

Pembrokeshire and Derwen NHS Trust

Foreword

These accounts for the year ended 31 March 2008 have been prepared by the Pembrokeshire and Derwen NHS Trust under schedule 9 section 178 Para 3 (1) of the National Health Service (Wales) Act 2006 (c.42) in the form in which the Welsh Ministers, with the approval of the Treasury, directed.

On 1 April 2008 Pembrokeshire and Derwen NHS Trust merged with Ceredigion and Mid Wales NHS Trust and Carmarthen NHS Trust to form Hywel Dda NHS Trust. The Assembly created the Hywel Dda NHS Trust on 12 March 2008 by issue of the Welsh Statutory Instrument 2008 No. 712 (W.73). The Hywel Dda NHS Trust will be responsible for the health care provision that the predecessor trusts provided.

**INCOME AND EXPENDITURE FOR THE YEAR ENDED
31 MARCH 2008**

	Note	£000	2006-07 £000
Income from activities	3	128,373	122,929
Other operating income	4	5,033	5,130
Total income		133,406	128,059
Operating expenses	5	(131,467)	(127,003)
Operating surplus/(deficit)		1,939	1,056
Costs of fundamental reorganisation/restructuring		0	0
Profit/(loss) on disposal of fixed assets	8	(18)	336
Surplus/(deficit) before interest		1,921	1,392
Interest receivable		355	333
Interest payable	9	0	3
Other finance costs	16	(28)	(28)
Surplus/(deficit) for the financial year		2,248	1,700
Public Dividend Capital dividends payable		(2,238)	(2,144)
Retained surplus/(deficit) for the year	17	10	(444)

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2008**

		2006-07
		£000
	Note	£000
Surplus/(deficit) for the financial year before dividend payments		1,700
Fixed asset impairment losses	17	0
Unrealised surplus/(deficit) on fixed assets revaluations/indexation	17	(813)
Increases in the donated asset and government grant reserves due to receipt of donated and government grant finance assets	17	180
Reduction in the donated asset and government grant reserves due to the depreciation, impairment and disposal of donated and government grant financed assets	17	(94)
Additions/(reductions) in "other reserves"	17	0
Defined benefit scheme actuarial gains & losses		0
		<u>0</u>
Total recognised gains and losses for the financial year		973
Prior period adjustment	17	0
		<u>0</u>
Total gains and losses recognised in the financial year		<u>387</u>
		<u>973</u>

BALANCE SHEET AS AT 31 MARCH 2008

	Note	£000	£000	31 March 2007 £000
Fixed assets				
Intangible assets	10	204		90
Tangible assets	11	83,990		81,168
Investment assets	11.4	0		0
			84,194	81,258
Current assets				
Stocks and work-in-progress	12	1,918		1,753
Debtors	13	8,393		5,236
Investments	14	0		0
Cash at bank and in hand	18.3	858		857
Total current assets			11,169	7,846
Creditors: amounts falling due within 1 year	15		(10,165)	(10,114)
Net current assets/(liabilities)			1,004	(2,268)
Total assets less current liabilities			85,198	78,990
Creditors: amounts falling due after more than one year	15		(13,531)	(12,431)
Provisions for liabilities and charges	16		(4,836)	(3,307)
Total assets employed			66,831	63,252
Financed by:				
Taxpayer's equity				
Public dividend capital	23.2		63,247	57,817
Revaluation reserve	17		12,448	15,993
Donated asset reserve	17		407	451
Government grant reserve	17		0	0
Other reserves	17		0	0
Income and expenditure reserve	17		(9,271)	(11,009)
Total taxpayer's equity			66,831	63,252

Signed on behalf of the Board on 17 June 2008

Chairman : J Thomas-Ferrand

Chief Executive : M Turner

Adopted by the Board on 17 June 2008

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Note	£000	£000	2006-07 £000
Operating activities				
Net cash inflow from operating activities	18.1		4,493	4,220
Returns on investments and servicing of finance				
Interest received		356		321
Interest paid		0		0
Interest element of finance leases		0		3
Net cash inflow/(outflow) from returns on investments and servicing of finance			356	324
Capital expenditure				
Payments to acquire tangible fixed assets		(9,205)		(7,641)
Receipts from sale of tangible fixed assets		167		1,083
Payments to acquire/ receipts from sale of intangible assets		(127)		(45)
Payments to acquire/ receipts from sale of fixed asset investments		0		0
Net cash inflow/(outflow) from capital expenditure			(9,165)	(6,603)
Public dividend capital dividends paid			(2,283)	(2,068)
Management of liquid resources				
Purchase of current asset investments		(43,000)		(54,500)
Sale of investments		43,000		54,500
Net cash inflow/(outflow) from management of liquid resources			0	0
Net cash inflow/(outflow) before financing			(6,599)	(4,127)
Financing				
Public dividend capital received		5,430		4,465
Public dividend capital repaid (not previously accrued)		0		(1,411)
Public dividend capital repaid (accrued in previous period)		0		0
Government loans received: short term		0		0
Government loans repaid: short term		0		0
Loan advances/brokerage received		1,100		893
Loan advances/brokerage repaid		0		0
Other capital receipts		70		180
Capital element of finance leases		0		(27)
Net cash inflow/(outflow) from financing			6,600	4,100
Increase/(decrease) in cash	18.2		1	(27)

Notes to the accounts

1. Accounting policies and other information

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

1.1 Accounting convention

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

1.2 Acquisitions and discontinued operations

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

1.3 Income recognition

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

1.4 Intangible fixed assets

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

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

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

1.5 Tangible fixed assets

i. Capitalisation

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

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

ii. Valuation

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost (for leased assets, fair value) including any costs such as installation directly attributable to bringing them into working condition. 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.

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 1 April 2007 and are reflected in the 2007-08 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.

Adjustments arising from the five-yearly revaluations are in the first instance taken to the relevant Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses where there is a credit balance for that impaired asset in the Revaluation Reserve, otherwise ordinarily they will be charged to the Income and Expenditure Statement. Falls in value when newly constructed assets are brought into use are always charged to the Revaluation Reserve even where there is no credit balance. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

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

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

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

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

iii. Depreciation

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

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

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

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

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale. Where there have been any significant changes to the useful economic life or residual values of assets, the reason and effect should be disclosed in the year of change. Where, under Financial Reporting Standard 11 a fixed asset impairment is charged to the Income and Expenditure account, offsetting income is paid by the Assembly via the Trust's main commissioner, to offset the charge. The income is used to repay Public Dividend Capital.

