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# Department of Health

## Resource Accounts 2004-05

(For the year ended 31 March 2005)

*Ordered by the House of Commons to be printed  
14 November 2005*



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## ANNUAL REPORT

### SCOPE

#### Departmental accounting boundary

These accounts consolidate the financial information within the Departmental Accounting Boundary which includes the parent Department of Health (DH), its on-Vote Executive Agency, and other NHS bodies funded directly by the Department.

NHS Estates, the Medicines and Healthcare products Regulatory Agency, NHS Trusts, Foundation Trusts and all, except NHS Tribunals, of the Department's Non-Departmental Public Bodies are excluded from the consolidation. NHS Trusts and those Special Health Authorities that receive their funding from "trading" activities, e.g. National Blood Authority and NHS Logistics Authority, produce income and expenditure accounts within Resource Budgeting but are outside of the Resource Accounting Boundary. Annex A provides a comprehensive list of the Health bodies, which are inside and outside of the Resource Accounting Boundary.

More information on entities within the departmental family can be found in the annual reports and accounts of the Executive Agencies or in the individual and summarised accounts of NHS Trusts, Foundation Trusts, Strategic Health Authorities, Special Health Authorities and Primary Care Trusts which are published separately.

#### Departmental reporting cycle

##### Departmental Report

The Departmental Report is an accountability document which presents the Government's spending plans and achievements to Parliament and the wider public. As such, it is a major statement of Government policy and the primary source of information about public spending programmes and initiatives.

It is produced annually around June and contains a wide range of information about our spending programmes.

This report provides Parliament and the public with an account of how the Department of Health has spent the resources allocated to it, as well as its future spending plans. It also describes our policies and programmes and gives a breakdown of spending within these programmes.

##### Autumn Performance Report

Following on from the Departmental Report, the Autumn Performance Report is usually published in November/December and provides a further update to the progress against the Public Service Agreement targets that are set out in Section 2 of the main Departmental Report. Publication dates are agreed with HM Treasury.

The Departmental and Autumn Performance Reports can be found at [www.dh.gov.uk/PublicationsAndStatistics](http://www.dh.gov.uk/PublicationsAndStatistics)

##### Parliamentary Estimates

All resources and cash reported in the Resource Account must be approved by Parliament through the Central Government Supply Estimates for the year.

Expenditure plans and total cash requirements are presented to Parliament at the start of the financial year in the Main Supply Estimates. Subject to Parliament's agreement, the Estimates may be amended during the year at one of the Supplementary Estimates stages (Summer Supply, Winter Supply and Spring Supply). Typically such amendments result from planned changes in the total resources (e.g. transfers to and from other government Departments or the take up of end year flexibility) or the re-attribution of expenditure within the overall Estimate.

Central Government Supply Estimates are published by HM Treasury. They are available from TSO.

## OPERATING AND FINANCIAL REVIEW

This section is intended to meet the requirements of the Accounting Standards Board's statement "Operating and financial review", albeit in a public sector context.

### Aims and Objectives

The Department of Health's overall aim is to improve the health and wellbeing of the population of England. The Departmental Report sets out the following objectives set by Ministers to:

- improve and protect the health of the population, with special attention to the needs of the poorest and those with long term conditions;
- enhance the quality and safety of services for patients and users, giving them faster access to services, and more choice and control;
- deliver a better experience for patients and users;
- improve the capacity, capability and efficiency of the health and social care systems, ensuring that system reform, service modernisation, IT investment and new staff contracts deliver improved value for money and higher quality;
- improve the service we provide as a Department of State to – and on behalf of – Ministers and the public, nationally and internationally; and,
- become more capable and efficient as a Department and cement our reputation as an organisation that is both a good place to do business with and a good place to work.

These objectives relate specifically to 2004-05. Schedule 5 uses objectives set within the Spending Review 2002, which covers the period 2002-03 to 2004-05 to allow comparability between financial years.

### Principal activities

The Department of Health sets overall policy on all health issues, including public health matters and the health consequences of environmental and food issues. It is also responsible for the provision of health services, a function which it discharges through the National Health Service (NHS). The Department is also responsible for the overall policy for the delivery of personal social services (PSS) and provides advice and guidance to local authorities. The PSS programme is financed in part by Central Government through grants and credit approvals. Most local authority PSS expenditure depends upon decisions by individual local authorities on how to spend the resources available to them.

### Spending Review and Activity

The NHS, including bodies not included in the Resource Accounts, is financed mainly through general taxation with an element coming from National Insurance contributions. In 2004-05, 97.3% of financing for the NHS in England was met from these two sources, 76.3% from the Consolidated Fund, that is, from general taxation and 21% from the NHS element of National Insurance Contributions.

The Department of Health allocates revenue funding to Primary Care Trusts (PCTs) on the basis of the relative needs of their populations. A weighted capitation formula is used to determine each PCT's target share of available resources, to enable them to commission similar levels of health services for populations in similar need.

PCTs target shares of available resources are based on the age distribution of the population, additional need over and above that accounted for by age, and the unavoidable geographical variations in the cost of providing services.

The remainder of the NHS expenditure comes from charges and receipts, including land sales and proceeds from income generation schemes. Other than items such as trade debtors and creditors that arise from its operations and cash resources, it holds no other financial instruments nor enters into derivative transactions. The Department's accounting policies are explained in Note 1 to the accounts.

The Department has continued the programme of devolved responsibility to the NHS which is now enjoying more autonomy with 80 % of the total NHS budget being controlled by Primary Care Trusts.

In July 2004 the Chancellor announced the outcome of spending review which set out spending plans up to 2007-08 for the NHS at an average increase of 7.1% over inflation for the period 2005-06 to 2007-08. The settlement also delivered a further average annual real terms increase for Adult's Personal Social Services (PSS) of 2.7% over the three years. This demonstrates the Government's continued commitment to investment in health and social care services to deliver better quality care for the whole population.

The increases in NHS funding in 2004-05 have been used to:

- **Improve access to, and quality of, services paying for extra staff, supplies, services and drugs**

£3.2 billion of the increase has been used to employ additional staff, increase prescribing and purchase more goods and services. Of the increase of £3.2 billion approximately £1.4 billion was spent on additional staff, with 8,050 extra doctors and 11,160 extra nurses, midwives and health visitors, and £0.8 billion on increased prescribing. The balance was used to purchase more goods and services.

- **Invest for the future by developing the capital infrastructure and funding research and training**

To achieve world-class service standards, the NHS needs to invest in people and infrastructure. Investment in training, research and capital increased during the year by £1.15 billion. This helped to deliver the opening of six new hospitals and there has also been a 4% increase in medical school intake.

- **Ensure that pay levels are sufficient to attract and retain staff**

Around £2 billion has been invested in pay allowing the NHS to recruit and retain high quality staff.

- **Meet unavoidable cost pressures—such as inflation on goods and services.**

Through these increases in funding the NHS has been able to deliver sustained improvements in performance.

More detail on how Department of Health funding was used in 2004-05 can be found in the Chief Executive's report of May 2005 on the Department's website at [www.dh.gov.uk](http://www.dh.gov.uk).

### Financial Results

The Summary of Resource Outturn shows that the net total resources of the Department was £53.779bn compared to the vote estimate of £55.493bn – £1.715bn less than estimated.

The amounts voted in estimates exclude the surplus or deficits of NHS Trusts, the performance of NDPBs outside the resource accounting boundary (listed in Annex A) and other expenditure which is not voted.

The overall spending approved by Parliament in 2004–05 and the outturn against provision for all types of expenditure was as follows:

Expenditure type	Provision £'000	Outturn £'000	(Under) spend £'000
<b>Request for Resources 1</b> Securing health care for those who need it.	51,927,853	50,339,638	(1,588,215)
<b>Request for Resources 2</b> Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health.	3,549,279	3,423,129	(126,150)
<b>Request for Resources 3</b> Office of the Independent Regulator for NHS Foundation Trusts	16,000	15,856	(144)
<b>Resource Outturn</b>	<u>55,493,132</u>	<u>53,778,623</u>	<u>(1,714,509)</u>

NHS organisations (strategic health authorities, primary care trusts, NHS Trusts and NHS foundation trusts) incurred a net income and expenditure deficit of some £250 million – a little under half of one per cent of the NHS budget. Recovery plans are being agreed and monitored with organisations in deficit.

Request for Resources 1 expenditure of £50.340 billion includes a reduction in previous years provisions of £1,486 million as set out in note 18.

## Events since the year end

### *Changes in arms length bodies*

Following an earlier review by the Department the configuration of its arms length bodies will change between 2005 and 2008. The following changes have occurred since 31 March 2005:

#### *In April 2005*

- the Health and Social Care Information Centre was formed taking on many of the functions of the department's statistics Division and the NHS Information Authority;
- the National Institute for Health and Clinical Excellence was formed bringing together the National Institute for Clinical Excellence and the Health Development Agency;
- the Human Tissue Authority was formed to act as licensing authority for activities involving the removal, storage, use and disposal of human material as well as advisors to Government on issues related to human tissue;
- the Family Health Services Appeal functions were transferred to NHS Litigation Authority;
- the Health Protection Agency became a non-departmental public body and took on the functions of the National Radiological Protection Board and the Public Health Laboratory Service;
- the National Clinical Assessment Authority functions transferred to the National Patients Safety Agency.

#### *In July 2005*

- the NHS Institute for Innovation and Improvement was established to take over the functions of the former NHSU and the Department's Modernisation Agency.

#### *In October 2005*

- the NHS Business Services Authority replaced Dental Practice Board, NHS Counter Fraud and Security Management Service, NHS Pension Agency and Prescription Pricing Authority;
- the NHS Blood and Transplant replaced the National Blood Authority and UK Transplant;
- NHS Estates was abolished, with many of the functions of the Agency transferred to the Department of Health, other Arm's Length Bodies or NHS organisations.

### *Sale of Retained Estates*

On 7 April the Department sold ninety six assets for £320 million, plus overage, to the Office of the Deputy Prime Minister. This represents the majority, by value, of the surplus assets managed by NHS Estates.

### *Commissioning a patient – led NHS*

In July the Department announced Improvements in commissioning, the determination to make progress on working with Local Authorities on Choosing Health, and the commitment to make £250 million of savings in overhead costs, this will require NHS organisations to change and develop.

These changes in function will mean that the NHS will want to reconsider the optimal configuration of PCTs, and where appropriate Care Trusts, and SHAs and their fitness for purpose. This will be done alongside the reform in the provision of ambulance services described in Taking Healthcare to the Patient.

The pace of change will be for local consideration and consultation. However, the Department expects that PCTs will make arrangements for universal coverage of Practice Based Commissioning to be in place by December 2006, that PCT changes will be in place by October 2006 and that SHA changes will be complete by April 2007. Changes to PCT service provision will be complete by December 2008. Some areas may choose to go faster.

Department recognises that, taken together, these developments provide significant challenges for the NHS which will need to be very carefully managed.



***Ministerial changes***

Following the general election in May, a New Ministerial team for the Department was appointed, comprising:

Secretary of State for Health

– Rt Hon Patricia Hewitt MP

Ministers of State

– Lord Warner

– Rt Hon Jane Kennedy MP

– Rosie Winterton MP

Parliamentary Under-Secretaries of State

– Caroline Flint MP

– Liam Byrne MP

On 21 July 2005, The Department of Health, the NHS Appointments Commission and the NHS Confederation published a new Guide to help promote equality and human rights in the NHS.

The Guide targeted at NHS Boards, and Non-Executive Directors in particular, contains details of current and imminent legislation, vital statistical information on communities, patients and the workforce, and a set of 15 prompts to enable Boards to embed good equality and human rights practices into their decision-making and the performance of their organisations. As a result, the NHS will be able to maintain its commitment to providing fairer, faster and personalised services to communities and patients, and recruit, develop and retain the best talent in its workforce.

**Resources by Programme Budget Categories for the year ended 31 March 2005**

The Resource Accounting Manual required net operating costs to be analysed by objective (Schedule 5). In previous years the Department have been unable to make this disclosure and as a substitute have analysed net operating cost by programme budget category. Although Schedule 5 is now analysed by objective (page 26) the analysis by programme budget category provides useful information and has been retained as part of the Annual Report.

The Department of Health's overall aim is to improve the health and wellbeing of the people of England through the resources available to prevent/treat:

	<b>Gross £'000</b>	<b>2004-05 Income £'000</b>	<b>Net £'000</b>	<b>2003-04 Net £'000</b>
Mental Health Problems (Total) of which	7,905,131	317,004	7,588,127	7,161,618
Mental Health Sub Group: Substance Abuse	632,655	23,303	609,352	-
Mental Health Sub Group: Dementia	838,168	26,510	811,658	-
Mental Health Sub Group: Other	6,434,308	267,191	6,167,117	-
Circulation Problems (CHD)	6,187,935	234,066	5,953,869	5,521,041
Cancers & Tumours	3,773,203	103,070	3,670,133	3,308,732
Trauma & Injuries (includes burns)	3,590,581	93,914	3,496,667	3,124,029
Musculo Skeletal System Problems (excludes Trauma)	3,577,089	103,207	3,473,882	3,064,718
Gastro Intestinal System Problems	3,526,063	93,045	3,433,018	3,087,194
Genito Urinary System Disorders (except infertility)	3,097,564	85,852	3,011,712	2,749,885
Respiratory System Problems	3,072,258	93,463	2,978,795	2,676,744
Maternity & Reproductive Health	2,617,116	51,535	2,565,581	2,532,335
Dental Problems	2,424,788	448,831	1,975,957	1,869,084
Learning Disability Problems	2,355,887	98,861	2,257,026	2,194,393
Neurological System Problems	1,779,449	59,820	1,719,629	1,524,352
Infectious Diseases	1,615,451	95,175	1,520,276	943,528
Social Care Needs	1,612,406	94,785	1,517,621	1,433,118
Endocrine, Nutritional and Metabolic Problems (Total) of which	1,599,318	71,502	1,527,816	1,449,458
Endocrine Sub-group: Diabetes	687,402	31,803	655,599	-
Endocrine Sub-group: Other	911,916	39,699	872,217	-
Eye/Vision Problems	1,302,579	24,979	1,277,600	1,183,181
Skin Problems	1,213,925	36,888	1,177,037	1,038,362
Healthy Individuals	1,157,915	44,848	1,113,067	1,074,946
Blood Disorders	944,496	39,794	904,702	799,473
Neonate Conditions	776,483	32,539	743,944	637,024
Poisoning	598,916	12,763	586,153	475,829
Hearing Problems	318,899	10,104	308,795	292,690
Other Areas of Spend/Conditions:				
● General Medical Services/Personal Medical Services	6,377,342	157,936	6,219,406	4,881,246
● Strategic Health Authorities (inc WDCs)	4,044,893	507,713	3,537,180	3,605,694
● National Insurance Contribution	-	15,133,971	(15,133,971)	(12,777,958)
● Miscellaneous	6,452,492	98,655	6,353,837	8,479,067
<b>Net Operating Cost</b>	<b>71,922,179</b>	<b>18,144,320</b>	<b>53,777,859</b>	<b>52,329,783</b>

**Note**

The analysis contained in Schedule 5 is a calculation which uses 2004-05 activity indicative provider costs (reference costs) and prescribing information as the basis for apportioning the totality of NHS/Department spend across various programme budget categories.

The analysis was based on a "bottom up" approach. PCTs allocated/apportioned their spend at the local level and reported the results to the Department. Schedule 5 is an aggregate of these returns.

**MANAGEMENT**

The Department is headed by a team of Ministers, supported by officials, the most senior of whom is the Permanent Secretary who is also the Chief Executive of the NHS. The Permanent Secretary is the Accounting Officer for the Department and for the NHS, and appoints the Chief Executives of the Department's Executive Agencies and Special Health Authorities as Accounting Officers for their respective bodies, and Chief Executives of PCTs and Strategic Health Authorities as Accountable Officers.

