

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973
NATIONAL HEALTH SERVICE ACT 1977
HEALTH SERVICES ACT 1980
HEALTH AND SOCIAL SERVICES AND SOCIAL SECURITY
ADJUDICATIONS ACT 1983
HEALTH AND SOCIAL SECURITY ACT 1984
NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990

Summarised accounts of local health boards, NHS trusts in Wales and of funds held on trust
by local health boards and NHS trusts in Wales for the year ended 31 March 2004

Presented pursuant to NHS Act 1977 c49, s.98(4)

NHS (Wales) Summarised Accounts 2003-04

NHS Wales Summarised Accounts 2003-04

FOREWORD

Introduction

1. Section 98(4) of the National Health Service (NHS) Act 1977 requires all NHS organisations in Wales to prepare annual accounts and to submit them to the National Assembly for Wales (the Assembly). The accounts must be audited by external auditors for the NHS in Wales appointed by the Audit Commission.
2. The Assembly is required to prepare, in such form as HM Treasury may direct, summarised accounts from the individual accounts of NHS Wales organisations and transmit them to the Auditor General for Wales on or before 30 November. The Auditor General for Wales is required to examine, certify and report on the summarised accounts and can examine the accounts of the individual organisations, any records relating to them and any reports of auditors thereon.
3. The annual accounts of all NHS Wales organisations have been audited and these summarised accounts are based on those audited figures. These accounts supplement the details of expenditure on healthcare contained within the accounts of the National Assembly for Wales for 2003-04.
4. In my capacity as Accounting Officer for NHS Wales, I have financial responsibility for health service expenditure. Accordingly, I have signed the summarised accounts of the Local Health Boards, the NHS trusts and the funds held on trust by NHS trusts and Powys Local Health Board.
5. The chief executives of individual NHS organisations in Wales have a duty to their respective boards and as accountable officers for those organisations, to me as Accounting Officer.

Summarised Accounts

6. Three summarised accounts for NHS Wales have been prepared, one for each of:
 - the 22 Local Health Boards;
 - the 14 NHS trusts in Wales; and
 - the funds held on trust by the NHS trusts and Powys Local Health Board.

(a) Local Health Boards

7. Local Health Boards were established under Welsh Statutory Instrument 2003 No. 150 (W.20) "The Local Health Boards (Functions) (Wales) Regulations 2003. Under these regulations the Local Health Boards replaced the previous Health Authorities. Their main functions are to prepare strategies and plans to meet the health needs of their population, commission services from health care providers and make payments to primary care contractors.

8. The summarised account for the Local Health Boards in Wales is based on the audited accounts of the 22 Local Health Boards. As 2003-04, was the first year in which the Local Health Boards operated, I am unable to include any financial comparators for 2002-03, apart from the Balance Sheet statement. The Balance Sheet for 2002-03 includes the balances transferred to the Local Health Boards from the previous Health Authorities under Statutory Instrument 2003 No 473 (W63) "The Local Health Boards (Transfer of Property, Rights and Liabilities) (Wales) Order 2003".
9. Powys Local Health Board has responsibility for the provider and commissioning services within Powys. Under Statutory Instrument 2003 No 473 (W63) the Powys Local Health Board also has responsibility for the residuary property, rights and liabilities from the former Health Authorities that were not transferred to other Local Health Boards. This also covered responsibility for the previous funds held on trust balances held by former Health Authorities.

(b) NHS trusts

10. NHS trusts were established under section 5 of the National Health Service and Community Care Act 1990. NHS trusts are responsible for the provision of NHS hospital and community health care. They receive most of their income from commissioners of health care, mainly the Local Health Boards and Health Commission Wales (Specialist Services).
11. The summarised account for the NHS trusts in Wales is based on the audited accounts of the 14 Welsh NHS trusts. All 14 trusts received unqualified audit opinions from their external auditors.

(c) Funds held on trust

12. Section 11 of the National Health Service and Community Care Act 1990 gives powers to NHS Trusts to accept, hold and administer funds held on trust for all or any purposes relating to the health service. Powys Local Health Board have the same powers in discharging their residual functions in this area, under section 90 of the NHS Act 1977.
13. The summarised account for funds held on trust summarises the audited accounts for funds held on trust by all NHS Wales organisations and is presented in accordance with the Statement of Recommended Practice issued by the Charity Commissioners for England and Wales. The Charity Commissioners receive from each NHS body a copy of their audited funds held on trust accounts in the format shown in the Statement of Recommended Practice.
14. All fifteen funds held on trust accounts received unqualified audit opinions.

Performance against statutory financial duties

Local Health Boards

15. The statutory financial duty of Local Health Boards is set out in section 97G of the National Health Service Reform and Health Care Professions Act 2002. Under the Act, Local Health Boards have a statutory duty to ensure that net operating costs do not exceed the resources allocated to the Board by the Assembly. As set out in Welsh Health Circular (WHC (2004) 34), Local Health Boards that are forecasting overspends against resource limits must prepare a Strategic Change and Efficiency Plan (SCEP) and the plan must be approved by the Assembly.
16. In 2003-04 all Local Health Boards met this statutory duty as they all kept their expenditure within their allocated resource limits as set out in Annex 2. All 22 Local Health Boards received unqualified opinions from their external auditors.

NHS trusts

17. The National Health Service and Community Care Act 1990 defines an NHS trust financial duty as “Every NHS trust shall ensure that its revenue is not less than sufficient, taking one financial year with another, to meet outgoings properly chargeable to revenue account”. The statute was further clarified in Welsh Health Circular (WHC (2004) 34) where Trusts are now required to achieve a break-even financial position each and every year. In cases where a Trust is unable to meet this requirement, the Trust must agree a recovery plan that must be approved by the Assembly. Where an approved recovery plan is in place, achievement of the break-even duty will be measured over the life of the plan. The Trust will be considered to have met this duty if it achieves the minimum target surplus or maximum target deficit set out in the plan for that financial year.
18. During 2003-04 thirteen of the fourteen Trusts met their financial duties as described above. The Assembly accepted that five Trusts would report a deficit in 2003-04 in accordance with their agreed recovery plans. The Carmarthenshire NHS Trust had an agreed deficit target for 2003-04 which it achieved, however as the recovery plan for the Trust had not been approved for subsequent years, then the Trust was not deemed to have fully met its statutory break-even duty in 2003-04. The auditors have highlighted this within their audit opinion in the Carmarthenshire NHS Trust accounts.
19. The overall income and expenditure deficit of the fourteen NHS trusts in Wales for 2003-04 was £9.693 million compared to a deficit of £10.273 million in 2002-03.

External financing limit

20. As part of the process of controlling public expenditure, the Assembly sets external financing requirements for each NHS trust. The calculation of each limit determines the amount a trust can receive from external sources, normally the Assembly, to finance capital expenditure. Trusts are not permitted to borrow in advance of need and must submit detailed cash flow statements to the Assembly in order to receive authorisation to draw public dividend capital. This target is not applicable to Local Health Boards.
21. In 2003-04, the overall external financing limit for NHS trusts was £31.539 million and all trusts in Wales met their external financing limits.

Summary of achievement of financial duties

22. A summary of performance for each financial duty by individual organisation is provided as follows:
- Annex 1 Trust performance against the Break-even and External Financing limit duties.
 - Annex 2 Local Health Boards performance against allocated Resource Limits
 - Annex 3 Trust surpluses and deficits.
 - Annex 4 Trust and Local Health Board Public Sector Payment performance.
23. All Statutory break even duties were achieved, except for the Carmarthen NHS Trust who failed to meet its break-even duty as explained in section 18. All Trusts met the External Financing limits.
24. Local Health Boards and NHS trusts are required to pay their non NHS creditors in accordance with HM Treasury's public sector payment compliance target. This target is to pay all 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.
25. The performance of each Local Health Board and NHS trust in Wales, showing the percentage of bills paid within the 30-day target, and also the percentage of the total value of bills they represent, is shown in the table at Annex 4 to this Foreword. The number of bills paid within 30 days ranged from 82.0% to 99.8% with an average for the year of 92.2% for Local Health Boards and 91.0% for Trusts. This is a significant improvement compared to the average of 80.5% across Wales in 2002-03.

Balance Sheet Issues

NHS Debt

26. The Assembly has provided cash assistance to Local Health Boards and NHS Trusts as part of their recovery plans. This loan assistance has to be repaid and the repayment terms are agreed as part of the approved recovery plans. The cumulative debt for this assistance that is included within the Local Health Board summarised account is £6.490 million and in the NHS trust account £40.984 million. There has been a net increase in these loans of £9.529 million in 2003-04. Details of the debt for each NHS organisation is provided in Annex 5.

Post Balance Sheet Events

27. There are no Post Balance Sheet events having a material effect on the accounts.

Clinical Negligence Provisions

28. At 31 March 2004 liabilities for clinical negligence totalled £93.864 million in NHS trusts and a further £40.588 million in Local Health Boards. These provisions and creditors are calculated on the basis of claims against the organisation, where it is assessed that there is a probable chance of the claim being settled.
29. Excluded from the provisions calculations included within the summarised accounts is a further estimated £267.988 million for disputed claims for alleged medical or employer negligence. These are disclosed in the notes to the accounts as contingent liabilities.
30. It should be noted that the methodology of calculating clinical negligence provisions differs from the treatment in the NHS (England) summarised accounts which also includes a provision for incidents incurred but not reported. The inconsistency is currently being reviewed by the Treasury's Financial Reporting Advisory Board to inform future accounting treatments.

Welsh Risk Pool

31. The Welsh Risk Pool (the Pool) was established to assist all Welsh NHS organisations with risk management and settlement of claims. The Pool is a mutual self-insurance arrangement covering all risks associated with NHS activities, with the exception of business interruption and motor insurance. Each claim made by an NHS trust carries a variable excess level based on the trust's compliance with Welsh Risk Management Standards.
32. The Pool is operated by the Conwy and Denbighshire NHS Trust and is managed by a Management Group comprising representatives from NHS trusts, Local Health Boards and the Assembly.

33. Contributions are reviewed annually and calculated to produce a fund sufficient to cover anticipated payments during the financial year. If the fund is insufficient to meet all the claims against the Pool in year then all members are required to pay an additional premium. The Conwy and Denbighshire NHS Trust's liability is limited to the funds available in the Pool. The ultimate liability to meet claims rests jointly with the members of the Pool and is underwritten by the Assembly.
34. During the year, the Pool incurred expenditure of £25.037 million (2002-03: £43.097 million) which was met by premiums paid into the Pool by its members.

Ann Lloyd
Accounting Officer

30 November 2004

Trust Performance against the Break-even and External Financing Limit duties

	Achievement of Break-Even Duty	External Financing Limit
Mid & West Wales Region		
Bro Morgannwg NHS Trust	✓	✓
Carmarthenshire NHS Trust	✗	✓
Ceredigion & Mid Wales NHS Trust	✓	✓
Pembrokeshire & Derwen NHS Trust	✓	✓
Swansea NHS Trust	✓	✓
North Wales Region		
Conwy & Denbighshire NHS Trust	✓	✓
North East Wales NHS Trust	✓	✓
North West Wales NHS Trust	✓	✓
Welsh Ambulance Services NHS Trust	✓	✓
South East Region		
Cardiff & Vale NHS Trust	✓	✓
Gwent Healthcare NHS Trust	✓	✓
North Glamorgan NHS Trust	✓	✓
Pontypridd & Rhondda NHS Trust	✓	✓
Velindre NHS Trust	✓	✓

NHS Trusts

Trusts are required to achieve a break-even financial position each and every year. Where an approved recovery plan is in place, achievement of the break-even duty will be measured over the life of the plan. The trust will be considered to have met this duty if it achieves the minimum target surplus or maximum target deficit set out in the plan for that financial year. A trust that incurs a deficit without having an approved recovery plan, or fails to achieve its recovery plan target for that year, will be considered to have failed to break-even.

Local Health Board Performance against allocated Resource Limits

Underspend against resource limit

	2003-04
	£000
Mid & West Wales Region	
Bridgend Local Health Board	120
Carmarthenshire Local Health Board	22
Ceredigion Local Health Board	1
Neath Port Talbot Local Health Board	10
Pembrokeshire Local Health Board	5
Powys Local Health Board	5
Swansea Local Health Board	10
North Wales Region	
Anglesey Local Health Board	210
Conwy Local Health Board	3
Denbighshire Local Health Board	2
Flintshire Local Health Board	23
Gwynedd Local Board	591
Wrexham Local Health Board	150
South East Region	
Blaenau Gwent Local Health Board	125
Caerphilly Local Health Board	90
Cardiff Local Health Board	23
Merthyr Tydfil Local Health Board	9
Monmouthshire Local Health Board	2
Newport Local Health Board	15
Rhonnda Cynon Taf Local Health Board	33
Torfaen Local Health Board	19
Vale of Glamorgan Local Health Board	0
Number of Local Health Boards achieving resource limit	22
Percentage of Local Health Boards achieving resource limit	100%

Local Health Boards

Under the Health Care and Professions Act 2002 Local Health Boards have a statutory duty to ensure that their net operating costs do not exceed the resources allocated to the Board by the Assembly. As set out in Welsh Health Circular (WHC(2004)034). Local Health Boards that are forecasting overspends against resource limits must prepare a Strategic Change and Efficiency Plan (SCEP) to address the position and this must be approved by the Assembly.

