

Gwent Healthcare NHS Trust

Foreword

These accounts for the year ended 31 March 2006 have been prepared by the Gwent Healthcare NHS Trust under section 98(2) of the National Health Service Act 1977 (as amended by section 24(2), schedule 2 of the National Health Service and Community Care Act 1990) in the form in which the National Assembly for Wales has, with the approval of Treasury, directed.

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

INCOME AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2006

	Note	£000	2004-05 £000
Income from activities	3	450,026	415,739
Other operating income	4	28,145	26,161
Total income		478,171	441,900
Operating expenses	5	(476,236)	(434,487)
Operating surplus/(deficit)		1,935	7,413
Costs of fundamental reorganisation/restructuring		0	0
Profit/(loss) on disposal of fixed assets	8	(50)	75
Surplus/(deficit) before interest		1,885	7,488
Interest receivable		990	1,040
Interest payable	9	(239)	(255)
Other finance costs	16	(206)	(209)
Surplus/(deficit) for the financial year		2,430	8,064
Public Dividend Capital dividends payable		(8,518)	(8,138)
Retained surplus/(deficit) for the year	17	(6,088)	(74)

The Trust has recorded an income and expenditure deficit of £6.1m in the financial year 2005/06. This is the first time in its history that the Trust has recorded a deficit. Against its financial plans, the issues that make this up are:

- * Agenda for Change - costs exceeded direct funding and internally generated contributions by £4.3m.
- * Income shortfalls - there are a number of service and operational issues for which the Trust was unable to secure full levels of income. The total income shortfall was £1.1m.
- * Second Offer Scheme (Access Times) - income received for additional patient activity to secure Waiting Times was taken back by the Second Offer Scheme as a consequence of the Trust being unable to meet its elective activity targets (£0.7m).

Along with its partners in the local health economy the Trust is producing a Strategic Change and Efficiency Plan (SCEP) in order to address the issues causing the deficit, restore financial balance and, over time, make sufficient surpluses to restore accumulated income and expenditure balance. Through its submission in May 2006, sufficient measures were identified to cover the immediate causes of the deficit. However the SCEP needs to demonstrate financial viability taking account of new issues for 2006/07. These increase the requirement and consequently the Trust is continuing to work with its Local Health Board partners to produce a plan that provides sustainability across the local health economy. The development of the plan is now supported by an external team with work due for completion in August 2006.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2006**

		2004-05
	£000	£000
	Note	
Surplus/(deficit) for the financial year before dividend payments		8,064
Fixed asset impairment losses	17	(771)
Unrealised surplus/(deficit) on fixed assets revaluations/indexation	17	17,417
Increases in the donated asset and government grant reserves due to receipt of donated and government grant finance assets	17	306
Reduction in the donated asset and government grant reserves due to the depreciation, impairment and disposal of donated and government grant financed assets	17	(273)
Additions/(reductions) in "other reserves"	17	0
Defined benefit scheme actuarial gains & losses		0
		<u>0</u>
Total recognised gains and losses for the financial year		24,743
Prior period adjustment	17	0
		<u>0</u>
Total gains and losses recognised in the financial year		<u>24,743</u>

BALANCE SHEET AS AT 31 MARCH 2006

				31 March 2005 £000
	Note	£000	£000	£000
Fixed assets				
Intangible assets	10	0		0
Tangible assets	11	261,073		249,968
			261,073	249,968
Current assets				
Stocks and work-in-progress	12	3,472		3,441
Debtors	13	65,297		66,803
Investments	14	5,500		0
Cash at bank and in hand	18.3	1,524		1,524
Total current assets			75,793	71,768
Creditors: amounts falling due within 1 year	15		(32,583)	(30,576)
Net current assets/(liabilities)			43,210	41,192
Total assets less current liabilities			304,283	291,160
Creditors: amounts falling due after more than one year	15		(2,423)	(2,648)
Provisions for liabilities and charges	16		(47,757)	(42,027)
Total assets employed			254,103	246,485
Financed by:				
Taxpayer's equity				
Public dividend capital	23.2		171,379	163,627
Revaluation reserve	17		90,177	84,802
Donated asset reserve	17		1,677	1,279
Government grant reserve	17		0	0
Other reserves	17		0	0
Income and expenditure reserve	17		(9,130)	(3,223)
Total taxpayer's equity			254,103	246,485

Signed on behalf of the Board on 28 June 2006

Signed: Chairman

Signed: Chief Executive

Adopted by the Board on 28 June 2006

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006

	Note	£000	£000	2004-05 £000
Operating activities				
Net cash inflow from operating activities	18.1		24,839	17,687
Returns on investments and servicing of finance				
Interest received		990		1,040
Interest paid		(1)		(1)
Interest element of finance leases		(239)		(254)
Net cash inflow/(outflow) from returns on investments and servicing of finance			750	785
Capital expenditure				
Payments to acquire tangible fixed assets		(19,893)		(10,454)
Receipts from sale of tangible fixed assets		318		305
Payments to acquire/ receipts from sale of intangible assets		0		0
Net cash inflow/(outflow) from capital expenditure			(19,575)	(10,149)
Public dividend capital dividends paid			(8,138)	(6,117)
Management of liquid resources				
Purchase of current asset investments		(5,500)		0
Sale of investments		0		0
Net cash inflow/(outflow) from management of liquid resources			(5,500)	0
Net cash inflow/(outflow) before financing			(7,624)	2,206
Financing				
Public dividend capital received		7,982		0
Public dividend capital repaid (not previously accrued)		(151)		(64)
Public dividend capital repaid (accrued in previous period)		0		(2,420)
Government loans received: short term		0		0
Government loans repaid: short term		0		0
Loan advances/brokerage received		0		0
Loan advances/brokerage repaid		0		0
Other capital receipts		0		0
Capital element of finance leases		(207)		(191)
Net cash inflow/(outflow) from financing			7,624	(2,675)
Increase/(decrease) in cash	18.2		0	(469)

Notes to the accounts

1. Accounting policies and other information

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

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income recognition

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

1.4 Intangible fixed assets

Intangible assets are capitalised when they are capable of being used in a Trust's activities for more than one year; they can be valued and they have a cost of at least £5,000.