**Ministers**

The following Ministers were responsible for the Department during 2004-05:

Secretary of State for Health with overall responsibility for the work of the Department:

- The Right Honourable John Reid MP

Ministers of State with responsibilities for the NHS, and Social Care, including long term care, disability and mental health:

- John Hutton MP
- Rosie Winterton MP

Parliamentary Under Secretary (Lords) with responsibilities including Departmental management:

- Lord Warner

Parliamentary Under Secretaries (Commons) with responsibility for Health and Public Health:

- Melanie Johnson MP
- Stephen Ladyman MP

**Officials****The Departmental Management Board**

The Department comprises three groups, dealing with various aspects of the organisation's work (Standards and Quality of Public Health and Care Services, Delivery and Performance in the NHS, and Promotion of Strategy Objectives Business Development of the Department). Group Directors report to the Chief Executive/Permanent Secretary.

The following senior officials served on the Departmental Management Board in 2004-05:

Sir Nigel Crisp, Permanent Secretary and Chief Executive of the NHS  
Professor Sir Liam Donaldson, Chief Medical Officer, and Director of Health & Social Care Standards & Quality Group  
John Bacon, Director of Health and Social Care Services Delivery  
Hugh Taylor, Director of Health and Social Care Strategy and Business Development  
Stephen O'Brien, Director of Strategy, from June 2004  
Sian Jarvis, Director of Communications  
Sarah Mullally, Chief Nursing Officer, and Director of Patient and Public Involvement to September 2004  
Richard Douglas, Director of Finance and Investment  
Christine Beasley, Chief Nursing Officer, and Director of Patient and Public Involvement, from October 2004.

**Appointment of senior officials**

Senior Civil Servants, including the Permanent Secretary and the Departmental Management Board members are appointed in accordance with the Department's Procedures, the Civil Service Commissioner's Recruitment Code and the Guidance on Civil Service Commissioner's Recruitment to Senior Posts.

**How remuneration of Ministers and senior officials is determined**

Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

The majority of Senior Civil Servants in the Department, including the Permanent Secretary and Departmental Board members, are paid in accordance with the Senior Civil Service pay system, which is determined centrally. A minority of Senior Civil Servants in the Department are on NHS pay terms.

**Remuneration of Ministers and senior officials**

Details of remuneration of Ministers and senior officials are given in Note 2.3 to the accounts.

**PUBLIC INTEREST AND OTHER****Employment of Disabled Persons policy**

The Department of Health is committed to the employment and career development of disabled people. Selection to posts is based upon the ability of the individual to do the job using a competence based selection system. The Department operates the Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post disabled staff are provided with any reasonable support they might need to carry out their duties.

**Equal Opportunities policy**

The Department of Health is committed to treating all staff fairly and responsibly. The aim of the Department's equal opportunities policy is to promote equality of opportunity whereby no employee or job applicant is discriminated against either directly or indirectly on such grounds as race, colour, ethnic or national origin, sex, marital status, responsibility for children or other dependants, disability, age, work pattern, sexual orientation, gender reassignment, Trade Union membership or activity, religious or political beliefs. Line managers are responsible for promoting equal opportunities within their own work teams and for ensuring business compliance with equal opportunities legislation. Support is provided by the HR units in the Department's Group Business Teams.

**Payment of Suppliers**

The Department complies with the CBI prompt payment code and the British Standard on prompt payment. The Department's policy is to pay bills in accordance with agreed contractual conditions or, where no such conditions exist, within thirty days. In 2004-05 the core Department paid 93 per cent of bills (267,399 invoices) in accordance with the policy. The prompt payment performance of other members of the departmental family can be found in their published annual accounts.

**External auditor**

The resource accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General.

**Provision of Information to, and Consultation with, Employees**

The Department has a series of communication channels in place to communicate organisational and business developments to staff, and to provide an opportunity for feedback, both at a corporate and local level. The channels used range from timely electronic communications to face-to-face briefings by Departmental Management Board members and the department's Senior Leadership Team to involve all staff. The Department also works in partnership with the Departmental Trade Unions to agree the full range of qualitative and quantitative consultation mechanisms necessary to build engagement in senior decision making.

**Details of Company Directorships and other significant interests held by the Board**

Other than those disclosed in note 24 there are no company directorships or significant interests held by Board members.

*Sir Nigel Crisp*  
Permanent Secretary,  
Department of Health and  
Chief Executive, NHS

26 October 2005

## STATEMENT OF PRINCIPAL ACCOUNTING OFFICER'S RESPONSIBILITIES

Under the Government Resources and Accounts Act 2000, the Department of Health is required to prepare resource account for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year, and the use of resources by the Department during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

HM Treasury has appointed the Permanent Secretary of the Department as principal Accounting Officer of the Department with overall responsibility for preparing the department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Principal Accounting Officer is required to comply with the Resource Accounting Manual, prepared by HM Treasury, and in particular to:

- observe 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, as set out in the Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

In addition, the HM Treasury has appointed a separate Accounting Officer to be accountable for the NHS pension scheme and NHS compensation for premature retirement scheme resource account. These are produced and published as a separate account. This appointment does not detract from the Permanent Secretary's overall responsibility as Accounting Officer for the Department's accounts.

The responsibilities of an Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in Government Accounting. Under the terms of the Accounting Officer's Memorandum, the relationship between the Department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in a written statement.

## RELATIONSHIP BETWEEN ACCOUNTING OFFICERS IN THE DEPARTMENT OF HEALTH, ITS AGENCIES AND THE NHS

This note sets out the nature of the relationship between Accounting Officers in the Department of Health, its Agencies and the NHS. It refers to the Accounting Officer Memorandum published by HM Treasury, in which paragraph 18 indicates that responsibilities within a Department may vary according to the needs of the Department.

The Permanent Secretary of the Department of Health is accountable for the Department's administration, some central health and miscellaneous health services, those elements of social services expenditure within the Department's responsibilities, Welfare Foods and European Economic Area (EEA) medical costs. These are covered by the Request for Resources 2 in the Department's Estimates and Accounts. As Head of the Department, he takes responsibility for the consolidation of the Department's Accounts and for the voted cash requirement, and has the Department-wide responsibility for the good management of the Department as a whole, including a high standard of financial management. This includes the parts of the Department managing the NHS (as distinct from the NHS itself) and the Department's Agencies, since they are parts of the Department operating in support of the Secretary of State. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in respect of those responsibilities.

As Chief Executive of the NHS, the Permanent Secretary is directly responsible to the Secretary of State for the management of the NHS. He is accountable for expenditure on hospital and community health services, family health services, some central health services, the drugs bill and NHS Trusts' external financing. These are covered by the Request for Resources 1 in the Department's Estimates and Accounts. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in respect of those responsibilities. He is also the Accounting Officer for the Summarised Accounts of NHS Trusts, Primary Care Trusts, Strategic Health Authorities, and Special Health Authorities where required.

Each year the Permanent Secretary agrees with the Chief Executives of the Executive Agencies within the Department of Health (other than the Medicines & Healthcare Products Regulatory Agency and NHS Estates which are trading funds), a budget for the administration costs to cover their responsibilities and delegates to them immediate responsibility for the good management of the Department's Executive Agencies.

Chief Executives of NHS Trusts, Primary Care Trusts and Strategic Health Authorities are designated as accountable officers and Chief Executives of Special Health Authorities are designated as accounting officers, who are accountable to Parliament through the NHS Chief Executive for the efficient, effective and proper use of all the resources in their charge.

The Chief Executive of the NHS Pensions Agency is also accountable for the income and expenditure of the NHS Pension Scheme. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in relation to the operation of the NHS Pension Scheme. In respect of the administrative expenditure of the Agency, the Chief Executive's responsibilities are set out in the Agency's Framework Document and his letter of designation as Agency Accounting Officer.

The Chief Executives of the Medicines & Healthcare Products Regulatory Agency and NHS Estates are accountable for the expenditure relating to these Trading Funds. They are responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum for the Agency. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health, as explained in paragraphs 18 and 19 of the Memorandum and in the Agency's Framework Document.

The Chief Executives of Special Health Authorities and the Dental Practice Board are accountable for the expenditure relating to those Bodies. They are responsible for carrying out the duties set out in the Accounting Officer Memorandum in respect of those responsibilities. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health, as explained in the Memorandum and in the their Framework Document.

The Chief Executive of Purchasing and Supply Agency within the Department of Health is designated as an Agency Accounting Officer. Their responsibilities are set out in the Agencies' Framework Documents and their letters of designation as Agency Accounting Officers.

## STATEMENT ON INTERNAL CONTROL 2004-2005

### SCOPE OF RESPONSIBILITY

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

This statement is given in respect of the resource account for the Department that incorporates the transactions and net assets of the core Department, its Agency and other bodies falling within the departmental boundary for resource accounting purposes. This includes Strategic Health Authorities, Primary Care Trusts, and certain Special Health Authorities and a Non-Departmental Public Body. As Accounting Officer for the Department, I acknowledge my overall personal responsibility for ensuring that the Department, its Agency and other bodies maintain a sound system of internal control.

### 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 departmental 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 Department of Health for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### CAPACITY TO HANDLE RISK

The internal control system is based on a clear risk management framework and accountability process that is embedded across the key areas of the Department's work via delivery and business planning processes.

Leadership to the system of internal control has been shown through the year by senior staff in visibly owning and supporting risk assessment and control activity. Particular examples during 2004-05 include a review of the implementation of the policy document "The NHS Improvement Plan", led by me as Chief Executive personally, and work on the risks of a flu pandemic led by me as the Chief Medical Officer.

During 2004-05 the Department completed the restructuring and staff changes required by its major Change Programme. This has meant that internal structures and process have continued to be subject to continuous change, development and improvement. Throughout this, the Change Programme itself was identified as a key strategic risk and regularly monitored by the Departmental Board.

The Department has an effective joint DH/NHS Top Team that meets monthly to review progress and addresses risks to delivery in a cooperative approach to working with NHS partners to manage shared risks.

The Department maintains a high-level risk register, which is reviewed by the Board quarterly. Board Committees – in particular the Delivery Board – monitor specific risks regularly and agree action as necessary.

A Deputy Director of Finance is also the Department's Risk Improvement Manager. She has responsibility for developing a risk improvement programme in the Department and chairing a Risk Improvement Group (RIG). The RIG has continued to report against a self-assessment toolkit developed by the Treasury, and this has shown continuing progress in risk management activity within the Department.

The Departmental risk framework and process guidance is available for all staff on the intranet. The framework sets out that all staff have responsibility for assessing risks to the achievement of objectives in areas of work for which they are responsible. Directors are responsible for ensuring staff are appropriately trained and support is available for this.



## THE RISK AND CONTROL FRAMEWORK

Within the Department, I operate an accountability process based around five core assurance standards and the requirement for Group Directors, and certain other senior managers, to provide me with assurance statements that address the extent to which they are meeting these standards.

The Delivery programmes covering the Department's Public Service Agreements and a few other top priorities form the key elements of the Department's programme and these operate with clear governance and risk management arrangements. Specific programme and project risk guidance has been developed for these. Programme Boards take the lead in managing programme risks and report monthly the key risks in programmes to the Department's Delivery Board as part of the internal delivery reporting process.

The identification of risks to achieving Departmental objectives was a key part of business planning for 2004-05 and continues with the business planning process for 2005-06. Risks are identified, assessed and recorded in accordance with the DH risk management framework, available to all staff and which sets out a risk policy statement, standard and process guidance and includes risk impact. The framework includes definitions and a risk matrix setting out the Department's current risk appetite.

Because of its size and importance, the NHS IT programme has established a separate unit "Connecting for Health". This is run as a managed programme, including Gateway reviews, and progress is closely monitored by senior staff.

In respect of the Department's arm's length bodies (ALBs), I rely on Senior Departmental Sponsors in the Department to ensure that the bodies they sponsor operate sound Governance arrangements and the Sponsors must meet the Department's standard for the governance of our ALBs. Group Directors must also provide an assurance that they have reviewed the extent to which the Governance of our ALBs standard has been met within their group and report in their end year statements.

In addition to the Department's internal processes, I gain assurance from:

- assessments by Strategic Health Authorities, as part of their role of performance management of the NHS, to identify local risks to delivery, where necessary coordinate mitigation actions, and feed into the Top Team discussions
- work by the Healthcare Commission during the year
- reports from the National Audit Office and Audit Commission resulting from their work in the Department and the NHS.
- The Department's Assurance Strategy and Audit Unit
  - Gateway reviews of large projects
  - assessments of the Department's work by other external units, including for example the Prime Minister's Delivery Unit.

For Strategic Health Authorities, NHS Trusts and Primary Care Trusts I have appointed an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body.

My major source of assurance for these bodies is the Statements of Internal Control signed by the Accountable Officers in support of their accounts. Strategic Health Authorities and NHS Internal Auditors are also engaged in the performance management and objective assessment of PCTs' ability to comply with SIC requirements.

## REVIEW OF EFFECTIVENESS

As Accounting 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 executive managers within the department, who have responsibility for the development and maintenance of the internal control framework,
- the work of Assurance Strategy and Audit, 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 and the Audit Committee and plan to address weaknesses and ensure continuous improvement of the systems in place.

The Board is responsible for the ownership and management of strategic risks. Throughout the year the Board has remained active in its review of the strategic risk register, risks have been removed, and new ones added, there has been continuing challenge of recorded assessments as the year has progressed. The Department's Delivery Board also looks at risks escalated from individual delivery programmes and the Top Team identifies issues and risks arising for Strategic Health Authorities and the Department.

The Audit Committee advises on the quality of risk management, corporate governance and internal control. The Committee considers the risk management requirements of subordinate bodies and the key governance information flowing to the Chief Executive from these bodies. It has reviewed this statement in draft [and its comments have been reflected].

The Department's Risk Improvement Group is responsible for supporting the Departmental Board by reviewing the strategic risk register, approving inclusion of risks escalated to it for inclusion and making recommendations to the Board. It is also responsible for driving forward the Department's risk improvement programme and ensuring continuous improvement.

The National Audit Office provides advice both from their financial audit work, and through the value for money studies which they undertake – principally within the NHS.

Led by the Department's Risk Improvement Group, the Department has assessed its progress against the Treasury's Risk Management Assessment Framework during the year and has concluded that continuing progress has been made in improving risk management handling and capability. In addition there was a review of financial management in the Department lead by HM Treasury.

Within the Department, Assurance Strategy and Audit acts as adviser on the developing risk strategy and process. They provide me with an assurance as to the robustness of processes put in place.

The Group Directors have provided me with assurance statements recording the position in their business groups over the year. These have been reviewed in meetings between the Group Director, Audit Committee Chair and Head of Assurance Strategy and Audit.

For the Department's arm's length bodies, I rely principally on the Statement on Internal Control that the body's Accounting Officer makes as part of their annual accounts. These are supplemented by assurance statements provided by the senior member of staff in the Department responsible for sponsoring each body.

For NHS Trusts and Primary Care Trusts, Strategic Health Authorities have collated information from the Accountable Officers' own statements on Internal Control and Internal Audit reports in their area. These show that, at 31 March 2005, 96% of PCTs provided evidence that an adequate system of internal control was in place, while 4% (13) were unable to do so. All 28 Strategic Health Authorities themselves provided evidence that they had adequate systems of internal control in place.

Monitoring information coming to the Department, supplemented by a number of reports by NHS external auditors (see Annex C) identified issues within some NHS bodies regarding financial balance. Of the 84 significant control issues reported by NHS Trusts over half concerned their financial position; for PCTs two thirds of the 77 significant control issues reported concerned their financial position. As a result 91 PCTs' accounts were qualified on regularity as they had incurred expenditure in excess of their notified resource limits. This is a breach of a statutory duty. Both the NHS Trusts and the PCTs concerned have work in hand to address this.