1.6 Fixed Asset Investments

Fixed asset investments should be disclosed where the Trust has a participating interest held for the long-term, with a view to exercising control. Each category of investment should be separately disclosed.

1.7 Donated fixed assets

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

1.8 Government grants

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

1.9 Cash Bank and Overdrafts

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

1.10 Leases

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

1.11 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 and the guidance Land and Buildings in PFI schemes version 2. PFI schemes are schemes under which the PFI operator receives an annual payment from the Trust for the services provided by the PFI operator in operating a property and for access to the property itself .

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

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

1.12 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.

1.13 Research and development

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

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

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

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

1.14 Provisions

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

1.15 Contingent Liabilities

Contingent liabilities are recognised where the NHS Trust has

- A possible obligation arising from past events whose existence will be confirmed by the occurrence of future events not wholly within the Trust's control;

- A present obligation arising from past events for which it is not probable that a transfer of economic benefits will be required to settle the obligation; or
- A present obligation where the amount of the obligation cannot be measured with sufficient accuracy.

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

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

1.16 Losses and special payments

Losses and special payments are items that the National Assembly for Wales would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled. Losses and special payments are charged to the income and expenditure account on an accruals basis. However, note 22 is compiled directly from the losses and compensations register which is prepared on a cash basis.

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

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

1.17 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions 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, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore the Scheme is accounted for as a defined contribution scheme: the cost to the NHS body participating in the scheme is equal to the contributions payable to the scheme for the accounting period.

The Scheme is subject to a full actuarial investigation every four years. The main purpose of which is to assess the level of liability in respect of the benefits due under the Scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such investigation, on the conclusions of which scheme contribution rates are currently based, had an effective date of valuation on this basis took place as at 31 March 2004 and covered the period from 1 April 1999 to that date. Between the full actuarial valuations, the Government Actuary provides an annual update of the scheme liabilities for FRS 17 purposes. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Service Authority - Pensions Division website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 2004 investigation was that the scheme had accumulated a notional deficit of £3.3 billion against notional assets as at 31 March 2004. This is after making some allowance for the one-off effective of pay modernisation, but before taking into account any of the scheme changes which come into effect on 1 April 2008. Taking into account the changes in the benefit and

contribution structure effective from 1 April 2008, employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008 employees paid contributions of 6% (manual staff 5%) of their pensionable pay. From 1 April 2008, employees will pay contributions according to a tiered scale from 5% up to 8.5% 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 final years pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement is payable.

Additional pension liabilities arising from early retirement 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 LHB commits itself to the retirement, regardless of the method of payment.

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

[Where the NHS Body has employees who are members of pension schemes other than the NHS Pension scheme described above, additional disclosure will be required to give details of those schemes e.g. stakeholder pensions.]

1.18 Liquid resources

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

1.19 Value added tax

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

1.20 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.

1.21 Third party assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in note 27 to the accounts.

1.22 Public Dividend Capital Dividends

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

1.23 EU Emission Trading Scheme

EU emission trading scheme allowances are accounted for as Government granted current asset investments, valued at open market value. As the NHS body makes emissions a provision is recognised with an offsetting transfer from the Government Grant Reserve. The provision is settled on surrender of the allowances. The current asset investment, provision and Government Grant Reserve are valued at current market value at the balance sheet date.

2. Segmental reporting

The Trust has no business segments as defined in SSAP25 - Segmental Reporting.

3. Income from activities	£000	2006-07 £000
Local health boards	121,975	118,298
Health Commission Wales	(36)	78
NHS trusts	935	674
Strategic health authorities and primary care trusts	1,311	1,098
Foundation Trusts	0	0
Local authorities	1,385	1,679
National Assembly for Wales	2,039	398
Non NHS:		
Private patient income	18	54
Overseas patients (non-reciprocal)	12	4
Injury Costs Recovery (ICR) Scheme	278	216
Other income from activities	456	430
Total	128,373	122,929

ICR income is subject to a provision for doubtful debts of 7.8% to reflect expected rates of collection.

4. Other operating income	£000	2006-07 £000
Patient transport services	14	32
Education, training and research	2,359	2,302
Charitable and other contributions to expenditure	461	401
Transfer from the donated asset reserve	102	94
Transfer from the government grant reserve	0	0
Non-patient care income generation schemes	185	185
Other income:		
Provision of laundry, pathology, payroll services	237	326
Accommodation and catering charges	654	682
Mortuary fees	42	24
Staff payments for use of cars	138	153
Business unit	0	0
Other	841	931
Total	5,033	5,130

Other income of £841k (2006-07 £931k) includes the following sources:

Staff secondments and recharges	494	544
Contribution from clients	178	214
Welfare foods	0	27
	0	0
	0	0
	0	0
Total	672	785

5. Operating expenses

5.1 Operating expenses comprise

	2006-07 £000	2006-07 £000
Goods and services from other NHS bodies	2,453	2,698
Goods and services from other NHS Foundation Trusts	0	0
Purchase of healthcare from non-NHS bodies	0	0
Directors' costs	632	747
Staff costs	99,649	96,558
Supplies and services - clinical	13,173	11,959
Supplies and services - general	1,480	1,486
Consultancy Services	397	348
Establishment	3,320	3,441
Transport	150	205
Premises	4,494	4,444
Depreciation	3,985	3,607
Amortisation	13	9
Fixed asset impairments and reversals	0	0
Audit fees	150	140
Other auditors' remuneration	1	0
Losses, special payments and irrecoverable debts	258	449
Other operating expenses	1,312	912
Total	131,467	127,003

Staff costs includes a charge in respect of actual and expected costs of Agenda for Change for the period 1 April 2007 to 31 March 2008. Agenda for Change is standardised pay bands for the majority of staff working in the NHS and has been implemented by the Trust from the 2005-06 financial year. Included within other operating costs are provisions totalling £521,000 relating to potential redundancies as a result of the formation of the Hywel Dda NHS Trust in respect of the Director of Finance and Medical Directors.