NHS Wales Trust Surpluses and Deficits

	Surplus/(deficit)	
	2003-04 £000	2002-03 £000
Mid & West Wales Region		
Bro Morgannwg NHS Trust	24	15
Carmarthenshire NHS Trust	(4,882)	(4,487)
Ceredigion & Mid Wales NHS Trust	(880)	(827)
Pembrokeshire & Derwen NHS Trust	(3,347)	(2,356)
Swansea NHS Trust	7	6
	(9,078)	(7,649)
North Wales Region		
Conwy & Denbighshire NHS Trust	25	0
North East Wales NHS Trust	(75)	(476)
North West Wales NHS Trust	145	149
Welsh Ambulance Services NHS Trust	1,066	962
	1,161	635
South East Region		
Cardiff & Vale NHS Trust	(2,492)	(3,374)
Gwent Healthcare NHS Trust	30	69
North Glamorgan NHS Trust	3	(55)
Pontypridd & Rhonnda NHS Trust	257	171
Velindre NHS Trust	426	(70)
	(1,776)	(3,259)
	(9,693)	(10,273)
All NHS Trusts	(9,693)	(10,273)

Local Health Board Public Sector Payment Policy Performance

2003-04

	Non NHS Value of bills %	Non NHS Number of bills %
Mid & West Wales Region		
Bridgend Local Health Board	85.2	91.7
Carmarthenshire Local Health Board	97.6	95.6
Ceredigion Local Health Board	95.9	95.8
Neath Port Talbot Local Health Board	85.2	91.7
Pembrokeshire Local Health Board	98.4	97.8
Powys Local Health Board	87.6	90.6
Swansea Local Health Board	85.2	91.7
North Wales Region		
Anglesey Local Health Board	95.3	94.2
Conwy Local Health Board	96.8	95.6
Denbighshire Local Health Board	98.5	97.1
Flintshire Local Health Board	99.7	97.9
Gwynedd Local Board	94.5	96.3
Wrexham Local Health Board	97.4	96.5
South East Region		
Blaenau Gwent Local Health Board	93.9	89.5
Caerphilly Local Health Board	95.1	84.3
Cardiff Local Health Board	99.8	99.5
Merthyr Tydfil Local Health Board	99.6	99.4
Monmouthshire Local Health Board	94.8	87.5
Newport Local Health Board	96.2	88.8
Rhondda Cynon Taf Local Health Board	99.9	99.8
Torfaen Local Health Board	97.7	89.7
Vale of Glamorgan Local Health Board	99.7	99.5
All Local Health Boards	90.9	92.2

NHS Trust Public Sector Payment Policy Performance

	2002-03		2003-04	
	Non NHS Value of bills	Non NHS Number of bills	Non NHS Value of bills	Non NHS Number of bills
	%	%	%	%
Mid & West Wales Region				
Bro Morgannwg NHS Trust	84.8	87.1	96.0	95.6
Carmarthenshire NHS Trust	72.4	70.3	89.2	86.9
Ceredigion & Mid Wales NHS Trust	97.7	97.7	93.8	96.0
Pembrokeshire & Derwen NHS Trust	83.5	79.8	93.3	91.1
Swansea NHS Trust	96.7	93.3	96.2	95.1
North Wales Region				
Conwy & Denbighshire NHS Trust	93.7	90.2	96.7	93.6
North East Wales NHS Trust	83.6	86.4	83.3	82.0
North West Wales NHS Trust	96.9	95.5	97.6	97.5
Welsh Ambulance Services NHS Trust	96.1	93.9	97.5	95.6
South East Region				
Cardiff & Vale NHS Trust	86.7	83.4	93.9	93.5
Gwent Healthcare NHS Trust	61.6	58.2	87.9	86.1
North Glamorgan NHS Trust	58.7	55.2	86.1	82.2
Pontypridd & Rhonnda NHS Trust	83.1	69.6	94.8	90.6
Velindre NHS Trust	96.9	95.2	90.3	91.6
All NHS Trusts	84.1	80.0	92.9	91.0

Assembly loans to local health boards and NHS trusts

	Loans outstanding as at 01-Apr-03 £000	Movements in 2003-04 £000	Loans outstanding as at 31 March 2004 £000
Mid & West Wales Region			
Carmarthenshire Local Health Board	622	-	622
Ceredigion Local Health Board	276	(276)	-
Pembrokeshire Local Health Board	417	(417)	-
Powys Local Health Board	832	-	832
South East Region			
Cardiff Local Health Board	2261	-	2261
Merthyr Tydfil Local Health Board	340	-	340
Rhondda Cynon Taf Local Health Board	1577	-	1577
Vale of Glamorgan Local Health Board	858	-	858
Total for Local Health Boards	7183	(693)	6490
Mid & West Wales Region			
Carmarthenshire NHS Trust	9,176	4,500	13,676
Ceredigion & Mid Wales NHS Trust	1,386	892	2,278
Pembrokeshire & Derwen NHS Trust	5,244	3,350	8,594
	15,806	8,742	24,548
North Wales Region			
North East Wales NHS Trust	127	(127)	-
Welsh Ambulance Services NHS Trust	1,200	(900)	300
	1,327	(1,027)	300
South East Region			
Cardiff & Vale NHS Trust	13,629	2,507	16,136
	13,629	2,507	16,136
Total for NHS Trusts	30,762	10,222	40,984
Total Assembly Loans	37,945	9,529	47,474

LHB Source Note 6.3 Audited LHB Accounts adjusted to WAG records

NHS Trust source Note 15.2 Audited NHS Trust Accounts adjusted to WAG records

Local Health Boards in Wales

Statement of the National Assembly for Wales and Accounting Officer's responsibilities

Section 98(4) of the National Health Service Act 1977 requires the National Assembly for Wales (the Assembly) to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on behalf of the Assembly by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of the Local Health Boards in Wales at the year end and of their net operating costs, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Assembly is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Treasury have appointed the Director, NHS Wales as the Accounting Officer for the Summarised Account of Local Health Boards in Wales. Her relevant responsibilities, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, as set out in the National Assembly for Wales Accounting Officers' Memorandum, issued by the Treasury.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer for the NHS Finances in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Assembly for Wales' policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am responsible for the propriety and regularity of public finances for the NHS in Wales; for the keeping of proper accounts; for prudent behaviour and economical administration; the avoidance of waste and extravagance; and for the efficient use of all resources.

I appoint Chief Executives of Local Health Boards (LHBs), as Accountable Officers. It is their responsibility to ensure that there is an effective system of internal control within their individual organisations. Regional Directors act as my agents on a day to day basis in holding to account Chief Executives of LHBs. I also lead an annual review process for which I receive support from my Regional Directors.

Within the Health and Social Care Department of the National Assembly, I appoint Heads of Directorates whose responsibility it is ensure the efficient and effective management of and proper accounting for the resources delegated to them within a robust internal control and risk management framework.

2. The purpose of the system of internal control

The system of internal control is designed to manage rather than to eliminate the 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 a continuing process designed to identify the principal risks to the achievement of the Assembly's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. In 2003-2004 a system of internal control was developed and agreed for Local Health Boards covering core risk standards. However, as it was the first year in which the Boards operated some of the standards have not been in place throughout the year and there is a need to continue to develop and improve the framework.

3. Capacity to handle risk

I have issued guidance to each Accountable Officer regarding corporate governance, risk management and internal control systems.

I require the Board of each organisation to take overall responsibility for risk management. LHB Boards are required to use 6 risk management standards (5 of which are core standards) extant across NHS Wales as a toolkit to inform them of the significant risks within their organisations. The standards assist Boards to identify risks, determine unacceptable levels of risk, and to then decide on where best to direct limited resources to eliminate or reduce those risks. A central theme across the standards is the

importance of ensuring that staff have the information, training and access to expert advice which they need to exercise their responsibilities effectively.

I have an agreement in place with the Welsh Risk Pool which is currently being updated and revised. The terms of the agreement require the Pool to support NHS organisations in the development of risk management systems by providing advice, developing education in healthcare risk management and facilitating the exchange of information on good practice and lessons learnt. The Chief Executive of Conwy and Denbighshire NHS Trust is accountable to me for the work of the Welsh Risk Pool.

For 2003-04 the Organisation Development Team within the Health and Social Care Department provided support to LHBs through their first year. This included:

- An Organisational Development Leaders Guide to aid in the establishment of the LHB and provide Boards with a phased Board Development plan.
- Chief Executive and Chair master-classes and briefings based on key strategic policies and drivers for change, e.g. Review of Health and Social Care, GMS Contract and Agenda for Change.
- The production of 'Setting the Direction', an induction guide for Non Officer, Non Executive and Associate Board Members, supported by a series of Board development briefings.
- The introduction of Performance Accountability and Development Frameworks for Chief Executives, Chairs and Board Members, providing clarity on individual roles, accountabilities and the required behaviours and standards while establishing an annual review and objective setting process incorporating personal development planning and continuous professional development.

Clinical governance

Local Health Boards, and other partner organisations are required to ensure that a framework is in place for continuously improving the quality and safeguarding high standards of care. Boards are required to take responsibility and account for:

- The overall quality and safety of care;
- Specification of standards and competencies;
- Participation in clinical audit, benchmarking activities and processes for monitoring clinical care;
- Strict adherence to the Complaints Procedure at all stages; and
- Clear policies for managing risk to ensure and improve patient safety.

Risk Management Training

Two training events were organised by the WRP for LHB Board members during their first year of operation. These courses focussed on the importance of developing a Board led corporate strategy for handling risk.

The Welsh Risk Pool has jointly with the University of Wales Bangor developed a course intended to provide an effective source of accredited education in risk management and governance for all levels of health and social care staff. The course is for risk and claims managers, clinicians and managers who have an interest in risk or have a remit in risk. It is the first course of its kind in Wales and is a substantial step in ensuring sound risk management.

A Local Health Board Risk Management Network was established in October 2003 to support the effective management of risk in LHBs through the sharing of good practice and identification of new ways to resolve risk in a holistic manner.

NHS Wales Department - Risk Management

The Health and Social Care Department is subject to the Assembly's Risk Management framework. Risks are controlled at both Executive Board and directorate level, with the bulk of the work to identify, evaluate and monitor the risks falling to individual Heads of Directorate or Regional Director. The main record for documenting the identification, assessment and management of risk is through the directorate risk register. Heads of Directorate are responsible for:

- ensuring that systems are in place to enable them to be kept informed of new activities and other changes so that risk can be assessed; and
- ensuring that there are performance indicators in place, which allow the monitoring of key business and financial activities and the division's progress towards its objectives.

For the 2003-04 financial year, each Head of Directorate within the Health and Social Care Department (including regional offices) has reviewed their process of internal control and completed a certificate of assurance and an Internal Control Questionnaire.

4. The risk and control framework

I require all LHBs to have a risk management framework that ensures a systematic approach to internal control. Whichever framework is chosen, organisations must ensure that they have evidence that they deem sufficient to demonstrate they have implemented processes appropriate to their circumstances.

LHBs were for 2003-04 required to achieve a score of at least 50% against the 5 core risk management standards. The core standards are those that are deemed key to the management of health service risk. They are

- Risk Management Policy and Strategy
- Risk Profile
- Adverse Incident and Hazards Reporting
- Governance
- Financial Management

The Risk Management and Strategy standard is of particular importance in that it focuses on the need to ensure that the organisation has an agreed risk management policy and strategy. It also requires each Board to demonstrate its full commitment to managing risk and provides explicit guidance to its managers, and all other staff of their individual and collective responsibilities. Taken together the 5 core standards ensure that NHS Organisations have key controls across the key organisational risk areas. The standards are subject to annual audit.

All LHBs submitted their self-assessment scores together with action plans addressing any areas of weakness. Out of the 22 LHBs 15 attained a score of at least 50% against all 5 core standards; 6 achieved 50% on 4 of the core standards and 1 achieved 50% on 3 of the core standards. I am satisfied that action plans have been developed by those organisations who failed to fully comply with the standards to ensure that performance is improved and this will be monitored in 2004-05.

With regard to the Powys Local Health Board, they achieved 50% on 4 of the core standards but significant control issues were identified during the completion of their financial accounts process in 2003-04. These problems considerably delayed the completion of their statutory accounts and this is recorded in their published Statement of Internal Control. The Accountable Officer has been instructed that these problems must be resolved as a matter of priority. The Accountable Officer has assured me that the control weaknesses will be addressed to ensure that the financial statements for 2004-05 are completed within the agreed timescales and to a higher quality standard.

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 on internal control is informed by the work of the internal auditors, the Corporate Governance Committee, which oversees the work of the internal auditors, and comments made by the external auditors in their management letter and other reports.

DAO GEN 09/03 gave organisations that had not completely embedded comprehensive internal Control Processes until March 2004 to ensure that this is done. I issued guidance based on DAO GEN 09/03 to all Chief Executives and asked them to inform the Assembly if they were not on target to achieving robust internal control processes by March 2004. All LHB Chief Executives gave assurance that they would be able to meet this deadline.

LHB Chief Executives have submitted a statement on Internal Control for the year ending March 2004. I have reviewed these statements and the associated audit reports and I am satisfied that any issues raised by the Accountable Officers do not pose a significant threat to internal control and are at any rate being dealt with appropriately by the Accountable Officers.

Ann Lloyd,
Director, NHS Wales Department and Accounting Officer

30 November 2004

The Certificate of the Auditor General for Wales to the Members of the National Assembly for Wales

I certify that I have audited the financial statements on pages 9 to 33 under Section 98 (4) of the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 13 to 18.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the National Health Service Act 1977 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for preparation of the Foreword. My responsibilities, as independent auditor, are established by statute and are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

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

I review whether the statement on pages 3 to 6 reflects the National Assembly for Wales' compliance with Treasury's guidance "Corporate Governance: Statement on Internal Control". I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the National Assembly for Wales' corporate governance procedures or its risk and control procedures.

Basis of audit opinion.

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

I planned and performed my audit to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that in all material respects the expenditure and income have been applied to the purposes intended by

the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion :

* the financial statements give a true and fair view of the state of affairs of the Local Health Boards in Wales at 31 March 2004 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year to 31 March 2004 and have been properly prepared in accordance with Section 98(4) of the National Health Service Act 1977 and directions made thereunder by the Treasury; and

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

I have no observations to make on these financial statements.