The Department's Assurance Strategy and Audit Unit are currently working on producing an Assurance Map for the Department. This map will detail the sources of assurance available across the Department's business, assurance structures within the Department, the inter-relationship between them and will highlight any areas of weakness that need to be addressed.

**SIGNIFICANT INTERNAL CONTROL PROBLEMS**

My review of effectiveness did not identify any significant control problems within the Department itself.

No significant control problems were identified within Strategic Health Authorities.

Strategic Health Authorities have been given responsibility for ensuring that PCTs address, within agreed deadlines, all outstanding actions they need to take to be able to provide assurances about their systems of internal control. As part of this process, Strategic Health Authorities will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by PCTs.

No significant internal control issues have been identified in the majority of the Department's arm's length bodies consolidated within the resource account, although some reported smaller scale issues in their reviews of their own internal controls. The exception was the NHS Pensions Agency where issues were identified relating to the management of student grants, and these are being addressed.

Whilst not all of the Department's arm's length bodies have their accounts consolidated within the Department's resource account the Department does none the less have a responsibility for ensuring that all of these organizations have adequate systems of control. Taking this group as a whole, serious weaknesses in financial control were found and this has led to the Comptroller and Auditor General qualifying or currently considering whether to qualify five of these accounts. These issues will be addressed by the bodies themselves and the Department aims to strengthen its sponsoring regime over all of its bodies as a result.

*Sir Nigel Crisp*  
Permanent Secretary,  
Department of Health and  
Chief Executive, NHS

26 October 2005

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements on pages 20 to 61 under the Government Resources and Accounts Act 2000. 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 27 to 31.

### **Respective responsibilities of the Accounting Officer and Auditor**

As described on page 12 the Accounting Officer is responsible for the preparation of the financial statements in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the other contents of the Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Resources and Accounts Act 2000 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Department has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Accounts, and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 14 to 17 reflects the Department's 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 Department's corporate governance procedures or its risk and control procedures.

### **Basis of audit opinion**

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material 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 Parliament 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.

### **Schedule 5**

Schedule 5 of the accounts, on page 26, shows an analysis of the Department's resources by Aim and Objectives. Costs have been allocated to these Objectives in accordance with the methodology set out in note 1.24 of the accounts. This information is collected at a local level and subject to Departmental review. The extent of judgement required in this process means that significantly different, yet still defensible, allocations of income and expenditure could have been reported.

My opinion on the accounts is not qualified in this or any other respect.

**Opinion**

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Department of Health at 31 March 2005 and of the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the year then ended, and have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

As noted on page 43, I have qualified my opinion on the NHS Pensions Agency Special Health Authority Account for 2004-2005 on the grounds that I could not determine that relevant awards to students under the NHS Bursary Scheme in England were made accurately and in accordance with scheme rules. This account, together with my certificate and report, was laid before Parliament on 2 November 2005 (HC151). Although these accounts are consolidated within the Department's Resource Account, my qualification on these accounts does not affect my opinion on the Department of Health's Resource Account for the year ended 31 March 2005 as the amounts spent on the Scheme are not a significant element of the Department's expenditure.

*John Bourn*  
Comptroller and Auditor General

2 November 2005

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London SW1W 9SP

**SCHEDULE 1****Summary of Resource Outturn**

For the year ended 31 March 2005

	Estimate			Outturn			Net total outturn compared with Estimate (savings) /excess £'000	2003-04 Prior-year outturn £'000
	Gross Expenditure	A-in-A	NET TOTAL	Gross Expenditure	A-in-A	NET TOTAL		
	1 £'000	2 £'000	3 £'000	4 £'000	5 £'000	6 £'000		
RfR1(1) (Note 8)	69,942,121	18,014,268	51,927,853	68,353,906	18,014,268	50,339,638	(1,588,215)	49,385,186
RfR2(2) (Note 8)	3,676,083	126,804	3,549,279	3,489,372	66,243	3,423,129	(126,150)	3,611,795
RfR3(3) (Note 8)	16,000	–	16,000	15,856	–	15,856	(144)	–
<b>Total resources (Schedule 2)</b>	<b>73,634,204</b>	<b>18,141,072</b>	<b>55,493,132</b>	<b>71,859,134</b>	<b>18,080,511</b>	<b>53,778,623</b>	<b>(1,714,509)</b>	<b>52,996,981</b>
<b>Non-operating cost A-in-A</b>			<b>1,980,076</b>			<b>1,225,000</b>	<b>(755,076)</b>	<b>1,084,596</b>
<b>Net cash requirement (Schedule 4)</b>			<b>54,911,625</b>			<b>54,283,285</b>	<b>(628,340)</b>	<b>51,186,815</b>

Summary of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund.

	Notes	Forecast 2004-05		Outturn 2004-05	
		Income £'000	Receipts £'000	Income £'000	Receipts £'000
Total	5	–	–	764	764

**(1) Request for resources 1**

Securing health care for those who need it.

**(2) Request for resources 2**

Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.

**(3) Request for resources 3**

Office of the Independent Regulator for NHS Foundation Trusts (Monitor)

**Note**

The notes on pages 27-61 form part of these accounts.

Reconciliation of resources to cash requirement	Notes	Estimate		Outturn		Net total outturn compared with Estimate (savings) /excess £'000
		£'000	£'000	£'000	£'000	
<b>Net total resources</b>			55,493,132		53,778,623	(1,714,509)
<b>Capital:</b>						
– Acquisition of fixed assets-cash purchase	9	1,527,218		735,113		
– Purchase of Investments	12	3,220,582		2,025,029		
			4,747,800		2,760,142	(1,987,658)
<b>Non-operating A-in-A</b>						
– Sales proceeds of fixed asset disposals		(480,076)		(251,310)		
– Disposal of Investments	12	(1,500,000)		(973,690)		
	9		(1,980,076)		(1,225,000)	755,076
<b>Non-cash adjustments:</b>						
– Non-cash items	3b		(3,385,749)		(1,140,815)	2,244,934
– Movement in working capital other than cash	13		(702,357)		(895,336)	(192,979)
– Changes in creditors falling due after more than one year	13		–		(19,263)	(19,263)
– Excess cash receipts surrenderable to the Consolidated Fund (CFER)			–		–	–
– Use of provisions	18		738,875		1,024,934	286,059
<b>Net cash requirement</b>			<b>54,911,625</b>		<b>54,283,285</b>	<b>(628,340)</b>

The Department of Health receives and consolidates the accounts of other NHS bodies (see Annex A). Such bodies provide their information to the nearest thousand. It is therefore not possible to produce net cash requirement on a resource and cash basis to the penny.

**Explanation of variances on reconciliation of resources to cash requirement**

Reconciliation item	Variance £'000	Explanation
Acquisition of fixed assets – cash purchase and purchase of investments	(1,987,658)	Slippage on capital programme, Lower than estimated take up of temporary PDC by NHS Trusts (repayable in year). Slippage on credit guarantee finance facility
Non Operating A-in-A	755,076	Slippage on programme for sale of residual estate, Lower repayment of temporary PDC (due to lower than estimated take up of temporary PDC by NHS Trusts)
Non-cash items	2,244,934	Correction of error in the methodology for calculating clinical negligence provisions in previous years. Lower than anticipated capital charges. Some EC medical cost expenditure paid in year rather than as a provision. Lower than forecast NHS clinical negligence and other provisions.
Movements in working capital	(192,979)	This is mainly increased in level of NHS creditors.
Changes in creditors falling due after more than one year	(19,263)	This is mainly increased in level of NHS creditors.
Use of provisions	286,059	Settlement of provisions earlier than originally forecast.

**SCHEDULE 2****Operating Cost Statement**

for the year ended 31 March 2005

	Notes	2004-05		2003-04	
		£'000	£'000	£'000	£'000
<b>Administration Costs:</b>					
Staff costs	2	117,619		158,958	
Non-Staff administration costs	3	176,979		184,745	
<b>Gross Administration Costs</b>			294,598		343,703
Operating income	6.3		(9,865)		(23,622)
<b>Net Administration Costs</b>			<b>284,733</b>		<b>320,081</b>

**Programme Costs****Request for Resources 1**

Securing health care for those who need it.

Staff Costs		5,984,509		5,168,197	
Expenditure		62,369,397		59,416,412	
	8	68,353,906		64,584,609	
Less: income	8	(18,015,032)		(15,200,023)	
			<b>50,338,874</b>		<b>49,384,586</b>

**Request for resources 2:**

Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.

Expenditure	8	3,194,774		2,673,005	
Less: income		(56,378)		(47,889)	
			<b>3,138,396</b>		<b>2,625,116</b>

**Request for resources 3:**

Office of the Independent Regulator for NHS Foundation Trusts

Expenditure	8	15,856		–	
Less: income		–		–	
			<b>15,856</b>		<b>–</b>

<b>Net Programme Cost</b>	4		<b>53,493,126</b>		<b>52,009,702</b>
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<b>Net Operating Cost</b>	8		<b>53,777,859</b>		<b>52,329,783</b>
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<b>Net Resource Outturn</b>	8		<b>53,778,623</b>		<b>52,996,981</b>
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**Statement of Recognised Gains and Losses**

for the year ended 31 March 2005

		2004-05	2003-04
		£000	£000
Net gain on revaluation of tangible fixed assets	19.1	1,545,161	357,453
Receipt/revaluation of donated assets	19.2	26,082	6,771
Impairment of fixed assets	19.1	(26,608)	(1,473)
Transfers	23	–	(70,982)
<b>Total recognised gains for the year</b>		<b>1,544,635</b>	<b>291,769</b>

The activities reported in the Operating Cost Statement are from continuing operations within the Departmental boundary. There were no material acquisitions or disposals.

The notes on pages 27-61 form part of these accounts.



**SCHEDULE 3****Balance Sheet**

as at 31 March 2005

		31 March 2005		31 March 2004	
	Note	£'000	£'000	£'000	£'000
<b>Fixed assets:</b>					
Intangible assets	10	325,278		54,251	
Tangible assets	11	6,931,732		5,370,833	
Investments	12	19,599,765		18,561,601	
			<b>26,856,775</b>		<b>23,986,685</b>
Debtors falling due after more than one year	15		<b>39,462</b>		<b>64,492</b>
<b>Current assets:</b>					
Stocks	14	167,585		164,846	
Debtors	15	1,523,727		1,415,380	
Cash at bank and in hand	16	640,192		415,772	
		<b>2,331,504</b>		<b>1,995,998</b>	
Creditors (amounts falling due within one year)	17	(5,954,169)		(4,555,695)	
<b>Net current assets</b>			<b>(3,622,665)</b>		<b>(2,559,697)</b>
<b>Total assets less current liabilities</b>			<b>23,273,572</b>		<b>21,491,480</b>
Creditors (amounts falling due after more than one year)	17	(89,952)		(70,689)	
Provisions for liabilities and charges	18	(8,850,125)		(9,823,422)	
			<b>(8,940,077)</b>		<b>(9,894,111)</b>
<b>Net Assets</b>			<b>14,333,495</b>		<b>11,597,369</b>
<b>Taxpayers' equity</b>					
General fund	23		11,621,234		10,339,217
Revaluation reserve	19		2,603,477		1,166,433
Donated asset reserve	19		108,784		91,719
			<b>14,333,495</b>		<b>11,597,369</b>

The notes on pages 27-61 form part of these accounts.

*Sir Nigel Crisp*

Permanent Secretary  
Department of Health and  
Chief Executive, NHS

26 October 2005

**SCHEDULE 4****Cash flow statement**

for the year ended 31 March 2005

		2004-05		2003-04	
	Notes	£'000	£'000	£'000	£'000
<b>Net cash flow from operating activities</b>			(52,747,516)		(49,180,251)
<b>Net cash outflow from investing activities</b>			(1,535,142)		(1,268,935)
<b>Financing from Consolidated Fund</b>			54,521,410		50,308,393
<b>Receipts due to the Consolidated Fund which are outside the scope of the Department's activities</b>			137		–
<b>Payments of amounts due to the Consolidated Fund</b>			(13,326)		(155,493)
<b>Net transfer of cash to NHS Trusts</b>			–		(64,868)
<b>Increase/(Decrease) in cash in the period</b>			<b>225,563</b>		<b>(361,154)</b>
<i>Reconciliation of operating cost to operating cash flow</i>					
<b>Net operating cost</b>	8		53,777,859		52,329,783
Adjustments for non-cash items, notional capital costs and audit fees	3b		(1,140,815)		(3,391,286)
Adjustments for movements in working capital other than cash	13.2		(914,462)		(508,559)
Use of provisions	18		1,024,934		750,313
<b>Net cash outflow from operating activities</b>			<b>52,747,516</b>		<b>49,180,251</b>
<i>Analysis of capital expenditure and financial investment</i>					
Intangible fixed-assets additions	10	217,123		17,385	
Tangible fixed-assets additions	11	517,990		495,402	
Proceeds from disposal of fixed assets		(251,310)	483,803	(181,015)	331,772
Purchase of investments	12	2,025,029		1,840,744	
Proceeds from disposal of investments	12	(973,690)	1,051,339	(903,581)	937,163
<b>Net cash outflow from investing activities</b>			<b>1,535,142</b>		<b>1,268,935</b>
<i>Analysis of financing, and reconciliation to net cash requirement</i>					
Vote Estimate drawn down					
From the Consolidated Fund (Supply)	23		54,911,625		50,952,970
Repayment of prior year supply creditor			(390,215)		–
Advance from the Contingencies Fund			–		11,300
Advance to the Contingencies Fund			–		(11,300)
Transfer of function to DfES			–		(644,577)
<b>Net Financing</b>			<b>54,521,410</b>		<b>50,308,393</b>
<b>(Increase)/Decrease in cash in the period</b>	16		<b>(225,563)</b>		<b>361,154</b>
<b>Net cash flow other than financing</b>			<b>54,295,847</b>		<b>50,669,547</b>
<b>Adjustment for payments and receipts not related to supply:</b>					
Transfer of cash out to DfES			–		644,577
Cash balance to transfer to DfES			–		7,515
CFER paid over			(13,326)		(47,677)
Excess cash receipts surrenderable to the Consolidated Fund (CFER)	5		764		13,326
Amounts due to the Consolidated Fund received in prior year and paid over			–		(106,036)
Non-Supply Adjustment			–		5,563
<b>Net cash requirement (Schedule1)</b>			<b>54,283,285</b>		<b>51,186,815</b>

**Note**

The increase in cash in the cash flow statement is different from the decrease in cash in the balance sheet by £1,143,000 which is the movement in overdraft balance shown in creditors in the balance sheet rather than in cash balance.

The Department of Health receives and consolidates the accounts of other NHS bodies (see Annex A). Such bodies provide their information to the nearest thousand. It is therefore not possible to produce actual outturn on a resource and cash basis to the penny.

The notes on pages 27-61 form part of these accounts.

**SCHEDULE 5****Resources by Departmental Aim and Objective**

for the year ended 31 March 2005

In addition to the Department of Health's Programme Budgeting Analysis of Net operating Costs (see page 8), below is a presentation of Net Operating Costs by key objectives.

**Aim: Transform the health and social care system so that it produces faster, fairer services that deliver better health and tackle health inequalities.**

In pursuance of this aim, the department has the following objectives (as set as part of the 2002 Spending Review process):

	<b>2004-05</b> <b>£M</b>
<b>Objective I</b>	
Improve Service Standards	30,228
<b>Objective II</b>	
Improve Health and Social Care Outcome for Everyone	32,633
Other	8,998
	<hr/>
Total Income	71,859 (18,081)
	<hr/>
<b>Net Operating Cost</b>	<b>53,778</b> <hr/>

**Note:**

This is the first time that the Department of Health has provided a breakdown of expenditure by Departmental Objective, hence no comparable figures are available for previous years.

The majority of income comes from National Insurance Contributions and is treated as central funding rather than allocated to a particular objective. Therefore gross operating cost figures have been disclosed for each objective.

