust	120,188

In addition to the Programme Expenditure, secondees' salaries are reported within Note 2c.

### **Chairman of the National Specialist Services Commissioning Board:**

Ken Woodhouse	University of Wales College of Medicine	65
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## 16. Post Balance Sheet Events

There have been no events since the end of the financial year which would affect the understanding of the accounts.