John Bourn
Auditor General for Wales
December 2004

3-4 Park Place
Cardiff
CF10 3DP

Operating Cost Statement for the year ended 31 March 2004

Continuing Operations

	Notes	£000
Expenditure		
Programme costs	3,4,5,7	3,159,609
Administration costs	6	<u>25,724</u>
Total expenditure		3,185,333
Income		
Miscellaneous Income	2	<u>58,331</u>
Net operating cost		<u>3,127,002</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2004

		£000
Unrealised surplus on revaluation / indexations of fixed assets	16,17	7,221
Increase in donated asset reserve	16	<u>424</u>
Recognised gain for the financial year		<u>7,645</u>

The notes at pages 12 to 33 form part of this account.

Balance Sheet as at 31 March 2004

	Notes	31 March 2004 £000	1 April 2003 £000
Fixed assets			
Intangible Fixed assets	11.1	85	121
Tangible Fixed assets	11.2	<u>173,162</u>	<u>186,962</u>
		173,247	187,083
Current assets			
Stocks	12	92	91
Debtors	13	272,049	224,845
Cash at bank and in hand		<u>2,186</u>	<u>8,347</u>
		274,327	233,283
Creditors			
Creditors: amounts falling due within one year	14.1	261,863	218,722
		<u>261,863</u>	<u>218,722</u>
Net current assets		12,464	14,561
Total assets less current liabilities		185,711	201,644
Creditors: amounts falling due after more than one year	14.2	7,068	7,336
Provisions for liabilities and charges	18	57,054	64,427
Net assets		<u>121,589</u>	<u>129,881</u>
Taxpayers' equity			
General Fund	15	14,569	25,380
Donated Assets Reserve	16	4,249	3,679
Revaluation Reserve	17	102,771	100,822
		<u>121,589</u>	<u>129,881</u>

The notes at pages 12 to 33 form part of this account.

Ann Lloyd
Accounting Officer

November 2004

Cash Flow Statement for the year ended 31 March 2004

	Notes	2003-2004 £000
Net operating costs		(3,127,002)
Adjust for non-cash transactions	b	18,338
Adjust for movements in working capital other than cash	a	20,699
Utilisation of provisions	18	(10,468)
Reclassification of interest income received		(171)
Reclassification of Assembly loans repayment		693
Net cash outflow from operating activities		(3,097,911)
Servicing of Finance :		
Interest received		171
Net cash inflow from servicing of finance		171
Capital expenditure and financial investment		
Payments to acquire intangible fixed assets	11.1	(19)
Payments to acquire tangible fixed assets	11.2	(1,262)
Receipts from the sale of fixed assets	11.2	12,388
Net cash inflow from investing activities		11,107
Financing		
Assembly revenue funding		3,091,615
Capital funding		1,293
Surrender of income from sale of fixed assets	11.2	(12,331)
Donations	16	588
Repayment of Assembly loans	14.2	(693)
Net cash inflow from financing		3,080,472
Decrease in cash		(6,161)

The notes at pages 12 to 33 form part of this account.

Notes to the cashflow statement

Adjust for movements in working capital other than cash	Notes	£000
a		
Increase in stock and work-in-progress	12	(1)
Increase in operating debtors		(20,252)
Increase in operating creditors		40,952
		<u>20,699</u>
b		£000
Depreciation and amortisation	11.1, 11.2	15,401
Capital Charge Interest	6,7	4,696
Impairment of fixed assets	11.2	29
Profit on disposal of fixed assets	11.2	(4,883)
Non-cash provisions	18	3,095
		<u>18,338</u>
c		2003-2004
Reconciliation of net cash flow to movement in net debt		£000
Decrease in cash in the period		(6,161)
Cash inflow from new debt		-
Cash outflow from debt repaid	14.2	693
Change in net debts resulting from cash flows		(5,468)
Non cash changes in debt		-
Net debt at 1 April		<u>1,164</u>
Net debt at 31 March		<u>(4,304)</u>
d		
Analysis of changes in net debt	As at	As at
	1 April	Cash
	2003	flows
	£000	£000
		31 March
		2004
		£000
Cash at bank and in hand	8,347	(6,161)
Debt due after one year	(7,183)	693
	<u>1,164</u>	<u>(5,468)</u>
		<u>2,186</u>
		<u>(6,490)</u>
		<u>(4,304)</u>

The amount of cash held in Office of Paymaster General bank accounts at 31 March 2004 was £2.078 million.

1. Accounting policies

1.1 Accounting convention

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury to the extent that the National Assembly for Wales has directed as being appropriate to Local Health Boards. 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.

As this is the first year of the LHB's operation the accounts do not include prior year comparatives with the exception of opening balances for assets transferred at 1 April 2003 from the demised health authorities and Powys Healthcare NHS Trust. LHBs are not required to provide a reconciliation between current cost and historical cost surpluses and deficits.

1.2 Income and Funding

The main source of funding for LHBs is funding allocated by the National 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.

Operating income is income which relates directly to the operating activities of the LHB. It principally comprises fees and charges for services provided on a full cost basis to external customers, as well as public repayment work. 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 applying the accruals concept. Income is recognised in the period in which services are provided.

1.3 Taxation

LHBs are 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 are 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 license 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.

b. Valuation

Tangible fixed assets are stated at Depreciated Replacement Cost. 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 in accordance with FRS 15 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. 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.

IT Equipment is depreciated over 5 years.

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 relates to a clearly defined project and benefits there from 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 the 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 total employer contribution payable in 2003-04 was £7,475,000.

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. These contributions will need to be reviewed at the next investigation date, undertaken at 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. 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 report on the NHS Pensions Agency website at www.nhspa.gov.uk. Copies can also be obtained from the Stationary Office.

NHS bodies are directed by the National Assembly to charge employers pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. The contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation employer contribution rates for 2003-04 were set at 14% (7% for 2002-03) of pensionable pay. Until 2002-03 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full.

For 2003-04 the additional funding has been retained as a Central Budget by the Assembly and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-05 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 years pensionable pay for salary death in service, and up to five times their annual pension for death after retirement, is payable.

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 contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of 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.

FRS17 had been fully adopted from 2003-04.

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 at the OPG and donated assets. The interest rate applied to capital charges in the 2003-04 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 time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5% in real terms (2002-03 6%).

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 LHBs do 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 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

At 31 March 2004 litigation claims with an assessed value of, £96,587,000 had been made against the LHB. These claims are disputed and until they are resolved, it is not possible to determine the LHB's liability.

1.15 Deferred Income

Income received from the National Assembly from Wales has been carried forward from health authorities into LHBs in accordance with WHC 2003 (115). No deferred allocations are allowed in year unless the funds have been received from non-governmental bodies.

1.16 Stocks

Stocks comprise raw materials and consumables and are valued at the lower of cost or net realisable value.

2 Miscellaneous income	2003-2004 £000
Administration income: Fees & Charges	62
Other miscellaneous income	11,621
Release of Deferred Income	34
Administration income	11,717
Programme income: Fees & Charges	6,037
Prescription charge income	27,340
Release of Deferred Income	5,511
NHS bodies	896
Local Authorities	277
Education, Training and Research	188
Non-NHS private patients	7
Road Traffic Act	54
Charitable and other contributions to expenditure	110
Transfers from the Donated Asset Reserve	164
Other	6,030
Programme income	46,614
Total Miscellaneous income	58,331

A report issued by the Auditor General for Wales in 2000 "Maximising income from Prescription Charges" identified a shortfall in revenue to the NHS in Wales as a result of prescription charge evasion.

A Post Payment Verification Unit (PPVU), based in Velindre NHS Trust, is now in place which addresses this issue on an all Wales basis. The Unit's remit is to establish the validity of exemptions, and to follow up any cases where no valid exemption can be demonstrated. The auditor of Velindre NHS Trust has reviewed the results of the work undertaken by the PPVU for each Local Health Board and now been able to make an assessment of the potential loss of income at each. The estimated potential lost income in 2003-04 is £2 million.

3 Purchase of primary health care services

	Cash limited £000	Non-cash limited £000	2003-2004 Total £000
General Medical services	83,610	185,698	269,308
Pharmaceutical services	-	83,494	83,494
General Dental services	264	783	1,047
General Ophthalmic services	-	21,907	21,907
Other Primary health care expenditure	18,584	-	18,584
Prescribed drugs and expenditure	499,726	-	499,726
	602,184	291,882	894,066

4 Purchase of secondary healthcare services

	2003-2004 £000
Welsh NHS trusts	1,957,936
Non-Welsh NHS bodies	66,323
Local Authorities	14,527
Voluntary organisations	10,646
NHS Funded Nursing Care	11,474
Continuing Care	59,076
Private providers	15,643
Specific projects funded by the NAW	1,536
Other	4,093
	2,141,254

5 Other programme expenditure

	2003-2004 £000
Salaries and wages	4,442
National Public Health Service	13,979
Losses, special payments and irrecoverable debts	8,350
Miscellaneous	2,280
	29,051

6 Administration expenditure	2003-2004 £000
Non-executive directors' remuneration	1,781
Other salaries and wages	16,313
Establishment expenses	2,600
Transport and moveable plant	129
Premises	2,216
External contractors	570
Auditors' remuneration - audit fee	1,690
Auditors' remuneration - other fees	19
Capital - depreciation and amortisation	31
Interest	(1,127)
Impairment	29
Miscellaneous	1,473
	<u>25,724</u>

7 Providing : operating expenses	2003-2004 £000
Goods and services from other NHS bodies	2,604
Salaries and wages	56,688
Supplies and services -clinical	3,848
Supplies and services -general	1,516
Establishment expenses	4,730
Transport and moveable plant	361
Premises	6,130
Capital - depreciation and amortisation	15,370
Interest	5,823
Profit on disposal of fixed assets	(4,883)
Other operating expenses	3,051
	<u>95,238</u>

These expenses relate solely to costs directly attributable to provider services at Powys Local Health Board.

8 Operating lease rentals

**Operating expenses include the following amounts
in respect of hire and operating lease rentals:** **2003-2004
£000**

Hire of plant and machinery		35
Other operating leases		1,849
		1,884

**Annual commitments under non-cancellable
operating leases are:**

	Land and buildings £000	Other Leases £000
Operating leases which expire:		
Within 1 year	521	106
Between 1 and 5 years	529	588
After 5 years	126	55

9 Local Health Board Directors' remuneration

**2003-2004
£000**

Non-executive Directors' remuneration		1,779
Executive Directors' remuneration:		
basic salaries		5,411
benefits		53
performance related bonuses		5
pension contributions		393
		7,641

The details of the salary bandings for LHB directors can be obtained from the underlying accounts.

10.1 Executive director's and staff costs	2003-2004 £000
Wages and salaries	63,632
Social security costs	4,808
Employment contributions to NHS Pensions Agency	6,852
Other pension costs	623
Agency staff	1,528
	<hr/> 77,443 <hr/>

Included in the above are the Extended Employment Scheme staff costs of £5.538 million, following the abolition of health authorities on 31 March 2003.

The details of the salary bandings for LHB employees can be obtained from the underlying accounts.

10.2 Average number of employees (excluding agency staff) during the year was:

	2003-2004 Average Number
Executive Board Members	87
Medical and dental	77
Administrative and estates	846
Healthcare assistants and other support staff	126
Nursing, midwifery and health visiting staff	801
Nursing, midwifery and health visiting learners	168
Other Local Health Board Staff	554
Recharged staff	31
	<hr/> 2,690 <hr/>

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.

10.3 Retirements due to ill-health

During 2003-04 there were 12 early retirements 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 £ 835,460.

10.4 Staff Benefits

Local Health Boards disclosed staff benefits of £53,000 paid for leased cars.

11.1 Intangible fixed assets

	Total £000
Gross replacement cost	
Transfers from health authorities at 1 April 2003	293
Additions	19
Indexation	5
At 31 March 2004	<u>317</u>
Amortisation	
Transfers from health authorities at 1 April 2003	172
Additions	3
Provided during the year	57
At 31 March 2004	<u>232</u>
Net book value at 31 March 2004	<u>85</u>
Net book value at 1 April 2003	<u>121</u>

All intangible assets held by LHBs are software licenses.

11.2 Tangible assets at the balance sheet date:

Cost or valuation	Assets under								Total £000
	Land £000	Buildings, excluding dwellings £000	Dwellings £000	construction and payments on account £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	
Transfers from health authorities at 1 April 2003	63,286	131,887	443	2,982	4,439	167	3,779	262	207,245
Indexation	-	6,988	26	176	98	3	6	27	7,324
Additions - purchased	-	384	-	120	215	-	423	130	1,272
Additions - donated/ government granted	-	9	-	500	79	-	-	-	588
Disposals	(4,788)	(5,170)	-	-	-	-	-	-	(9,958)
At 31 March 2004	58,498	134,098	469	3,778	4,831	170	4,208	419	206,471
Depreciation									
Transfers from health authorities at 1 April 2003	-	14,455	5	-	2,669	148	2,986	20	20,283
Indexation	-	46	-	-	58	2	3	-	109
Impairments	-	-	-	-	-	-	-	29	29
Disposals	-	(2,453)	-	-	-	-	-	-	(2,453)
Provided during the year	-	14,833	13	-	232	3	190	70	15,341
At 31 March 2004	-	26,881	18	-	2,959	153	3,179	119	33,309
Net book value at 1 April 2003	63,286	117,432	438	2,982	1,770	19	793	242	186,962
Net book value at 31 March 2004	58,498	107,217	451	3,778	1,872	17	1,029	300	173,162

Fixed Assets (continued)

The net book value of land and buildings comprises:	31 March 2004 £000
Freehold	148,093
Long Leasehold	18,073
	<hr/> 166,166 <hr/>
 Net loss on disposal of fixed assets	 2003-2004 £000
Gross proceeds of sale	12,388
Less net book values of fixed asset disposals	7,505
Profit on disposal of fixed assets	<hr/> 4,883 <hr/>

£12.331 million of the disposal proceeds has been remitted to the Assembly by Welsh Health Estates on behalf of Powys Local Health Board.