See note 32 for further analysis of these objectives.

The notes on pages 27-61 form part of these accounts.

## NOTES TO THE ACCOUNTS

### 1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2004-05 Resource Accounting Manual issued by HM Treasury. The accounting policies contained in the RAM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the RAM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the department for the purpose of giving a true and fair view has been selected. The department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

#### 1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of certain fixed assets at their value to the business by reference to their current cost.

#### 1.2 Basis of consolidation

These accounts consolidate financial information for the Department of Health (parent DH), its supply-financed Executive Agency, and other NHS bodies funded directly by the Department that fall within the departmental boundary as defined in the Resource Accounting Manual issued by HM Treasury. NHS Estates, the Medicines & Healthcare Products Regulatory Agency, NHS Trusts and all, except NHS Tribunals, of the Department's non-Departmental Public Bodies are excluded from the consolidation. Annex A contains a full list of bodies consolidated within and excluded from the accounts. More information on entities within the departmental family can be found in the annual reports and accounts of the Executive Agency or in the individual and summarised accounts of NHS Trusts, Strategic Health Authorities, Special Health Authorities, Foundation Trusts and Primary Care Trusts which are published separately.

#### 1.3 Intangible fixed assets

The following intangible fixed assets are capitalised:

- Purchase computer software licences
- Licences and trademarks
- Development expenditure

#### 1.4 Tangible fixed assets

Fixed assets other than purchased computer software and licenses are capitalised as a tangible asset where expenditure of £5,000 or more is incurred on:

- (i) a discrete asset;
- (ii) a collection of assets which, individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all of the following criteria:
  - the items are functionally interdependent;
  - the items are acquired at about the same date and are planned for disposal at about the same date; and
  - the items are under single managerial control.
- (iii) a collection of assets which individually may be valued at less than £5,000 but which form part of the initial equipping and setting-up cost of a new building; and
- (iv) enhancing an existing asset beyond its previously assessed standard of performance.

Fixed assets are valued as follows:

- i) The Civil Estate was valued as at 30 June 1995 by valuers employed by the Property Advisers to the Civil Estate, and valued as at 30 June 2000 by independent valuers employed by the Department. All valuations have been according to RICS guidelines. Between valuations, IPD indices for Civil Estate assets and NHS indices for all other assets are applied to arrive at current values; and

- ii) The Retained Estate was valued as at 31 March 2005 by professional valuers. Specialised operational property is valued at depreciated replacement cost, non-specialised operational property is valued on an existing use value and non-operational and surplus property are valued at open market value.
- iii) IT equipment, assets in the course of construction, transport equipment, furniture and fittings and plant and machinery held for operational use are valued at net current replacement cost using an appropriate index. Surplus equipment is valued at the net recoverable amount.

### 1.5 Depreciation

Depreciation is charged on a straight-line basis on fixed assets as follows:

- i) buildings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by a valuer;
- ii) The Retained Estate was valued as at 31 March 2005 by the district valuer.
- iii) IT, furniture and fittings, plant and machinery and transport equipment is depreciated over the estimated life of the asset as follows:
 

– long-life medical and other equipment	15
– furniture, medium-life medical equipment and building set-up costs	10
– mainframe information technology installations	8
– soft furnishing	7
– office machinery	5
– IT software and PC-related hardware (except PC's, laptops and monitors)	5-10
– transport equipment	4
– PC's Laptops and Monitors	3

Expenditure incurred on the National Programme for IT has been split between capital and revenue expenditure using a financial model that analyses contractor costs over the life of the project. As the majority of assets generated by this project are software related, including the purchase of licences, they have been capitalised within intangible fixed assets. These are being amortised over the life of the project.

Land, surplus building and assets in the course of construction are not depreciated.

### 1.6 Amortisation of Intangible Fixed Assets

Licences and trademarks and purchased computer software licences are amortised over a period of 5 years. Development expenditure is amortised over the life of the project.

### 1.7 Donated assets

Donated tangible fixed assets are capitalised at their valuation on receipt; this value is credited to the donated assets reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement.

### 1.8 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 as operating costs on a straight-line basis over the lease term. Leasing rental income, where the Department acts as a lessor in shared buildings, is recognised as it falls due.

### 1.9 Investments

Public Dividend Capital (PDC), and any loans, issued by the Department to NHS Trusts, Foundation Trusts, NHS Estates and the Medicines & Healthcare Products Regulatory Agency are valued at historic cost.

### 1.10 Stocks

Stocks are valued at the lower of purchase cost (calculated on a first-in, first-out basis) and net realisable value.

### 1.11 Research and development

Expenditure on research and development is normally treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project or according to the asset category if the asset is to be used for subsequent production work.

### 1.12 Operating income

Operating income is income related directly to the operating activities of the Department. It comprises principally, fees and charges for services provided, on a full cost basis, to external customers and public sector repayment work, but also includes other income such as that from investments. It includes Appropriations-in-Aid (A-in-A) and Consolidated Fund Extra Receipts (CFERs) treated as income but excludes A-in-A and CFERs treated as capital. National Insurance Contributions are included in operating income. Operating income is stated net of VAT.

### 1.13 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

### 1.14 Capital charge

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

- a) tangible and intangible fixed assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:
  - additions at cost
  - disposals as valued in the opening balance sheet (plus any subsequent capital expenditure, prior to disposal)
  - impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure); and
  - depreciation of tangible and amortisation of intangible fixed assets;
- b) donated assets, and cash balances with the OPG, where the charge is nil; and
- c) investments in NHS Trusts and in Trading Funds where the charge is applied to their underlying assets at a rate agreed with HM Treasury.

### 1.15 Audit costs

A charge reflecting the cost of audit is included in operating costs. The Department of Health is audited by the Comptroller and Auditor General. No charge is made for this service but a notional charge representing the cost of the audit is included in the accounts. This charge covers all audit costs on the main Department accounts, and the audit of all the summarised accounts prepared under s98 of the NHS Act 1977 (note 3). Other Group bodies are audited by the Comptroller and Auditor General or the Audit Commission-appointed auditor and are charged audit fees (note 4).

### 1.16 Foreign exchange

The large majority of the Department's foreign currency transactions relate to EEA medical costs. Because of delays in submission of medical cost claims by member states, the Department estimates annual medical costs and adjusts future years' expenditure when actual costs are claimed. Estimated costs are converted into sterling at average rates calculated using EU published rates. Payments made are valued at prevailing exchange rates. Amounts in the balance sheet at year-end are converted at the exchange rate ruling at the balance sheet date. Exchange rate gains or losses are calculated in accordance with accepted accounting practice. The Department does not hedge translation risk on foreign currencies (see Note 1.20).

### 1.17 Principal Civil Service Pension Scheme

Past and present employees are covered by the provisions of the Civil Services Pension Schemes which are described at Note 2. The defined benefit schemes are unfunded and are non-contributory except in respect of dependents benefits. The department recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

The Cabinet Office publishes a separate scheme statement for PCSPS as a whole.

### 1.18 NHS Pension Schemes

Present and past employees of NHS bodies funded directly by the Department are covered by the provisions of the NHS Pension Scheme. This is notionally funded. It is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No.300). Under these regulations the Department is required to pay an employer's contribution, a percentage of pensionable pay as determined from time to time by the Government Actuary's Department.

The NHS compensation for premature retirement scheme is funded by special contributions paid by the employer. These contributions can be paid quarterly over the life of the former employee; paid in five annual instalments; or settled in one lump-sum.

Both the NHS Pensions Scheme and the NHS Compensation for Early Retirements Scheme are administered by the NHS Pensions Agency. Further details are given in the annual financial statements for the 'NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme'.

### 1.19 Clinical negligence costs

Clinical negligence costs are managed through a number of different schemes. Further details are given in the accounts of the NHS Litigation Authority, which manages clinical negligence cases on behalf of the Department.

### 1.20 Derivatives and other financial instruments

The Department of Health mainly relies on Parliamentary voted funding and receipt of a proportion of National Insurance Contributions to finance its operations. Other than items such as trade debtors and creditors that arise from its operations and cash resources it holds no other financial instruments nor enters into derivative transactions, interest rate swaps or other forward foreign currency contracts.

All investments held in the group relate to transactions between the Department and its bodies rather than external organisations.

The Department has transactions with other EEA member states for medical costs. The Department does not hedge translation risks on foreign currencies by using forward foreign currency contracts to eliminate currency exposure (see Note 1.16 above).

### 1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Resource Accounting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.



### 1.22 Value Added Tax

Most of the activities of the department 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.

### 1.23 Funds Held on Trust

Some organisations received donations which are held on trust. These funds are administered by Trustees and accounted for separately from other funds for which the Department retains control.

### 1.24 Schedule 5

The Resource Accounting Manual requires a primary statement analysing net operating cost by departmental aims and objectives (Schedule 5). The Department of Health's objectives used are those agreed and published in the "Spending Review 2002: Public Service Agreements" White Paper. Each objective is supported by five Public Service Agreement (PSA) targets which relate directly to the services delivered by the NHS and Social Care systems.

Departmental expenditure has been allocated to the PSA targets using "programme budget categories", indicative provider costs (reference costs) and prescribing data. Primary Care Trusts have allocated their spend at the local level and reported within defined activity categories. Schedule 5 has been built from this underlying data, assigning expenditure to meeting the PSA targets and using the PSA targets to allocate between the objectives.

This method provides high level indicative spend against the key departmental objectives applying a method based on outturn data already collected by the NHS. Although departmental and NHS activity can contribute to both objectives at the same time, the adopted method provides a high-level and fair assessment of spend by objective. These figures should not be taken as absolute, however. Note 32 provides further analysis of how the expenditure by objective is derived and the assumptions applied.

### 1.25 Provisions

The department provides for legal or constructive obligations which 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 real rate set by HM Treasury (currently 3.5 per cent).

### 1.26 Private Finance Initiative (PFI) transactions

The Department of Health follows HM Treasury's 'Technical Note 1 (Revised) How to Account for PFI transactions' which provides practical guidance for the application of the FRS 5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2)'. PFI schemes are schemes under which premises and facilities are constructed and run by private sector organisations in return for annual payments from primary care trusts for the services provided at those premises or facilities.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where primary care trusts have contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement. Where, at the end of a PFI contract, a property reverts to the primary care 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 primary care trusts, 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.

### 1.27 Assets belonging to third parties

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Department has no beneficial interest in them. The balance of money held within PCT bank accounts at the balance sheet date was £3,621,000 (31 March 2004: £4,021,000)

## 2. Staff numbers and related Costs

### 2.1 Staff costs consist of:

	<b>Officials</b>	<b>Ministers</b>	<b>Special Advisers</b>	<b>2004-05 Total</b>	<b>2003-04 Total</b>
	£'000	£'000	£'000	£'000	£'000
Salaries and Wages	101,719	273	181	102,173	123,148
Social Security costs	9,680	31	21	9,732	12,726
Other pension costs	14,966	1	18	14,985	21,096
<b>Sub Total</b>	<b>126,365</b>	<b>305</b>	<b>220</b>	<b>126,890</b>	<b>156,970</b>
Inward Secondments	1,208	–	–	1,208	11,499
<b>Total</b>	<b>127,573</b>	<b>305</b>	<b>220</b>	<b>128,098</b>	<b>168,469</b>
Less recoveries in respect of outward secondments	(10,479)	–	–	(10,479)	(9,511)
<b>Total Net Costs *</b>	<b>117,094</b>	<b>305</b>	<b>220</b>	<b>117,619</b>	<b>158,958</b>

\* The above staff costs relate solely to the core Department of Health.

The Principal Civil Service Pension Scheme (PCSPS) to which most of the department's employees are members is an unfunded multi-employer defined benefit scheme, but Department of Health is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2004-05, normal employer contributions of £14,985,000 were payable to the PCSPS at rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, a stakeholder pension with an employer contribution. No Employer's contributions were paid to any one of the panel of four appointed stakeholder pension providers.

Contributions due to the partnership pension providers at the balance sheet date were Nil. Contributions prepaid at that date were Nil.

### Average number of persons employed

2.2 The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the department as well as in agencies and other bodies included within the consolidated departmental resource account.

		<b>2004-05</b>		<b>2003-04</b>
– Department		2,807		3,194
– Primary Care Trusts	193,934		182,090	
– Strategic Health Authorities	4,499		3,847	
– Special Health Authorities	6,008		5,684	
– Others	332	204,773	595	192,216
<b>Total whole time equivalent persons</b>		<b>207,580</b>		<b>195,410</b>

**Salary and pension entitlements**

2.3 The salary and pension entitlements of the ministers and senior managers of the department were as follows:

<b>Ministers</b>	<b>2004-05 Ministerial salary received</b>	<b>2003-04 Ministerial salary received</b>
Remuneration:	£	£'000
Secretary of State for Health John Reid	72,862	55-60
Ministers of State John Hutton MP	37,796	35-40
Parliamentary Under Secretary (Lords) Lord Warner	67,255	50-55
Parliamentary Under Secretary (Commons) Melanie Johnson	28,688	20-25
Stephen Ladyman	28,688	20-25
Minister of State Rosie Winterton	37,796	25-30

No minister received any Benefit In Kind.

Pension benefits:

	<b>Real increase in Pension at age 65</b>	<b>Total accrued Pension at 31 March 2005</b>	<b>CETV at 31March 2004</b>	<b>CETV at 31March 2005</b>	<b>Minister's contribution and transfers in</b>	<b>Real increase in CETV as funded by employer</b>
The remuneration of Ministers (excluding pension costs) was as follows:	£'000	£'000	£'000	£'000	£'000	£'000
Secretary of State for Health John Reid	0-2.5	10-15	93	116	7	12
Ministers of State John Hutton MP	0-2.5	5-10	40	51	4	5
Parliamentary Under Secretary (Lords) Lord Warner	0-2.5	0-5	15	36	7	13
Parliamentary Under Secretary (Commons) Melanie Johnson	0-2.5	0-5	27	35	3	3
Stephen Ladyman	0-2.5	0-5	6	13	3	5
Minister of State Rosie Winterton	0-2.5	0-5	16	25	4	4

No minister received any Benefit In Kind.

Pension benefits to Ministers are provided by the Ministerial Pension Scheme (MPS), which is part of the Parliamentary Contributory Pension Fund (PCPF) for Members of Parliament. The MPS provides benefits on a "final salary" basis with a 1/50th accrual rate taking account of all service as a Minister. Benefits are payable on retirement from Ministerial office on or after age 65, or on the payment of benefits under the main PCPF scheme. Members pay contributions of 6 per cent of their Ministerial salary.

There is also an employer contribution of 7.5 per cent of the Ministerial salary, paid by the Exchequer. In the event of retirement because of serious ill health, the MPS pension is brought into payment immediately. On death, pensions are payable to the surviving spouse at a rate of five-eighths of the Minister's pension. On death in service the MPS provides for a lump sum gratuity of three times the ministerial salary. Pensions increase in payment in line with changes in the Retail Prices Index. On retirement, it is possible to commute part of the pension for a lump sum.

This presentation is based on payments made by the Department and thus recorded in these accounts. In respect of ministers in the House of Commons, departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP was £344,910 (2003-04 £563,580) and various allowances to which they are entitled are borne centrally. [However, the arrangement for ministers in the House of Lords is different in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the department and is therefore shown in full in the figures above].