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

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

1.5 Tangible fixed assets

i. Capitalisation

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they:

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of an IT network which collectively has a cost more than £5000 and individually have a cost of more than £250; or
- form part of the initial equipping and setting up cost of a new building, ward or unit irrespective of their individual or collective cost.

ii. Valuation

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

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

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

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

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

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

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

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

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

iii. Depreciation

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight line basis over their estimated useful lives. No depreciation is provided on freehold land, assets in the course of construction and assets surplus to requirements.

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

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term. Equipment is depreciated on current cost evenly over the estimated life of the asset.

Impairment losses resulting from short-term changes in price that are considered to be recoverable in the longer term are taken in full to the revaluation reserve. These include impairments resulting from the revaluation of fixed assets from their cost to their value in existing use when they become operational. This may lead to a negative revaluation reserve in certain instances.

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale. Useful asset lives are not included in the proforma accounts and should be included. Where there have been any significant changes to the useful economic life or residual values of assets, the reason and effect should be disclosed in the year of change. Where, under Financial Reporting Standard 11 a fixed asset impairment is charged to the Income and Expenditure account, offsetting income is paid by the Assembly via the Trust's main commissioner, to offset the charge. The income is used to repay Public Dividend Capital.

1.6 Cash Bank and Overdrafts

Cash, Bank and Overdrafts are recorded at current values and are only set-off where a formal agreement exists with the bank. Interest earned on bank accounts and interest charged on overdrafts are recorded as, respectively, 'Interest receivable' and 'Interest Payable' in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate."

1.7 Donated fixed assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the donated asset reserve. Donated assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluation are also taken to the donated asset reserve and each year, an amount equal to the depreciation charge is released from this reserve to the Income and Expenditure account. Similarly, any impairment on donated assets charged to the Income and Expenditure account is matched by a transfer from the donated asset reserve. On sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

1.8 Government grants

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

1.9 Leases

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

1.10 Private Finance Initiative

The NHS follows HM Treasury's 'Technical Note 1 (Revised) How to account for PFI transactions' which provides practical guidance for the application of the FRS5 amendment. PFI schemes are schemes under which the PFI operator receives an annual payment from the Trust for the services provided by the PFI operator in operating a property and for access to the property itself .

Where the balance of risks and rewards of ownership is borne by the PFI operator, the PFI payments are recorded as an operating expense. Where the trust has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by a charge to the Income and Expenditure account. Where, at the end of the PFI contract, a property reverts to the trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

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

1.11 Stocks and work-in-progress

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

1.12 Research and development

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

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

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. The trust is unable to disclose the total amount of research and development expenditure charged in the income and expenditure account (a requirement of SSAP 13) because some research and development activity cannot be separated from patient care activity.

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

1.13 Provisions

The trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. In accordance with FRS 12 provisions are only recognised where the transfer of economic benefit is probable, and the amount can be reasonably estimated. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 16.

A provision has been calculated in accordance with the requirements for FRS12 for 2004/2005 and 2005/2006 Agenda for Change costs. The provision and its associated funding have been included in these accounts. On the instructions of the Assembly no Agenda for Change provision was included in the 2004-2005 accounts as there was no data available on which a reliable estimate could be based.

1.14 Contingent Liabilities

Contingent liabilities are recognised where the NHS Trust has

- A possible obligation arising from past events whose existence will be confirmed by the occurrence of future events not wholly within the Trust's control;
- A present obligation arising from past events for which it is not probable that a transfer of economic benefits will be required to settle the obligation; or
- A present obligation where the amount of the obligation cannot be measured with sufficient accuracy.

Contingent liabilities are not disclosed where the probability of them becoming liabilities is considered to be remote.

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

1.15 Losses and special payments

Losses and special payments are items that the National Assembly for Wales would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled.

Losses and special payments are charged to the income and expenditure account on an accruals basis. However, note 22 is compiled directly from the losses and compensations register which is compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled.

Losses and special payments are charged to the income and expenditure account on an accruals basis. However, note 22 is compiled directly from the losses and compensations register which is prepared on a cash basis.

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

All claims for losses and special payments are provided for, where the probability of settlement of an individual claim is over 50%. Where reliable estimates can be made, incidents of clinical negligence against which a claim has not, as yet, been received are provided in the same way. Expected reimbursements from the Welsh Risk Pool are included in debtors. For those claims where the probability of settlement is below 50%, the liability is disclosed as a contingent liability.

1.16 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State. As a consequence it is not possible for the trust to identify its share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2005-06 was £32,513,000 (£29,506,000 for 2004-05).

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

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

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

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

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

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

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

1.17 Liquid resources

Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cashflow statement. The Trust does not hold any investments with maturity dates exceeding one year from the date of purchase.

1.18 Value added tax

Most of the activities of the Trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.19 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the Income and Expenditure Account.

1.20 Third party assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in note 28 to the accounts.

1.21 Public Dividend Capital Dividends

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

1.22 Pooled budgets

The Trust had no pooled budget projects in 2005-2006.