No Fixed Assets were held under Finance leases.

12 Stocks and Work in Progress	31 March 2004 £000	1 April 2003 £000
Raw materials and consumables	92	91
Total	92	91

13 Debtors	31 March 2004 £000	1 April 2003 £000
Amounts falling due within one year		
National Assembly for Wales	203,719	158,165
Local Health Boards	-	37
Primary Care Trusts	4	6
NHS Trusts	7,975	5,016
Welsh Risk Pool	20,415	35,861
Capital debtors	119	-
Other debtors	10,406	5,521
Provision for irrecoverable debts	(269)	(394)
Prepayments and accrued income	4,552	1,866
	246,921	206,078
Amounts falling due after one year		
Welsh Risk Pool	25,126	18,767
Other debtors	2	-
	25,128	18,767
	272,049	224,845

14.1 Creditors:	31 March 2004 £000	1 April 2003 £000
Amounts falling due within one year		
National Assembly for Wales	13,779	1,408
Local Health Boards	-	9
NHS Trusts	26,373	30,119
Primary Care Trusts	21	12
Income tax and social security	1,255	1,294
Non-NHS creditors	120,171	97,806
Capital Creditors	525	396
Rentals due under operating leases	37	-
GPFH savings	868	1,287
Pensions: staff	1,626	361
Accruals	72,792	60,264
Deferred Income	23,570	25,362
Other creditors	846	404
	261,863	218,722

14.2 Creditors:	31 March 2004 £000	1 April 2003 £000
Amounts falling due over one year		
Assembly loans	6,490	7,183
Pensions: staff	222	153
Other	356	-
	7,068	7,336

15 General Fund		31 March 2004 £000
Transfer from health authorities on 1 April 2003		25,380
Net operating cost for the financial year		(3,127,002)
Gross Assembly funding	3,118,700	
Sale proceeds received by NAW re: Powys Fixed Asset disposals	<u>(12,331)</u>	
Net Assembly funding		3,106,369
Cost of Capital Interest		4,696
Transfer to General Fund of realised elements of the Revaluation Reserve		<u>5,126</u>
At 31 March 2004		<u>14,569</u>

16 Donated Asset Reserve		31 March 2004 £000
Transfer from health authorities on 1 April 2003		3,679
Additions		588
Revaluation and indexation		146
Depreciation		(164)
At 31 March 2004		<u>4,249</u>

17 Revaluation Reserve		31 March 2004 £000
Transfer from health authorities on 1 April 2003		100,822
Indexation		7,075
Transfer to General Fund - realised revaluation		(5,126)
At 31 March 2004		<u>102,771</u>

18 Provisions for liabilities and charges

	Transfers from Health Authorities on 1 April 2003 £000	Arising during the year £000	Reversed unused £000	Utilised during the year £000	Unwinding of discount £000	At 31 March 2004 £000
Clinical negligence	52,264	3,677	(6,537)	(8,824)	8	40,588
Personal injury	20	25	13	2	-	60
All other losses and special payments	-	342	-	(200)	-	142
Defence legal fees & other administrative costs	1,923	1,700	(130)	(373)	-	3,120
	<u>54,207</u>	<u>5,744</u>	<u>(6,654)</u>	<u>(9,395)</u>	<u>8</u>	<u>43,910</u>
Staff pensions	9,858	1,341	-	(1,046)	257	10,410
Other	362	2,399	-	(27)	-	2,734
	<u>64,427</u>	<u>9,484</u>	<u>(6,654)</u>	<u>(10,468)</u>	<u>265</u>	<u>57,054</u>

Expected timing of cashflows :

	Within one year £000	1-5 years £000	Over 5 years £000	Total £000
Clinical negligence	16,387	24,562	-	40,949
Personal injury	36	35	-	71
All other losses and special payments	142	-	-	142
Defence legal fees and other administration	1,125	1,623	-	2,748
Pensions	2,425	4,358	3,627	10,410
Other	2,454	280	-	2,734
Total	<u>22,569</u>	<u>30,858</u>	<u>3,627</u>	<u>57,054</u>

LHBs have estimated in 2004-05 they will receive £19.432 million and £31,743 million in subsequent years from the Welsh Risk Pool in respect of losses and special payments.

LHBs have included in their accounts £1.843 million for continuing care cases after 1 st April 2003. Costs incurred before 1 April 2003 will be funded directly by the Welsh Assembly Government.

19 Contingent liabilities

**2003-2004
£000**

Local Health Boards reported contingent liabilities as follows:

Legal claims for alleged medical or employer negligence	95,876
Other	711
	<u>96,587</u>

These claims are disputed and until they are resolved, the LHBs liability, if any cannot be determined. In accordance with the requirements of FRS 12, no provision has been made in the 2003-04 accounts for these items.

20 Losses and special payments

	Total £000
Clinical negligence	(2,860)
Personal injury	38
All other losses and special payments	389
Defence legal fees and other administrative costs	1,570
Gross increase / (decrease) in provision for future payments	(863)
Welsh Risk Pool/insurance premiums	9,559
Irrecoverable debts	24
Less: income received/due from Welsh Risk Pool	(370)
Net cost	8,350

21 Losses and special payments

	Number of cases	Value £
Clinical negligence	98	2,075,585
Personal injury	10	56,674
All other losses and special payments	493	1,372,578
	601	3,504,837
Of which, cases over £100,000, paid out during the year:		
Clinical negligence	5	1,405,948
	5	1,405,948
Also, of which, cases of cumulative interim payments over £100,000		
Clinical negligence	19	11,208,534
Personal injury	1	166,578
	20	11,375,112

22 Capital commitments

Local Health Boards had no capital commitments as at 31 March 2004.

23 Reconciliation of movements in funds	2003-04
	£000
Net operating cost for the financial year	(3,127,002)
Net Assembly funding	3,106,369
Revaluations and indexation	7,075
Cost of Capital Interest	4,696
Net increase / (decrease) in funds	<u>(8,862)</u>
Funds at 1 April	<u>126,202</u>
Funds at 31 March	<u>117,340</u>

24 Related party transactions

The National Assembly for Wales was regarded as a related party. During the year the local health boards had a significant number of material transactions with the Assembly and with other NHS bodies such as NHS trusts.

All 22 local health boards undertook related party transactions. The details of these can be found in the underlying accounts.

25 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 local health boards 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 local health boards 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 local health boards in undertaking their activities.

Liquidity Risk

The local health boards' 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 local health boards' 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 local health boards have negligible foreign currency income or expenditure. Therefore, they are not exposed to significant foreign currency risk.

THE NATIONAL HEALTH SERVICE IN WALES

SUMMARISED ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 98(4) OF THE NATIONAL HEALTH SERVICE ACT 1977

LOCAL HEALTH BOARDS IN WALES

1. The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 2004 and subsequent financial years in respect of the Local Health Boards. The basis of preparation and form and content shall be as set out in the following paragraphs and Schedules.

BASIS OF PREPARATION

2. The summarised account of the Local Health Boards shall be prepared from the audited accounts of the individual Local Health Boards to which it relates and shall comply with accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding schedules 1 and 5.

FORM AND CONTENT

3. The Local Health Boards' summarised account shall follow the format prescribed in the Resource Accounting Manual, but specifically excluding schedules 1 and 5.

4. The summarised account of the Local Health Boards shall be prepared so as to:

a. give a true and fair view of the state of affairs as at 31 March 2004 (and subsequent years) and of net operating costs, recognised gains and losses and cash flows for the financial year(s) then ended; and

b. provide disclosure of any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

5. The main foreword to all summarised accounts shall include the Local Health Boards.

6. The Foreword, Statement of Internal Control and Balance Sheet shall be signed by the Accounting Officer and dated.

MISCELLANEOUS

7. The direction shall be reproduced as an appendix to the published accounts.

8. The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

9. This direction supersedes the direction dated 16 October 2000.

David A Cruden
Head of Central Accountancy Team
HM Treasury

24th November 2004

TREASURY OFFICER OF ACCOUNTS

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 Directors Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the Foreword.
3. NHS bodies are not required to provide the historical cost information described in paragraph (33) of schedule 4 to the Companies Act.

Accounting Standards

4. 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 summarised account has been prepared to comply with a Direction given by the Treasury in accordance with section 98(4) of the NHS Act 1977.
2. The Foreword shall also contain a description of the statutory background and the main functions of the NHS bodies to which it relates, together with a fair review of their operational and financial activities and a summary of their performance against targets.

NHS Trusts in Wales

Statement of the National Assembly for Wales and Accounting Officer's responsibilities

Section 98(4) of the National Health Service Act 1977 requires the National Assembly for Wales (the Assembly) to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on behalf of the Assembly by the Accounting Officer on an accruals basis and must give a true and fair view on the state of affairs of the NHS trusts in Wales at the year end and their income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Assembly is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, unless it is inappropriate to do so.

The Treasury has appointed the Director, NHS Wales as the Accounting Officer for the Summarised Account of NHS trusts in Wales. Her relevant responsibilities, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the National Assembly for Wales Accounting Officers' Memorandum, issued by the Treasury.

Statement on Internal Control

1. Scope of responsibility

As Accounting Officer for the NHS Finances in Wales, I have responsibility for maintaining a sound system of internal control that supports the achievement of National Assembly for Wales' policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

I am responsible for the propriety and regularity of public finances for the NHS in Wales; for the keeping of proper accounts; for prudent behaviour and economical administration; the avoidance of waste and extravagance; and for the efficient use of all resources.

I appoint Chief Executives of NHS Trusts who serve as Accountable Officers. It is their responsibility to ensure that there is an effective system of internal control within their individual organisations. Regional Directors act as my agents on a day to day basis in holding to account Chief Executives of NHS Trusts. I also lead an annual review process for which I receive support from my Regional Directors.

2. The purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the 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 a continuing process designed to identify the principal risks to the achievement of the Assembly's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

3. Capacity to handle risk

I have over a number of years issued guidance to each Accountable Officer regarding corporate governance, risk management and internal control systems.

I require the Board of each organisation to take overall responsibility for risk management. Trust Boards are required to use the 38 risk management standards extant across NHS Wales as a toolkit to inform NHS Trust Boards of the significant risks within their organisations. The standards assist Boards to identify risks, determine unacceptable levels of risk, and to then decide on where best to direct limited resources to eliminate or reduce those risks. A central theme across the standards is the importance of ensuring that staff have the information, training and access to expert advice which they need to exercise their responsibilities effectively.

I have an agreement in place with the Welsh Risk Pool that is currently being updated and revised. The terms of the agreement require the Pool to support NHS organisations in the development of risk management systems by providing advice, developing education in healthcare risk management and facilitating the exchange of information on good practice and lessons learnt. The Chief Executive of Conwy and Denbighshire NHS Trust is accountable to me for the work of the Welsh Risk Pool.

4. The risk and control framework

I require all NHS Trusts to have a risk management framework that ensures a systematic approach to internal control. Trusts are free to choose a framework of their choice. Whichever framework is chosen, organisations must ensure that they have evidence that they deem sufficient to demonstrate they have implemented processes appropriate to their circumstances.

Supplementary Guidance on the new proforma Statement on Internal Control (SIC) and the elements relevant in considering whether appropriate risk management, control, and review processes are in place to support the SIC was sent out to all Trusts in September 2003. The Guidance required Trusts to link risk management to their key organisational objectives in order that objectives may form an integrated part of the organisation's management activity.

Objectives, at the strategic level include those linked to:

- "Improving Health in Wales", the response to the Review of Health and Social Care ('Wanless Report'),
- Welsh Priorities and Planning Guidance, annual Strategic and Financial Framework guidance, the Balanced Scorecard,
- National clinical quality improvement targets, and financial responsibilities,
- Public Service VFM agreements,
- Compliance with governance and risk management standards,
- Health improvement and partnerships

The Continuous Improvement framework forms the context for development for both LHBs and NHS trusts. LHBs themselves are responsible for developing local Health, Social Care and Wellbeing Strategies, which will form the basis of their commissioning plans, and Health Commission Wales (Specialist Services) will also be producing a longer term planning document. These documents will help establish the planning context for NHS trusts and also to a more limited extent for local authorities, with which trusts will need to co-ordinate their service delivery. Each Trust's Local Delivery Plan – and the achievement of outcomes set out in those plans – form an integral part of an organisation's objectives and as a result - its risk management framework.

NHS Trusts were for 2003-04 required to achieve a score of at least 75% against the 5 core risk management standards. The core standards are those that are deemed key to the management of health service risk. They are

- Risk Management Policy and Strategy
- Risk Profile
- Adverse Incident and Hazards Reporting
- Governance
- Financial Management

The Risk Management and Strategy standard is of particular importance in that it focuses on the need to ensure that the organisation has agreed a risk management policy and strategy. It also requires each Board to demonstrate its full commitment to managing risk and provides explicit guidance to its managers, and all other staff of their individual and collective responsibilities. Taken together the 5 core standards ensure that

NHS Organisations have key controls across the more riskier organisational areas. The standards are subject to annual audit.

All trusts submitted their self-assessment scores together with action plans addressing any areas of weakness. Out of the 14 Welsh NHS trusts 11 achieved full compliance against the 5 core standards. I am satisfied that the three Trusts who failed to achieve full compliance with the standards i.e. Cardiff and Vale, Swansea and Ceredigion NHS Trusts have developed action plans to address the weaknesses and these will be monitored in 2004-05.