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

	2006-07 £000	2006-07 £000
Increase/(decrease) in provision for future payments:	£000	£000
Clinical negligence	2,194	668
Personal injury	80	145
All other losses and special payments	72	53
Defence legal fees and other administrative costs	69	67
Gross increase/(decrease) in provision for future payments	2,415	933
Contribution to Welsh Risk Pool	0	0
Premium for other insurance arrangements	1	1
Irrecoverable debts	(18)	(7)
Less: income received/ due from Welsh Risk Pool	(2,140)	(478)
Total charge	258	449

Personal injury includes £(38,503) (2006-07 £105,592) in respect of permanent injury benefits. Contributions to the Welsh Risk Pool have not been payable directly by trusts since 1 April 2004.

5.3 Operating Leases

5.3.1 Commitments under non-cancellable operating leases

	Land and buildings		Other leases	
	£000	2006-07 £000	£000	2006-07 £000
Operating leases which expire:				
Within 1 year	0	0	72	60
Between 1 and 5 years	0	0	247	272
After 5 years	0	0	0	0
Total	0	0	319	332

5.3.2 Operating expenses include:

	2006-07 £000	2006-07 £000
Other operating lease rentals	871	852
Hire of plant and machinery	66	10
Total	937	862

5.4 Directors' remuneration

	Remuneration as Director £000	Other remuneration £000	Total £000	2006-07 £000
Non-executive directors' remuneration	87	0	87	95
Executive directors' remuneration:				
basic salaries	247	192	439	554
benefits	0	0	0	0
performance related bonuses	0	0	0	0
pension contributions paid	34	23	57	56
Sub-total	368	215	583	705
Compensation for loss of office	0	521	521	0
Pensions for directors and former directors (other than from the NHS pension scheme)	0	0	0	0
Total	368	736	1,104	705

No performance related bonuses were paid to any Director of the Trust during the financial year 2007-08

No remuneration was waived by directors and £nil allowances were paid in lieu.

Included within compensation for loss of office are provisions totalling £521,000 relating to potential redundancy as a result of the formation of the Hywel Dda NHS Trust in respect of the Director of Finance and Medical Dir

5.4 Directors' remuneration (continued):

The remuneration of the Chairman, Chief Executive and (where the Chief Executive is not the highest paid director) the highest paid director is as follows:

	Remuneration as director £000	Other remuneration £000	Total £000	2006-07 £000
Chairman				
Basic remuneration	39	0	39	39
Benefits	2	0	2	4
	41	0	41	43
Chief Executive				
Basic salaries	93	0	93	173
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	93	0	93	173
Pension contributions	13	0	13	7
	106	0	106	180
Highest paid director				
Basic salaries	27	126	153	173
Benefits	0	0	0	0
Performance related bonuses	0	0	0	0
	27	126	153	173
Pension contributions	3	15	18	7
Total	30	141	171	180

The Chief Executive was the highest paid director during the financial year 2006-07. This post was held by three individuals during 2006-07, and by one individual during 2007-08.

6. Employee costs and numbers

6.1 Employee costs	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2006-07
	£000	£000	£000	£000	£000
Salaries and wages	82,405	379	1,022	83,806	81,824
Social security costs	6,319	0	0	6,319	5,987
Pension costs	10,065	0	0	10,065	9,406
Other pension costs	0	0	0	0	0
Total	98,789	379	1,022	100,190	97,217

During the year salaries of £715,724 (2006-07, £409,301) were capitalised and are not included above.

6.2 Average number of employees

	Permanent Staff	Staff on inward secondment	Agency temporary and contract staff	Total	2006-07
	Number	Number	Number	Number	Number
Medical and dental	225	3	6	234	234
Ambulance staff	0	0	0	0	0
Administrative and estates	520	0	0	520	535
Healthcare assistants and other support staff	939	0	0	939	673
Nursing, midwifery and health visiting staff	959	0	2	961	1,094
Nursing, midwifery and health visiting learners	8	0	0	8	11
Scientific, therapeutic and technical staff	233	0	1	234	367
Social care staff	0	0	0	0	0
Other	0	0	0	0	0
Total	2,884	3	9	2,896	2,914

6.3 Employee benefits

The Trust does not have an employee benefit scheme.

6.4 Trust management costs

	£000	Percentage of total income	2006-07	
			£000	Percentage of total income
Trust management costs	5,499	4.1%	5,232	4.1%
Income	133,406		128,059	

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

6.5 Retirement costs due to ill-health

During 2007-08 (prior year 2006-07) there were 7 (5) early retirements from the Trust agreed on the grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Business Services Authority - Pensions Division) will be £261,236 (£295,785).

7. Public Sector Payment Policy - Measure of Compliance

7.1 Prompt payment code - measure of compliance

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

	Number	£000	2006-07 £000
NHS			
Total bills paid 2007-08	1,484	5,749	4,940
Total bills paid within target	1,290	5,293	4,717
Percentage of bills paid within target	86.9%	92.1%	95.5%
Non-NHS			
Total bills paid 2007-08	40,248	31,687	31,062
Total bills paid within target	39,048	30,879	29,607
Percentage of bills paid within target	97.0%	97.5%	95.3%
Total			
Total bills paid 2007-08	41,732	37,436	36,002
Total bills paid within target	40,338	36,172	34,324
Percentage of bills paid within target	96.7%	96.6%	95.3%

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

	2006-07 £	£
Amounts included within Interest Payable (note 9) arising from claims made under this legislation and compensation paid to cover debt recovery costs.	0	0

8. Profit / (loss) on disposal of fixed assets

	2006-07	
	£000	£000
Profit / (loss) on the disposal of fixed assets is made as follows:		
Profit on disposal of land and buildings	0	341
Loss on disposal of land and buildings	(8)	0
Profit on disposal of plant and equipment	0	0
Loss on disposal of plant and equipment	(10)	(5)
Profit on disposal of intangible fixed assets	0	0
Loss on disposal of intangible fixed assets	0	0
Profit on disposal of fixed assets investments	0	0
Loss on disposal of fixed asset investments	0	0
	(18)	336

9. Interest payable

	2006-07	
	£000	£000
Government borrowing	0	0
Finance leases and PFI schemes	0	(3)
Other	0	0
	0	(3)