2. Segmental reporting

[The Trust has no business segments as defined in SSAP25 - Segmental Reporting.](#)

3. Income from activities

	£000	2004-05 £000
Local health boards	421,373	392,058
Health Commission Wales	2,132	1,992
NHS trusts	4,281	5,225
Strategic health authorities and primary care trusts	770	614
Foundation Trusts	0	0
Local authorities	1,841	1,809
National Assembly for Wales	15,948	10,783
Non NHS:		
Private patient income	1,344	1,164
Overseas patients (non-reciprocal)	19	23
Road Traffic Act charges	1,458	1,273
Other income from activities	860	798
Total	450,026	415,739

RTA income is subject to a provision for doubtful debts of 8.7% to reflect expected rates of collection.

Income from National Assembly for Wales includes £42,000 (2004-05 £105,000)in respect of a funding adjustment to off-set the fixed asset impairment charge included in Note 5.1 Operating Expenses.

4. Other operating income

	£000	2004-05 £000
Patient transport services	0	0
Education, training and research	11,311	10,282
Charitable and other contributions to expenditure	0	0
Transfer from the donated asset reserve	276	273
Transfer from the government grant reserve	0	0
Non-patient care income generation schemes	5,254	5,194
Other income:		
Provision of laundry, pathology, payroll services	112	94
Accommodation and catering charges	3,011	3,341
Mortuary fees	114	114
Staff payments for use of cars	592	584
Laundry Services	2,219	2,102
Other	5,256	4,177
Total	28,145	26,161

5. Operating expenses

5.1 Operating expenses comprise

	£000	2004-05 £000
Goods and services from other NHS bodies	5,020	4,388
Goods and services from other NHS Foundation Trusts	0	0
Purchase of healthcare from non-NHS bodies	11,928	9,160
Directors' costs	952	832
Staff costs	350,922	314,098
Supplies and services - clinical	50,684	49,277
Supplies and services - general	11,515	10,870
Establishment	8,379	9,077
Transport	3,592	3,382
Premises	14,811	15,392
Depreciation and amortisation	13,370	12,899
Fixed asset impairments and reversals	42	105
Audit fees	146	233
Other auditors' remuneration	0	0
Losses, special payments and irrecoverable debts	2,210	1,277
Other operating expenses	2,665	3,497
Total	476,236	434,487

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

	£000	2004-05 £000
Increase/decrease in provision for future payments:		
Clinical negligence	3,183	6,448
Personal injury	2,092	535
All other losses and special payments	29	35
Defence legal fees and other administrative costs	390	276
Gross increase/decrease in provision for future payments	5,694	7,294
Contribution to Welsh Risk Pool	0	0
Premium for other insurance arrangements	0	0
Irrecoverable debts	116	212
Less: income received/ due from Welsh Risk Pool	(3,600)	(6,229)
Total charge	2,210	1,277

Personal injury includes £484,366 (2004-05 £62,334) in respect of permanent injury benefits.

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

5.3 Commitments under non-cancellable operating leases

	Land and buildings		Other leases	
	£000	2004-05 £000	£000	2004-05 £000
Operating leases which expire:				
Within 1 year	29	0	641	501
Between 1 and 5 years	20	47	3,549	2,351
After 5 years	149	105	329	361
Total	198	152	4,519	3,213

Operating expenses include £3,621,716 for operating lease rentals (2004-05 £3,724,841) and £1,530,609 for hire of plant/machinery (2004-05 £1,786,798).

5.4 Directors' remuneration

	Remuneration as Director £000	Other remuneration £000	Total £000	2004-05 £000
Non-executive directors' remuneration	141	0	141	116
Executive directors' remuneration:				
basic salaries	487	147	634	570
benefits	9	0	9	8
performance related bonuses	0	0	0	0
pension contributions paid	63	17	80	76
Sub-total	700	164	864	770
Compensation for loss of office	0	0	0	0
Pensions for directors and former directors (other than from the NHS pension scheme)	0	0	0	0
Total	700	164	864	770

5.4 Directors' remuneration (continued):

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

	Remuneration as director £000	Other remuneration £000	Total £000	2004-05 £000
Chairman				
Basic remuneration	52	0	52	43
Benefits	2	0	2	2
	54	0	54	45
Chief Executive				
Basic salaries	158	0	158	153
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	158	0	158	153
Pension contributions	22	0	22	21
	180	0	180	174
Highest paid director*				
Basic salaries	32	147	179	180
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	32	147	179	180
Pension contributions	0	17	17	16
Total	32	164	196	196

* The Medical Director was the highest paid director in 2005-06 and 2004-05.

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

6. Employee costs and numbers

6.1 Employee costs

	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2004-05
	£000	£000	£000	£000	£000
Salaries and wages	284,222	272	13,471	297,965	266,796
Social security costs	20,958	0	0	20,958	17,940
Pension costs	32,513	0	0	32,513	29,506
Other pension costs	289	0	0	289	567
Total	337,982	272	13,471	351,725	314,809

6.2 Average number of employees

	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2004-05
	Number	Number	Number	Number	Number
Medical and dental	880	1	5	886	810
Ambulance staff	0	0	0	0	0
Administrative and estates	1,964	3	6	1,973	1,898
Healthcare assistants and other support staff	2,684	0	44	2,728	2,701
Nursing, midwifery and health visiting staff	3,288	0	188	3,476	3,299
Nursing, midwifery and health visiting learners	0	0	0	0	0
Scientific, therapeutic and technical staff	1,466	0	18	1,484	1,409
Social care staff	0	0	0	0	0
Other	0	0	0	0	0
Total	10,282	4	261	10,547	10,117

6.3 Employee benefits

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

6.4 Trust management costs	2004-05		2005-06	
	£000	Percentage of total income	£000	Percentage of total income
Trust management costs	18,391	3.8%	17,346	3.9%
Income	478,129		441,795	

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

6.5 Retirement costs due to ill-health

During 2005-06 (prior year 2004-05) there were 20 (33) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Pension Scheme) will be £890,194 (£1,750,306).