Clinical governance

Trusts and partner organisations are required to ensure that a framework is in place for continuously improving the quality and safeguarding high standards of care. Boards are required to take responsibility and account for:

- The overall quality and safety of care;
- Specification of standards and competencies;
- Participation in clinical audit, benchmarking activities and processes for monitoring clinical care;
- Strict adherence to the Complaints Procedure at all stages;
- Clear policies for managing risk to ensure and improve patient safety

NHS Wales Department - Risk Management

The Health and Social Care Department is subject to the Assembly's Risk Management framework. Risks are controlled at both Executive Board and directorate level, with the bulk of the work to identify, evaluate and monitor the risks falling to individual Heads of Directorate. The main record for documenting the identification, assessment and management of risk is through the directorate risk register. Heads of Directorate, including Regional Directors, are responsible for:

- ensuring that systems are in place to enable them to be kept informed of new activities and other changes so that risk can be assessed; and
- ensuring that there are performance indicators in place, which allow the monitoring of key business and financial activities and the division's progress towards its objectives.

For the 2003-04 financial year, each Head of Directorate within the Health and Social Care Department (including regional offices) has reviewed their process of internal control and completed a certificate of assurance and an Internal Control Questionnaire.

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 on internal control is informed by the work of the internal auditors, the Corporate Governance Committee, which oversees the work of the internal auditors, and comments made by the external auditors in their management letter and other reports.

DAO GEN 09/03 gave organisations that had not completely embedded comprehensive internal Control Processes until March 2004 to ensure that this is done. In my statement of 2002-03 I disclosed that one Trust - had asked the Assembly for assistance in meeting this deadline. Assistance was given to this Trust and its statement for 2003-04 discloses no significant internal control problems.

I have reviewed the NHS Trust Statements of Internal Control for the 2003-04 financial accounts and the associated audit reports and I am satisfied that any issues raised by the Accountable Officers do not pose a significant threat to internal control and are at any rate being dealt with appropriately by the Accountable Officers.

Ann Lloyd
Director, NHS Wales Department and Accounting Officer

30th November 2004

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

I certify that I have audited the financial statements on pages 9 to 33 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 13 to 18.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Director of NHS Wales as Accounting Officer is responsible for the preparation of the financial statements in accordance with the National Health Service Act 1977 and Treasury directions made thereunder. The Accounting Officer is also responsible for preparation of the Foreword. 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 ethical guidance applicable to the auditing profession.

I report my opinion as to whether the summarised financial statements give a true and fair view and are properly prepared in accordance with the National Health Service Act 1977 and Treasury directions made thereunder. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the National Assembly for Wales has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages 3 to 6 reflects the National Assembly for Wales compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the National Assembly for Wales corporate governance procedures or its risk and control procedures.

Basis of audit opinion.

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity. In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of NHS trusts in Wales at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Treasury.

I have no observations to make on these financial statements.

John Bourn
Auditor General for Wales
December 2004

3-4 Park Place
Cardiff
CF10 3DP

Income and Expenditure for the year ended 31 March 2004

	Note	£000	2002-03 £000 (restated)
Income from activities	2	2,333,505	2,157,681
Other operating income	3	233,370	242,422
Total income		<u>2,566,875</u>	<u>2,400,103</u>
Operating expenses	4	<u>(2,514,799)</u>	<u>(2,326,465)</u>
Operating surplus		52,076	73,638
Profit / (Loss) on disposal of fixed assets		<u>1,139</u>	<u>(2,053)</u>
Surplus before interest		53,215	71,585
Interest receivable		5,292	3,599
Interest payable	6	(1,023)	(903)
Other finance costs	12	<u>(1,095)</u>	<u>(853)</u>
Surplus on ordinary activities		56,389	73,428
Public dividend capital dividends payable		<u>(66,082)</u>	<u>(83,701)</u>
Deficit for the year	14	<u>(9,693)</u>	<u>(10,273)</u>

All operations are continuing

The notes on pages 13 to 33 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	Note	£000	2002-03 £000 (restated)
Surplus on ordinary activities		56,389	73,428
Indexation and revaluation of tangible fixed assets	14	69,732	321,212
Adjustment to reserves on impairment	14	(104)	(10,486)
Other movements on the donated asset reserve	14	5,430	2,666
Other movements on the government grant reserve	14	-	(62)
Other reserve movements	14	-	-
		<hr/>	<hr/>
Total gains recognised in the financial year		131,447	386,758
		<hr/>	<hr/>

The notes on pages 13 to 33 form part of this account.

Balance Sheet as at 31 March 2004

	Notes	£000	31 March 2003 (restated) £000
Fixed assets			
Intangible assets	7	250	138
Tangible assets	8.1	<u>1,819,822</u>	<u>1,710,040</u>
		1,820,072	1,710,178
Current assets			
Stocks and work-in-progress		30,935	29,451
Debtors:			
amounts falling due within one year	9	184,257	149,309
amounts falling due after more than one year	9	50,487	84,150
Investments	10	7,000	-
Cash at bank and in hand	17	<u>15,529</u>	<u>14,270</u>
		288,208	277,180
Current liabilities			
Creditors: amounts falling due within one year	11.1	<u>(201,526)</u>	<u>(182,592)</u>
Net current assets		86,682	94,588
Creditors: amounts falling due after more than one year	11.2	(51,863)	(40,500)
Provisions for liabilities and charges	12	<u>(145,784)</u>	<u>(144,671)</u>
Total net assets		1,709,107	1,619,595
Financed by:			
Capital			
Public dividend capital	13	1,203,787	1,179,640
Reserves			
Revaluation reserve	14	506,071	438,018
Donated asset reserve	14	35,981	29,320
Income and expenditure reserve	14	<u>(36,732)</u>	<u>(27,383)</u>
		1,709,107	1,619,595

The notes on pages 13 to 33 form part of this account.

Ann Lloyd

Director, NHS Wales Department and Accounting Officer

30th November 2004

Cash Flow Statement for the year ended 31 March 2004

	Note	£000	£000	2002-03 (restated) £000
Net cash inflow from operating activities	15		151,156	175,040
Returns on investments and servicing of finance				
Interest received		5,172		3,571
Interest paid		(296)		(188)
Interest element of finance leases		(797)		(900)
Net cash inflow from returns on investments and servicing of finance			4,079	2,483
Capital expenditure				
Payments to acquire tangible fixed assets		(127,074)		(131,053)
Receipts from sale of tangible fixed assets		7,123		3,938
Payments to acquire intangible fixed assets		(113)		-
Net cash outflow from capital expenditure			(120,064)	(127,115)
Public dividend capital dividends paid			(65,556)	(88,986)
Management of liquid resources				
Purchase of current asset investments		(136,000)		(58,000)
Sale of investments		129,000		58,000
Net cash outflow from management of liquid resources			(7,000)	-
Net cash outflow before financing			(37,385)	(38,578)
Financing				
Public dividend capital received		41,350		42,363
Public dividend capital repaid		(17,203)		(18,171)
Government loans received: short term		22,800		5,200
Government loans repaid: short term		(22,800)		(5,200)
Loan advances/brokerage received		11,399		19,467
Loan advances/brokerage repaid		(1,177)		(9,699)
Other capital receipts		4,745		3,982
Capital element of finance leases and on Balance Sheet PFI rentals		(470)		(400)
Net cash inflow from financing			38,644	37,542
Increase / (decrease) in cash	16		1,259	(1,036)

The notes on pages 13 to 33 form part of this account.

Notes to the accounts

1. Accounting policies

1.1 Accounting convention

This account has been prepared under the historical costs convention, modified by the revaluation of tangible fixed assets and in accordance with directions issued by the Treasury, to show a true and fair view and to comply with accounting standards issued or adopted by the Accounting Standards Board insofar as these are appropriate to NHS trusts. The account is a consolidation of the individual audited accounts of the fourteen Welsh NHS trusts.

Powys Healthcare NHS Trust was abolished on 31 March 2003. Its functions transferred to the newly formed Powys Local Health Board. The prior year comparative figures have been restated eliminating the Powys Healthcare NHS Trust balances from 2002-03 (Refer to Note 27).

1.2 Fixed assets

a. 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
- irrespective of their individual or collective cost, form part of the initial setting up cost of a new building.

b. Valuation

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, except capitalised Research and Development which is revalued using an appropriate index figure. 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.

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.

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.

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

c. Depreciation

Intangible assets are amortised on a straight line basis over the estimated lives of the assets up to a maximum of 20 years. 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.

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.

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 over the estimated life of the asset.

Where, under Financial Reporting Standard 11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income is received from the Assembly. The income is used to repay Public Dividend Capital.

1.3 Donated assets

Donated tangible 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.

1.4 Government grants

Government grants in respect of capital expenditure are credited to a Government Grant Reserve and are released to the Income and Expenditure Account over the useful expected lives of the relevant assets by equal annual instalments. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

1.5 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the Balance Sheet and are depreciated over their useful lives. Rentals under operating leases are charged on a straight line basis over the terms of the leases.

1.6 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.

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

1.7 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.

1.8 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as it relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. 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.

1.9 Provisions

Trusts provide 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 3.5% (2002-03 6%) in real terms.

1.10 Losses and special payments

Trusts account for all losses and special payments gross (including assistance from the Welsh Risk Pool). They accrue for the best estimate of their future payouts for certain, probable or contingent liabilities and disclose all other potential payments.

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.

1.11 Pension costs

The NHS Pension scheme is a multi-employer scheme as defined by FRS17.

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 Trust to identify their 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 2003-04 was £88,793,350 (£81,095,519 for 2002-03).

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. These contributions will need to be reviewed at the next investigation date, due at 31 March 2004.

The Scheme is subject to a full valuation every four years (previously every five years). The last valuation took place as at 31 March 2003. 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.

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. Employer contribution rates are reviewed every four

years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates from 2003-04 were set at 14% of pensionable pay (2002-03: 7%). Until 2002-03 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-04 the additional funding has been retained as a Central Budget by the Assembly and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-05 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 the final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement, is payable.

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, employees can make contributions to enhance their 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 except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

1.13 Value Added Tax

Most of the activities of trusts 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.

1.14 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.

1.15 Deferred income

Income received from Local Health Boards (2002-03 Health Authorities) has been deferred into the next financial year where a clear indication existed that funds provided were for a specific purpose, and that a future obligation exists to utilise these resources.

1.16 Welsh Risk Pool

On 1 April 1999, responsibility for administration of the Welsh Risk Pool (the Pool) transferred to the Conwy and Denbighshire NHS Trust from the former Welsh Health Common Services Authority. This account consolidates the NHS trust accounts and excludes the assets and liabilities of the Pool as it acts on an agency basis for all health bodies in Wales. The provisions reported in note 12 are the aggregate amount reported by all trusts in Wales, irrespective of whether claims will be settled directly by trusts or the Pool acting as agent.

1.17 Third party assets

NHS trusts hold money on behalf of patients but have no beneficial interest. To comply with revised HM Treasury guidance these balances should not be recognised within the accounts.

2. Income from activities	2002-03	
	£000	£000 (restated)
Local Health Boards / Health Authorities	1,962,099	2,111,043
Health Commission Wales (Specialist Services) / SSCIW	284,266	6,885
Strategic health authorities and primary care trusts	13,097	3,310
Local Authorities	9,258	1,827
National Assembly for Wales	36,391	7,263
Non NHS:		
Private patient income	8,212	7,808
Overseas patients non-reciprocal	673	154
Road Traffic Act charges	8,518	6,248
Other income from activities	10,991	13,143
	2,333,505	2,157,681

3. Other operating income	2002-03	
	£000	£000 (restated)
Education, training and research	139,479	107,607
Charitable and other contributions to expenditure	9,388	7,053
Transfer from the donated asset reserve	3,703	3,232
Non-patient care income generation schemes	12,220	10,692
Patient transport services	58	56
Other income:		
Provision of laundry, pathology, payroll services	12,736	12,147
Accommodation and catering charges	14,938	15,317
Mortuary fees	966	880
Staff payments for use of cars	2,207	2,191
Other	37,675	83,247
	233,370	242,422

4. Operating expenses**4.1 Operating expenses comprise**

	£000	2002-03 £000 (restated)
Goods and services from other NHS bodies	9,015	16,182
Goods and services from non-NHS bodies	16,271	12,460
Directors' costs	8,337	8,123
Staff costs	1,767,722	1,588,223
Supplies and services - clinical	337,282	295,829
Supplies and services - general	46,979	44,871
Establishment	70,377	62,577
Transport	23,352	20,877
Premises	113,273	108,145
Depreciation and amortisation	88,536	81,608
Fixed asset impairments and reversals	1,232	10,403
Audit fees	2,300	2,148
Other auditors' remuneration	5	144
Losses, special payments and irrecoverable debts	20,121	67,751
Other	9,997	7,124
	2,514,799	2,326,465

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

	Total £000	2002-03 £000 (restated)
Increase/decrease in provision for future payments:		
Clinical negligence	6,445	53,860
Personal injury	9,740	3,364
All other losses and special payments (excluding bad debts)	386	647
Defence legal fees and other administrative costs	2,113	6,924
Gross increase/decrease in provision for future payments	18,684	64,795
Premium for other insurance arrangements	15	30
Irrecoverable debts	1,422	2,926
Total charge	20,121	67,751

Personal injury includes £4,411,847 in respect of permanent injury benefits.

4.3 Annual commitments under non-cancellable operating leases

	Land and buildings		Other leases	
	£000	2002-03 £000	£000	2002-03 £000
Operating leases which expire:				
Within 1 year	981	1,130	3,779	2,735
Between 1 and 5 years	246	665	9,253	11,460
After 5 years	774	2,576	2,760	1,301
	2,001	4,371	15,792	15,496

Operating expenses include £17,253,126 for operating lease rentals (2002-03: £19,209,655) and £3,724,872 for hire of plant/machinery (2002-03: £3,070,144).