### Departmental Board

	2004-05		2003-04	
	<i>Salary</i> £'000	<i>Benefit in</i> <i>kind</i> £'00	<i>Salary</i> £'000	<i>Benefit in</i> <i>kind</i> £'00
The salary entitlements of Strategy Board members were as follows:				
Sir Nigel Crisp, Chief Executive/Permanent Secretary	210-215	–	195-200	–
Sir Liam Donaldson, Chief Medical Officer and Head of Health & Social Care Standard and Quality	175-180	–	170-175	23
Hugh Taylor, Director of Strategy and Business Development	130-135	–	120-125	–
Sarah Mullally, Chief Nursing Officer & Director of Patient Experience & Public Involvement, to September 2004	65-70	–	120-125	–
Richard Douglas, Director of Finance	125-130	–	115-120	–
John Bacon, Director of Health and Social Care London and Director of Delivery	170-175	–	160-165	–
Sian Jarvis, Director of Communications	130-135	–	120-125	–
Stephen O'Brien, Director of Strategy, from June 2004	125-130	–	–	–
Christine Beasley, Chief Nursing Officer & Director of Patient Experience & Public Involvement, from October 2004	125-130	–	–	–

The pension entitlements of Strategy Board members were as follows:

	<i>Real increase in pension and lumpsum at age 60 £'000</i>	<i>Total pension and lumpsum at age 60 March 2005 £'000</i>	<i>CETV at 31 March 2004 £000</i>	<i>CETV at 31 March 2005 £000</i>	<i>Employee contribution and transfers in £000</i>	<i>Real increase in CETV as funded by employer £000</i>
Sir Nigel Crisp, Chief Executive/ Permanent Secretary	2.5-5 Lumpsum 12.5-15	55-60 Lumpsum 170-175	856	990	3	77
Sir Liam Donaldson, Chief Medical Officer and Head of Health & Social Care Standard and Quality	2.5-5 Lumpsum 7.5-10	70-75 Lumpsum 210-215	1,122	1,230	12	36
Hugh Taylor, Director of Strategy and Business Development	0-2.5 Lumpsum 2.5-5	50-55 Lumpsum 150-155	813	883	2	24
Sarah Mullally, Chief Nursing Officer & Director of Patient Experience & Public Involvement, to September 2004	0-2.5 Lumpsum (0-2.5)	25-30 Lumpsum 65-70	294	311	7	-2
Richard Douglas, Director of Finance	0-2.5 Lumpsum 2.5-5	40-45 Lumpsum 125-130	568	622	2	20
John Bacon, Director of Health and Social Care London and Director of Delivery	2.5-5 Lumpsum 7.5-10	60-65 Lumpsum 190-195	1,014	1,125	2	54
Sian Jarvis, Director of Communications	2.5-5 Lumpsum 0-2.5	5-10 Lumpsum 20-25	64	83	2	14
Stephen O'Brien, Director of Strategy, from June 2004	0-2.5 Lumpsum 0-2.5	0-5 Lumpsum 0-5	0	25	6	20
Christine Beasley, Chief Nursing Officer & Director of Patient Experience & Public Involvement, from October 2004	0-2.5 Lumpsum 2.5-5	35-40 Lumpsum 110-115	658	699	2	11

The total pension accrued excludes the value of any pension benefits transferred from any other scheme. Similar information relating to the chief executives and senior managers of Executive Agencies and other bodies within the Departmental Boundary is given in the separate accounts of those bodies.

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

**Benefits in kind**

Under certain circumstances, officers may be granted a housing loan in accordance with the Department's standard terms and conditions. At the 31 March 2005 Professor Sir Liam Donaldson had an outstanding housing loan of £15,000.

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. John Bacon had the private benefit of private use of car and Andrew Foster had the benefit of a second home allowance in the circumstances permitted by the Civil Service Management Code.

**Pension**

Pension benefits are provided through the Civil Service pension arrangements.

From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (Classic, Premium, and Classic Plus). New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality "money purchase" stakeholder-based arrangement with a significant employer contribution (partnership pension account ).

**Classic Scheme:** Benefits accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 1.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction and with service enhanced as for widow(er) pensions.

**Premium Scheme:** Benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike the Classic scheme, there is no automatic lump sum but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater (the commutation rate is £12 of lump sum for each £1 of pension given up). For the purposes of pension disclosure the tables assume maximum commutation. Members pay contributions of 3.5 per cent of pensionable earnings. On death, pensions are payable to the surviving spouse or eligible partner at a rate of 3/8ths the member's pension (before any commutation). On death in service, the scheme pays a lump-sum benefit of three times pensionable earnings and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately without actuarial reduction. Where the member's ill health is such that it permanently prevents them undertaking any gainful employment, service is enhanced to what they would have accrued at age 60.

**Classic Plus Scheme:** This is essentially a variation of Premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per Classic. Pensions payable under Classic, Premium, and Classic Plus are increased in line with the Retail Prices Index.

**Partnership Pension Account:** This is a stakeholder-type arrangement where the employer pays a basic contribution of between 3 per cent and 12.5 per cent (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute, but where they do make contributions, these will be matched by the employer up to a limit of 3 per cent (in addition to the employer's basic contribution). Employers also contribute a further 0.8 per cent of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement). The member may retire at any time between the ages of 50 and 75 and use the accumulated fund to purchase a pension. The member may choose to take up 25 per cent of the fund as a lump sum.

**3. Non-Staff administration costs**

	2004-05		2003-04	
	£'000	£'000	£'000	£'000
Rental under operating leases:				
Hire of plant and machinery		313		524
Other operating leases		16,282		613
<b>Non cash items:</b>				
Cost of Capital	3,208		2,837	
Audit fees	500		702	
Depreciation	11,974		11,026	
(Profit) on disposal of fixed assets	–		(2)	
Impairment/permanent diminution of asset values	1,015		1,105	
Increase in provision	9,766	26,463	13,862	29,530
<b>Other expenditure</b>		<u>133,921</u>		<u>154,078</u>
		<u>176,979</u>		<u>184,745</u>

**Note a** – The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General. This amount does not include fees in respect of non-audit work.

**Note b** – the total of non-cash transactions included in the Reconciliation of Operating Costs to Operating Cashflows in Schedule 4 and the reconciliation of resources to net cash requirement comprises:

	2004-05	2003-04
	£'000	£'000
Other administration costs – non-cash items (as above)	26,463	29,530
Programme costs – non-cash items (as below)	1,118,344	3,364,149
Less non-cash income:		
– deferred donation income released from the Donated Asset Reserve	(7,786)	(4,410)
Consolidated Fund Creditor/Dividend Write-off	(303)	–
Other	4,097	2,017
<b>Total non-cash transactions</b>	<u>1,140,815</u>	<u>3,391,286</u>

## 4. Net programme costs

	2004-05		2003-04	
	£'000	£'000	£'000	£'000
<b>Research and development expenditure</b>		746,373		600,642
<b>Current grants and other current expenditure</b>		69,699,819		63,292,823
<b>Non cash items:</b>				
Increase in provision	41,871		2,495,290	
Cost of capital on tangible, intangible and current assets	(192,092)		(211,517)	
Cost of capital on Investments	889,005		847,726	
Depreciation	312,096		231,824	
Loss/(Profit) on disposal of fixed assets	14,125		(35,158)	
Impairment/permanent diminution of asset values	53,339	1,118,344	35,984	3,364,149
<b>Total programme costs</b>		<b>71,564,536</b>		<b>67,257,614</b>
Less: programme income (Note 6)		(18,071,410)		(15,247,912)
		<b>53,493,126</b>		<b>52,009,702</b>

Included in the Net programme costs above is expenditure by bodies other than the parent Department which those bodies regard as their administration costs but which do not form part of the administration cost control total. The following have been disclosed as staff costs in the accounts of the bodies concerned:

	2004-05	2003-04
	£'000	£'000
Salaries and Wages	5,001,343	4,601,373
Social security costs	362,907	298,744
Other pension costs	620,259	268,080
<b>TOTAL</b>	<b>5,984,509</b>	<b>5,168,197</b>
Auditor's Remuneration – Audit Fees	36,645	35,473
Auditor's Remuneration – Other Fees	3,251	3,569

The audit fee represents the cost for the audit of the financial statements carried out by the Comptroller and Auditor General, and the Audit Commission.

## 5. Analysis of income payable to the Consolidated Fund

In addition to appropriations in aid, the following income relates to the department and is payable to the Consolidated Fund (cash receipts being shown in italics):

	2004-05		2004-05	
	Forecast		Outturn	
	Income	Receipts	Income	Receipts
Operating income and receipts – excess A-in-A	–	–	–	–
Non-operating income and receipts – excess A-in-A	–	–	–	–
<b>Subtotal</b>	–	–	–	–
Other operating income and receipts not classified as A-in-A	–	–	–	–
Other non-operating income and receipts not classified as A-in-A	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund	–	–	–	–
Excess cash surrenderable to the Consolidated Fund	–	–	764	764
<b>Total</b>	–	–	<b>764</b>	<b>764</b>



**6. Operating Income**

**6.1 Appropriated-in-Aid**

	<b>2004-05</b> £'000	<b>2003-04</b> £'000
<b>Operating Income analysed by:</b>		
Administration Income:		
Allowable within the administration cost limit	<u>9,865</u>	<u>23,622</u>
<b>Programme Income:</b>		
Fees and charges to external customers	540,432	(507,098)
Fees and charges to other departments	6,348	407,966
Prescription, dental and ophthalmic charges	850,451	911,850
National Insurance Contribution	15,133,971	12,777,958
Other	1,539,444	1,642,130
	<u>18,070,646</u>	<u>15,232,806</u>
<b>Total A-in-A</b>	<u>18,080,511</u>	<u>15,256,428</u>

**6.2 Not Appropriated-in-Aid**

	<b>2004-05</b> £'000	<b>2003-04</b> £'000
<b>Operating Income analysed by classification and activity, is as follows:</b>		
Administration Income:		
Available within the administration cost limit	–	–
Programme Income:		
Other	<u>764</u>	<u>15,106</u>
	<u>764</u>	<u>15,106</u>

**6.3 Total Operating Income**

	<b>2004-05</b> £'000	<b>2003-04</b> £'000
Administrative Income	9,865	23,622
Programme Income	18,071,410	15,247,912
	<u>18,081,275</u>	<u>15,271,534</u>

**7. Administration cost limits**

**7.1 The outturn within the administration costs control regime shown against individual administration cost limit is as follows:**

	2004-05		2003-04	
	Outturn £'000	Limit £'000	Outturn £'000	Limit £'000
Request for Resources 2 (Gross Limit)	277,700	295,772	288,092	293,406
Total within administration cost limit	277,700	295,772	288,092	293,406
Expenditure excluded from administration cost limit	17,225	23,826	–	–
<b>Total administration outturn</b>	<b>294,925</b>	<b>319,598</b>	<b>288,092</b>	<b>293,406</b>

**7.2 Reconciliation of net operating cost and net resource outturn**

	2004-05 £'000	2003-04 £'000
Net operating cost	53,777,859	52,329,783
Add: Income from Consolidated Fund Extra Receipts (CFERs) (Note 6.2)	764	15,106
Add: Transfer of Estimate Cover to DfES	–	652,092
<b>Net resource outturn</b>	<b>53,778,623</b>	<b>52,996,981</b>

### 8. Analysis of Resource Accounting Bodies net resources outturn by function and reconciliation to net Operating Cost Statement

	2004-05							Net total Outturn compared with Estimate £'000	2003-04  Prior year outturn £'000
	Admini- stration £'000	Other Current £'000	Current Grant £'000	Gross £'000	A-in-A £'000	Net Total £'000	Estimate £'000		
<b>Request for Resources 1:</b>									
<b>Securing health care for those who need it.</b>									
<b>Spending in Departmental Expenditure Limits(DEL)</b>									
<b>Central government spending</b>									
Strategic health authorities and primary care trusts unified budgets and central allocations									
	-	63,227,989	222,066	63,450,055	(1,113,212)	62,336,843	63,896,187	(1,559,344)	55,702,352
	-	<b>63,227,989</b>	<b>222,066</b>	<b>63,450,055</b>	<b>(1,113,212)</b>	<b>62,336,843</b>	<b>63,896,187</b>	<b>(1,559,344)</b>	<b>55,702,352</b>
FHS-General Medical Services									
	-	-	-	-	-	-	-	-	1,903,113
FHS-Pharmaceutical Services									
	-	965,623	-	965,623	-	965,623	971,300	(5,677)	961,635
FHS-Prescription charges income									
	-	2,187	-	2,187	(424,580)	(422,393)	(427,700)	5,307	(425,957)
FHS-General Dental Services									
	-	1,671,374	-	1,671,374	(425,871)	1,245,503	1,214,748	30,755	1,283,216
FHS-General Ophthalmic Services									
	-	340,756	-	340,756	-	340,756	337,100	3,656	321,611
	-	<b>2,979,940</b>	-	<b>2,979,940</b>	<b>(850,451)</b>	<b>2,129,489</b>	<b>2,095,448</b>	<b>34,041</b>	<b>4,043,618</b>
<b>Support for Local Authorities</b>									
Strategic health authority and primary care trusts grants to local authorities									
	-	-	340,159	340,159	-	340,159	448,788	(108,629)	448,788
	-	-	<b>340,159</b>	<b>340,159</b>	-	<b>340,159</b>	<b>448,788</b>	<b>(108,629)</b>	<b>448,788</b>
<b>Spending in Annually Managed Expenditure (AME)</b>									
<b>Central government spending</b>									
Hospital financing for Credit Guarantee Finance (CGF) pilot projects									
	-	3,100	-	3,100	(387)	2,713	5,745	(3,032)	-
<b>Non-budget</b>									
Grant in aid to Non-departmental Public Bodies, NHS Trusts and Foundation trusts PDC issues and repayments, Foundation trusts loans and repayments and repayment of interest									
	-	1,385,806	194,846	1,580,652	(916,247)	664,405	615,656	48,749	1,967,099
NI Contributions									
	-	-	-	-	(15,133,971)	(15,133,971)	(15,133,971)	-	(12,777,271)
Machinery of Government transfer to Department for Education and Skills									
	-	-	-	-	-	-	-	-	600
	-	<b>1,385,806</b>	<b>194,846</b>	<b>1,580,652</b>	<b>(16,050,218)</b>	<b>(14,469,566)</b>	<b>(14,518,315)</b>	<b>48,749</b>	<b>(10,809,572)</b>
	-	<b>67,596,835</b>	<b>757,071</b>	<b>68,353,906</b>	<b>(18,014,268)</b>	<b>50,339,638</b>	<b>51,927,853</b>	<b>(1,588,215)</b>	<b>49,385,186</b>