7. Public Sector Payment Policy - Measure of Compliance

7.1 Prompt payment code - measure of compliance

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

	Number	£000	2004-05 £000
NHS			
Total bills paid 2005-06	2,675	10,775	9,812
Total bills paid within target	2,604	10,654	8,417
Percentage of bills paid within target	97.3%	98.9%	85.8%
Non-NHS			
Total bills paid 2005-06	176,593	132,728	121,975
Total bills paid within target	167,940	126,875	106,631
Percentage of bills paid within target	95.1%	95.6%	87.4%
Total			
Total bills paid 2005-06	179,268	143,503	131,787
Total bills paid within target	170,544	137,529	115,048
Percentage of bills paid within target	95.1%	95.8%	87.3%

On 1 July 2005 the Trust implemented a new system for recording valid invoices. The weighted average performance of this new recording methodology has been applied to both the total number of bills paid and the total value of bills paid in the year.

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

	2004-05 £	2005-06 £
Amounts included within Interest Payable (note 9) arising from claims made under this legislation and compensation paid to cover debt recovery costs.	731	604

8. Profit (loss) on disposal of fixed assets

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

	2004-05
	£000
Profit on disposal of land and buildings	56
Loss on disposal of land and buildings	(2)
Profit on disposal of plant and equipment	0
Loss on disposal of plant and equipment	(104)
Profit on disposal of intangible fixed assets	0
Loss on disposal of intangible fixed assets	0
	<u>(50)</u>

Profit on disposal of 111 St Martins Road, Caerphilly was £56,000. Loss on sale of land at Pontllanfraith Health Centre was £2,000.

Loss on disposal of 85 items of equipment was £104,000; £81,000 of this loss related to the disposal of a 9 year old scanner in Royal Gwent Hospital, Newport. The Welsh Assembly Government provided additional capital monies to purchase a replacement scanner.

9. Interest payable

	2004-05
	£000
Government borrowing	0
Finance leases and PFI schemes	238
Other	1
	<u>239</u>

10. Intangible fixed assets

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

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

11. Tangible fixed assets

11.1 Tangible assets at the balance sheet date:

Cost or valuation	Buildings, excluding Land		Dwellings		Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2005	43,702	206,100	5,722	3,290	44,768	535	7,092	626	311,835	
Indexation	2,042	3,553	99	57	943	11	0	13	6,718	
Additions										
- purchased	0	5,831	0	8,531	2,697	0	1,477	119	18,655	
- donated	0	34	5	0	611	0	0	0	650	
- government granted	0	0	0	0	0	0	0	0	0	
Reclassifications	0	4,704	(505)	(4,199)	0	0	0	0	0	
Impairments	(90)	0	0	0	0	0	0	0	(90)	
Other in-year revaluations	0	0	0	0	0	0	0	0	0	
Disposals	(131)	0	(144)	0	(3,273)	(40)	(384)	0	(3,972)	
At 31 March 2006	45,523	220,222	5,177	7,679	45,746	506	8,185	758	333,796	
Depreciation										
At 1 April 2005	0	21,536	473	0	33,006	384	6,053	415	61,867	
Indexation										
- purchased	0	368	8	0	626	8	0	9	1,019	
- donated	0	3	0	0	68	0	0	0	71	
- government granted	0	0	0	0	0	0	0	0	0	
Reclassifications	0	35	(35)	0	0	0	0	0	0	
Impairments	0	0	0	0	0	0	0	0	0	
Reversal of impairments	0	0	0	0	0	0	0	0	0	
Other in-year revaluations	0	0	0	0	0	0	0	0	0	
Disposals	0	0	(11)	0	(3,169)	(40)	(384)	0	(3,604)	
Provided during the year	0	9,594	136	0	3,299	48	242	51	13,370	
At 31 March 2006	0	31,536	571	0	33,830	400	5,911	475	72,723	
Net book value at 1 April 2005	43,702	184,564	5,249	3,290	11,762	151	1,039	211	249,968	
Net book value at 31 March 2006	45,523	188,686	4,606	7,679	11,916	106	2,274	283	261,073	
Net book value of assets held under finance leases and hire purchase contracts										
Total	0	0	0	0	0	0	0	0	0	
The total amount of depreciation charged in the Income and Expenditure account in respect of assets held under finance leases and hire purchase contracts:										
Total	0	0	0	0	0	0	0	0	0	

11.2 Fixed asset investments at the balance sheet included in fixed assets comprise:

	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2005	0	2,578	0	0	697	0	0	0	3,275
Indexation	0	44	0	0	18	0	0	0	62
Additions	0	0	0	0	0	0	0	0	0
Depreciation	0	(138)	0	0	(237)	0	0	0	(375)
At 31 March 2006	0	2,484	0	0	478	0	0	0	2,962

11.3 The net book value of land and buildings at the balance sheet date comprise:	31 March	
	2005	
	£000	£000
Freehold	236,331	230,937
Long leasehold	2,484	2,578
Short leasehold	0	0
Total	238,815	233,515

12. Stocks and work-in-progress	31 March	
	2005	
	£000	£000
Raw materials and consumables	3,472	3,441
Work-in-progress	0	0
Finished processed goods	0	0
Total	3,472	3,441

13. Debtors	31 March	
	2005	
	£000	£000
Amounts falling due within one year:		
Welsh Risk Pool	15,299	7,363
NHS debtors	16,071	17,655
PDC dividend debtors	19	399
Other debtors	6,114	6,033
Provision for irrecoverable debts	(1,056)	(1,078)
Other prepayments and accrued income	4,695	4,929
Sub-total	41,142	35,301
Amounts falling due after more than one year:		
Welsh Risk Pool	19,835	26,942
NHS debtors	0	0
Other prepayments and accrued income	4,320	4,560
Other debtors	0	0
Sub-total	24,155	31,502
Total	65,297	66,803

14. Investments

	31 March	
	£000	2005 £000
Government securities	5,500	0
Local authorities	0	0
Other	0	0
Total	5,500	0

Surplus cash at 31 March 2006 totalling £5,500,000 was invested in the National Loans Fund.