10. Intangible fixed assets

	Software licences £000	Licenses and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2007	104	0	0	0	104
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluations	0	0	0	0	0
Additions	127	0	0	0	127
Disposals	0	0	0	0	0
Gross cost at 31 March 2008	231	0	0	0	231
Accumulated amortisation at 1 April 2007	14	0	0	0	14
Impairments	0	0	0	0	0
Reclassifications	0	0	0	0	0
Other revaluations	0	0	0	0	0
Provided during the year	13	0	0	0	13
Disposals	0	0	0	0	0
Accumulated amortisation at 31 March 2008	27	0	0	0	27
Net book value at 1 April 2007	90	0	0	0	90
Net book value at 31 March 2008	204	0	0	0	204

11. Tangible fixed assets

11.1 Tangible assets at the balance sheet date:

Cost or valuation	Land £000	Buildings, excluding dwellings £000	Dwellings £000	Assets under	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000	Total £000
				construction and payments on account £000					
At 1 April 2007	6,681	71,562	1,130	5,528	11,582	56	2,440	28	99,007
Additions									
- purchased	301	1,573	0	4,614	1,622	8	633	0	8,751
- donated	0	0	0	0	70	0	0	0	70
- government granted	0	0	0	0	0	0	0	0	0
Reclassifications	0	7,032	0	(8,161)	1,129	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	5,749	(15,955)	(50)	0	0	0	0	0	(10,256)
Disposals	(130)	(192)	0	0	(782)	0	(36)	0	(1,140)
At 31 March 2008	12,601	64,020	1,080	1,981	13,621	64	3,037	28	96,432
Depreciation									
At 1 April 2007	0	8,263	155	133	7,863	38	1,359	28	17,839
Reclassifications	0	133	0	(133)	0	0	0	0	0
Impairments	0	0	0	0	0	0	0	0	0
Reversal of impairments	0	0	0	0	0	0	0	0	0
Other in-year revaluations	0	(8,272)	(155)	0	0	0	0	0	(8,427)
Disposals	0	(146)	0	0	(773)	0	(36)	0	(955)
Provided during the year	0	2,239	41	0	1,404	4	297	0	3,985
At 31 March 2008	0	2,217	41	0	8,494	42	1,620	28	12,442
Net book value									
at 1 April 2007	6,681	63,299	975	5,395	3,719	18	1,081	0	81,168
Net book value									
at 31 March 2008	12,601	61,803	1,039	1,981	5,127	22	1,417	0	83,990
Net book value of assets held under finance leases and hire purchase contracts									
Total	0	0	0	0	0	0	0	0	0
The total amount of depreciation charged in the Income and Expenditure account in respect of assets held under finance leases and hire purchase contracts:									
Total	0	8	0	0	0	0	0	0	8

Of the net book value totals at 31 March 2008, £155,000 related to land valued at open market value and £165,000 related to buildings, installations and fittings valued at open market value.

Figures for freehold land and buildings are given gross with separate accumulated depreciation.

11.2 Fixed asset investments as a result of PFI contracts at the balance sheet included in Note 11.1 comprise:

The Trust had no fixed asset investments as a result of PFI contracts at the balance sheet date.

11.3 The net book value of land and buildings at the balance sheet date comprise:	31 March 2007	
	£000	£000
Freehold	75,443	70,947
Long leasehold	0	0
Short leasehold	0	8
Total	75,443	70,955

11.4 Fixed asset investments at the balance sheet date excluded from Note 11.1 comprise:

The Trust has no fixed asset investments.

12. Stocks and work-in-progress

	31 March 2007	
	£000	£000
Raw materials and consumables	1,918	1,753
Work-in-progress	0	0
Finished processed goods	0	0
Total	1,918	1,753

13. Debtors

	31 March 2007	
	£000	£000
Amounts falling due within one year:		
Welsh Risk Pool	2,324	656
NHS debtors	2,842	1,695
PDC dividend debtors	314	269
Other debtors	1,806	1,743
Provision for irrecoverable debts	(94)	(112)
Other prepayments and accrued income	977	623
Sub-total	8,169	4,874
Amounts falling due after more than one year:		
Welsh Risk Pool	224	362
NHS debtors	0	0
Other prepayments and accrued income	0	0
Other debtors	0	0
Sub-total	224	362
Total	8,393	5,236

14. Current Asset Investments

	31 March 2007	
	£000	£000
Government securities	0	0
Local authorities	0	0
EU Emission Trading Scheme	0	0
Other	0	0
Total	0	0

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

	31 March 2007	
	£000	£000
Amounts falling due within one year:		
Bank overdrafts	0	0
Interest payable	0	0
Loan advance/brokerage	0	0
Payments received on account	0	0
NHS creditors	2,268	2,215
Non-NHS trade creditors - revenue	838	666
Non-NHS trade creditors - capital	2,064	820
Non-NHS trade creditors - losses and special payments	0	0
Tax and social security costs	2,203	2,054
PDC dividend payable	0	0
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	0	0
Other creditors - superannuation	0	0
Other creditors - all other creditors	1,344	2,493
Accruals	1,428	1,819
Deferred income	20	47
Sub-total	10,165	10,114
Amounts falling due after more than one year:		
Loan advance/brokerage	13,531	12,431
Obligations under finance leases and hire purchase contracts	0	0
Obligations under PFI schemes	0	0
NHS creditors	0	0
Non-NHS trade creditors - losses and special payments	0	0
Deferred income	0	0
Other	0	0
Sub-total	13,531	12,431
Total	23,696	22,545

NHS creditors include £1,436,131 outstanding pensions contributions at 31 March 2008 (£1,191,830 at 31 March 2007).

Other creditors - all other creditors include £215,249 (£1,643,311 at 31 March 2007) in respect of arrears of pay due to staff who have been assimilated to Agenda for Change pay bands.

15.2 Loan advance/strategic assistance funding	31 March	
	2007	
Amounts falling due:	£000	£000
In one year or less	0	0
Between one and two years	0	0
Between two and five years	8,238	8,238
In five years or more	5,293	4,193
Sub-total	<u>13,531</u>	<u>12,431</u>
Wholly repayable within five years	8,238	8,238
Wholly repayable after five years, not by instalments	0	0
Wholly or partially repayable after five years by instalments	5,293	4,193
Sub-total	<u>13,531</u>	<u>12,431</u>
Total repayable after five years by instalments	5,293	4,193

A PDC Loan Advance of £2.8m was received from the former Welsh Office in March 1998. This loan would have been written off by the Welsh Assembly Government when the Trust achieved breakeven for two consecutive years without strategic assistance funding.

