

# Torfaen Local Health Board

## FOREWORD

These accounts have been prepared by the Local Health Board under section 98(2) of the National Health Service Act 1977 (as amended) in the form in which the National Assembly for Wales has, with the approval of the Treasury, directed.

### Statutory background

The Local Health Board was one of 22 which came into existence on 1st April 2003. As a statutory body governed by Acts of Parliament the LHB is responsible for :

- agreeing the action which is necessary to improve the health and health care of the population of [Torfaen](#)
- supporting and financing General Practitioner-led purchasing of the services needed to meet agreed priorities, including charter standards and guarantees;
- supporting and funding the contractor professions;
- the commissioning of health promotion, emergency planning and other regulatory tasks;
- the stewardship of resources including the financial management and monitoring of performance in critical areas;
- eliciting and responding to the views of local people and organisations and changing and developing services at a pace and in ways that they will accept.

### Performance Management and Financial Results

Local Health Boards in Wales must comply fully with the Treasury's Financial Reporting Manual to the extent that it is applicable to them. As a result the Primary Statement of in-year income and expenditure is the Operating Cost Statement, which shows the net operating cost incurred by the LHB which is funded by the Assembly. This funding is allocated on receipt directly to the General Fund in the Balance Sheet.

The statutory duty for Local Health Boards is enacted in the 2002 NHS Reform and Health Care Professionals Act. Net Operating Costs incurred by Local Health Boards should not exceed their allocated Resource Limit.

The primary performance measure for Local Health Boards is note 2.1 Achievement of Operational Financial Balance on page 12. This note compares net operating costs expended against Resource Limits allocated by the Assembly and measures whether operational financial balance has been achieved in year

**OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2006**

	<b>Note</b>	<b>Total £000</b>	<b>2004-05 Total £000</b>
Expenditure	4.1,4.2,4.3, 4.4	<b>122,262</b>	115,906
Miscellaneous income	3.1	<b>1,204</b>	2,323
<b>Net operating costs</b>		<b><u>121,058</u></b>	<b><u>113,583</u></b>

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

	<b>£000</b>	<b>£000</b>
Unrealised surplus on revaluation / indexations of fixed assets	<b>0</b>	<b>0</b>
Net increases / reductions in General Fund due to transfers of assets	<b>0</b>	<b>0</b>
Fixed asset impairment losses	<b>0</b>	<b>0</b>
<b>Recognised gain / (loss) for the year</b>	<b><u>0</u></b>	<b><u>0</u></b>

**BALANCE SHEET AS AT 31 MARCH 2006**

	Note	£000	31 March 2005 £000
<b>TOTAL FIXED ASSETS</b>			
Intangible fixed assets	5.1	0	0
Tangible fixed assets	5.2	0	0
<b>CURRENT ASSETS</b>			
Debtors	6.1	2,306	1,577
Cash at bank and in hand		416	516
<b>Total Current Assets</b>		<b>2,722</b>	<b>2,093</b>
Creditors: amounts falling due within one year	6.2	9,044	7,898
<b>Net current assets / (liabilities)</b>		<b>(6,322)</b>	<b>(5,805)</b>
Creditors: amounts falling due after more than one year	6.3	0	0
Provisions for liabilities and charges	6.4	3	28
<b>TOTAL NET ASSETS</b>		<b>(6,325)</b>	<b>(5,833)</b>
<b>FINANCED BY:</b>			
General fund	6.5	(6,325)	(5,833)
Donated Assets Reserve	6.6	0	0
Revaluation Reserve	6.7	0	0
<b>TOTAL</b>		<b>(6,325)</b>	<b>(5,833)</b>

Signed for and on behalf of the Board

Director of Finance ..... Chief Executive .....

Date ..... Date.....

Adopted by the Board on.....

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2006**

	£000	2004-05 £000
<b>Net operating costs</b>	<b>(121,058)</b>	(113,583)
Adjust for non-cash transactions	(201)	(171)
Adjust for movements in working capital other than cash	417	417
Utilisation of provisions	(25)	(8)
	<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>	<b>(120,867)</b>	<b>(113,345)</b>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT:</b>		
Payments to acquire fixed assets	0	0
Receipts from the sale of fixed assets	0	0
	<hr/>	<hr/>
<b>Net cash inflow / (outflow) from investing activities</b>	<b>0</b>	<b>0</b>
	<hr/>	<hr/>
<b>Net cash inflow / (outflow) before financing</b>	<b>(120,867)</b>	<b>(113,345)</b>
<b>FINANCING:</b>		
Net Assembly funding (including capital)	120,767	113,859
Surrender of income from sale of fixed assets	0	0
Donations	0	0
Capital element of finance lease rental payments	0	0
	<hr/>	<hr/>
<b>Net cash inflow / (outflow) from financing</b>	<b>120,767</b>	<b>113,859</b>
	<hr/>	<hr/>
<b>Increase / (decrease) in cash</b>	<b>(100)</b>	<b>514</b>

**Notes to the cash flow statement**

**Adjust for non-cash transactions**

	£000	2004-05 £000
Depreciation and other write-offs	0	0
Impairment of fixed assets	0	0
(Profit) / Loss on disposal of fixed assets	0	0
Non-cash provisions	0	36
Capital charge interest	(201)	(207)
	<u>(201)</u>	<u>(171)</u>

**Adjust for movements in working capital other than cash**

	£000	2004-05 £000
(Increase)/decrease in debtors	(729)	394
Increase/(decrease) in creditors	1,146	23
	<u>417</u>	<u>417</u>