4.4 Board members' remuneration

	Remuneration	Other	Total	2002-03
	as Director	remuneration		
	£000	£000	£000	£000
Non-executive directors' remuneration	1,062	-	1,062	774
Executive directors' remuneration:				(restated)
basic salaries	5,885	722	6,607	6,280
benefits	107	2	109	126
performance related bonuses	-	-	-	10
pension contributions paid	403	37	440	446
Compensation for loss of office	-	-	-	66
Pensions for directors and former directors (other than from the NHS pension scheme)	-	84	84	-
	7,457	845	8,302	7,702

£14,400 was waived by two directors and no allowances were paid in lieu.

5. Staff costs and numbers

5.1 Employee costs

	2002-03	
	£000	£000
		(restated)
Salaries and wages	1,521,418	1,384,585
Social security costs	112,034	90,354
Pension costs	88,753	81,090
Other pension costs	1,755	540
Agency and contracted staff	45,969	38,174
Seconded in staff	4,338	866
	1,774,267	1,595,609

5.2 Average number of employees

	Number of staff expressed as whole time equivalents	
	2002-03	
	Number	Number
		(restated)
Medical and dental	4,994	4,368
Ambulance staff	1,949	1,774
Administrative and estates	12,175	11,546
Healthcare assistants and other support staff	9,154	9,007
Nursing, midwifery and health visiting staff	25,554	25,096
Nursing, midwifery and health visiting learners	126	62
Scientific, therapeutic and technical staff	8,624	7,785
Social Care Staff	2	-
Other	342	232
	62,920	59,870

5.3 Retirement costs due to ill-health

During 2003-04 there were 282 (2002-03: 297) early retirements from trusts 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 £16,686,399 (2002-03: £14,200,104).

6. Interest payable

	£000	2002-03 £000
Further Government borrowing	231	72
Finance leases	781	807
Other	11	24
	<u>1,023</u>	<u>903</u>

7. Intangible assets

	Software Licences £000
Valuation	
At 1 April 2003	205
Additions	150
At 31 March 2004	<u>355</u>
Amortisation	
At 1 April 2003	67
Amortisation	38
At 31 March 2004	<u>105</u>
Net book value at 31 March 2004	<u>250</u>
Net book value at 31 March 2003	<u>138</u>

8. Tangible fixed assets**8.1 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	£000					
At 1 April 2003 (restated)	212,051	1,289,032	48,321	64,216	347,778	15,904	43,911	9,242	2,030,455	
Indexation	-	76,050	2,856	3,019	7,546	347	979	166	90,963	
Additions - purchased	1,899	37,038	97	66,648	15,103	718	2,727	1,620	125,850	
Additions - donated/ government granted	-	729	-	6,856	1,360	27	183	29	9,184	
Reclassifications	2	41,389	12	(45,336)	(156)	602	3,722	(235)	-	
Impairments	(320)	(971)	-	-	(532)	-	-	-	(1,823)	
Other in-year revaluations	1,748	(12,725)	(10)	(2,234)	-	-	-	-	(13,221)	
Disposals	(878)	(350)	(845)	(2,605)	(18,645)	(1,253)	(4,313)	(281)	(29,170)	
At 31 March 2004	214,502	1,430,192	50,431	90,564	352,454	16,345	47,209	10,541	2,212,238	
Depreciation										
At 1 April 2003 (restated)	-	48,078	4,419	-	219,199	10,533	32,345	5,841	320,415	
Indexation	-	2,788	262	-	4,686	229	732	102	8,799	
Reclassifications	-	-	-	-	(3,447)	228	3,205	14	-	
Impairments	-	30	-	-	(517)	-	-	-	(487)	
Reversal of impairments	-	-	-	-	-	-	-	-	-	
Other in-year revaluations	-	(886)	-	-	-	-	-	-	(886)	
Disposals	-	(20)	(413)	-	(17,719)	(1,224)	(4,271)	(276)	(23,923)	
Provided during the year	-	50,911	1,772	-	29,369	1,356	4,380	710	88,498	
At 31 March 2004	0	100,901	6,040	0	231,571	11,122	36,391	6,391	392,416	
Net book value at 1 April 2003	212,051	1,240,954	43,902	64,216	128,579	5,371	11,566	3,401	1,710,040	
Net book value at 31 March 2004	214,502	1,329,291	44,391	90,564	120,883	5,223	10,818	4,150	1,819,822	
Net book value of assets held under finance leases and hire purchase contracts										
Total	11	4,411	100	-	-	-	-	-	4,522	
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	-	243	55	-	-	-	-	-	298	

Of the net book value totals at 31 March 2004, £3,540,000 related to land valued at open market value and £250,000 related to buildings, installations and fittings valued at open market value.

The restatement at 1 April 2003 reflects both the transfer of Powys NHS Trust to Powys LHB and the derecognition of a donated asset by North West Wales NHS Trust.

The difference between the net book value less capital receipts and the profit on disposal of fixed assets in the Income and Expenditure Account is as a result of,

- movement in debtor balances for disposals at Cardiff & Vale, Gwent and Pembrokeshire & Derwen NHS Trusts, and
- the transfer to the revaluation reserve required, due to the disposal at a loss of an indexed fixed asset, at Bro Morgannwg NHS Trust.

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

	Land	Buildings excluding dwellings	Dwellings	Plant and machinery	Total
	£000	£000	£000	£000	£000
At 1 April 2003 (restated)	2,929	13,945	665	190	17,729
Indexation	-	824	39	-	863
Additions - purchased	1,378	9,157	25	-	10,560
Depreciation	-	(130)	(4)	(190)	(324)
At 31 March 2004	4,307	23,796	725	-	28,828

8.3 The net book value of land, buildings and dwellings

	31 March 2003 (restated)	
	£000	£000
Freehold	1,547,592	1,468,634
Long leasehold	40,492	27,444
Short leasehold	100	829
	1,588,184	1,496,907

9. Debtors

	31 March 2003 (restated)	
	£000	£000
Amounts falling due within one year:		
NHS debtors	117,255	87,057
PDC dividend debtors	3,045	2,996
Other debtors	50,378	44,520
Provision for irrecoverable debts	(4,290)	(4,081)
Other prepayments and accrued income	17,869	18,817
	184,257	149,309

Amounts falling due after more than one year:

NHS debtors	35,697	69,019
Other prepayments and accrued income	12,347	12,797
Other debtors	2,443	2,334
	50,487	84,150
	234,744	233,459

10. Investments

Government securities	7,000	-
Total	7,000	-

11. Creditors

	31 March	
	2003	
	(restated)	
	£000	£000
Public dividend capital loan advance/brokerage	300	1,877
Payments received on account	1,481	789
NHS creditors	20,271	17,618
Non-NHS trade creditors - revenue	65,711	51,116
Non-NHS trade creditors - capital	10,188	11,017
Non-NHS trade creditors - losses and special payments	-	25
Tax and social security costs	24,472	21,329
PDC dividend payable	711	1,511
Obligations under finance leases and hire purchase contracts	215	169
Obligations under PFI schemes	619	672
Other creditors - superannuation	9,454	8,250
Other creditors - all other creditors	16,147	15,368
Accruals	32,014	31,905
Deferred income	19,943	20,946
	201,526	182,592

11.2 Amounts falling due after more than one year:

Public dividend capital loan advance/brokerage	40,684	28,885
Obligations under finance leases and hire purchase contracts	2,598	2,744
Obligations under PFI schemes	8,046	8,665
NHS creditors	107	129
Deferred income	-	77
Other	428	-
	51,863	40,500

11.3 Finance lease obligations

	31 March	
	2003	
	£000	
The future minimum lease payments under finance leases to which the trusts were committed were as follows:		
Within one year	874	1,072
Between one and five years	3,473	3,364
After five years	12,583	13,176
Less finance charges allocated to future periods	(11,944)	(12,280)
	4,986	5,332

12. Provisions for liabilities and charges

	At 1 April 2003 (restated)	New provisions arising during the year	Reversed Unused	Utilised during the year	Unwind -ing of discount	At 31 March 2004
	£000	£000	£000	£000	£000	£000
Clinical negligence	103,477	33,800	(27,355)	(16,058)	-	93,864
Personal injury	13,416	14,201	(4,461)	(3,972)	444	19,628
All other losses and special payments	366	472	(86)	(491)	-	261
Defence legal fees and other administration	9,087	7,206	(5,093)	(2,065)	-	9,135
Sub-total	126,346	55,679	(36,995)	(22,586)	444	122,888
Pensions relating to:						
former directors	82	-	(5)	(6)	5	76
other staff	14,807	894	(530)	(1,094)	646	14,723
Restructurings	294	683	-	(192)	-	785
Other	3,142	4,607	(131)	(306)	-	7,312
	144,671	61,863	(37,661)	(24,184)	1,095	145,784

Expected timing of cash flows:	Within	Between	After	Overall
	1 year	2 & 5 years	5 years	Total
	£000	£000	£000	£000
Clinical Negligence	55,501	38,363	-	93,864
Personal Injury	10,535	2,804	6,289	19,628
All other losses and special payments	261	-	-	261
Defence legal fees and other administration	8,185	950	-	9,135
Pensions - former directors	5	17	48	70
Pensions - other staff	1,280	4,545	8,904	14,729
Restructuring	785	-	-	785
Other	5,932	1,160	220	7,312
Total	82,484	47,839	15,461	145,784

The restatement at 1 April 2003 is due to the transfer of Powys NHS Trust to Powys LHB.

As stated in accounting policy Note 1.9, trusts provide for all claims against them. Trusts' liability is limited to each trust's variable excess level, the balance being recovered from the Welsh Risk Pool (the Pool). Trusts estimate that in 2004-05 they will receive £61,229,430 and in 2005-06 and beyond £35,897,786 from the Pool in respect of the losses and special payments (including clinical negligence).

The above figures show the clinical negligence provisions of trusts. Conwy and Denbighshire NHS Trust manage the Pool on an agency basis for trusts and local health boards in Wales.

13. Analysis of changes in public dividend capital	2002-03	
	£000	£000
At 1 April (restated)	1,179,640	1,155,448
Public dividend capital repaid	(17,203)	(18,171)
Public dividend capital advanced in year	41,350	42,363
At 31 March	<u>1,203,787</u>	<u>1,179,640</u>

14. Movements on reserves in the year

	Revaluation reserve £000	Donated asset reserve £000	Government grant reserve £000	Income & expenditure reserve £000	Total £000
At 1 April 2003 (restated)	438,018	29,320	-	(27,383)	439,955
Transfer from Income and Expenditure Account	-	-	-	(9,693)	(9,693)
Revaluation/ indexation of fixed assets	68,487	1,245	-	-	69,732
Transfer of realised profits/ (losses)	(338)	(1)	-	339	-
Assets donated in year	-	9,184	-	-	9,184
Depreciation and disposal of donated assets	-	(3,754)	-	-	(3,754)
Impairments	(90)	(14)	-	-	(104)
Other reserve movements	(6)	1	-	5	-
At 31 March 2004	<u>506,071</u>	<u>35,981</u>	<u>-</u>	<u>(36,732)</u>	<u>505,320</u>

Impairments comprise the charges to the revaluation and donated asset reserves from the impairment of fixed assets.

15. Reconciliation of operating surplus to net cash inflow from operating activities

	2002-03 (restated) £000	£000
Operating surplus	52,076	73,638
Depreciation and amortisation charge	88,536	81,608
Fixed asset impairment	1,232	10,403
Transfer from the donated asset reserve	(3,754)	(3,232)
Increase in stocks	(1,484)	(2,205)
Decrease / (Increase) in debtors	6,400	(45,156)
Increase in creditors	7,037	14,836
Increase in provisions	1,113	45,148
Net cash inflow from operating activities	<u>151,156</u>	<u>175,040</u>

16. Reconciliation of net cash flow to movement in net debt

	2002-03 (restated) £000	£000
Increase / (Decrease) in cash in the period	1,259	(1,036)
Cash inflow from new debt	(34,199)	(24,667)
Cash outflow from debt repaid and finance lease capital payments	24,447	15,299
Cash outflow from increase in liquid resources	7,000	-
Change in net debt resulting from cash flows	(1,493)	(10,404)
Non-cash changes in debt	(124)	(689)
Net debt at 1 April	(21,824)	(10,731)
Net debt at 31 March	<u>(23,441)</u>	<u>(21,824)</u>

17. Analysis of changes in net debt

	At 1 April 2003 (restated) £000	Cash flows £000	Non-cash changes £000	At 31 March 2004 £000
Cash at bank and in hand	14,270	1,259	-	15,529
Public dividend capital loans/brokerage	(30,762)	(10,222)	-	(40,984)
Finance leases	(5,332)	470	(124)	(4,986)
Current asset investments	-	7,000	-	7,000
	<u>(21,824)</u>	<u>(1,493)</u>	<u>(124)</u>	<u>(23,441)</u>

18. Reconciliation of movements in funds	2002-03
	£000
	£000 (restated)
Surplus for the year	56,389
Public dividend capital - dividends payable	(66,082)
	<u>(9,693)</u>
Indexation and revaluation of tangible fixed assets	69,732
Impairment to fixed assets	(104)
New public dividend capital and loans	41,350
Public dividend capital and Government loans repaid and extinguished	(17,203)
Movements on donated asset reserve	5,430
Movements on Government grant reserve	-
Other reserve movements	-
Net addition to Government funds	<u>89,512</u>
Government funds at 1 April	<u>1,619,595</u>
Government funds at 31 March	<u>1,709,107</u>

19. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £34,954,652 (2002-03: £54,547,656).