A loan of £2.444m was received from the Assembly in March 2003, further loan of £3.350m from the Assembly in the 2003-04 financial year and further loan of £2.444m from the Assembly in the 2004-05 financial year.

In 2005-06 the Trust received a PDC Loan Advance of £0.5m from the Assembly, 2006-07 a further Loan Advance of £0.893m, and in the current financial year a further Loan Advance of £1.1m in order to manage cash as a consequence of the 2005-06 financial position. The terms of repayment for these loans has yet to be agreed.

15.3 Finance lease obligations	31 March	
	2007	
Payable:	Total	£000
	£000	£000
Within one year	0	0
Between one and two years	0	0
Between two and five years	0	0
After five years	0	0
Sub-total	<u>0</u>	<u>0</u>
Less finance charges allocated to future periods	0	0
Total	<u>0</u>	<u>0</u>

15.4 Finance lease commitments

Pembrokeshire and Derwen NHS Trust has not entered into any new contracts to lease assets under finance leases during the financial year 2007/08.

16. Provisions for liabilities and charges

	At 1 April 2007 £000	Structured settlement cases trans- ferred to Risk Pool £000	Transfer of prov- isions to creditors £000	Arising during the year £000	Reversed unused £000	Utilised during the year £000	Unwinding of discount £000	At 31 March 2008 £000
Clinical negligence	966	0	0	2,484	(290)	(560)	0	2,600
Personal injury	1,406	0	0	183	(103)	(125)	28	1,389
All other losses and special payments	0	0	0	72		(72)	0	0
Defence legal fees and other administration	97	0	0	112	(43)	(50)		116
Sub-total	2,469	0	0	2,851	(436)	(807)	28	4,105
Pensions relating to:								
former directors	0			0	0	0	0	0
other staff	82			0	(82)	0	0	0
Restructurings	0			0	0	0		0
Other	756			568	(593)	0		731
Total	3,307	0	0	3,419	(1,111)	(807)	28	4,836

Expected timing of cash flows:

	Between			Totals £000
	Within 1 year £000	2 and 5 years £000	After 5 years £000	
Clinical negligence	2,340	260	0	2,600
Personal injury	211	276	902	1,389
All other losses and special payments	0	0	0	0
Defence legal fees and other administration	91	25	0	116
Pensions - former directors	0	0	0	0
Pensions - other staff	0	0	0	0
Restructuring	0	0	0	0
Other	731	0	0	731
Total	3,373	561	902	4,836

The expected timing of cashflows are based on best available information; but they could change on the basis of individual case changes.

The Trust estimates that in 2008-09 it will receive £2,212,690 and in 2009-10 and beyond £224,000 from the Welsh Risk Pool in respect of the losses and special payments (including clinical negligence).

Other provisions includes £210,288 (£756,620 at 31 March 2007) in respect of the expected pay costs of staff that have yet to be assimilated to Agenda for Change pay bands.

Other provisions also includes provisions totalling £521,000 relating to potential redundancies as a result of the formation of the Hywel Dda NHS Trust in respect of the Director of Finance and Medical Directors.

17. Movements on reserves

Movements on reserves in the year comprised the following:

	Revaluation reserve £000	Donated asset reserve £000	Govern- ment grant reserve £000	Other reserves £000	Income & expenditure reserve £000	Total £000
At 1 April 2007 as previously stated	15,993	451	0	0	(11,009)	5,435
Prior period adjustment					0	0
At 1 April 2007 as restated	15,993	451	0	0	(11,009)	5,435
Transfer from income and expenditure account					10	10
Impairments	0	0	0			0
Surplus (deficit) on revaluation / indexation of fixed assets	(1,817)	(12)	0			(1,829)
Transfer of realised profits/ (losses)	0	0	0		0	0
Receipt of donated/government granted assets		70	0			70
Depreciation, impairment and disposal of donated/government granted assets		(102)	0			(102)
Other transfers between reserves	(1,728)	0	0	0	1,728	0
Other reserve movements				0		0
At 31 March 2008	12,448	407	0	0	(9,271)	3,584

18. Notes to the cash flow statement

18.1 Reconciliation of operating surplus to net cash inflow from operating activities:	£000	2006-07 £000
Total operating surplus/(deficit)	1,939	1,056
Depreciation charge	3,998	3,616
Fixed asset impairment and reversals	0	0
Transfer from the donated asset reserve	(102)	(94)
Transfer from the government grant reserve	0	0
(Increase)/decrease in stocks	(165)	(88)
(Increase)/decrease in debtors	(3,113)	220
Increase/(decrease) in creditors	435	(178)
Increase/(decrease) in provisions	1,501	(312)
Net cash inflow from operating activities before restructuring costs	4,493	4,220
Payments in respect of fundamental reorganisation/restructuring	0	0
Net cash inflow from operating activities	4,493	4,220

18.2 Reconciliation of net cash flow to movement in net debt	£000	2006-07 £000
Increase/(decrease) in cash in the period	1	(27)
Cash inflow from new debt	0	0
Cash inflow from loan advance/brokerage	(1,100)	(893)
Cash outflow from debt repaid and finance lease capital payments	0	27
Cash (inflow)/outflow from (decrease)/increase in liquid resources	0	0
Change in net debt resulting from cash flows	(1,099)	(893)
Non-cash changes in debt	0	0
Net debt at 1 April	(11,574)	(10,681)
Net debt at 31 March	(12,673)	(11,574)

18.3 Analysis of changes in net debt

	At 1 April 2007 £000	Cash flows £000	Non-cash changes £000	At 31 March 2008 £000
OPG cash at bank	759	(187)		572
Commercial cash at bank and in hand	98	188		286
Bank overdrafts	0	0		0
Debt due within one year	0	0	0	0
Debt due after one year	0	0	0	0
Debt due from loan advance/brokerage	(12,431)	(1,100)	0	(13,531)
Finance leases	0	0	0	0
Current asset investments	0	0	0	0
	(11,574)	(1,099)	0	(12,673)

19. Capital commitments

Commitments under capital expenditure contracts at the balance sheet date were £416,202 (and in 2006-07 were £ 2,765,119).