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

	£000
Increase/(decrease) in cash in the period	(100)
Cash outflow from debt repaid and finance lease capital payments	0
Change in net debt resulting from cash flows	(100)
Non cash changes in debt	0
<b>Net debt at 1 April 2005</b>	<u>516</u>
<b>Net debt at 31 March 2006</b>	<u>416</u>

**Analysis of changes in net debt**

	As at 1 April 2005	Cash flows	Other changes	As at 31 March 2006
	£000	£000	£000	£000
Cash at bank and in hand	516	(100)	0	416
Bank overdraft	0	0	0	0
Debt due within one year	0	0	0	0
Debt due after one year	0	0	0	0
	<u>516</u>	<u>(100)</u>	<u>0</u>	<u>416</u>
<b>Total</b>	<u>516</u>	<u>(100)</u>	<u>0</u>	<u>416</u>

## **Notes to the Account**

### **1. Accounting Policies**

**1.1** The financial statements have been prepared in accordance with the Financial Reporting Manual (FRoM) issued by HM Treasury to the extent that the National Assembly for Wales has directed as being appropriate to LHB'S. The particular accounting policies adopted by the Local Health Board (LHB) are described below. They have been applied in dealing with items considered material in relation to the accounts.

These accounts have been prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the National Assembly for Wales (the Assembly) and approved by Treasury.

LHB's are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

### **Acquisitions and Discontinued Operations**

Activities are considered to be "acquired" and disclosed as such, only if they are acquired from outside the public sector. Activities are considered to be "discontinued" and disclosed as such, only if they cease entirely or are transferred outside the public sector

### **1.2 Income and funding**

The main source of funding for the LHB is resource allocations from the Assembly within an approved cash limit, which is credited to the general fund when the associated cash is received. Income disclosed in the Operating Cost Statement reflects only the amounts other than Assembly Funding.

Miscellaneous income is income which relates directly to the operating activities of the LHB. It comprises principally of fees and charges for services provided on a full cost basis to external customers, (or any other other material types of income if this disclosure would not be sufficient).

It includes both income appropriated-in-aid of the Vote and income to the consolidated fund which HM Treasury has agreed should be treated as operating income.

Income is accounted for by applying the accruals convention. Income is recognised in the period in which services are provided.

### **1.3 Taxation**

The LHB is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.

### **1.4 Intangible fixed assets**

Intangible assets which can be valued, are capable of being used in a LHB's activities for more than one year and have a cost equal to or greater than £5,000;

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight line basis. The carrying value of intangible assets 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

### a. Capitalisation

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

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

### b. Valuation

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

#### Land and Buildings

Land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BICS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office. Valuations are carried out by the District Valuers of the Inland Revenue Government Department at five - yearly intervals. A five - yearly revaluation was carried out as at 30 September 2003.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non - specialised operational property.

In respect of non - operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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

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

#### Equipment

Equipment surplus to requirements is valued at net recoverable amount and assets held under finance leases are capitalised at the fair value of the assets. With those exceptions, equipment is valued at Depreciated Replacement Cost.

#### Assets in the course of construction

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

### **c. Depreciation, amortisation and impairments**

Depreciation is charged on a straight - line basis on each main class of fixed asset as follows:

Freehold land and land and buildings surplus to requirements are not depreciated. Assets in the course of construction and residual interests in off - balance sheet Private Finance Initiative contract assets are not depreciated until the asset is brought into use or reverts to the LHB, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset.

Vehicles are depreciated over 7 years.

Intangible assets are amortised over the estimated lives of the assets.

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

#### **1.6 Donated assets**

Donated tangible fixed assets are capitalised at their valuation on receipt and are valued and depreciated as described above for purchased assets.

The value of donated tangible fixed assets and the donated element of part - donated assets are reflected in a donated asset reserve. This reserve is credited with the value of the original donation and any subsequent revaluation and indexation; an amount equal to the depreciation charge is released from this reserve each year to the Operating Cost Statement.

#### **1.7 Research and development**

Research and development expenditure is charged to the Operating Cost Statement in the year in which it is incurred, except insofar as it is separately identifiable development expenditure relating to a clearly defined project and benefits therefrom can reasonably be regarded as assured.

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

#### **1.8 Pension Costs**

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employees, General Practices and other bodies, allowed under the direction of Secretary of State. As a consequence it is not possible for the LHB 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 notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003.



The Scheme is subject to a full valuation for FRS 17 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 on an annual basis. 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 every October. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from the Stationary 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 are 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 National Assembly to charge employers pension costs 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 three years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the members pension is normally payable to the surviving spouse.

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

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

Additional pension liabilities arising from early retirements are not funded by the scheme, which except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the LHB commits itself to the retirement,

regardless of the method of payment.

### **1.9 Foreign currency**

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Resulting exchange gains and losses are taken to the Operating Cost Statement.

### **1.10 Cost of Capital**

The cost of capital applies to all the assets and liabilities of the LHB, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in the 2005/06 financial year was 3.5%.

### **1.11 Provisions**

The LHB 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. 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. Provisions are only recognised where the amount of economic benefit is probable, and the amount of the transfer can reasonably be estimated.

### **1.12 Liquid resources**

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

### **1.13 Leases**

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

### **1.14 Contingent liabilities**

Contingent liabilities are recognised where the LHB has :

- a possible obligation arising from past events whose existence will be confirmed by the occurrence of future events not wholly within the LHB'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 LHB's control. Contingent assets are disclosed only where the future outflow of economic benefit is considered to be probable.

### **1.15 Deferred Income**

Deferred income is recognised where income has been received with an obligation to use the monies for a specific purpose, but these monies have not yet been spent.