20. Contingent liabilities

At 31 March 2004, claims with a potential value of £172,122,000 (31 March 2003: £152,152,000) had been made against NHS trusts in Wales. These claims are disputed and, until they are resolved, the trusts' financial liability, if any, cannot be determined. In accordance with the requirements of FRS12, no provision has been made in the 2003-04 accounts for these items.

Other litigation claims could arise in the future due to incidents incurred but not reported. The expenditure which may arise from such claims cannot be determined with reasonable accuracy and no provision has been made for them.

21. Losses and special payments	Number of cases	Value £
Clinical negligence	484	16,130,005
Personal injury	792	3,925,550
All other losses and special payments	2,564	854,313
	3,840	20,909,868
Of which, cases over £100,000, paid out during the year:		
Clinical negligence	35	10,681,849
Personal injury	2	275,027
All other losses and special payments	1	110,000
	38	11,066,876
Also, of which, cases of cumulative interim payments over £100,000		
Clinical negligence	82	38,508,566
Personal injury	4	5,084,020
All other losses and special payments	2	485,987
	88	44,078,573

22. Related party transactions

The Assembly, local health boards and NHS trusts are regarded as related parties. During the year, trusts had a significant number of material transactions with the Assembly and with other NHS bodies.

Twelve trusts disclosed other related party transactions: Bro Morgannwg, Cardiff & Vale, Carmarthenshire, Conwy & Denbighshire, Gwent, Noth East Wales, North Glamorgan, North West Wales, Pembrokeshire & Derwen, Swansea, Velindre and Welsh Ambulance Service. In 2003-04, related party transactions between the Trusts and board members or key senior staff amounted to payments of £10,429,710 and receipts of £5,131,471. Further details of transactions are given in the individual trust accounts.

23. Private finance transactions

During 2003-04, 7 trusts disclosed private finance transactions: Bro Morgannwg NHS Trust, Cardiff and Vale NHS Trust, Carmarthenshire NHS Trust, Gwent Healthcare NHS Trust, North Glamorgan NHS Trust, Pembrokeshire and Derwen NHS Trust and Pontypridd and Rhondda NHS Trust.

These trusts reported thirteen PFI schemes. One scheme is on balance sheet and twelve are off balance sheet. These have a total estimated capital value of £114,155,000. £19,976,000 has been included within operating expenses for these schemes. Trusts are committed to pay £20,297,000 in annual payments under the schemes. Further details are given in the individual trust accounts.

24. Third party assets

Trusts held £1,172,600 cash at bank and in hand at 31 March 2004 (31 March 2003: £1,308,464) which relates to monies held by trusts on behalf of patients. This has been excluded from cash at bank and in hand reported in these accounts.

25. Financial instruments

FRS13, 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 relationship that trusts have with local health boards and the way those bodies are financed, 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 FRS13 mainly applies. 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 trusts in undertaking their activities.

As allowed by FRS13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity risk

Trusts net operating costs are incurred under annual service agreements with local health boards, which are financed from resources voted annually by Parliament. Trusts also largely finance their capital expenditure from funds made available from Government under agreed borrowing limits. They are not, therefore, exposed to significant liquidity risks.

Interest rate risk

The great majority of NHS trusts' financial assets and financial liabilities carry nil or fixed rates of interest. NHS trusts are not, therefore, exposed to significant interest-rate risk.

Foreign currency risk

NHS trusts have no or negligible foreign currency income or expenditure and therefore are not exposed to significant foreign currency risk.

26. Post Balance Sheet Events

There are no known material Post Balance sheet events.

27. Reconciliation of 2002-03 Current Year To 2003-04 Prior Year

As disclosed in Note 1.1, as a result of the restructuring of the NHS in Wales, Powys Healthcare Trust was abolished on the 31st March 2003 and its functions transferred to Powys LHB. Due to the abolition of the Trust the 2002-03 comparative information has been restated to reflect the results of the fourteen remaining trusts. This has been achieved by eliminating the results of Powys Healthcare Trust in 2002-03 and amending the intra trust adjustments made to the summarised account in respect of the trust.

The only other adjustment made in the restatement relates to the derecognition of a donated asset in North West Wales (£75,000k). The effect of these adjustments is summarised below.

27.1 Income and Expenditure Account Summary	Figures stated in 2002-03 Account £000	Elimination of adjustments £000	2002-03 (Restated) £000
Operating surplus	75,342	(1,704)	73,638
Surplus on Ordinary activities	75,129	(1,701)	73,428
Deficit for the year	<u>(10,929)</u>	<u>656</u>	<u>(10,273)</u>
27.2 Balance Sheet Summary			
Fixed Assets	1,765,903	(55,725)	1,710,178
Current Assets	279,910	(2,730)	277,180
Creditors amounts falling due within one year	(186,064)	3,472	(182,592)
Total Assets less Current Liabilities	<u>1,859,749</u>	<u>(54,983)</u>	<u>1,804,766</u>
Creditors amounts falling due after more than one year	(40,874)	374	(40,500)
Provisions for liabilities and charges	(146,901)	2,230	(144,671)
Total Net Assets	<u>1,671,974</u>	<u>(52,379)</u>	<u>1,619,595</u>
Financed by:			
Government Funds	1,209,596	(29,956)	1,179,640
Capital and Reserves	462,378	(22,423)	439,955
	<u>1,671,974</u>	<u>(52,379)</u>	<u>1,619,595</u>

THE NATIONAL HEALTH SERVICE – NHS TRUSTS IN WALES

ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 98(4) OF THE NATIONAL HEALTH SERVICE ACT 1977

1. The Treasury directs that an account, summarised by consolidation, of the NHS Trusts in Wales shall be prepared by the National Assembly for Wales in respect of the financial year ended 31 March 2000 and subsequent financial years. The basis of preparation and form of accounts shall be set out in the following paragraphs and Schedules.

2. In this direction, unless the context otherwise requires, “the NHS Trusts” means each and every NHS Trust in Wales.

BASIS OF PREPARATION

3. The consolidated account of the NHS Trusts shall be prepared from the audited accounts of the NHS Trusts to which it relates and 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 in Wales and are in force for the financial year for which the accounts are to be prepared;
- (d) all relevant guidance given in the NHS Trust Accounts (Wales) – Manual for accounts;
- (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

4. The consolidated account of NHS Trusts shall comprise a foreword, an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts.

5. The consolidated account of NHS Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and of its income and expenditure, gains and losses, and cashflows during the year.

6. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

MISCELLANEOUS

7. The direction shall be reproduced as an appendix to the published accounts.

8. This direction supersedes the direction dated 16 February 1999.

Signed *B Glicksman*

TREASURY OFFICER OF ACCOUNTS

16 October 2000

SCHEDULE 1

APPLICATION OF THE ACCOUNTING AND DISCLOSURE REQUIREMENTS OF THE COMPANIES ACT AND ACCOUNTING REQUIREMENTS

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 to the NHS, the information relating to NHS bodies shall be contained in the foreword.
3. NHS bodies are not required to provide the historical cost information described in paragraph 33 of Schedule 4 to the Companies Act.

Accounting Standards

4. NHS bodies are not required to include a note showing the historical cost profits and losses as described in FRS3.

SCHEDULE 2

ADDITIONAL REQUIREMENTS

1. The foreword shall include a statement that the consolidated accounts have been prepared to comply with a Direction given by the Treasury in accordance with Section 98(4) of the NHS Act 1977.
2. The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities, and a summary of their performance against targets.
3. The consolidated income and expenditure account and balance sheet shall have regard to the profit and loss account format 2 and the balance sheet format 1 prescribed in schedule 4 to the Companies Act, modified as appropriate.

**Funds Held on Trust
by Local Health Boards
and NHS Trusts in Wales**

Statement of the National Assembly for Wales and Accounting Officer's responsibilities

Section 98(4) of the National Health Service Act 1977 requires the National Assembly for Wales (the Assembly) to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on behalf of the Assembly by the Accounting Officer on an accruals basis and give a true and fair view of the funds held on trust by local health boards and the NHS trusts in Wales at the year end and of their incoming resources and application of resources and cash flows for the financial year.

In preparing the accounts the Assembly is required to:

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Treasury have appointed the Director, NHS Wales as the Accounting Officer for the Summarised Account of the funds held on trust by local health boards and NHS trusts in Wales. Her relevant responsibilities, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the National Assembly for Wales Accounting Officers' Memorandum, issued by the Treasury.

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

I have audited the financial statements on pages 4 to 14 under section 98(4) of the National Health Service Act 1977. These summarised financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 7 to 8.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 2 the Director of NHS Wales as Accounting Officer is responsible for the preparation of the summarised financial statements in accordance with the National Health Service Act 1977 and Treasury directions made thereunder. The Accounting Officer is also responsible for preparation of the Foreword. My responsibilities as independent auditor are guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the summarised financial statements give a true and fair view and are properly prepared in accordance with the National Health Service Act 1977 and Treasury directions made thereunder. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the National Assembly for Wales has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination on a test basis of evidence relevant to the amounts and disclosures of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the summarised financial statements give a true and fair view of the state of affairs of the funds held on trust by health authorities and NHS trusts in Wales at 31 March 2003 and of the incoming resources and application of resources for the year ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by the Treasury.

I have no observations to make on these financial statements.

John Bourn
Auditor General for Wales
December 2004

3 – 4 Park Place
Cardiff
CF10 3DP

Statement of Financial Activities for the year ended 31 March 2004

	Notes	2003-04			2002-03
		Unrestricted funds	Restricted funds	Endowment funds	Total
		£000	£000	£000	£000
Incoming resources					
Donations		3,141	5,989	-	9,130
Legacies		1,101	1,521	100	2,722
Grants receivable		-	54	-	54
Investment income		426	746	2	1,174
Incoming resources:					
Activities for generating funds		1	15	-	16
Activities in furtherance of the charities objectives		-	-	-	-
Other incoming resources	2	170	199	-	369
Total incoming resources		4,839	8,524	102	13,465
Resources expended					
Cost of generating funds		2	34	-	36
Grants payable	3	2,820	5,919	2	8,741
Activities in furtherance of charitable objects	4	1,676	3,840	178	5,694
Management and administration		148	293	1	442
Total resources expended	5	4,646	10,086	181	14,913
Net incoming/(outgoing) resources before transfers		193	(1,562)	(79)	(1,448)
Gross transfers between funds		(71)	71	-	-
Net incoming/(outgoing) resources before revaluations and investment asset disposals		122	(1,491)	(79)	(1,448)
Gains/(losses) on revaluation of own fixed assets		-	2	255	257
Losses on revaluation and disposal of investment assets		1,133	2,391	84	3,608
Net movement in funds		1,255	902	260	2,417
Total funds brought forward at 1 April	15	10,412	18,209	10,683	39,304
Total funds carried forward at 31 March	15	11,667	19,111	10,943	41,721

All activities during the year are continuing.

There are no other recognised gains or losses reported in the period.

The notes on pages 7 to 14 form part of this account.

Balance Sheet as at 31 March 2004

	Notes	31 March 2004 £000	31 March 2003 £000
Fixed assets			
Tangible assets	7	9,411	9,331
Investments	8	24,680	21,623
		<u>34,091</u>	<u>30,954</u>
Current assets			
Debtors	9	1,167	3,037
Short term investments and deposits	14	4,402	3,628
Cash at bank and in hand	14	4,704	4,301
		<u>10,273</u>	<u>10,966</u>
Current liabilities			
Creditors: amounts falling due within one year	10	2,387	2,616
		<u>7,886</u>	<u>8,350</u>
Total current assets less current liabilities			
		7,886	8,350
Provisions for liabilities and charges	6	256	-
		<u>41,721</u>	<u>39,304</u>
Net assets			
Funds of the Charities			
Unrestricted	15	11,667	10,412
Restricted	15	19,111	18,209
Endowment Funds	15	10,943	10,683
		<u>41,721</u>	<u>39,304</u>
Total funds			
	15	<u>41,721</u>	<u>39,304</u>

The notes on pages 7 to 14 form part of this account.

Ann Lloyd
Accounting Officer

November 2004

Cash Flow Statement for the year ended 31 March 2004

		2003-04	2002-03
	Notes	£000	£000
Net cash inflow/(outflow) from operating activities	13	615	(554)
Capital expenditure			
Payments to acquire investment fixed assets	8.1	(5,070)	(4,205)
Receipts from the sale of tangible fixed assets		9	17
Receipts from the sale of investment fixed assets	8.2	5,623	3,945
Net cash inflow/(outflow) from capital expenditure		562	(243)
Management of liquid resources			
Payments to acquire current asset investments and deposits		(19,622)	(8,739)
Receipts from the sale of current asset investments and deposits		18,848	8,326
Net cash (outflow) from management of liquid resources		(774)	(413)
Increase/(decrease) in cash	14	403	(1,210)

The notes on pages 7 to 14 form part of this account.

Notes to the Accounts

Accounting policies

1.1 Accounting convention

This account has been prepared in accordance with the Statement of Recommended Practice - Accounting and Reporting by Charities - issued in October 2000 by the Charities Commissioners for England and Wales, and with the Standard Accounting Practices and Policies for the National Health Service (NHS) approved by the National Assembly for Wales.

1.2 Incoming resources

Unrestricted funds are available for use at the discretion of the NHS body in furtherance of its general objectives. Restricted funds are subject to specific restriction imposed by donors or by the purpose of the appeal. Endowment funds are capital resources where the NHS body is legally required to invest or retain them for the purposes specified by the donors. The policies followed, which deal with income, voluntary assistance and donations are:

a. Cash donations

All incoming resources are included in full in the Statement of Financial Activities as soon as the following three factors can be met:

- i. entitlement – arises when a particular resource is receivable or the charity's right becomes legally enforceable;
- ii. certainty – when there is reasonable certainty that the incoming resource will be received; and
- iii measurement – when the monetary value of the incoming resources can be measured with sufficient reliability.

b. Gifts in kind and donated assets

- i. Assets donated for onward distribution by the charity are included in the Statement of Financial Activities only when distributed;
- ii. assets donated for use by the charity (e.g. property for its own occupation) are included in the Statement of Financial Activities as incoming resources when receivable; and
- iii gifts made in kind but on trust to the charity for conversion into cash and subsequent application are included in the Statement of Financial Activities in the accounting period in which the gift is sold.