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

	31 March	
	£000	2005 £000
Amounts falling due within one year:		
Bank overdrafts	0	0
Interest payable	0	0
Loan advance/brokerage	0	0
Payments received on account	173	270
NHS creditors	2,745	2,535
Non-NHS trade creditors - revenue	7,679	10,856
Non-NHS trade creditors - capital	1,147	2,386
Non-NHS trade creditors - losses and special payments	0	0
Tax and social security costs	7,478	2,188
PDC dividend payable	0	0
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	225	207
Other creditors - superannuation	4,115	175
Other creditors - all other creditors	6,723	9,539
Accruals	2,298	2,420
Deferred income	0	0
Sub-total	32,583	30,576
Amounts falling due after more than one year:		
Loan advance/brokerage	0	0
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	2,423	2,648
NHS creditors	0	0
Non-NHS trade creditors - losses and special payments	0	0
Deferred income	0	0
Other	0	0
Sub-total	2,423	2,648
Total	35,006	33,224

15.2 Loan advance/strategic assistance funding

31 March

2005

£000

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

15.3 Finance lease obligations

31 March

2005

£000

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

15.4 Finance lease commitments

The Trust had no finance lease commitments as at 31 March 2006.

16. Provisions for liabilities and charges

	At 1 April 2005 £000	Structured settlement cases trans- ferred to Risk Pool £000	Transfer of prov- isions to creditors £000	Arising during the year £000	Reversed unused £000	Utilised during the year £000	Unwinding of discount £000	At 31 March 2006 £000
Clinical negligence	33,677	0	0	17,102	(13,919)	(3,471)	0	33,389
Personal injury	1,704	0	0	2,321	(229)	(697)	24	3,123
All other losses and special payments	0	0	0	29	0	(29)	0	0
Defence legal fees and other administration	1,043	0	0	771	(381)	(300)		1,133
Sub-total	36,424	0	0	20,223	(14,529)	(4,497)	24	37,645
Pensions relating to:								
former directors	0			0	0	0	0	0
other staff	5,203			796	(507)	(390)	182	5,284
Restructurings	0			0	0	0		0
Other	400			4,557	0	(129)		4,828
Total	42,027	0	0	25,576	(15,036)	(5,016)	206	47,757

Expected timing of cash flows:

	Between			Totals £000
	Within 1 year £000	2 and 5 years £000	After 5 years £000	
Clinical negligence	13,599	19,790	0	33,389
Personal injury	2,102	286	735	3,123
All other losses and special payments	0	0	0	0
Defence legal fees and other administration	746	387	0	1,133
Pensions - former directors	0	0	0	0
Pensions - other staff	390	1,560	3,334	5,284
Restructuring	0	0	0	0
Other	4,564	70	194	4,828
Total	21,401	22,093	4,263	47,757

Permanent Injury Benefit Provision increased by £85,000 and Pension Provision for other Staff increased by £645,000 due to the discount rate changing from 3.5% to 2.2% on the 1 April 2005.

The Trust estimates that in 2006-2007 it will receive £14,298,000 and in 2007-2008 and beyond £19,835,000 from the Welsh Risk Pool in respect of clinical negligence and personal injury payments.

Other Provisions include £4,549,000 for Agenda for Change for the period 1 October 2004 to 31 March 2006 and £275,000 for Ancillary Staff banked annual leave.

17. Movements on reserves

Movements on reserves in the year comprised the following:

	Revaluation reserve £000	Donated asset reserve £000	Govern- ment grant reserve £000	Other reserves £000	Income & expenditure reserve £000	Total £000
At 1 April 2005 as previously stated	84,802	1,279	0	0	(3,223)	82,858
Prior period adjustment					0	0
At 1 April 2005 as restated	84,802	1,279	0	0	(3,223)	82,858
Transfer from income and expenditure account					(6,088)	(6,088)
Impairments	(48)	0	0			(48)
Surplus (deficit) on revaluation / indexation of fixed assets	5,604	24	0			5,628
Transfer of realised profits/ (losses)	(181)	0	0		181	0
Receipt of donated/government granted assets		650	0			650
Depreciation, impairment and disposal of donated/government granted assets		(276)	0			(276)
Other transfers between reserves	0	0	0	0	0	0
Other reserve movements				0		0
At 31 March 2006	90,177	1,677	0	0	(9,130)	82,724

18. Notes to the cash flow statement

18.1 Reconciliation of operating surplus to net cash inflow from operating activities:	£000	2004-05 £000
Total operating surplus/(deficit)	1,935	7,413
Depreciation charge	13,370	12,899
Fixed asset impairment and reversals	42	105
Transfer from the donated asset reserve	(276)	(273)
Transfer from the government grant reserve	0	0
(Increase)/decrease in stocks	(31)	(66)
(Increase)/decrease in debtors	1,047	(14,664)
Increase/(decrease) in creditors	3,022	8,856
Increase/(decrease) in provisions	5,730	3,417
Net cash inflow from operating activities before restructuring costs	24,839	17,687
Payments in respect of fundamental reorganisation/restructuring	0	0
Net cash inflow from operating activities	24,839	17,687