20. Post balance sheet events

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

21. Contingencies

Contingent Liabilities

Provision has not been made in the 2007-08 accounts for the following amounts:

	31 March 2007 £000	31 March 2007 £000
Legal claims for alleged medical or employer negligence	9,595	9,009
Doubtful debts	0	0
Other	0	0
Total value of disputed claims	9,595	9,009
Amount recovered under insurance arrangements in the event of these claims being successful	(8,884)	(8,244)
Net contingent liability	711	765

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

Contingent assets

The Trust has no contingent assets.

22. Losses and special payments

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

Gross loss to the Exchequer

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

	Amounts paid out in year		Approved to write-off in year	
	Number	£	Number	£
Clinical negligence	10	560,391	9	274,622
Personal injury	21	125,063	10	158,325
All other losses and special payments	86	72,069	85	45,981
Total	117	757,523	104	478,928

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

	Amounts paid out in year £	Cumulative amount £	Approved to write-off in year £
Cases exceeding £250,000			
04RR6MN0002	410,000	410,000	0
99RR6MN0019	0	350,000	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
	0	0	0
Sub-total	410,000	760,000	0
All other cases	347,523	1,547,153	478,928
Total cases	757,523	2,307,153	478,928

23.1 Movements in Government funds

	2006-07	
	£000	£000
Surplus/(deficit) for the financial year	2,248	1,700
Public dividend capital dividends	<u>(2,238)</u>	<u>(2,144)</u>
Subtotal	10	(444)
Gains/(losses) from revaluation/indexation of purchased fixed assets	(1,817)	(826)
Impairment of fixed assets	0	0
New public dividend capital	5,430	4,465
Public dividend capital repaid	0	(1,411)
Public dividend capital repayable	0	0
New loans from Government	1,100	893
Government loans repaid	0	0
Transfers from the donated asset reserve	0	0
Additions to/ transfers from the government grant reserve	0	0
Addition/(reduction) in other reserves	<u>0</u>	<u>0</u>
Net addition/(reduction) to Government funds	4,723	2,677
Opening Government funds at 1 April	75,232	72,555
Before deducting prior period adjustment of	0	0
Closing Government funds	<u>79,955</u>	<u>75,232</u>

23.2 Movements in public dividend capital

	2006-07	
	£000	£000
At 1 April 2007	57,817	54,763
New PDC issued in year	5,430	4,465
PDC due but not issued	0	0
PDC repaid in year	0	(1,411)
PDC repayable	<u>0</u>	<u>0</u>
At 31 March 2008	<u>63,247</u>	<u>57,817</u>

24. Financial performance targets

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

24.1 Breakeven	£'000
Target retained surplus	0
Actual retained surplus	10
Variance	<u>(10)</u>

The Trust has met Part 2 of the breakeven duty.

Schedule 4, Paragraph 2 of the NHS (Wales) Act 2006 – formerly the National Health Service and Community Care Act 1990 lays down the statutory financial duties of NHS Trusts:

(1) 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.

(2) Each NHS trust must achieve such financial objectives as may from time to time be set by the Welsh Ministers with the consent of the Treasury and as are applicable to it.

As the Trust did not have a Financial Recovery Plan (FRP) accepted by the Welsh Assembly Government the Trust has failed its statutory breakeven duty under Part (1). The FRP was not accepted because it did not address the recovery of the cumulative deficit and the repayment of strategic assistance and cash loans.

The Trust has broken even in 2007-08.

24.2 External financing	31 March		
The Trust is given an external financing limit which it is permitted to undershoot	2007		
	£000	£000	£000
External financing limit set by the Assembly		6,530	3,947
Cash flow financing	6,599		4,127
Finance leases taken out in the year	0		0
Other capital receipts	<u>(70)</u>		<u>(180)</u>
External financing requirement		<u>6,529</u>	<u>3,947</u>
Undershoot / (overshoot)		<u>1</u>	<u>0</u>

The Trust has achieved its external financing limit.

24.3 Creditor payment

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

Total number of non-NHS bills paid 2007-08	2007-08 40,248
Total number of non-NHS bills paid within target	39,048
Percentage of non-NHS bills paid within target	97.0%

The Trust has met the target.

25. Related Party transactions

Pembrokeshire and Derwen NHS Trust is a body corporate established by order of the Secretary of State.

Mrs MP Barnaby was a Governor of Pembrokeshire College during 2007-08. In 2007-08 the Trust made payments of £19,197 to, and received income of £20,477 from the Pembrokeshire College.

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

The Trust received income from Pembrokeshire Local Health Board during 2007-08 of £92,298,277, (2006-07, £89,485,797). The Trust also had a number of transactions with other Local Health Boards in the course of its activities, these included Carmarthen, Ceredigion and Powys Local Health Boards.

In addition, the Trust has had a significant number of material transaction with other NHS Trusts, and other Government Departments and other central and local Government bodies. In 2007-08 the Trust paid the Carmarthen NHS Trust £1,909,955 (2006-07, £2,153,571) mainly in respect of payroll, internal audit services and facilities costs, Bro Morgannwg NHS Trust £943,732 (2006-07, £943,271) mainly for the purchase of goods from Welsh Health Supplies, the Welsh Ambulance Service NHS Trust £748,358 (2006-07 £707,896) for patient transport services, and Ceredigion NHS Trust £363,017 (2006-07, £367,750) mainly for facility costs.

The Trust has also received revenue and capital payments from Pembrokeshire and Derwen NHS Trust Charitable Fund, of which Pembrokeshire and Derwen NHS Trust in the corporate Trustee.

26. Other/ Private finance transactions

The Trust has no PFI schemes deemed to be "on or off balance sheet."

27. Third party assets

The Trust held £454,993 cash at bank and in hand at 31 March 2008 (31 March 2007, £345,622) which relates to monies held by the Trust on behalf of patients. This has been excluded from cash at bank and in hand figure reported in the accounts.

28. Financial instruments

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

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

Liquidity Risk

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

Interest-rate risks

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.

The NHS Trust may hold any of the following financial assets and liabilities:

Assets: investments, long-term debtors and accrued income, short-term debtors and accrued income (not disclosed in this note as permitted by FRS 13), cash.