### **1.16 Expenditure**

Interest payable arises from the unwinding of discount on provisions, as the value is restated to reflect the present value of the provision at the closing balance sheet date. Interest payable also arises on bank overdrafts and finance leases and is recognised on the accruals basis. Interest payable is not shown separately on the face of the Operating Cost Statement, but is included within expenditure.

Certain expenditure relating to reimbursement of General Practitioners for the provision of Family Health Services defined by the National Assembly as "non-discretionary" and is deducted from net operating costs for the purposes of assessing outturn against revenue resource limit in note 2.1.

Programme expenditure is defined as costs relating directly to the provision of healthcare, social care and other services relating to the LHB's functions provided directly to the public.

All other expenditure is classified as administration expenditure.

**2.1 Achievement of Operational Financial Balance**

	£000	2004-05 £000
Net operating costs for the financial year	121,058	113,583
Non-discretionary expenditure	1,035	2,788
Operating costs less non-discretionary expenditure	120,023	110,795
Revenue Resource Limit	120,024	110,793
<b>Under / (over) spend against Revenue Resource Limit</b>	<b>1</b>	<b>(2)</b>
Unplanned resource brokerage received	0	0
<b>Operational Financial Balance</b>	<b>1</b>	<b>(2)</b>

### 3.1 Miscellaneous income

	£000	2004-05 £000
Fees & Charges	0	0
Prescription charge income	1,042	1,112
Income for trust impairments	0	0
Deferred Income released to revenue	0	1,086
Other	162	125
<b>Total</b>	<b>1,204</b>	<b>2,323</b>

'Other' income is made up of the following balances:

- Gwent Medicines & Therapeutics Committee £0.047m
- Communities First Funding £0.030m
- Children & Adolescents Mental Health Funding £0.018m
- Cancer Network Funding £0.018m
- Emergency Hormonal Contraception Grant £0.014m
- Child Protection Designated Doctor Funding £0.013m
- Other Miscellaneous Income £0.022m
- Total £0.162m

**Expenditure:****4.1 Primary health care**

	Cash limited	Non cash limited	Total	2004-05 Total
	£000	£000	£000	£000
General Medical services	11,451	0	11,451	10,565
Pharmaceutical services	3,011	4	3,015	2,050
General Dental services	0	112	112	10
General Ophthalmic services	0	919	919	819
Other Primary health care expenditure	(143)	0	(143)	498
Prescribed drugs and appliances	15,521	0	15,521	16,137
<b>Total</b>	<b>29,840</b>	<b>1,035</b>	<b>30,875</b>	<b>30,079</b>

**4.2 Secondary and Community health care**

	Total £000	2004-05 Total £000
<b>NHS Trusts:</b>		
Provider 1 - Gwent Healthcare	78,725	73,275
Provider 2 - Cardiff & Vale	1,630	1,429
Provider 3 - Velindre	1,370	1,735
Provider 4 - Bro Morgannwg	177	156
Provider 5 - Royal National Hospital Rheumatic Diseases	77	44
Provider 6 - Swansea	52	50
Provider 7 - Pontypridd & Rhondda	48	11
Provider 8 - North Bristol	36	38
Provider 9 - Royal United Hospital, Bath	33	3
Provider 10 - North Glamorgan	30	29
Other Welsh NHS trusts	29	28
Other non Welsh NHS trusts	80	115
Local Authorities	2,393	3,788
Voluntary Organisations	610	383
NHS Funded Nursing Care	1,606	1,660
Continuing Care	0	31
Private providers	110	120
Specific projects funded by Welsh Assembly Government	0	0
Other	974	162
<b>Total</b>	<b>87,980</b>	<b>83,057</b>

Expenditure with Local Authorities is as follows :

**Torfaen County Borough Council:**

S28a Learning Difficulties £1.928m  
S28a Elderly £0.147m  
S28a Mental Health £0.099m  
S28a Children £0.071m  
Delayed Transfers of Care £0.1811m  
Community Care (£0.033m)  
Total £2.393m

**4.3 Other programme expenditure**

	£000	2004-05 £000
Salaries and wages	982	461
National Public Health Service	487	437
Losses, special payments and irrecoverable debts	10	77
Research and development	0	0
Other	278	275
	<hr/>	<hr/>
<b>Total</b>	<b>1,757</b>	<b>1,250</b>

**4.4 Administration expenditure**

	£000	2004-05 £000
Non-officer members' remuneration	86	83
Other salaries and wages	842	792
Establishment expenses	72	67
Transport and moveable plant	0	0
Premises and fixed plant	140	106
External contractors	46	49
Auditors' remuneration - audit fee	56	35
Auditors' remuneration - other fees	0	0
Business Services Centre recharge	589	575
Interest payable- unwinding of discount	0	0
Interest payable -other	0	0
Capital - depreciation and amortisation	0	0
Capital charge interest	(201)	(207)
Impairment	0	0
(Profit) / loss on disposal of fixed assets	0	0
Other	20	20
	<hr/>	<hr/>
<b>Total</b>	<b>1,650</b>	<b>1,520</b>

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

	<b>Total</b>	<b>2004-05 Total</b>
	<b>£000</b>	<b>£000</b>
Clinical negligence	0	0
Personal injury	0	0
All other losses and special payments	0	0
Defence legal fees and other administrative costs	10	8
	<hr/>	<hr/>
Gross increase / decrease in provision for future payments	10	8
Contributions to Welsh Risk Pool/insurance premiums	0	0
Irrecoverable debts	0	69
Less: income received/due from Welsh Risk Pool	0	0
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<b>Total</b>	<b>10</b>	<b>77</b>
	<hr/>	<hr/>