18.2 Reconciliation of net cash flow to movement in net debt	£000	2004-05 £000
Increase/(decrease) in cash in the period	0	(469)
Cash inflow from new debt	0	0
Cash inflow from loan advance/brokerage	0	0
Cash outflow from debt repaid and finance lease capital payments	207	191
Cash (inflow)/outflow from (decrease)/increase in liquid resources	5,500	0
Change in net debt resulting from cash flows	5,707	(278)
Non-cash changes in debt	(871)	0
Net debt at 1 April	(460)	(182)
Net debt at 31 March	4,376	(460)

18.3 Analysis of changes in net debt

	At 1 April 2005 £000	Cash flows £000	Non-cash changes £000	At 31 March 2006 £000
OPG cash at bank	3,198	(980)		2,218
Cash at bank and in hand	(1,674)	980		(694)
Bank overdrafts	0	0		0
Debt due within one year	0	0	0	0
Debt due after one year	0	0	0	0
Debt due from loan advance/brokerage	0	0	0	0
Finance leases	(1,984)	207	(871)	(2,648)
Current asset investments	0	5,500	0	5,500
	(460)	5,707	(871)	4,376

19. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £5,858,000 and in 2004-2005 were £4,900,000.

20. Post balance sheet events

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

21. Contingencies**Contingent Liabilities**

Provision has not been made in the 2005-06 accounts for the following amounts:

31 March
2005

	£000	£000
Legal claims for alleged medical or employer negligence	54,818	23,930
Doubtful debts	0	0
Other	0	0
Total value of disputed claims	54,818	23,930
Amount recovered under insurance arrangements in the event of these claims being successful	(52,207)	(21,431)
Net contingent liability	2,611	2,499

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

22. Losses and special payments

Losses and special payments are items that the National Assembly for Wales would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled.

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

Gross loss to the Exchequer

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

	Amounts paid out in year		Approved to write-off in year	
	Number	£	Number	£
Clinical negligence	63	3,470,896	36	1,529,844
Personal injury	87	697,116	52	471,055
All other losses and special payments	321	145,234	321	145,234
Total	471	4,313,246	409	2,146,133

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

	Amounts paid out in year £	Cumulative amount £	Approved to write-off in year £
Cases exceeding £250,000			
01RVFMN0033	11,903	256,903	256,903
02RVFMN0067	427,000	436,000	436,000
97RKMMN0004	42,500	1,604,722	0
97RQAMN0007	1,663,000	1,663,000	0
99RVFMN0019	510,000	540,000	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
Sub-total	2,654,403	4,500,625	692,903
All other cases	1,658,843	3,594,541	1,453,230
Total cases	4,313,246	8,095,166	2,146,133

23.1 Movements in Government funds

2004-05

	£000	£000
Surplus/(deficit) for the financial year	2,430	8,064
Public dividend capital dividends	(8,518)	(8,138)
Subtotal	(6,088)	(74)
Gains/(losses) from revaluation/indexation of purchased fixed assets	5,423	17,229
Impairment of fixed assets	(48)	(771)
New public dividend capital	7,903	79
Public dividend capital repaid	(151)	(64)
Public dividend capital repayable	0	0
New loans from Government	0	0
Government loans repaid	0	0
Transfers from the donated asset reserve	0	0
Additions to/ transfers from the government grant reserve	0	0
Addition/(reduction) in other reserves	181	118
Net addition/(reduction) to Government funds	7,220	16,517
Opening Government funds at 1 April	245,206	228,689
Before deducting prior period adjustment of	0	0
Closing Government funds	252,426	245,206

23.2 Movements in public dividend capital

2004-05

	£000	£000
At 1 April 2005	163,627	163,612
New PDC issued in year	7,903	0
PDC due but not issued	0	79
PDC repaid in year	(151)	(64)
PDC repayable	0	0
At 31 March 2006	171,379	163,627

24. Financial performance targets

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

	31 March 2005	
	£000	£000
24.1 Breakeven		
Target retained surplus	0	0
Actual retained deficit	(6,088)	(74)
Variance	<u>6,088</u>	<u>74</u>

The Trust has not met its breakeven target.

The Trust has recorded an income and expenditure deficit of £6.1m in the financial year 2005/06. This is the first time in its history that the Trust has recorded a deficit. Against its financial plans, the issues that make this up are:

- * **Agenda for Change** - costs exceeded direct funding and internally generated contributions by £4.3m.
- * **Income shortfalls** - there are a number of service and operational issues for which the Trust was unable to secure full levels of income. The total income shortfall was £1.1m.
- * **Second Offer Scheme (Access Times)** - income received for additional patient activity to secure Waiting Times was taken back by the Second Offer Scheme as a consequence of the Trust being unable to meet its elective activity targets (£0.7m).

Along with its partners in the local health economy the Trust is producing a Strategic Change and Efficiency Plan (SCEP) in order to address the issues causing the deficit, restore financial balance and, over time, make sufficient surpluses to restore accumulated income and expenditure balance. Through its submission in May 2006, sufficient measures were identified to cover the immediate causes of the deficit. However the SCEP needs to demonstrate financial viability taking account of new issues for 2006/07. These increase the requirement and consequently the Trust is continuing to work with its Local Health Board partners to produce a plan that provides sustainability across the local health economy. The development of the plan is now supported by an external team with work due for completion in August 2006.