	2004-05							2003-04	
	Admini- stration £'000	Other Current £'000	Current Grant £'000	Gross £'000	A-in-A £'000	Net Total £'000	Estimate £'000	Net total Outturn compared with Estimate £'000	Prior year outturn £'000
<b>Request for Resources 2:</b>									
<b>Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health.</b>									
<b>Spending in Departmental Expenditure Limits(DEL)</b>									
<b>Central Government Spending</b>									
Central Department	276,874	18,551	–	295,425	(9,865)	285,560	303,514	(17,954)	285,459
NHS Pension Agency	–	–	–	–	–	–	–	–	19,092
NHS Purchasing and Supplies Authority	–	22,677	–	22,677	(1,405)	21,272	21,215	57	20,267
NHS Estates dividends on public dividend capital and repayment of loans	–	–	–	–	–	–	(13)	13	(23)
Medicines and Healthcare products Regulatory Agency loans, repayment of loans and interest on loans	–	–	–	–	–	–	–	–	3,071
Other Services, including medical, scientific and technical services, grants to voluntary bodies, research and development and information services	–	292,709	43,390	336,099	(7,051)	329,048	356,644	(27,596)	300,913
Welfare Food and European Economic Area Medical costs	–	564,362	–	564,362	(47,069)	517,293	563,992	(46,699)	553,719
Other Personal Social Services	–	94,273	–	94,273	(1)	94,272	84,774	9,498	38,095
Training for social support staff	–	–	54,911	54,911	–	54,911	53,300	1,611	56,500
AIDS support grant	–	–	16,835	16,835	–	16,835	16,500	335	16,353
Services for people with a mental illness	–	–	131,255	131,255	(7)	131,248	133,500	(2,252)	133,022
Children's services grant	–	–	–	–	–	–	–	–	2,700
Carers' grant	–	–	124,832	124,832	–	124,832	124,895	(63)	99,699
Performance Fund	–	–	–	–	–	–	–	–	96,000
Deferred Payment grant	–	–	–	–	–	–	–	–	23,169
Care Direct	–	–	–	–	–	–	–	–	2,305
Young People's substance misuse planning grant	–	–	–	–	–	–	–	–	6,784
Preserved rights grant	–	–	435,257	435,257	–	435,257	456,488	(21,231)	500,250
Residential allowance grant	–	–	405,981	405,981	–	405,981	409,480	(3,499)	182,496
Improving Information management (capital)	–	–	24,984	24,984	–	24,984	25,000	(16)	24,693
National training strategy	–	–	28,979	28,979	–	28,979	30,979	(2,000)	24,884
Access and systems capacity grant	–	–	484,044	484,044	–	484,044	486,000	(1,956)	169,999
Human resources development strategy	–	–	23,900	23,900	–	23,900	23,900	–	9,525
Children and adolescents mental health grant	–	–	64,813	64,813	–	64,813	65,092	(279)	50,690
Delayed discharged grant	–	–	99,959	99,959	–	99,959	99,990	(31)	50,795
<b>Non-budget</b>									
Grant in Aid funding									
Non-departmental public bodies and special health authorities	–	710	280,076	280,786	(845)	279,941	294,029	(14,088)	282,422
Other	–	–	–	–	–	–	–	–	24
Payment to Home Office for Criminal Records Bureau	–	–	–	–	–	–	–	–	7,400
Machinery of Government transfer to Department for Education and Skills	–	–	–	–	–	–	–	–	651,492
	<b>276,874</b>	<b>993,282</b>	<b>2,219,216</b>	<b>3,489,372</b>	<b>(66,243)</b>	<b>3,423,129</b>	<b>3,549,279</b>	<b>(126,150)</b>	<b>3,611,795</b>

	2004-05							2003-04	
	Admini- stration £'000	Other Current £'000	Current Grant £'000	Gross £'000	A-in-A £'000	Net Total £'000	Estimate £'000	Net total Outturn compared with Estimate £'000	Prior year outturn £'000
<b>Request for Resources 3:</b>									
<b>Office of the Independent</b>									
<b>Regulator for NHS Foundation Trusts</b>									
Non-budget									
Grant in aid funding to the									
Office of the Independent									
Regulator for NHS									
Foundation Trusts									
	-	1	15,855	15,856	-	15,856	16,000	(144)	-
<b>Resource Outturn</b>	<b>276,874</b>	<b>68,590,118</b>	<b>2,992,142</b>	<b>71,859,134</b>	<b>(18,080,511)</b>	<b>53,778,623</b>	<b>55,493,132</b>	<b>(1,714,509)</b>	<b>52,996,981</b>
<b>Reconciliation to</b>									
<b>Operating Cost Statement</b>									
Income from Consolidated									
Fund Extra Receipts									
	-	-	-	-	(764)	(764)			(15,106)
Transfer of estimate cover									
to DFES									
	-	-	-	-	-	-			(652,092)
<b>Net operating cost</b>	<b>276,874</b>	<b>68,590,118</b>	<b>2,992,142</b>	<b>71,859,134</b>	<b>(18,081,275)</b>	<b>53,777,859</b>			<b>52,329,783</b>

### Explanation of variations between Estimate and Outturn

The Department is required to provide an explanation of any variations between estimate and outturn exceeding 10% or £500,000, which ever is the greater. The following are the lines that meet this criteria:

#### RfR1

##### Support for local authorities

The provision for current grants forms just one part of Primary Care Trusts' (PCTs') unified allocations. It is PCT's duty to manage their resources to best meet local needs. For 2004-05 this was achieved by spending more on current expenditure from unified budgets and central allocations in RfR1 of the Estimate rather than on grants to local authorities.

##### Spending in Annually Managed Expenditure (AME)

Hospital financing for Credit Guarantee Finance (CGF) pilot projects-Capital charges were lower because fewer loans were issued than originally planned.

#### RfR2

##### Other Personal Social Services

The higher than planned expenditure is due to a demand led budget for student bursaries for social workers.

Also, the Comptroller and Auditor General qualified the NHS Pensions Agency Administration Account 2004-05, which is consolidated into this account and which is responsible for making grants to students under the NHS Bursary Scheme in England, on the grounds that he could not determine that the relevant awards were made accurately and in accordance with scheme rules due to missing documentation supporting certain bursary awards. More information is detailed in the Agency's financial statements which were certified by C & AG on 25 October and laid before Parliament on 2 November 2005 (HC151).

#### 8.1 Audited Grant claims

Request for Resources 2. Advances for Personal Social Services specific grants to Local Authorities are charged to the Request for Resources at the time of issue. Final grants expenditure will not be known until Local Authority accounts are audited after the end of the financial year. Adjustments where appropriate, are made in the following year.

## 9. Analysis of capital expenditure, financial investments and associated Appropriations-in-Aid

	Capital Expenditure £'000	2004-2005 Loans and Investments £'000	A-in-A £'000	Net Total £'000
<b>Request for Resources 1</b>				
Securing health care for those who need it.	734,801	2,025,029	(1,225,000)	1,534,830
<b>Request for Resources 2</b>				
Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.	312	-	-	312
<b>Request for Resources 3</b>				
Office of the Independent Regulator for NHS Foundation Trusts	-	-	-	-
	<u>735,113</u>	<u>2,025,029</u>	<u>(1,225,000)</u>	<u>1,535,142</u>
	Capital Expenditure £'000	2003-2004 Loans and Investment £'000	A-in-A £'000	Net Total £'000
<b>Request for Resources 1</b>				
Securing health care for those who need it.	479,393	1,840,744	(1,084,593)	1,235,544
<b>Request for Resources 2</b>				
Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.	33,394	-	(3)	33,391
	<u>512,787</u>	<u>1,840,744</u>	<u>(1,084,596)</u>	<u>1,268,935</u>

**10. Intangible Fixed Assets****10.1 Intangible Fixed Assets**

	<b>Purchased Software Licences</b>	<b>Licences, Trade Marks and Artistic Originals</b>	<b>Development Expenditure</b>	<b>Total</b>
<b>Cost or valuation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2004	165,091	159	298	165,548
Additions-purchased	350,918	8	10	350,936
Additions-Donated	64	-	-	64
Transfers	458	-	(34)	424
Impairment	-	-	-	-
Revaluation and indexation	(21)	-	-	(21)
Disposals	(316)	-	-	(316)
<b>At 31 March 2005</b>	<b>516,194</b>	<b>167</b>	<b>274</b>	<b>516,635</b>
<b>Amortisation</b>				
At 1 April 2004	111,191	79	27	111,297
Charged in year	80,482	14	42	80,538
Transfers	(189)	-	-	(189)
Impairment	15	-	15	30
Revaluation and indexation	(4)	-	-	(4)
Disposals	(315)	-	-	(315)
<b>At 31 March 2005</b>	<b>191,180</b>	<b>93</b>	<b>84</b>	<b>191,357</b>
<b>Net Book Value</b>				
<b>At 31 March 2005</b>	<b>325,014</b>	<b>74</b>	<b>190</b>	<b>325,278</b>
At 31 March 2004	53,900	80	271	54,251

**10.2 Analysis of Intangible assets totals**

	<b>Administration</b>	<b>Programme</b>	<b>Total</b>
<b>Cost or valuation</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
At 1 April 2004	1,415	164,133	165,548
Additions-purchased	145	350,791	350,936
Additions-Donated	-	64	64
Transfers	398	26	424
Impairment	-	-	-
Revaluation and indexation	-	(21)	(21)
Disposals	-	(316)	(316)
<b>At 31 March 2005</b>	<b>1,958</b>	<b>514,677</b>	<b>516,635</b>
<b>Amortisation</b>			
At 1 April 2004	1,123	110,174	111,297
Charged in year	231	80,307	80,538
Transfers	(141)	(48)	(189)
Impairment	-	30	30
Revaluation and indexation	-	(4)	(4)
Disposals	-	(315)	(315)
<b>At 31 March 2005</b>	<b>1,213</b>	<b>190,144</b>	<b>191,357</b>
<b>Net Book Value</b>			
<b>At 31 March 2005</b>	<b>745</b>	<b>324,533</b>	<b>325,278</b>
At 31 March 2004	292	53,959	54,251

**11. Tangible fixed assets****11.1 Tangible fixed assets**

	Land and Buildings (excluding dwellings) £'000	Dwellings £'000	Information Technology £'000	Payments on Account & Assets Under Construction £'000	Furniture and Equipment £'000	Plant & Machinery £'000	Transport Equipment £'000	Total £'000
<b>Cost or valuation</b>								
At 1 April 2004	5,263,990	26,925	243,844	168,557	77,731	142,276	16,151	5,939,474
Additions-purchased	189,880	391	86,809	206,543	12,642	23,546	1,189	521,000
Additions-donated	6,281	–	156	6,402	23	1,375	163	14,400
Impairment	(30,324)	(89)	(816)	(976)	(1,245)	(113)	–	(33,563)
Transfers	(75,664)	4,213	15,687	(198,754)	(3,562)	4,971	1,172	(251,937)
Revaluation and indexation	1,426,855	7,198	(90)	7,239	992	2,807	333	1,445,334
Disposals	(221,451)	(937)	(16,210)	(4,248)	(656)	(4,548)	(1,336)	(249,386)
<b>At 31 March 2005</b>	<b>6,559,567</b>	<b>37,701</b>	<b>329,380</b>	<b>184,763</b>	<b>85,925</b>	<b>170,314</b>	<b>17,672</b>	<b>7,385,322</b>
<b>Depreciation</b>								
At 1 April 2004	329,668	726	117,072	–	36,367	73,854	10,954	568,641
Charged in year	157,446	1,067	38,861	–	7,214	14,768	1,555	220,911
Impairment	22,047	50	249	–	(524)	(102)	10	21,730
Transfers	(272,911)	(485)	1,204	–	(473)	(663)	739	(272,589)
Revaluation and indexation	(55,498)	15	(47)	–	454	1,386	216	(53,474)
Disposals	(9,871)	(290)	(15,616)	–	(601)	(3,991)	(1,260)	(31,629)
<b>At 31 March 2005</b>	<b>170,881</b>	<b>1,083</b>	<b>141,723</b>	<b>–</b>	<b>42,437</b>	<b>85,252</b>	<b>12,214</b>	<b>453,590</b>
<b>Net Book Value</b>								
<b>At 31 March 2005</b>	<b>6,388,686</b>	<b>36,618</b>	<b>187,657</b>	<b>184,763</b>	<b>43,488</b>	<b>85,062</b>	<b>5,458</b>	<b>6,931,732</b>
At 31 March 2004	4,934,322	26,199	126,772	168,557	41,364	68,422	5,197	5,370,833

Assets under construction includes assets purchased and held by the Department for the use of new bodies prior to the formation of those bodies. The assets are subsequently transferred to the new bodies when the bodies become operational.

The amount included within NBV of tangible fixed assets relating to surplus retained estate to be transferred to ODPM is £450m.

**11.2 The net book value of Land, Buildings and Dwellings at 31 March 2005 comprises:**

	<b>£'000</b>
Freehold	6,260,767
Long Leasehold	133,070
Short Leasehold	31,467
	<b>6,425,304</b>



## 11.3 Analysis of assets totals

	Administration Assets £'000	Programme Assets £'000	Total £'000
<b>Cost or Valuation</b>			
At 1 April 2004	154,172	5,785,302	5,939,474
Additions-purchased	26,047	494,953	521,000
Additions-donated	–	14,400	14,400
Impairment	(108)	(33,455)	(33,563)
Transfers	(2,824)	(249,113)	(251,937)
Revaluation and indexation	(5,888)	1,451,222	1,445,334
Disposals	(9,677)	(239,709)	(249,386)
<b>At 31 March 2005</b>	<b>161,722</b>	<b>7,223,600</b>	<b>7,385,322</b>
<b>Depreciation</b>			
At 1 April 2004	54,358	514,283	568,641
Charged in year	11,776	209,135	220,911
Impairment	–	21,730	21,730
Transfers	(2,325)	(270,264)	(272,589)
Revaluation and indexation	–	(53,474)	(53,474)
Disposals	(13)	(31,616)	(31,629)
<b>At 31 March 2005</b>	<b>63,796</b>	<b>389,794</b>	<b>453,590</b>
<b>Net Book Value</b>			
<b>At 31 March 2005</b>	<b>97,926</b>	<b>6,833,806</b>	<b>6,931,732</b>
At 31 March 2004	99,814	5,271,019	5,370,833

## 12. Investments

	In NHS Trusts, Foundation Trusts, Public Dividend Capital (PDC) £'000	In Other Bodies (PDC & IBD) £'000	Total £'000
Balance as at 1 April 2004	18,498,842	62,759	18,561,601
<b>Issued:</b>			
To newly established bodies	–	48,920	48,920
To existing bodies	1,976,109	–	1,976,109
<b>Repaid:</b>			
By continuing bodies	(973,648)	(42)	(973,690)
<b>Written off:</b>			
By or on behalf of dissolved bodies	(13,192)	–	(13,192)
<b>Revaluation</b>	–	17	17
<b>Balance as at 31 March 2005</b>	<b>19,488,111</b>	<b>111,654</b>	<b>19,599,765</b>

There were in total 270 PDC advances where the amount exceeded £100,000. (108 were Temporary PDC, 162 were Permanent PDC). The total value was £1,849,332,000 (£855,849,000 Temporary and £993,483,000 Permanent).

Included in the other bodies figure is an investment of £53,070,000 made in an American company which deals with plasma collection. This guarantees long-term supplies of plasma for NHS patients. The investment was valued at purchase price.

Included in the NHS Trusts figure is investment in Foundation Trusts.

The Department's share of the net assets and results of the relevant bodies are summarised below.