Personal injury includes £nil in respect of permanent injury benefits



#### 4.6 Hire and operating lease rentals

	£000	2004-05 £000
Hire of plant and machinery	0	0
Other operating leases	30	26
<b>Total</b>	<b>30</b>	<b>26</b>

#### Commitments under non-cancellable operating leases:

	Land and Buildings £000	Other Leases £000	2004-05 Land and Buildings £000	2004-05 Other Leases £000
<b>Operating leases which expire:</b>				
Within 1 year	0	0	26	0
Between 1 and 5 years	59	0	0	0
After 5 years	0	0	0	0

#### 4.7 Executive Directors and staff costs

	Total £000	2004-05 Total £000
Salaries and wages	1,419	1,019
Social security costs	107	85
Employer contributions to NHSPA	194	144
Other pension costs	0	0
Agency / seconded staff	108	14
<b>Total</b>	<b>1,828</b>	<b>1,262</b>

The Executive Directors & Staff Costs included in Notes 4.3 & 4.4 total £1,824k. This differs to the costs reported in Note 4.7 above as the payroll costs related to Emergency Dentists and a Practice Nurse are included in Note 4.1.

**4.8 Board Directors' remuneration**

	£000	2004-05 £000
Non-officer members' remuneration	80	80
Executive Directors' remuneration:		
basic salaries	300	279
benefits	0	0
performance related bonuses	0	0
pension contributions	42	40
Compensation for loss of office	0	0
Pensions to former directors (early retirees)	0	0
<b>Total</b>	<b>422</b>	<b>399</b>

	Chief Chairman	Chief Executive
	£000	£000
Basic Salary	28	74
Benefits	0	0
Compensation for loss of office	0	0
Performance related bonuses	0	0
Pension contributions	0	10
<b>Total</b>	<b>28</b>	<b>84</b>

<b>Remuneration waived by directors and allowances paid in lieu:</b>	Number	£000
Directors' remuneration waived	0	0
Allowances paid in lieu of remuneration	0	0

**The basis on which performance related bonuses are calculated is as follows:**

[Not applicable to Torfaen LHB](#)

## 4.9 Average number of employees

The average number of employees during the year was:

	Permanent staff	Agency, temporary and contract staff	Staff on inward secondment	Total	2004-05
	Number	Number	Number	Number	Number
Executive Board Members	5	0	0	5	5
Other Local Health Board Staff	51	1	0	52	35
Recharged staff	1	0	0	1	0
<b>Total</b>	<b>57</b>	<b>1</b>	<b>0</b>	<b>58</b>	<b>40</b>

The average number of employees is calculated as the total number of employees under contract of service in each week in the financial year divided by the number of weeks in the financial year.

## Expenditure on staff benefits

	£00	£00
<b>Nature of expenditure:</b>		
a. ....	0	0
b. ....	0	0
c. ....	0	0
d. ....	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

#### 4.10 Retirements due to ill-health

During 2005-06 there were no early retirements from the LHB 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 nil.

#### 4.11 Public Sector Payment Policy - Measure of Compliance

The National Assembly for Wales requires LHB's to pay non-NHS trade creditors in accordance with the CBI prompt payment code and Government Accounting rules. The target is to pay all trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier.

	Number	£000	2004-05 £000
<b>Non- NHS</b>			
Total bills paid 2005-2006	1,402	6,810	7,120
Total bills paid within target	1,355	6,738	7,074
Percentage of bills paid within target	96.6%	98.9%	99.4%

In addition, the National Assembly for Wales require LHB's to pay other NHS bodies in accordance with Government Accounting rules. The target is to pay all other NHS bodies within 30 days of receipt of goods or a valid invoice by the authority (whichever is the later) unless other payment terms have been agreed with the NHS body.

	Number	£000	2004-05 £000
<b>NHS</b>			
Total bills paid 2005-2006	457	86,572	80,115
Total bills paid within target	447	86,054	80,066
Percentage of bills paid within target	97.8%	99.4%	99.9%

	Number	£000	2004-05 £000
<b>Total</b>			
Total bills paid 2005-2006	1,859	93,382	87,235
Total bills paid within target	1,802	92,792	87,140
Percentage of bills paid within target	96.9%	99.4%	99.9%

#### 4.12 The Late Payment of Commercial Debts (Interest ) Act 1998

	£	2004-05 £
Amounts included within Interest Payable arising from claims made by small businesses under this legislation (see note 4.4).	0	0
Compensation payable to cover debt recovery costs	0	0

## 5.1 Intangible Fixed Assets

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
<b>Gross cost at 1 April 2005</b>	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
<b>Gross replacement cost at 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Accumulated amortisation at 1 April 2005</b>	0	0	0	0	0
Provided during the year	0	0	0	0	0
Additions	0	0	0	0	0
Disposals	0	0	0	0	0
<b>Accumulated amortisation at 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value at 1 April 2005</b>	0	0	0	0	0
<b>Net book value at 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Tangible fixed assets