24.2 External financing

The Trust is given an external financing limit which it is permitted to undershoot. The Trusts performance against this limit is as follows:

	31 March 2005	
	£000	£000
External financing limit set by the Assembly		7,831
Cash flow financing	7,624	(2,127)
Finance leases taken out in the year	207	191
Other capital receipts	0	0
External financing requirement	<u>7,831</u>	<u>(1,936)</u>
Undershoot (overshoot)	<u>0</u>	<u>0</u>

The Trust has achieved its external financing limit.

24. Financial performance targets - continued

24.3 Creditor payment

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

		31 March 2005
	Number	Number
Total number of non-NHS bills paid 2005-06	176,593	183,327
Total number of non-NHS bills paid within target	167,940	155,369
Percentage of non-NHS bills paid within target	95.1%	84.7%

The Trust has met its creditor payment target.

On 1 July 2005 the Trust implemented a new system for recording valid invoices. The weighted average performance of this new recording methodology has been applied to the total number of bills paid in the year.

25. Related Party transactions

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

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

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

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

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

	£000	£000
Newport Local Health Board	108,619	100,947
Caerphilly Local Health Board	99,586	93,247
Torfaen Local Health Board	80,631	73,997
Blaenau Gwent Local Health Board	64,990	60,398
Monmouth Local Health Board	59,125	54,819
National Assembly for Wales	25,298	10,783
University of Wales College of Medicine	9,531	8,593
Powys Local Health Board	7,994	6,967
Velindre NHS Trust	4,410	3,534
Welsh Risk Pool	3,600	6,229
Cardiff and Vale NHS Trust	3,166	1,368
Welsh Ambulance NHS Trust	3,076	2,826
Cardiff Local Health Board	2,540	1,134
Health Commissioning Wales	2,198	1,992
Rhondda Cynon Taff LHB	2,104	533
Newport City Council	1,661	433
Compensation Recovery Unit	1,458	1,273
Bro Morgannwg NHS Trust	1,415	85
Torfaen County Borough Council	1,195	756
Caerphilly Borough Council	1,144	1,124
Monmouthshire County Borough Council	1,118	140

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

26. Other/ Private finance transactions

26.1 PFI operational schemes deemed to be off-balance sheet

Newport Hospitals Energy Scheme

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

Chepstow Community Hospital

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

Nevill Hall Hospital Energy Scheme

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

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

Details of the schemes are :

	Newport Hospitals Energy Scheme £000	Chepstow Community Hospital £000	Nevill Hall Hospital Energy Scheme £000	Total £000
Amounts included within operating expenses in respect of PFI transactions deemed to be <u>off-balance</u> sheet - gross	578	1,786	444	2,808
Amortisation of PFI deferred asset	0	(240)	0	(240)
Operating expenses	578	1,546	444	2,568

The Trust is committed to make the following payments during the next year.

PFI scheme which expires:

Within one year	0	0	0	0
Years 2-5 (inclusive)	0	0	0	0
Years 6-10 (inclusive)	578	0	0	578
Years 11-15 (inclusive)	0	0	0	0
Years 16-20 (inclusive)	0	1,546	0	1,546
Years 21-25 (inclusive)	0	0	444	444
Estimated capital value of scheme	4,000	10,000	3,300	17,300
Contract start date:	01/11/1999	13/02/1998	18/12/2001	
Contract end date:	01/11/2014	26/02/2025	18/12/2026	

26. Other/ Private finance transactions

26.2 "Service" element of PFI schemes deemed to be on-balance sheet

Nevill Hall Hospital Day Surgery Unit

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

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

Details of the scheme are :

	£000
Amounts included within operating expenses in respect of PFI <u>transactions deemed to be on-balance</u> sheet	617
Amortisation of PFI deferred asset	<u>(375)</u>
Operating expenses	<u>242</u>

The Trust is committed to make the following payments during the next year.

PFI scheme which expires:

Within one year	0
Years 2-5 (inclusive)	0
Years 6-10 (inclusive)	0
Years 11-15 (inclusive)	0
Years 16-20 (inclusive)	687
Years 21-25 (inclusive)	0

	£000
Capital value of scheme included in Fixed Assets Note 11.1	3,275

Contract start date:	20/05/1998
Contract end date:	20/05/2023

27. Third party assets

The Trust held £318,109 cash at bank and in hand at 31 March 2006 (31 March 2005: £324,616) which relates to monies held by the Trust on behalf of patients. This has been excluded from cash at bank and in hand reported in these accounts.

28. Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the continuing service provider relationships that the NHS Trust has previously had with Health Authorities and now with Health Commission Wales and Local Health Boards, and the way those Health bodies are financed, the NHS Trusts are not exposed to the degree of financial risk faced by business entities.

Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. NHS Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day to day operational activities rather than being held to change the risks facing NHS Trusts in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures other than the currency profile. Provisions are shown gross. Any amount expected in reimbursement against a provision and included in debtors, is separately disclosed.

Liquidity Risk

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

Interest-rate risks

All of the Trust's financial assets and all of its financial liabilities carry nil or fixed rates of interest. The NHS Trust is not, therefore, exposed to significant interest-rate risk.

Foreign currency risk

The NHS Trust has negligible foreign currency income or expenditure.

29. Intra Government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
National Assembly for Wales	5,203	0	743	0
Welsh Local Health Boards	9,875	0	1,041	0
Welsh NHS Trusts	17,164	19,835	800	0
Health Commission Wales	458	0	0	0
All English Health Bodies	352	0	4,210	0
All N. Ireland Health Bodies	0	0	0	0
All Scottish Health Bodies	0	0	0	0
Miscellaneous	0	0	66	0
Credit note provision	(681)	0	0	0
Sub total	<u>32,371</u>	<u>19,835</u>	<u>6,860</u>	<u>0</u>
Other Central Government Bodies				
Other Government Departments*	0	0	0	0
Revenue & Customs	1,032	0	7,481	0
Local Authorities	745	0	176	0
Balances with Public Corporations and trading funds	0	0	0	0
Balances with bodies external to Government	6,994	4,320	18,066	2,423
TOTAL	<u><u>41,142</u></u>	<u><u>24,155</u></u>	<u><u>32,583</u></u>	<u><u>2,423</u></u>

* Other Government Departments with Balances > £1,000k

Please specify:

30. Pooled budgets

The Trust has no pooled budgets.