In all cases, the amount at which gifts in kind and donated assets are brought into account is either a reasonable estimate of their value to the charity or the amount actually realised.

c. Intangible income

Intangible income (for example, the provision of free accommodation) is included in the accounts with an equivalent amount in outgoing resources, if there is a financial cost borne by another party. The value placed on such income is the financial cost of the third party providing the resources.

1.3 Resources expended

A liability is recognised in the accounts when there is a legal or constructive obligation, capable of reliable measurement, arising from a past event.

Resources expended are split into a number of categories. The costs of generating funds are the costs associated with generating income for the Funds Held on Trust. A grant is a payment which is made voluntarily to any institution or to an individual in order to further the charities' objectives, without receiving goods or services in return.

The cost of activities in the furtherance of charitable objects is expenditure on the provision of services or goods. Support costs are an integral and material part of the costs of activities in the furtherance of charitable activities and/or expenditure incurred in paying grants. Management and administrative expenditure includes direct and indirect costs.

1.4 Tangible fixed assets

a. Capitalisation

All assets falling into the following categories are capitalised:

- i. Tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000; and
- ii. groups of tangible assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

b. Valuation

Fixed assets are valued as follows:

- i. Land, buildings, installations and fittings are valued in accordance with Statements of Asset Valuation Practice and Guidance notes prepared by the Royal Institute of Chartered Surveyors. Valuations are carried out professionally at five yearly intervals. Details of the last such valuations are shown in the individual charitable trust accounts. Between these valuations an appropriate index is applied to revalue the assets;
- ii. equipment is valued at the lower of estimated net replacement cost or recoverable amount; and
- iii. assets in the course of construction are valued at current cost.

c. Depreciation

With the exception of land, tangible fixed assets not held as investment properties are depreciated by equal annual instalments over their estimated remaining life.

d. Donated assets

Donated assets are capitalised on receipt on a full replacement cost basis.

1.5 Investment fixed assets

- i. Property assets are not depreciated but are shown at their open market valuation. Valuations are carried out by professional valuers at five yearly intervals. Details of the last such valuations are shown in the individual charitable trust accounts. Between valuations the Trustees' best estimate of current market value is used. All realised and unrealised gains and losses arising from the revaluation of fixed asset investments are recorded in the Statement of Financial Activities in the year in which they arise;
- ii. quoted stocks and shares are included in the Balance Sheet at their mid-market price, excluding dividends; and
- iii. other investment fixed assets are included at the Trustees' best estimate of current market value.

1.6 Liquid resources

Current asset investments held as readily disposable stores of value are treated as liquid resources.

1.7 Change in the basis of accounting

There has been no change in the basis of accounting during the year.

1.8 Trust funds

NHS bodies had power under section 90 of the NHS Act 1977 to accept, hold and administer funds on trust for all or any purposes relating to the health service. Section 11 of the National Health Service and Community Care Act 1990 extended this power to NHS trusts.

2 Material other incoming resources and grants receivable	2003-04			2002-03
	Unrestricted funds	Restricted funds	Total	
	£000	£000	£000	
Other grants receivable				
New Opportunities Fund	-	53	53	-
Other incoming resources				
Shooting Star Appeal	-	20	20	2,546
Miscellaneous (51 sources)	170	179	349	414
	170	252	422	2,960

3 Resources expended - grants payable	2003-04			2002-03
	Unrestricted funds	Restricted funds	Endowment funds	
	£000	£000	£000	
Patients welfare and amenities	1,919	1,334	2	4,752
Staff welfare and amenities	486	1,145	-	1,939
Research	5	496	-	543
Contributions to NHS	55	2,767	-	2,025
Miscellaneous (67 grants)	355	177	-	677
	2,820	5,919	2	9,936

4 Resources expended - activities in furtherance of charitable objects	2003-04			2002-03
	Unrestricted funds	Restricted funds	Endowment funds	
	£000	£000	£000	
Patients welfare and amenities	406	824	5	928
Staff welfare and amenities	234	265	-	480
Research	145	854	-	1,345
Contributions to NHS	130	6	-	361
Miscellaneous (10 payments)	761	1,891	173	1,230
	1,676	3,840	178	4,344

5 Total resources expended	2003-04				2002-03	
	Grants payable	Cost of generating funds	Activities in furtherance of charitable objects	Management and administration	Total	
	£000	£000	£000	£000	£000	£000
Depreciation	-	-	173	-	173	156
Auditors remuneration:						
- Audit fees	-	-	-	54	54	68
- Other fees	-	-	-	1	1	-
Bought-in services from NHS bodies	-	-	-	320	320	316
Other	7,465	344	6,489	67	14,365	14,210
	7,465	344	6,662	442	14,913	14,750

No trustees received emoluments during the period.

No expenditure has been incurred on staff costs in the year to 31 March 2004.

6 Analysis of net assets	2003-04			2002-03	
	Unrestricted funds	Restricted funds	Endowment funds	Total	
	£000	£000	£000	£000	£000
Tangible fixed assets	-	73	9,338	9,411	9,331
Investments	7,719	15,361	1,600	24,680	21,623
Current assets	4,481	5,787	5	10,273	10,966
Current liabilities	(533)	(1,854)	-	(2,387)	(2,616)
Provisions for liabilities and charges	-	(256)	-	(256)	-
	11,667	19,111	10,943	41,721	39,304

7 Tangible fixed assets	Freehold land and buildings	Fixtures, fittings and equipment	Total
	£000	£000	£000
Cost or valuation			
Balance at 1 April 2003	10,131	6	10,137
Revaluations	255	-	255
Disposals	(2)	-	(2)
Balance at 31 March 2004	10,384	6	10,390
Accumulated depreciation			
Balance at 1 April 2003	801	5	806
Charge for year	173	-	173
Balance at 31 March 2004	974	5	979
Net book value at 31 March 2004	9,410	1	9,411
Net book value at 1 April 2003	9,330	1	9,331

8.1 Fixed assets - Investments	2003-04	2002-03
	£000	£000
Market value at 1 April	21,623	27,847
Less: disposals at opening market value	(4,998)	(4,598)
Add: acquisitions at cost/valuations	5,070	4,205
Unrealised net gain on revaluation	2,985	(5,831)
Market value at 31 March	<u>24,680</u>	<u>21,623</u>
Historic cost at 31 March	23,448	24,787

8.2 Receipts from sale of investment fixed assets	2003-04	2002-03
	£000	£000
Receipts from sale of investment fixed assets	5,623	3,945
Disposal at market value	(4,998)	(4,598)
Realised gain on disposal	<u>625</u>	<u>(653)</u>

8.3 Composition of the portfolio at 31 March	Held within UK	Held outside UK	31 March 2004	31 March 2003
	£000	£000	£000	£000
Investment properties	443	-	443	433
Investments listed on stock exchange	18,771	-	18,771	16,109
Unlisted securities	55	6	61	44
Cash held as part of the investment portfolio	1,151	-	1,151	1,450
Investments in a common deposit/investment fund	4,254	-	4,254	2,922
Other investments	-	-	-	665
	<u>24,674</u>	<u>6</u>	<u>24,680</u>	<u>21,623</u>

9 Debtors: amounts falling due within one year	31 March 2004	31 March 2003
	£000	£000
Trade debtors	51	14
Prepayments	-	2
Accrued income	791	2,727
Other debtors	325	294
	1,167	3,037

Other debtors comprise a large number of low value items which cannot be readily analysed under this heading.

10 Creditors: amounts falling due within one year	31 March 2004	31 March 2003
	£000	£000
Trade creditors	169	110
Amounts due to subsidiary and associated undertakings	123	343
Other creditors	1,310	1,011
Accruals	785	1,152
	2,387	2,616

Other creditors comprise liabilities in respect of the North East Wales NHS Trust's Shooting Star Appeal (£367k) and a large number of lower value items which cannot be readily analysed under this heading.

11 Contingencies

There were no material contingent liabilities at the balance sheet date.

12 Commitments	31 March 2004			31 March 2003
	Capital	Other	Total	
	£000	£000	£000	£000
Obligations within one year:				
Small Grants Schemes	-	116	116	132
Shooting Star Centre	-	-	-	2,410
Refurbishment of Llandudno General Hospital	-	-	-	400
Other	5	134	139	169
	5	250	255	3,111

13 Reconciliation of changes in resources to net cash inflow from operating activities	31 March 2004	31 March 2003
	£000	£000
Net incoming/(outgoing) resources before revaluations and investment disposals	(1,448)	1,813
Depreciation charge	173	156
Loss on disposal of tangible fixed assets	(7)	-
(Increase)/Decrease in debtors	1,870	(2,435)
(Decrease)/Increase in creditors	27	(88)
Net cash inflow/(outflow) from operating activities	<u>615</u>	<u>(554)</u>

14 Analysis of net funds	1 April 2003	Cash flows	31 March 2004
	£000	£000	£000
Cash at bank and in hand	4,301	403	4,704
Current asset investments	3,628	774	4,402
	<u>7,929</u>	<u>1,177</u>	<u>9,106</u>

At the 31st March 2004 Cardiff and Vale NHS Trust held £700k in bank accounts with the Office of the Paymaster General.

15 Movements in funds, by type	Unrestricted	Restricted	Endowment	Total
	£000	£000	£000	£000
At 1 April 2003	10,412	18,209	10,683	39,304
Incoming resources	4,844	8,524	102	13,470
Resources expended	(4,646)	(10,086)	(181)	(14,913)
Other movements in year	1,057	2,464	339	3,860
At 31 March 2004	<u>11,667</u>	<u>19,111</u>	<u>10,943</u>	<u>41,721</u>

There are sufficient resources held in an appropriate form to enable each fund to be applied with any restriction imposed.

16 Related party transactions

Details of all related party transactions are shown in the individual charitable trust accounts.

17 Financial Instruments

FRS 13, *Derivatives and Other Financial Instruments*, requires disclosure of the role that the financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments, as defined by FRS 13, play a more limited role in creating or changing risk in the Funds Held on Trust than would be the case of listed companies to which FRS 13 mainly applies. The Funds Held on Trust receive the majority of their income in the form of donations. Significant investments are, however, made and are the source of the main financial risk.

Interest rate risk

The Funds Held on Trust are exposed to fluctuations in interest rates on the monies invested in deposits and the stock market.

Liquidity risk

The majority of expenditure is financed from donations and legacies and there are no borrowings. The Funds Held on Trust are not, therefore, exposed to significant liquidity risk.

18 Post Balance Sheet Events

Upon abolition the funds outstanding at Gwent Health Authority and Dyfed Powys Health Authority were transferred to the residual body of health authorities, Powys Local Health Board, and are included in their annual accounts for 2003/04.

The funds were subsequently transferred on 12th July 2004 by Welsh Statutory Instrument 2004 No. 1607 (W.166) to bodies nominated by the trustees of the abolished Gwent and Dyfed Powys Health Authorities.

THE NATIONAL HEALTH SERVICE FUNDS HELD ON TRUST (WALES)

ACCOUNTS DIRECTIONS GIVEN BY THE TREASURY

1. The Treasury, in pursuance of section 98(4) of the National Health Service Act 1977, hereby gives the following direction.

2. In this direction, unless the context otherwise requires -

“the Act” means the National Health Service Act 1977;

“the Authorities” refers to all Local Health Boards, Special Health Authorities, NHS Trusts, all Special Trustees appointed in pursuance of section 29(1) of the National Health Service Reorganisation Act 1973 and section 95(1) of the National Health Service Act 1977 (as amended) and to any trustees for an NHS trust appointed in pursuance of section 11 of the National Health Service and Community Care Act 1990.

3. In accordance with section 98(4) of the Act, the Secretary of State shall provide, in respect of the financial year ended 31 March 2004 and subsequent financial years, a summarised account of the Authorities’ funds held on trust, as set out in the following paragraphs and Schedule.

4. The summarised account shall comprise:

- a. a foreword
- b. a statement of financial activities
- c. a balance sheet
- d. a cash flow statement; and
- e. such notes as may be necessary for the purposes referred to in paragraph 5 below.

5. The summarised account shall give a true and fair view of the financial activities for the year and the state of affairs as at the end of the financial year and separately show the charitable and non charitable funds held on trust. Subject to this requirement, the summarised accounts shall also, without limiting the information given, meet:

- (a) the accounting and disclosure requirements of the Companies Act;
- (b) generally accepted accounting practice in the United Kingdom including accounting standards issued or adopted by the Accounting Standards Board;
- (c) all relevant guidance given by the Charity Commission; and
- (d) any disclosure and accounting requirements which the Treasury may issue from time to time.

Insofar as these are appropriate to the Authorities' funds held on trust and are in force for the financial period for which the summarised account is to be prepared.

6. This accounts direction shall be reproduced as an appendix to the published summarised account.

7. This direction supersedes the direction dated 1st may 1997.

David A Cruden
Head of Central Accountancy Team, HM Treasury

24th November 2004

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 Directors Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the Foreword.
3. NHS bodies are not required to provide the historical cost information described in paragraph (33) of schedule 4 to the Companies Act.

Accounting Standards

4. 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 summarised account has been prepared to comply with a Direction given by the Treasury in accordance with section 98(4) of the NHS Act 1977.
2. The Foreword shall also contain a description of the statutory background and the main functions of the NHS bodies to which it relates, together with a fair review of their operational and financial activities and a summary of their performance against targets.