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

Cost or valuation	Land £000	Buildings, excluding dwellings £000	Dwellings £000	Assets under construction and payments on account	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	Total £000
				£000					
At 1 April 2005	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	0	0	0	0	0
Additions - purchased	0	0	0	0	0	0	0	0	0
Additions - donated government granted	0	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
<b>At 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Depreciation</b>									
At 1 April 2005	0	0	0	0	0	0	0	0	0
Indexation	0	0	0	0	0	0	0	0	0
Additions - purchased	0	0	0	0	0	0	0	0	0
Additions - donated government granted	0	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	0	0	0	0	0	0	0	0
Disposals	0	0	0	0	0	0	0	0	0
Provided during the year	0	0	0	0	0	0	0	0	0
<b>At 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Net book value</b>									
at 1 April 2005	0	0	0	0	0	0	0	0	0
at 31 March 2006	0	0	0	0	0	0	0	0	0
<b>Net book value of assets held under finance leases and hire purchase contracts</b>									
Total	0	0	0	0	0	0	0	0	0
<b>The total amount of depreciation charged in the Operating Cost Statement in respect of assets held under finance leases and hire purchase contracts:</b>									
Total	0	0	0	0	0	0	0	0	0
Value of assets held at open market value	0	0	0	0	0	0	0	0	0

## Tangible Fixed Assets (continued)

The net book value of land and buildings at 31 March 2006 comprises:

	£000	2004-05 £000
Freehold	0	0
Long leasehold	0	0
Short leasehold	0	0
	<hr/>	<hr/>
<b>Total</b>	<b>0</b>	<b>0</b>
	<hr/>	<hr/>

## Net profit/(loss) on disposal of fixed assets

	£000	2004-05 £000
During the year the LHB disposed of fixed assets with the net book value of,	0	0
The gross proceeds from the sale(s) were	0	0
giving a net profit/(loss) on disposal of	<hr/> <b>0</b>	<hr/> <b>0</b>
The LHB paid over to the National Assembly for Wales the net proceeds from disposal of and retained the costs of disposal, met of,	0	0
	0	0

**6.1 Debtors**

	£000	2004-05 £000
<b>Amounts falling due within one year:</b>		
National Assembly for Wales	42	1
Health Commission Wales	0	0
Local Health Boards	251	120
Primary Care Trusts	0	0
NHS Trusts	162	153
Welsh Risk Pool	0	0
Capital debtors	0	0
Other debtors	1,438	1,360
Provision for irrecoverable debts	(69)	(69)
Pension Prepayments:	0	0
Other prepayments and accrued income	482	12
	<hr/>	<hr/>
<b>Sub total</b>	<b>2,306</b>	<b>1,577</b>
	<hr/>	<hr/>
<b>Amounts falling due after more than one year:</b>		
National Assembly for Wales	0	0
Health Commission Wales	0	0
Local Health Boards	0	0
Primary Care Trusts	0	0
NHS Trusts	0	0
Welsh Risk Pool	0	0
Capital debtors	0	0
Other debtors	0	0
Provision for irrecoverable debts	0	0
Pension Prepayments	0	0
Other prepayments and accrued income	0	0
	<hr/>	<hr/>
<b>Sub total</b>	<b>0</b>	<b>0</b>
	<hr/>	<hr/>
<b>Total</b>	<b>2,306</b>	<b>1,577</b>



**6.2 Creditors**

		<b>2004-05</b>
<b>Amounts falling due within one year:</b>	<b>£000</b>	<b>£000</b>
National Assembly for Wales	342	0
Health Commission Wales	0	0
Local Health Boards	226	332
NHS Trusts	1,366	1,008
Primary Care Trusts	21	0
Income tax and social security	0	0
Non-NHS creditors	205	550
Capital Creditors	0	0
Overdraft	0	0
Rentals due under operating leases	0	0
Obligations under finance leases and HP contracts	0	0
GPFH savings	0	34
Pensions: staff	0	0
Accruals	6,884	5,974
Deferred Income	0	0
Other creditors	0	0
	<hr/>	<hr/>
<b>Total</b>	<b>9,044</b>	<b>7,898</b>
	<hr/>	<hr/>

**6.3 Creditors**

		<b>2004-05</b>
<b>Amounts falling due after more than one year:</b>	<b>£000</b>	<b>£000</b>
Obligations under finance leases and HP contracts	0	0
NHS creditors	0	0
Assembly loans	0	0
Pensions: staff	0	0
Other	0	0
	<hr/>	<hr/>
<b>Total</b>	<b>0</b>	<b>0</b>
	<hr/>	<hr/>

## 6.4 Provisions for liabilities and charges

	At 1 April 2005	Structured settlement cases trans- ferred to WRP	Transfer of prov- isions to creditors	Change in discount rate	Arising during the year	Reversed unused	Utilised during the year	Unwind- ing of discount	At 31 March 2006
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Clinical negligence	0	0	0	0	0	0	0	0	0
Personal injury	0	0	0	0	0	0	0	0	0
All other losses and special payments	0	0	0	0	0	0	0	0	0
Defence legal fees and other administration costs.	0	0	0	0	0	0	0		0
<b>Sub-total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Pensions	0			0	0	0	0	0	0
Other	28			0	3	(3)	(25)		3
<b>Total</b>	<b>28</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>	<b>(3)</b>	<b>(25)</b>	<b>0</b>	<b>3</b>

## Expected timing of cash flows:

	Within 1 year £000	Between 2 and 5 years £000	After 5 years £000	Total £000
Clinical negligence	0	0	0	0
Personal injury	0	0	0	0
All other losses and special payments	0	0	0	0
Defence legal fees and other administration costs	0	0	0	0
Pensions	0	0	0	0
Other	3	0	0	3
<b>Total</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>3</b>

The LHB estimates that in 2006-07 it will receive nil, and in 2007-08 and beyond nil from the Welsh Risk Pool in respect of losses and special payments.