Liabilities: loans and overdrafts, long-term creditors, short-term creditors (not disclosed in this note as permitted by FRS 13), provisions arising from contractual arrangements, finance lease obligations, Public Dividend Capital

The powers of NHS Trusts to invest and borrow are limited. The Board has determined that in order to maximise income from cash balances held, any balance of cash which is not required will be invested. The amount of investment is capped by Direction of the Assembly at an average daily cleared balance of £50,000 and NHS Trusts may only invest in instruments and institutions approved by the Assembly. The Trust does not borrow from the private sector. All other financial instruments are held for the sole purpose of managing the cash flow of the Trust on a day to day basis or arise from the operating activities of the Trust. The management of risks around these financial instruments therefore relates primarily to the Trust's overall arrangements for managing risks to their financial position, rather than the Trust's treasury management procedures.

29. Intra Government balances

	Debtors: Amounts falling due within one year £000	Debtors: Amounts falling due after more than one year £000	Creditors: Amounts falling due within one year £000	Creditors: Amounts falling due after more than one year £000
2007-08:				
National Assembly for Wales	1608	0	0	13531
Welsh Local Health Boards	768	0	28	0
Welsh NHS Trusts	2850	224	798	0
Health Commission Wales	0	0	0	0
All English Health Bodies	229	0	6	0
All N. Ireland Health Bodies	0	0	0	0
All Scottish Health Bodies	38	0	0	0
Miscellaneous	0	0	0	0
Credit note provision	-13	0		
Sub total	<u>5,480</u>	<u>224</u>	<u>832</u>	<u>13,531</u>
Other Central Government Bodies				
Other Government Departments*	30	0	1,439	0
Revenue & Customs	242	0	2,203	0
Local Authorities	519	0	15	0
Balances with Public Corporations and trading funds	0	0	101	0
Balances with bodies external to Government	1,898	0	5,575	0
TOTAL	<u>8,169</u>	<u>224</u>	<u>10,165</u>	<u>13,531</u>
2006-07:				
National Assembly for Wales	613	0	0	12,431
Welsh Local Health Boards	813	0	285	0
Welsh NHS Trusts	827	362	725	0
Health Commission Wales	90	0	0	0
All English Health Bodies	269	0	13	0
All N. Ireland Health Bodies	0	0	0	0
All Scottish Health Bodies	8	0	0	0
Miscellaneous	0	0	0	0
Credit note provision	0	0	0	0
Sub total	<u>2,620</u>	<u>362</u>	<u>1,023</u>	<u>12,431</u>
Other Central Government Bodies				
Other Government Departments*	41	0	1,192	0
Revenue & Customs	186	0	2,055	0
Local Authorities	528	0	74	0
Balances with Public Corporations and trading funds	0	0	81	0
Balances with bodies external to Government	1,499	0	5,689	0
TOTAL	<u>4,874</u>	<u>362</u>	<u>10,114</u>	<u>12,431</u>

30. Pooled budgets

The Trust has no pooled budgets.

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

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

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

Date: 17 June 2008

Chief Executive : M Turner

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

The Directors are required under the National Health Service (Wales) Act 2006 to prepare accounts for each financial year. The Welsh Ministers, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the Trust and of the income and expenditure of the Trust for that period. In preparing those accounts, the directors are required to:

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

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

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

By Order of the Board

Signed:

Date: 17 June 2008

Chairman: J Thomas-Ferrand

Date: 17 June 2008

Chief Executive : M Turner

Date: 17 June 2008

Director of Finance: KT Jones

STATEMENT ON INTERNAL CONTROL

1. Scope of responsibility

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

2. The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of organisational policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the organisation for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts, and accords with Welsh Assembly Government guidance.

3. Capacity to handle risk

The accountable officer for risk management is the Chief Executive. The Director of Nursing and Quality has delegated responsibility for risk management across the Trust. Directors of Operations, General Managers and Heads of Department have delegated responsibility for risk management in their service areas.

All Trust staff have access to training and development in risk management. This training begins on induction into the organisation. Staff then have access to a broad range of training commensurate with their role in the organisation and contribution that they are expected to make to the risk management process. Training offered includes:

- Risk assessment
- Clinical risk management
- Root cause analysis/serious incident review
- Institute of Occupational Safety and Health, IOSH

The Risk Management Strategy outlines the list of competent people in the Trust who are available to provide guidance and advice on specific risk management issues. Proactive risk management and the learning of lessons from events or incidents occurs through the following mechanisms.

Externally:

- Via benchmarking with other trusts
- Joint working with other organisations and stakeholders e.g. the Regional Office of the Welsh Assembly Government and the Local Health Boards.
- Welsh Risk Managers Network
- National Patient Safety Agency

Internally:

- Root cause analysis or review of serious incidents, critical events and near misses.
- Directorate Clinical Governance and Risk Management Groups
- Divisional Learning from Events Groups
- Divisional Clinical Governance and Risk Management Co-ordinating Groups

4. The risk and control framework

Pembrokeshire and Derwen NHS Trust assesses and prioritises all significant risks. This process should lead to the formulation of a Trust wide risk profile which identifies the risks within the organisation which are significantly difficult to control. Such a risk profile is a register of risks known to the Trust through a process of risk assessments across the whole organisation. Risk assessment and profiling underpins the overall risk management process and involves:

- The collection of information from all stakeholders about areas of perceived risk
- The willingness to report examples of latent and active error soon after the event
- The management and reduction/elimination where possible of identified areas of risk.

The Trust is committed to managing the risks inherent in the services it provides every day. It is not possible to manage a risk until it is known. The identification, assessment and documentation of risks are vital to the success of the risk management effort. Risk Management is a framework designed to identify the various causes of risk and hazard with the key objective of maintaining the safety of the stakeholders. It does this by proactively identifying risks and planning to meet new legislation and guidance. The Healthcare Standards for Wales make a key contribution to the effective management of risk. Following self assessment and audit by Internal Audit Agency the Trust assessed itself as Developing or Practicing in all key underpinning Standards for the year 2007-2008. Please see below for detailed breakdown.

- Standard 14 Practicing
- Standard 16 Developing
- Standard 27 Developing
- Standard 28 Practicing

The above positions are still to be validated by Healthcare Inspectorate Wales. The Organisational process for the management of the Self Assessment against the Standards has been managed centrally to date, with Standard Leads being supported through the Clinical Governance Support Unit. All text and evidence form the Standards is quality checked before submission. Board engagement insured throughout the year by quarterly exception and update reporting the Standards and the Healthcare Standards Improvement Plan (HCSIP) to the Clinical Governance and Risk Management Committee, the Board and the Regional Office.