	NHS and Foundation Trusts £'000	Trading Funds £'000	Blood Plasma £'000	Joint Ventures £'000
Net Assets at 31 March 2005	32,007,724	4,744	15,468	1,122
Turnover	39,656,378	27,240	45,720	4,098
Surplus/profit for the year (before financing)	534,226	(1,650)	2,350	2,256

**13.**

**13.1 Movement in working capital other than cash**

The movements in working capital cash used in the Reconciliation of resources to cash requirement comprise:

	<b>2004-05</b> £'000	<b>2003-04</b> £'000
Increase in stocks	2,739	56,749
Increase/(Decrease) in debtors	83,317	(489,395)
(Increase)/Decrease in creditors	(1,417,737)	324,319
Net current assets received from NHS Trusts	–	(33,325)
	<u>(1,331,681)</u>	<u>(141,652)</u>
Adjustment: movement in working capital not related to net operating costs		
– Amounts due to the Consolidated Fund	225,426	(368,669)
– Amounts receivable that will be due to the Consolidated Fund when received	(137)	–
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	192,936	–
– Movement in working capital related to the transfer to Department for Education and Skills	–	7,515
– Overdraft movement	(1,143)	(190)
Net (decrease) in working capital other than cash	<u>(914,599)</u>	<u>(502,996)</u>

**13.2 Movement in working capital other than cash**

The movements in working capital other than cash used in the Cash Flow Statement comprise:

	<b>2004-05</b> £'000	<b>2003-04</b> £'000
Increase in stocks	2,739	56,749
Increase/(Decrease) in debtors	83,317	(489,395)
(Increase)/Decrease in creditors	(1,417,737)	324,319
Net current assets received from NHS Trusts	–	(33,325)
	<u>(1,331,681)</u>	<u>(141,652)</u>
Adjustment: movement in working capital not related to net operating costs		
– Amounts due to the Consolidated Fund	225,426	(374,232)
– Movement in working capital related to the acquisition/disposal of tangible fixed assets	192,936	–
– Cash balance to transfer to DFES	–	7,515
– Overdraft movement	(1,143)	(190)
Net (decrease) in working capital other than cash	<u>(914,462)</u>	<u>(508,559)</u>

**14. Stocks and work in progress**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Stocks	167,585	164,846
	<u>167,585</u>	<u>164,846</u>

**15. Debtors**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
<b>Amounts falling due within one year:</b>		
Trade debtors	556,987	666,370
Deposit and advances	2,361	4,669
Capital debtors	30,820	79,269
Other debtors	568,217	457,611
Pension prepayments	3,181	6,547
Consolidated Fund Extra Receipts Receivable	209	346
Other prepayments and accrued income	361,952	200,568
	<u>1,523,727</u>	<u>1,415,380</u>
<b>Amounts falling due after more than one year:</b>		
Trade debtors, advances for house purchases and other debtors	8,114	48,200
Deposits and advances	164	-
Capital debtors	716	131
Other Debtors	16,302	2,983
Pension prepayments maturing after one year	-	13,178
Prepayments and accrued income	14,166	-
	<u>39,462</u>	<u>64,492</u>
<b>Total Debtors</b>	<u>1,563,189</u>	<u>1,479,872</u>

**16. Cash at bank and in hand**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
<b>16.1 Change in year</b>		
Balance at 1 April 2004	415,772	777,116
Net cash Inflow(Outflow)	224,420	(361,344)
<b>Balance as at 31 March 2005</b>	<u>640,192</u>	<u>415,772</u>
	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
<b>16.2 Analysis of year-end balances</b>		
At the Office of HM Paymaster General	639,873	415,510
At commercial banks and cash in hand	319	262
<b>Balance as at 31 March 2005</b>	<u>640,192</u>	<u>415,772</u>

**16.3 Balance at 31 March 2005 comprises:**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Amount issued from the Consolidated Fund for supply but not spent at year end	628,340	390,215
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	764	13,326
Amount issued by the Consolidated Fund due to DfES as Financing	7,515	7,515
Overdraft	3,573	4,716
	<b><u>640,192</u></b>	<b><u>415,772</u></b>

**17. Creditors**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Amounts falling due within one year:		
Bank overdraft	3,573	4,716
Other taxation and social security	96,796	54,182
Trade creditors	3,678,091	2,967,683
Capital creditors	195,276	50,204
Other creditors	416,347	310,067
Early retirement costs payable within one year	2,290	3,524
Accruals and deferred income	932,483	753,917
Cash balance payable to Consolidated Fund	628,340	390,215
CFER receivable due to be paid to the Consolidated Fund	209	346
Excess cash receipts surrenderable to the Consolidated Fund	764	13,326
Amounts issued by the Consolidated Fund due to DFES as Financing	-	7,515
	<b><u>5,954,169</u></b>	<b><u>4,555,695</u></b>
	£'000	£'000
Amounts falling due after more than one year:		
Trade creditors	52,149	47,088
Other Creditors	37,803	23,601
	<b><u>89,952</u></b>	<b><u>70,689</u></b>

**18. Provision for liabilities and charges**

	<b>Clinical Negligence</b>	<b>Early Retirement Costs</b>	<b>Injury Benefits</b>	<b>EEA Medical Costs</b>	<b>Other</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2004	7,777,572	497,464	511,141	413,165	624,080	9,823,422
Arising during the year	1,413,112	32,881	57,639	195,249	245,849	1,944,730
Utilised during the year	(509,382)	(59,184)	(38,864)	(222,653)	(194,851)	(1,024,934)
Reversed unused during the year	(1,800,811)	(22,640)	(5,244)	-	(124,726)	(1,953,421)
Unwinding of discount	8,111	13,107	17,895	14,461	6,754	60,328
<b>Balance as at 31 March 2005</b>	<b><u>6,888,602</u></b>	<b><u>461,628</u></b>	<b><u>542,567</u></b>	<b><u>400,222</u></b>	<b><u>557,106</u></b>	<b><u>8,850,125</u></b>

**Nature of Provisions**

This Account provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5% in real terms.

**Clinical Negligence**

This Account provides for future costs where it is the defendant in a number of actions by claimants for damages arising from the effects of alleged clinical negligence. The clinical negligence provision reflects an actuarially determined assessment of incidents that have occurred, including those not yet reported, where it is more than 50% probable that the claim will be successful and the amount of the claim can be reliably estimated. The amount provided is calculated on a percentage expected probability basis. Expenditure is likely to be incurred over a period of more than twenty years.

Clinical negligence claims which may possibly succeed but are less likely or cannot be reliably estimated are shown as contingent liabilities.

Strategic Health Authorities, Primary Care Trusts, Foundation Trusts and NHS Trusts (which are outside the resource accounting boundary) retain legal liability for all liabilities covered by the clinical negligence schemes, the Ex-Regional Health Authority Scheme (RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but the NHS Litigation Authority (NHSLA) accounts for all liabilities under the ELS, CNST and RHA schemes. The NHSLA's actuaries undertake reviews regularly to identify likely future settlements under these schemes and these are recorded in the accounts of the NHSLA.

Clinical negligence provisions in the accounts of the NHSLA as at 31 March 2005 include £25,608,000 for the RHA scheme, £1,153,366,000 under the ELS and £5,709,628,000 for CNST.

Of the total £6,888,602,000 clinical negligence provisions, £891,324,000 is expected to be payable within 1 year, £1,956,999,000 in 1 to 5 years and £4,040,279,000 after 5 years.

During the 2004/05 financial year the NHS Litigation Authority discovered an error within the calculation of its provisions. The authority, in preparing for the movement of the HM Treasury discount rate to 2.2% realised that its current methodology of calculating provisions uses a nominal discount rate when, on further inspection, it was clear that a real rate was more applicable. The values of claims recorded in the accounts of the authority are, and have always been, based upon current likely valuation. The discount rate used was an overly simplistic rate which, for the purposes of the Authority could not be considered a true and real rate and as such has meant that provisions have not been adjusted for future inflationary pressures before discounting.

After discussion with its Auditors, the National Audit Office, the Department has agreed that the adjustment in respect of previous years, £1.486 billion is not fundamental to the Department Resource Account, and it is therefore included in the 2004-05 account.

**Early Retirement**

This Account provides for the additional future costs, beyond the normal benefit awards for which employers are eligible under the terms of their pension scheme, arising from compensation payment for termination of employment through redundancy, severance or early retirement. The provision also takes account of arrangements with pension schemes under which employees could make prepayments to meet future liabilities. On the basis of the age of retirees, expenditure is likely to be incurred over a period of up to nine years.

The provision mainly relates to early retirement liabilities in Primary Care Trusts £366,439,000 (including a £73,908,000 "back-to-back" provision made to meet future payments by NHS Trusts). Of the total, £374,908,000, £39,016,000 is expected to be payable within 1 year, £154,983,000 in 1 to 5 years and £172,440,000 after 5 years.

Further amounts of £10,481,000 are included in Strategic Health Authorities, £11,769,000 in Special Health Authorities, and £72,939,000 in the Department of Health, of which £9,526,000 is expected to be payable within 1 year, £24,349,000 in 1 to 5 years and £61,314,000 after 5 years.

**Injury Benefits**

This Account provides for the future costs of permanent Injury Benefits awarded up to April 1997, to NHS staff injured in the course of their duties. From this date the respective NHS body which employed the injured person has been liable for the costs. The Injury Benefit awards are guaranteed minimum income levels in nature and are granted for the life of the individual. The award is based on an assessment of the nature of the injury and the effect on the earning capacity of that individual as a result. Total claim provided for is £542,567,133 of which £39,960,000 is expected to be payable within 1 year, £144,244,000 in 1 to 5 years and £358,363,000 after 5 years.

**EEA Medical Costs**

EEA Medical Costs are medical costs incurred by UK Citizens in other European countries which are liabilities payable by the UK to those European countries.

The total cost provided for is £400,222,000 of which £105,114,000 is expected to be payable within 1 year and £295,108,000 in 1 to 5 years.

**Other**

This Account provides for future support for patients who contracted HIV from contaminated blood supplies. On the basis of historic data, expenditure is likely to be incurred over a period of up to 30 years. Total claim provided for is £12,389,000 of which £3,200,000 is expected to be payable within 1 year, and £9,189,000 in 1 to 5 years.

Other legal claims against Primary Care Trusts are £55,597,000 of which £21,871,000 is expected to be payable within 1 year, £16,813,000 in 1 to 5 years and £16,913,000 after 5 years. Further amounts of £385,000 are included in Strategic Health Authorities, of which £271,000 is expected to be payable within 1 year and £94,000 in 1 to 5 years, and £20,000 over 5 years.

Restructuring provisions by Primary Care Trusts are £8,713,000 of which £6,274,000 is expected to be payable within 1 year, £1,608,000 in 1 to 5 years and £831,000 after 5 years. Further amounts of £2,646,000 are included in Strategic Health Authorities, of which £960,000 is expected to be payable within 1 year, £1,059,000 in 1 to 5 years and £627,000 after 5 years.

Miscellaneous provisions by Primary Care Trusts are £249,180,000 of which £105,493,000 are expected to be payable within 1 year, £103,376,000 in 1 to 5 years and £40,311,000 after 5 years. Further amounts of £9,555,000 are included in Strategic Health Authorities, of which £6,521,000 is expected to be payable within 1 year and £70,000 in 1 to 5 years, and £2,964,000 after 5 years.

This Account provides for a scheme for persons infected by Hepatitis C contacted through blood and blood products in the course of treatment by the NHS. The amount provided is £69,542,000 of which £40,000,000 is expected to be payable within 1 year, and £26,281,000 in 1 to 5 years and £3,261,000 after 5 years.

Other miscellaneous provisions is £149,099,000 of which £23,559,000 is in Department of Health, and £114,399,000 in Litigation Authority, £1,085,000 in Information Authority and £11,141,000 in other Special Health Authorities. Of the total £149,099,000, £11,436,000 is payable within 1 year, £64,365,000 in 1 to 5 years and £73,298,000 after 5 years.

**19. Reserves****19.1 Revaluation reserve**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Balance at 1 April	1,166,433	908,837
Transfer to NHS Trusts	–	(4,946)
Restated opening balance	1,166,433	903,891
Arising on revaluation during the year (net)	1,545,161	357,453
Impairment	(26,608)	7,980
Transferred to General Fund in respect of realised element of revaluation reserve	(34,930)	(31,260)
Transferred to General Fund on disposal	(25,927)	(62,178)
Other movements	(20,652)	(9,453)
<b>Balance at 31 March</b>	<b><u>2,603,477</u></b>	<b><u>1,166,433</u></b>

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets).

**19.2 Donated assets reserve**

	£'000	£'000
Balance at 1 April	91,719	92,405
Transfer from NHS Trusts	–	(6,926)
Restated opening balance	91,719	85,479
Transferred to the Operating Cost Statement in respect of impairment of donated assets	(2,154)	(4,410)
Impairment	–	(2)
Revaluation and indexation	10,550	6,771
Additions arising in year	15,532	4,205
Transferred to the Operating Cost Statement in respect of depreciation of donated assets	(5,632)	–
Transferred to General Fund in respect of proceeds from disposals	(575)	(324)
Other movements	(656)	–
<b>Balance at 31 March</b>	<b><u>108,784</u></b>	<b><u>91,719</u></b>

**20. Capital Commitments**

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Contracted for which no provision has been made	3,679,831	90,025
Authorised but not contracted	211	123,371

**Note:**

At the Balance Sheet date Connecting for Health had entered into contracts which if delivered according to the terms of those contracts would result in capital commitments of £3,378,998,000 and non-capital commitments of £2,041,405,000 over the next 9 years. The contracts are for the National Programme for IT, which is being delivered by the new Department of Health agency NHS Connecting for Health, which is bringing modern computer systems into the NHS to improve patient care and services. Over the next ten years, the National Programme for IT will connect over 30,000 GPs in England to almost 300 hospitals and give patients access to their personal health and care information, transforming the way the NHS works. The contracts are such that an obligation to pay does not arise until the suppliers have implemented the solution to the required locations and it has been accepted after a period of live running.

## 21.

## 21.1 Lease obligation:

Amounts due under finance leases

	2004-05		2003-04	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Amounts payable:				
Within one year	–	3,883	–	2,370
Between one and five years	–	21,853	–	9,236
After five years	–	45,793	–	72,914
Sub-total	–	71,529	–	84,520
Less finance charges allocated to future periods	–	(55,865)	–	(67,700)
	–	<b>15,664</b>	–	<b>16,820</b>

## 21.2 Annual commitments under operating leases:

	2004-05		2003-04	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Other leases which expire:				
Within one year	12,858	9,389	9,057	259
Between one and five years	45,629	24,426	31,858	1,834
After five years	67,800	582	96,399	144
	<b>126,287</b>	<b>34,397</b>	<b>137,314</b>	<b>2,237</b>

## 22. Commitments under PFI contracts

## Charge to Operating Cost Statement and future commitments

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £14,793,000 and the payments to which the department is committed during 2005-06, analysed by the period during which the commitment expires, is as follows.

	2004-05 £'000	2003-04 £'000
Expiry within 1 year	934	1,219
Expiry within 2 to 5 years	4,334	4,201
Expiry within 6 to 10 years	5,556	5,769
Expiry within 11 to 15 years	6,643	6,516
Expiry within 16 to 20 years	8,917	7,728
Expiry within 21 to 25 years	15,083	12,282
Expiry within 26 to 30 years	16,189	7,842
Expiry within 31 to 35 years	2,396	7,087
Expiry within 36 and beyond	3,774	–
	<b>63,826</b>	<b>52,644</b>



**23. Reconciliation of net operating cost to changes in the General Fund**

	<b>2004-05</b>		<b>2003-04</b>	
	£'000		£'000	
Net Operating cost for the year (Schedule 2)	(53,777,859)		(52,329,783)	
Income not Appropriated-in-Aid payable to Consolidated Fund (Note 6)	(764)		(15,106)	
	(53,778,623)		(52,344,889)	
Parliamentary Funding	Drawn down	54,911,625	50,952,970	
	Transfer of function to DFES	–	(644,577)	
	Deemed Supply	–	624,060	50,932,453
Transfer to General Fund of realised element of revaluation reserve and Donated Assets Reserve (Note 19)	61,432		93,762	
Non-cash charge (Notes 3,4)	Cost of capital	700,121	639,046	
	Auditor's remuneration	500	702	639,748
PDC Investment adjustment	(13,192)		211,442	
Consolidated Fund Creditors for cash unspent	(628,340)		(390,215)	
Interdepartmental creditor for transfer of function	–		(7,515)	
Transfers from NHS Trusts	–		(70,982)	
Other Transfers	28,494		(13,065)	
Net increase in General Fund	1,282,017		(949,261)	
General Fund at 1 April	10,339,217		11,288,478	
<b>General Fund at 31 March (Schedule 3)</b>	<b>11,621,234</b>		<b>10,339,217</b>	

**24. Related Party Transactions**

Christine Beasley is an unpaid Trustee of Marie Curies Cancer Care. She is Governor at Thames University, soon to become one of the University's Pro-Vice Chancellors.

## 25. Contingent Assets and Liabilities disclosed under FRS 12

### 25.1 Contingent Assets

Government Departments with responsibility for services to look after children provided grants or loans for the provision or improvement of what were formerly approved schools but in 1973 became controlled or assisted community homes. These payments become repayable on change of use or disposal of part or the whole of the premises or facilities. The amount of the repayment is determined by a valuation by the District Valuer. At 31 March 2005 there were a number of cases where repayments to the Department may arise in the future when the homes close.