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

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

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

Date: 28 June 2006

Chief Executive

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

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

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

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

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

By Order of the Board

Signed:

Date: 28 June 2006

Chairman

Date: 28 June 2006

Chief Executive

Date: 28 June 2006

Director of Finance

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

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

* The Personnel Director is responsible for ensuring that the Trust's overall duty for risk management is discharged appropriately and for ensuring that effective operational arrangements are in place.

* The Medical Director is the Board level clinical lead with responsibility for Risk Management.

* Executive Directors and General Managers are responsible for ensuring that risk is managed within their area of responsibility in accordance with Trust policies and procedures. They have a responsibility to identify, evaluate and manage risk and identify early warning indicators to feed Directorate Risk Profiles. Additionally each Division employs a Clinical Governance facilitator to co-ordinate, promote and share governance activity locally.

* Corporate departments including Personnel and Support Services (which encompasses Risk Management, Infection Control, Health and Safety, Education and Training), Finance, Corporate Services and others assist managers by providing advice and support in their specialist areas.

* Internal Audit provides annual assurance and evaluates the effectiveness of existing controls and risk management processes.

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the organisation for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Welsh Assembly Government guidance.

3. Capacity to handle risk

Leadership of the risk management process is provided by the Director of Personnel supported by the Medical, Finance and Nursing Directors, General Managers and Chief's of Staff. The Trust has a comprehensive risk management policy that reflects the complex and diverse services provided. The policy and risk management strategy is reviewed annually. Key to the delivery of the strategy is strong clinical leadership within the risk management function.

The Trust's approach to health and safety has been reviewed and a new health and safety management system has been successfully implemented. This focuses on the development of risk profiles and safety audits at a local level, embedding safe practise into all areas of the Trust.

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

The Trust continues to invest in a number of E-learning programmes to help those staff who find it more difficult to leave the work place to attend training.

4. The risk and control framework

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

Internal Audit review the scores against the 5 core Welsh Risk Management Standards. Internal control standards are deemed to have been met if a score of 75 % is achieved against each core standard. The scores achieved for 2005-2006 were

* Risk Management Policy & Strategy	97%
* Risk Profile	80%
* Adverse Incident and Hazard Reporting	99%
* Governance	100%
* Financial Management	91%

The Welsh Risk Pool also review the following core standards:

- * Risk Management Policy & Strategy
- * Risk Profile
- * Adverse Incident and Hazard Reporting

In addition, the Welsh Risk Pool reviewed a further 23 risk standards. These reviews identified a number of areas of good practice; namely Transport of specimens, Estates Handbook on safe systems and E-Learning packages. Internal Audit reviewed the remaining 11 risk standards.

The Trust achieved an overall score of 74% against the 37 risk standards; this score is consistent with the overall self-assessment. The overall score for 2004/2005 was 76%.

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

5. Review of effectiveness

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

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

* The Trust Board consider and approve the Risk Management Annual Report. The Board receive reports, via their sub committees, specifically updating them on risk management and compliance together with a number of other issues that relate to the management of risk, e.g. CHI review of Mental Health Services and Community Services, serious incident reviews and performance reports.

* The Audit Committee act on behalf of the Trust Board in carrying out objective monitoring and review financial information and systems, compliance with and self assessments of the Welsh Risk Management Standards, compliance with law, guidance and codes of practice. The Committee provide a channel of communication between external and internal auditors and the Trust Board. They also consider and determine external audit reports which look at the broader issues of cost effectiveness and recommend the appropriate mechanism to progress such reports.

* The Clinical Governance and Quality Committee provide the Trust Board with assurance relating to issues of a clinical nature.

* The Trust Health and Safety Committee receive a number of reports and policies relating to health, safety and welfare. Membership of the Committee is made up of accredited staff side health and safety representatives, managers of the Trust and various risk advisors.

* Internal Audit provide an annual report identifying the effectiveness of the system of internal controls in place. The 2005-2006 report stated the Trust had adequate and effective risk management, control and governance processes to manage the achievement of the organisations objectives. The statement was based upon the work undertaken by Internal Audit as set out in the Audit Committee approved plan.

* In addition assurance is also provided by the Executive Team and Operational Management Group.

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

I will ensure that during 2006/2007 the Trust will continue to progress in these areas.

Signed: Chief Executive
(On behalf of Trust Board)

Date: 28 June 2006

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 1 to 35 under Section 61 of the Public Audit (Wales) Act 2004. These financial statements have been prepared under the accounting policies set out on pages 6 to 11.

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

Respective responsibilities of Directors, the Chief Executive and Auditor

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

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

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

I review whether the statement on pages 38 to 40 reflects the Trust's compliance with the Treasury and Assembly's guidance on the Statement on Internal Control and I report if it does not, or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Trust's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

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

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

Without qualifying my opinion, I draw your attention to note 24.1, which sets out the financial position of the Trust and the actions being taken to achieve financial balance.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Gwent Healthcare NHS Trust as at 31 March 2006 and of its deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service Act 1977 and directions made hereunder by the National Assembly for Wales;
- the financial statements and that part of the remuneration report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made hereunder by the National Assembly for Wales; 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.

Jeremy Colman
Auditor General for Wales

29 June 2005