Work has been ongoing over the previous 12 months to ensure that the HCSfW and the HCSIP are intergraded into the existing Clinical Governance Development Plans and Service Improvement and Modernisation Plans. This work will continue over the coming months across the newly merged Hywel Dda NHS Trust

Risk Management is embedded in the Organisation through:

Integration of the risk management, health, safety and environment protection management within existing processes/strategies and presentation of this in operational plans.

Comprehensive risk management systems for reporting and reviewing all incidents, serious incidents and near misses will be utilised by all Divisions, Directorates/Services and Departments to identify hazards and risks, and to manage trends. This will be integrated to include review of litigation and complaints in order to develop learning from the lessons.

Appropriate clinical, organisational and quality improvements will be implemented within Directorate/Services and Departments to minimise inherent clinical and other risks and information shared where corporate developments would benefit the service.

Encouragement for all staff to report incidents, concerns and near misses as an essential part of the process of developing a proactive and open risk management, health, safety and environment protection culture.

Systematic and timely risk assessment will inform the development of Divisional, Directorate/Service, Departmental Registers and Trust wide Risk Profile and Strategies.

The Welsh Risk Management Standards will be implemented and monitored in each Division, Directorate/Service and Department.

Directorates/Services and Departments will comply with the requirements of the Health and Safety at Work etc Act 1974 [HSWA] and all other UK and EC statutes, legislation and regulations covering the Trusts activities.

Codes of practice approved by the Health & Safety Executive will be adopted and Health, Safety and Environment Protection guidance will inform safe working practices and standards within Directorate/Services and Departments.

Training of all staff will be undertaken in regard to organisational and clinical health and safety matters and any instruction in specific hazards associated with the work undertaken; special precautions, need for health surveillance and emergency procedures. Training for clinical skills and competencies will be undertaken according to identified need.

5. Review of effectiveness

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

I am satisfied that the organisation has had in place a sound system of internal control during 2007/8 which is ongoing. This is evidenced by the performance against the Healthcare Standards self-assessment (2006/7 and 2007/8) and the Welsh Risk Pool standards voluntary assessment and consistently good performance in internal and external audit activities.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that all member Pension Scheme records have been passed to the NHS Pensions Agency in accordance with the timescales detailed in the Regulations.

M Turner
Chief Executive
(on behalf of board)

Date: 17 June 2008

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

I certify that I have audited the financial statements of Pembrokeshire and Derwen NHS Trust for the year ended 31st March 2008 under Section 61 of the Public Audit (Wales) Act 2004. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the remuneration report that is required to be audited.

Respective responsibilities of Directors, the Chief Executive and the Auditor

The Directors and the Chief Executive are responsible for preparing the annual report, the remuneration report and the financial statements in accordance with paragraph 3 of schedule 9 to the National Health Service (Wales) Act 2006 and Welsh Ministers' directions made there under and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statements of Directors' and Chief Executive's Responsibilities.

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

I report my opinion to you as to whether the financial statements give a true and fair view and whether the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with paragraph 3 of schedule 9 of the National Health Service (Wales) Act 2006 and Welsh Ministers' directions made there under. I also report 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.

In addition I report to you if in my opinion, Pembrokeshire and Derwen NHS Trust has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury or Welsh Ministers regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects Pembrokeshire and Derwen NHS Trust's compliance with HM Treasury's and Welsh Ministers' guidance and report if it does not. I am not required to consider whether this Statement covers all risks and controls, or to form an opinion on the effectiveness of Pembrokeshire and Derwen NHS Trust's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Foreword, the unaudited part of the Remuneration Report, the Chairman's Statement and the remaining elements of the Operating and Financial Review. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinions

I conducted my audit in accordance with the Public Audit Wales Act 2004 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and that part of remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Pembrokeshire and Derwen NHS Trust's circumstances, and are 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 fraud or error and that in all material respects, the expenditure and income have been applied to the purposes intended by the National Assembly for Wales and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and that part of remuneration report to be audited.

Without qualifying my opinion, I draw your attention to notes 5.4 and 16, which refer to expenditure of £521,000 in respect of the potential severance costs of Executive Directors of the Trust. The Trust has received additional funding equal to the value of the expenditure from the Welsh Assembly Government so that there is no impact on the surplus for the year or the net asset position of the Trust at 31 March 2008. In accordance with the guidance set out in Financial Reporting Standard 12 my view is that this is a charge that should be accounted for in the 2008-09 financial year rather than in the current financial statements

Opinion

In my opinion:

- the financial statements give a true and fair view in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers of the state of the affairs of Pembrokeshire and Derwen NHS Trust as at 31 March 2008 and of its deficit, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and that part of the remuneration report to be audited have been properly prepared in accordance with the National Health Service (Wales) Act 2006 and directions made there under by Welsh Ministers.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

My conclusion on Pembrokeshire and Derwen NHS Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008 will be reported separately in the published Annual Audit Letter.

Jeremy Colman
Auditor General for Wales
20th June 2008

Wales Audit Office
24 Cathedral Road
Cardiff
CF11 9LJ

THE NATIONAL HEALTH SERVICE IN WALES ACCOUNTS DIRECTION GIVEN BY WELSH MINISTERS IN ACCORDANCE WITH SCHEDULE 9 SECTION 178 PARA 3(1) OF THE NATIONAL HEALTH SERVICE (WALES) ACT 2006 (C.42) AND WITH THE APPROVAL OF TREASURY

NHS TRUSTS

1. Welsh Ministers direct that an account shall be prepared for the financial year ended 31 March 2008 and subsequent financial years in respect of the NHS Wales Trusts. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

BASIS OF PREPARATION

2. The account of the NHS Wales Trusts shall comply with:

- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
- (b) the accounting and disclosure requirements of the Companies Act;
- (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
- (d) accounting guidance approved by the FRAB and contained in the Financial Reporting Manual (FRoM), as detailed in the NHS Wales Trust 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

3. The account of the Trust for the year ended 31 March 2008 and subsequent years shall comprise a foreword, an income and expenditure account, a balance sheet, a cash flow statement and a statement of recognised gains and losses as long as these statements are required by FRAB, including such notes as are necessary to ensure a proper understanding of the accounts.

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

5. The account shall be signed and dated by the Chief Executive and Chairman of the Trust.

MISCELLANEOUS

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

Signed by the authority of Welsh Ministers

Signed :

Dated :