## 6.5 General fund

The movement on the General fund in the year comprised:

	£000
<b>At 1 April 2005</b>	<b>(5,833)</b>
Net operating cost for the financial year	<b>(121,058)</b>
Net Assembly funding (including capital)	<b>120,767</b>
Capital charge interest	<b>(201)</b>
Transfers to NHS bodies	<b>0</b>
Transfer to general fund of realised elements of the revaluation reserve	<b>0</b>
	<hr/>
<b>Balance at 31 March 2006</b>	<b><u>(6,325)</u></b>

## 6.6 Donated asset reserve

The movement on the donated asset reserve in the year comprised:

	£000
<b>Balance at 1 April 2005</b>	<b>0</b>
Additions	<b>0</b>
Impairments	<b>0</b>
Revaluation and indexation	<b>0</b>
Disposals and write-offs	<b>0</b>
Depreciation	<b>0</b>
	<hr/>
<b>Balance at 31 March 2006</b>	<b><u>0</u></b>

## 6.7 Revaluation reserve

The movement on the revaluation reserve in the year comprised:

	£000
<b>Balance at 1 April 2005</b>	<b>0</b>
Revaluation	<b>0</b>
Indexation	<b>0</b>
Transfer to general fund - realised revaluation	<b>0</b>
	<hr/>
<b>Balance at 31 March 2006</b>	<b><u>0</u></b>

**6.8 Contingent liabilities -**

The following contingent losses/gains have not been included in the accounts

Nature:	2004-05	
	£000	£000
Legal claims for third parties liabilities	0	0
Doubtful debts	0	0
Other	40	40
<b>Total</b>	<b>40</b>	<b>40</b>

**Uncertainties affecting outcome:**

In March 2005 the Welsh Assembly Government published adverts in national and local papers inviting cases to be submitted for review by the NHS Ombudsman to determine whether they fall to be treated as continuing care cases and consequently to be funded by the LHB. Although further cases have been submitted to the Welsh Assembly Government and there may be further cases yet to be submitted to the Ombudsman, the LHB has no knowledge of the validity, value or extent of the claims at this time and no provision has been made for these additional claims.

**6.9 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
Balances with other central government bodies	42	0	342	0
Balances with local authorities	119	0	48	0
Balances with NHS trusts and Foundation trusts	162	0	1387	0
Balances with Local Health Boards	251	0	226	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	1732	0	7041	0
<b>Total at 31 March 2006</b>	<b>2306</b>	<b>0</b>	<b>9044</b>	<b>0</b>

## 6.10 Post balance sheet events

Post balance sheet events having a material effect on the accounts are:

1.	.....	0
	.....	
2.	.....	0
	.....	
<b>Total</b>		<b>0</b>

## 6.11 Capital commitments

The Local Health Board has the following capital commitments:

	2004-05	
Contracted	0	0
Authorised but not contracted	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

**6.12 Related Party transactions****£000**

Total value of transactions with Board members and key senior staff in 2005-2006

**0**

Torfaen Local Health Board is a body corporate established by order of the National Assembly.

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

Blaenau Gwent LHB - £53,678

Caerphilly LHB - £28,238

Newport LHB - £210,207

Powys LHB - £643,838

In addition, Torfaen Local Health Board has a significant number of material transactions with other Government Departments and other central and local Government bodies. Most of these transactions have been with Torfaen Local Authority (total £2,817,334) in respect of joint enterprises.

During the year none of the board members or members of the key management staff or other related parties has undertaken any material transactions with Torfaen LHB.

A number of the LHB's Board members have interests in related parties as follows:

<b>Name</b>	<b>Details</b>	<b>Interests</b>
Dr Doug Dare	Chairman of LHB Board	Partner in Abersychan Surgery GP Practice
Dr Roy Lurvey	Non Officer Member	St Davids Foundation Hospice Care
Mrs Sandra Shaw	Non Officer Member (from 1/3/06)	Torfaen Crossroads Caring for Carers
Mr Mervyn Hansford	Non Officer Member	Director of Phillips Opticians Ltd Member of South East Wales Regional Optometric Committee and Chair of Welsh Optometric Committee Wife is a Director of the Association of Optometrists and Professional Secretary of Optometry Wales
Mr Allan Gilbert	Non Officer Member	Shareholder in AJ Gilbert (Chemist) Ltd
Dr Lucy Allen	Non Officer Member	Partner in Cwmbran Village Surgery GP Practice
Dr Andrew Lohfink	Non Officer Member	Partner in Greenmeadow Surgery GP Practice
Dr Sion James	Non Officer Member	Partner in The Mount Surgery GP Practice Employed (on a self employed basis) by Gwent Out of Hours Service

**6.12 Related Party transactions**

<b>Name</b>	<b>Details</b>	<b>Interests</b>
Ms Helen Ward	Non Officer Member	Employed as Clinical Director of Dietetics by Gwent Healthcare Trust
Mrs Katrina Rowlands	Non Officer Member	Employed by Gwent Healthcare Trust
Cllr Rosemarie Seabourne	Non Officer Member	Elected Member of Torfaen CBC
Cllr Collette Thomas	Non Officer Member (until 19/5/05)	Elected Member of Torfaen CBC
Cllr Mary Barnett	Non Officer Member (from 20/5/05)	Elected Member of Torfaen CBC
Mr David Congreve	Non Officer Member	Employed by Torfaen CBC
Mr Stewart Greenwell	Non Officer Member	Employed by Torfaen CBC
Mr John Skinner	Chief Executive	Wife employed by North Bristol NHS Trust
Mr Nigel Stephens	Finance Director	Wife's company has been awarded the contract for developing the commissioning framework for the CAMHS service in South East Wales (the corporate and financial arrangements are being led by Monmouthshire LHB).

### 6.13 Losses and special payments

Losses and special payments are transactions that the National Assembly for Wales would not have contemplated when it allocated and distributed funding for the National Health Service. By their nature they are items that should not arise. They are therefore subject to special control procedures compared with the generality of payments and special notation in the accounts to draw them to the attention of the National Assembly for Wales. They are divided into different categories, which govern the way each individual case is handled. These payments are charged to the Operating Cost Statement 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.

	Number of cases	Value of cases £
Personal injury	0	0
Fraud cases	0	0
All other losses and special payments	1	83
<b>Total losses and special payments</b>	<b>1</b>	<b>83</b>

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

	Amounts paid out in year £	Cumulative amount £	Approved to write-off in year £
<b>Cases exceeding £250,000</b>			
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
.....	0	0	0
<b>Sub-total</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>All other cases</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total cases</b>	<b>0</b>	<b>0</b>	<b>0</b>



## 6.14 Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the way that LHB's in Wales are financed, they are not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The LHB's have no power to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the LHB's in undertaking their activities.

### Liquidity Risk

The LHB's income allocations and capital expenditure are financed from resources voted annually by Parliament. Therefore, they are not exposed to significant liquidity risks.

### Interest-rate Risk

All the LHB's financial assets and financial liabilities carry nil or fixed rates of interest. Therefore, they are not exposed to interest-rate risk.

### Foreign Currency Risk

The LHB's have negligible foreign currency income or expenditure. Therefore, they are not exposed to significant foreign currency risk.

## 6.15 Finance lease obligations

The future minimum lease payments under finance leases to which the Local Health Board was committed at the balance sheet date were as follows:

	£000	2004-05 £000
Within 1 year	0	0
Between 1 and 5 years	0	0
After 5 years	0	0
	<hr/>	<hr/>
<b>Subtotal</b>	<b>0</b>	<b>0</b>
	<hr/>	<hr/>
Less finance charges allocated to future periods	0	0
	<hr/>	<hr/>
<b>Total</b>	<b>0</b>	<b>0</b>

The total net obligation under finance leases can be analysed as follows:

Creditors: amounts due within one year	0	0
Creditors: amounts due after more than one year	0	0

## **6.16 Pooled Budgets**

Torfaen Local Health Board does not contribute to any pooled budget arrangements.

## **7 Additional Information**

### **7.1 Post Payment Verification Enhanced Services**

An all Wales protocol for the Post Payment Verification (PPV) for Enhanced Services was developed during 2005/06. A schedule of visits has been agreed by Torfaen LHB and the Business Services Centre (BSC), and 3 GP premises were visited during 2005/06.

### **7.2 Post Payment Verification Ophthalmic Services**

An all Wales protocol for the Post Payment Verification (PPV) for Ophthalmic Services was developed during 2005/06. A schedule of visits has been agreed by Torfaen LHB and the BSC, and 4 Ophthalmic premises were visited during 2005/06.

### **7.3 GMS Quality Outcomes Framework**

All GP practices were subject to a Quality Outcomes Framework (QOF) visit during 2005/06, which confirmed the number of QOF points achieved.

### **7.4 Second Offer Scheme Costs**

During 2005/06, Rhondda Cynon Taff LHB acted as host to the Second Offer Commissioning Team, and received funding from the Welsh Assembly to cover the running costs of this team. The healthcare related costs for Torfaen patients accessing treatments under the Second Offer Scheme was £0.946m, and are included as expenditure within these accounts.

### **7.5 2006/07 Financial Position**

Since the inception of Torfaen LHB, all LHB financial targets have been met including the achievement of operational financial balance. However, forecasts for the financial year 2006/07 indicate that the level of resource allocated to the LHB are likely to be insufficient to allow the LHB to achieve both service targets and financial balance. The LHB, together with partner organisations across Gwent, are developing the Strategic Change and Efficiency Plan (SCEP) to mitigate against the risk of a financial deficit, whilst aiming to achieve service targets.

**STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES  
AS ACCOUNTABLE OFFICER OF THE LOCAL HEALTH BOARD**

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

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

Date: ..... 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, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the LHB and of the income and expenditure of the LHB 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 that 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 authority 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:**

Chairman: ..... Dated: ..... 2006

Chief Executive: ..... Dated: ..... 2006

Director of Finance: ..... Dated: ..... 2006

## 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. This is in accordance with the responsibilities assigned by the Accounting Officer of NHS Wales.

Mechanisms have been developed to enable the identification, assessment, management and reporting of risk in line with guidance issued by the Welsh Assembly Government.

### **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**

The Local Health Board (LHB) is corporately responsible for pursuing the aims and objectives of risk management. The responsibility for managing risk is part of the role of all staff. However, specific responsibility is assigned as follows:

- Clinical Governance: Medical Director
- Financial Governance: Director of Finance & Performance

The LHB has also established a Clinical Governance Committee which reports to the Board, to identify clinical risks and manage the risk assessment process.

Directors are expected to be continually aware of risk management issues and training sessions for LHB staff specific to Risk Management have been completed and forms part of an ongoing development programme.

Staff are aware of the Risk Management Strategy and are familiar with LHB policies and procedures.

### **4. The Risk and Control Framework**

The LHB has formally adopted a Risk Management Strategy and has also developed a 'Corporate Risk Register' as a basis for controlling and monitoring the risk management activities of the organisation. This is formally updated and presented to the Management Team on an annual basis.

Risks are identified by both individuals and directorates and formally reported through the Risk Management Working Group where these risks are identified, assessed and recorded.

The LHB performance against the Welsh Risk Management Standards has been assessed and the following table shows the outcome of this process.

**Table: Welsh Risk Management Standards Scores 2005/06**

Standard No	Title	2005/06	
		Score	Requirement
Standard A	Risk Management Policy and Strategy	76%	75%
Standard B	Risk Assessment and Treatment	75%	75%
Standard C	Incident and Hazard Reporting	81%	75%
Standard D	Policies and Procedures	80%	75%
Standard E	Governance	91%	75%
Standard F	Financial Management	94%	75%
Standard G	Facilitation of Safe Primary Care	65%	50%
Standard I	Records Management	66%	75%

The LHBs internal auditors have reviewed the self-assessed scores, and have concluded that they are reasonably based on the evidence available and also that the systems in place at the year-end were satisfactory. The LHB management is aware of the work required to improve the compliance scores and regular updates will be reported to the Audit Committee via the Non Clinical Risk Group. There is one standard that failed to meet the compliance target, Standard I, which is a non core standard. The LHB has implemented an action plan to address the requirements of this standard to ensure compliance in 2006/07.

A robust internal control framework has been in place during the year, which includes:

- the review by the Board of Standing Orders, Standing Financial Instructions and Scheme of Delegation;
- the scrutiny of the Audit Committee, a Remuneration Committee and Clinical Governance Committee;
- the appointment of internal auditors; and
- an approved financial plan and regular reporting of financial and performance information.

There is a budgetary control system in place, which safeguards the acquisition, use, disposal and security of goods and services. There are controls in place concerning the security of financial systems and data. These systems produce reliable financial information that informs budget holders and the financial reporting to the Board.

The LHBs financial systems have been subject to the review by Internal Audit. The Audit Committee reviews all internal audit reports and monitors the implementation of agreed control improvements.

Internal Audit has confirmed that, based on the work undertaken during the year, the Risk Management, Control and Governance Processes within the areas covered by their reviews are adequate and effective and sufficient to enable the Board and the Accountable Officer to rely on the internal control system.

### **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 that 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 a plan to address weaknesses and ensure continuous improvement of the system is in place.

Internal Controls have been assessed and reviewed during the financial year and I can confirm that there are no significant internal control problems existing within Torfaen Local Health Board.

Signed:.....  
Chief Executive  
(on behalf of board)

Date:.....

## **AUDITORS' REPORT**

### **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 36 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 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 the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and National Assembly for Wales directions made there under, 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 Board 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 was 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 and 39 reflects the Board'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 Board's corporate governance procedures or its risk and control procedures.

### **Basis of 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 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 Board'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 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 remuneration report to be audited.

## Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Torfaen Local Health Board as at 31 March 2006 and of its net operating costs, 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 there under by the National Assembly for Wales;
- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made there under 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.

I have no observations to make on these financial statements.

Jeremy Colman  
Auditor General for Wales  
6 July 2006

Wales Audit Office  
Deri House  
Park Grove  
Cardiff

## **ACCOUNT OF - 2005-2006**

### **THE NATIONAL HEALTH SERVICE IN WALES ACCOUNTS DIRECTION GIVEN BY THE NATIONAL ASSEMBLY FOR WALES IN ACCORDANCE WITH SECTION 98(2) OF THE NATIONAL HEALTH SERVICE ACT 1977 AND WITH THE APPROVAL OF TREASURY**

#### **LOCAL HEALTH BOARDS**

1. The National Assembly for Wales (NAW) directs that an account shall be prepared for the financial year ended 31 March 2006 and subsequent financial years in respect of the Local Health Boards (LHB). The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

#### **BASIS OF PREPARATION**

2. The account of the LHB shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) accounting guidance approved by the FRAB and contained in the Financial Reporting Manual (FReM), as detailed in the LHB Manual for Accounts, but specifically excluding schedules 1 and 5;
- (e) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

#### **FORM AND CONTENT**

3. The account of the LHB for the year ended 31 March 2006 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of recognised gains and losses as long as these statements are required by FRAB, including such notes as are necessary to ensure a proper understanding of the accounts.

4. For the financial year ended 31 March 2006 and subsequent years, the account of the LHB shall give a true and fair view of the state of affairs as at the end of the financial year and the operating costs, recognised gains and losses and cashflows during the year.

5. The balance sheet shall be signed by the chief executive and the director of finance of the LHB and dated.

**MISCELLANEOUS**

6. The direction shall be reproduced as an appendix to the published accounts.
7. The notes to the accounts shall, inter alia, include details of the accounting policies adopted.
8. Notes providing further explanations of figures in the accounts shall be made where it is considered appropriate for a proper understanding of the accounts.

Signed by the authority of the National Assembly of Wales

Signed : Christine Daws

Dated :

## **ACCOUNT OF - 2005-2006**

### **SCHEDULE 1**

#### **APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING STANDARDS**

##### **Companies Act**

1. The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
2. The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.
3. The operating cost statement, balance sheet and cashflow statement shall have regard to the format prescribed in the Financial Reporting Manual.
5. NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

##### **Accounting Standards**

6. NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.

### **SCHEDULE 2**

#### **ADDITIONAL REQUIREMENTS**

1. The foreword shall include a statement that the account has been prepared to comply with a Direction given by the National Assembly for Wales in accordance with section 98(2) of the NHS Act 1977.
2. The foreword shall also contain a description of the statutory background and main functions of the LHB together with a fair review of their operational and financial activities and a summary of their performance against targets.