Property within the retained estate can be disposed of at an initial value with the final sale price being dependant upon the development of the site. Because this may not be known for some years after the initial disposal the Department has contingent assets relating to the future value. The Department will recognise additional disposal income when the development becomes certain, but currently cannot reliably estimate the value.

### 25.2 Contingent Liabilities

The Department is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is large degree of uncertainty as to the Department's liability and to the amounts involved. Possible total expenditure might be estimated at £3.161 billion, although £ 2.664 billion relating to the Clinical Negligence Scheme for Trusts (CNST), Property Expense Scheme (PES) and Liability to Third Parties Scheme (LTPS) would be expected to be met by payments receivable from NHS Trusts.

Following the negotiated settlement between North Cumbria Acute Trust and unions in March 2005, the Department of Health has implemented a number of proposals for the improved management of equal pay claims. The NHS Litigation Authority has been empowered from 16 July to assist NHS organisations with the management of equal pay claims. From now on, equal pay settlements will only be made if the NHS LA recommends that they are legally necessary and consistent with the wider NHS interest. Individual NHS bodies will account for any resultant liabilities. The cost of any settlement will be funded via long term loans and applications will be considered on a case by case basis. No provision has been included within these accounts as liability has not been established. The Department of Health has negotiated with NHS trade unions a fair and equitable pay agreement, Agenda for Change, that fully reflects the principle of equal pay for work of equal value.

Within Primary Care Trusts' accounts at 31 March 2005, there were net contingent liabilities of £83,736,000 (2003-04: £178,545,000). These are mainly for continuing care and agenda for change. Primary Care Trusts have provided for these liabilities where they can reasonably estimate the likely value of potential claims received. Where these obligations cannot be reliably estimated a contingent liability has been recorded.

### 25.3 Contingent liabilities not required to be disclosed under FRS12 but included for parliamentary reporting and accountability.

#### 25.3.1 Quantifiable

The Department of Health has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2004	No.	Increase in year	Obligations expired in year	31 March 2005	No.	Amount reported to Parliament by Departmental Minute
	£'000		£'000	£'000	£'000		£'000
Guarantees:	8,475	1	–	–	8,475	1	8,475
Indemnities:	92,000	2	65,000	–	157,000	4	151,252
	<b>100,475</b>	<b>3</b>	<b>65,000</b>	<b>–</b>	<b>165,475</b>	<b>5</b>	<b>159,727</b>

The increase in 2004-05 is due to a new liability for £5,000,000 relating to the health costs of the 2012 Olympic games.

The other £60,000,000 relates to all indemnity to higher education providers of Pre-registration Nurse Education in respect of redundancy costs. This liability was discussed as a note to the accounts in 2003-04 but was omitted from the figures. It has therefore been shown as an addition above.

**25.3.2 Unquantifiable**

The Department of Health has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There are 28 of these which are indemnities and 0 are guarantees.

None of these is a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Full details of these can be found in the Statement of Contingent or Nominal Liabilities held at DH.

**26. Post Balance Sheet Events**

On 7 April the Department sold ninety six assets for £320 million, plus overage, to the Office of the Deputy Prime Minister. This represents the majority, by value, of the surplus assets managed by NHS Estates.

On 1 April 2005, the Treasury changed the discount rate from 3.5% to 2.2%.

Other post balance sheet events are disclosed in the Annual Report section "Events since the year end" on page 7 of these accounts.

**27. Parent Department results**

**27.1 Analysis of net operating cost**

This note analyses funding by the Department to the relevant spending body.

	<b>2004-05</b>	<b>2003-04</b>
	£'000	£'000
Parent Department	285,560	295,944
Executive Agencies	20,162	39,359
Local Authorities	2,313,891	1,777,182
Other Bodies	833,659	854,526
NHS Bodies funded directly by the Department	50,459,498	49,362,772
	<b>53,912,770</b>	<b>52,329,783</b>
Core Department Net Assets	20,530,799	18,252,160
Department Administration Costs	276,874	295,944

**28. Losses and Special Payments and other Accounting Notes**

**28.1 Losses and Special Payments**

Category	2004-05		2003-04	
	Cases	Total £'000	Cases	Total £'000
<b>Losses</b>				
Request for Resources 1	133,159	62,477	96,719	644,165
Request for Resources 2	282	216	663	587
Request for Resources 3	-	-	-	-
<b>Total Losses</b>	<b>133,441</b>	<b>62,693</b>	<b>97,382</b>	<b>644,752</b>
<b>Special Payments</b>				
Request for Resources 1	1	16	-	-
Request for Resources 2	3	33	13	203
Request for Resources 3	-	-	-	-
	<b>4</b>	<b>49</b>	<b>13</b>	<b>203</b>

**Write-off of Stock 2004-05**

NHS Logistics Authority reported write-offs relating to the non-movement of stock items. NHS Logistics Authority holds stocks of childhood vaccines on behalf of the Department. A quantity of these stocks will be destroyed annually due to damage in stores; failure (or suspected failure) to maintain vaccines at appropriate temperature during distribution and storage; variations in demand resulting in the expiry date of stock being exceeded.

Other stock write-offs occur because of the technical obsolescence of vaccines or equipment that may arise from time to time. The value of stocks written-off in the year was £2,675,117. Included in this figure was £2,423,845 of vaccines with a short expiry date and £251,272 of vaccines damaged by the distribution company, Farillion.

**Other Losses**

The Summarised Accounts of PCTs show there were 19,142 (2003-04: 33,175) cases of losses and special payments totalling £8,493,000 (2003-04: £5,248,000) approved during 2004-05. There were no cases which exceeded £100,000 (2003-04: 2 cases of compensation totalling £385,000).

The Summarised Accounts of Strategic Health Authorities show there were 79 cases of losses and special payments (2003-04: 80 cases) totalling £696,000 (2003-04: £745,000) approved during 2004-2005.

There were no fruitless payment cases and no clinical negligence cases where the net payment exceeded £100,000 (2003-04: 0 cases). There was 1 personal injury case of £152,000 (2003-04: 0 cases) and 1 compensation under legal obligation case £135,000 (2003-04: 0 cases) where the payment exceeded £100,000. There were no fraud cases (2003-04: 1 case totalling £527,000) where the net payment exceeded £100,000.

**29. 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 relationship that the Department has with NHS bodies and the way those bodies are financed, the Group as a whole is 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 Department has 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 the NHS Trust in undertaking its activities. As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

**Liquidity risk**

The Group's net operating costs are financed from resources voted annually by Parliament. The Group also largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. The Group is not, therefore, exposed to significant liquidity risks.

**Currency Risk**

Bodies within the resource account boundary have no or a relatively small amount of foreign currency income or expenditure except for EEA medical costs which showed net expenditure of £181,132,000 in the year which represents 0.3% of gross expenditure. There is therefore no significant foreign currency risk.

**Interest-Rate Risk**

All of the Group's financial assets and financial liabilities carry nil or fixed rates of interest. The Group is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Group's financial assets and liabilities:

**29.1 Financial Assets**

<b>Currency</b>	<b>Non-interest bearing £'000</b>
At 31 March 2005	
Sterling	20,279,419
Gross financial assets	<u>20,279,419</u>
At 31 March 2004 (prior year)	
Sterling	19,041,865
Gross financial assets	<u>19,041,865</u>

**29.2 Financial Liabilities**

<b>Currency</b>	<b>Fixed rate £'000</b>
At 31 March 2005	
Sterling	(8,940,077)
Gross financial assets	<u>(8,940,077)</u>
At 31 March 2004 (prior year)	
Sterling	(9,894,111)
Gross financial assets	<u>(9,894,111)</u>

**29.3 Fair Values**

Set out below is a comparison, by category, of book values and fair values of the Group's financial assets and liabilities as at 31 March 2005.

	<b>Book Value £'000</b>
<b>Financial assets</b>	
Cash	640,192
Investments	19,599,765
Debtors over 1 year	39,462
<b>Total</b>	<u>20,279,419</u>
<b>Financial liabilities</b>	
Creditors over 1 year	(89,952)
Provisions under contract	(8,850,125)
<b>Total</b>	<u>(8,940,077)</u>

**Note: The Fair Values of the financial assets and liabilities were based on the Book Values of those assets and liabilities.**

**30. Actual outturn – resources and cash**

**Actual outturn – resources:**

Request for Resources 1: Actual amount net resources outturn £50,339,638,000. Actual amount of savings in resources over Estimate £1,588,215,000.

Request for Resources 2: Actual amount net resources outturn £3,423,129,000. Actual amount of savings in resources over Estimate £126,650,000.

Request for Resources 3: Actual amount net resources outturn £15,856,000. Actual amount of savings in resources over Estimate £144,000.

**Actual outturn – cash:**

Net cash requirement: Outturn net requirement £54,283,285,000 which is £628,340,000 less than Estimate.

**31. Intra-government balances**

	<b>Debtors: amounts falling due within one year £'000</b>	<b>Debtors: amounts falling due after more than one year £'000</b>	<b>Creditors: amounts falling due within one year £'000</b>	<b>Creditors: amounts falling due after more than one year £'000</b>
Balances with other central government bodies	112,432	24,444	974,903	3,877
Balances with local authorities	127,915	1,306	161,812	226
Balances with NHS Trusts	524,776	4,300	1,332,409	18,325
Balances with Public Corporations and Trading Funds	19,627	–	38,017	484
Balances with bodies external to government	738,977	9,412	3,447,028	67,040
<b>At 31 March 2005</b>	<b>1,523,727</b>	<b>39,462</b>	<b>5,954,169</b>	<b>89,952</b>
Balances with other central government bodies	217,001	19,568	1,778,187	33,170
Balances with local authorities	89,528	2,228	76,497	1,183
Balances with NHS Trusts	591,248	41,128	1,006,032	7,558
Balances with Public Corporations and Trading Funds	12,651	–	35,269	854
Balances with bodies external to government	504,952	1,568	1,659,710	27,924
<b>At 31 March 2004</b>	<b>1,415,380</b>	<b>64,492</b>	<b>4,555,695</b>	<b>70,689</b>

**32. Notes to Schedule 5**

The Department's two high level objectives are:

- Improve Service Standards;
- Improve Health and Social Care outcomes for everyone;

The Department has allocated expenditure to these objectives through the PSA target that it most closely contributes to.

Improving service standards covers the following PSA targets:

- Reduce outpatient waits to three months and inpatient waits to six months by 2005;
- Reduce maximum A&E wait to four hours by the end of 2004;
- Access to a primary care professional within 24 hours and a GP within 48 hours by 2004;
- Booked admissions by the end of 2005;
- Annual improvements in patient experience.

This objective includes all expenditure on elective surgery (including day patients), inpatients and accident and emergency excluding expenditure on cancer and coronary heart disease and all expenditure on general medical services.

Improving health and social care outcomes covers the following PSA targets:

- Reduce mortality rates from killer diseases;
- Improve life outcomes of adults and children with mental health problems, and reduce the mortality rates from suicide and undetermined injury;
- Improve quality of life and independence of older people;
- Reduce the under-18 conception rate by 50% by 2010;
- Increase the participation of problem drug users in drug treatment programmes;

This objective is that it includes all expenditure on circulatory diseases, cancer, coronary heart disease, mental health problems and adult personal social services. This objective also includes all drug costs (including dispensing costs) and expenditure on individuals who have no current problems but who are involved in programmes for prevention of illness and promotion of good health.

In common with all other departments, the Department of Health has an objective to improve value for money throughout all of its activities. No direct expenditure is incurred to fulfil this objective. Instead, this is an integral part of all activities.

The "Other" category includes all activities that do not contribute directly to achieving the PSA targets, including the Workforce Development Confederation costs and funding for arms-length bodies not delivering front-line services.

In addition to matching expenditure against our high-level objectives, we have also presented in the Operating Financial Review an analysis allocating expenditure in terms of overall spend against specific conditions (programme budget categories). This analysis contains data collected directly from the PCTs and SHAs and provides a rich evidence base regarding where Department resources are utilised.

## Annex A

### BODIES FOR WHICH MINISTERS HAVE A DEGREE OF RESPONSIBILITY

Ministers had some degree of responsibility for the following bodies during the year 2004/05:

#### Consolidated in DH Resource Accounts

##### Executive Agencies

NHS Purchasing and Supply Agency

##### Other Bodies

Strategic Health Authorities (28)

Primary Care Trusts (303)

Special Health Authorities:

Health Development Agency

Mental Health Act Commission

United Kingdom Transplant

Dental Vocational Training Authority

Prescription Pricing Authority

Family Health Services Appeal Authority

National Institute for Clinical Excellence

NHS Information Authority

NHS Litigation Authority

National Treatment Agency for substance misuse

NHS Pensions Agency

National Patient Safety Agency

NHS Counter Fraud and Security Management Service

NHSU

Dental Practice Board

NHS Tribunals

#### Not Consolidated

##### Trading Funds

NHS Estates

Medicines & Healthcare Products Regulatory Agency

##### Executive Non-Departmental Public Bodies

National Radiological Protection Board

National Biological Standards Board

Human Fertilisation and Embryology Authority

Public Health Laboratory Service

General Social Care Council

Health Protection Agency

Commission for Patient and Public Involvement in Health

Independent Regulator of NHS Foundation Trusts

Commission for Healthcare Audit and Inspection

Council for Healthcare Regulatory Excellence

Commission for Social Care Inspection

NHS Trusts (269)

Food Standards Agency

Plasma Resources UK Ltd

National Blood Authority

NHS Logistics Authority

National Clinical Assessment Authority

NHS Direct

NHS Professionals

Postgraduate Medical Education and Training Board

Social Care Institute for Excellence



## Annex B

### GLOSSARY OF GOVERNMENTAL TERMS

**Administration costs.** Administration costs are those which fall under the administration cost control regime.

**Appropriations-in-Aid (A-in-A).** Receipts retained by the Department and used to finance related expenditure. A-in-A can be revenue or capital in nature.

**Comptroller & Auditor General.** Head of the National Audit Office. Responsible for auditing the Department's resource accounts.

**Consolidated fund.** The Treasury's account at the Bank of England which is used by most government Departments for processing payments or receipts.

**Consolidated Fund Extra Receipts (CFERs).** Receipts which the Department cannot use to finance expenditure and which are surrendered to the Consolidated Fund. CFERs can be revenue or capital in nature.

**Cost of capital.** A charge on assets employed representing the cost of their use.

**Grants.** Payments by the Department to other bodies. Can be revenue or capital in nature.

**Executive Agencies.** These carry out specific functions on behalf of the parent Department within a framework agreed by Ministers.

**Health Authorities.** Bodies responsible for identifying the health care needs of their population and for commissioning health care provision.

**NHS Trusts.** These comprise hospitals, community health services, mental health services or ambulance services and provide services to patients as requested by Health Authorities and GPs.

**Non-Departmental Public Bodies.** A body which has a role in the process of government but operates at arm's length from government Ministers.

**Operating Cost Statement.** Shows net resources consumed during the year.

**Parent Department.** The Department of Health, including those parts of the Department formerly known as the NHS Executive.

**Programme costs.** Programme costs include the running costs of NHS bodies funded directly by the Department but otherwise reflect non-administration costs, including payments of grants and other disbursements by the Department.

**Personal Social Services (PSS).** The services provided by Local Authority Social Service Departments.

**Request for Resources (RfR).** A statement identifying what the Department will spend on its voted provision.

**Resource accounting.** The application of accruals accounting to central government.

**Resource budget.** Covers planning and controlling Departmental expenditure on a resource (accruals) accounting basis.

**Vote.** Money voted to Departments by Parliament through the supply procedure.

## **Annex C**

### **AUDIT REPORTS ON THE NHS, 2004-05**

#### **NAO reports**

July 2004 Hospital Acquired Infection

Examines whether previous NAO and PAC recommendations have been implemented, whether the management and control of hospital acquired infection in NHS acute trusts has improved, whether there have been any discernible changes in patient outcomes and how other countries are addressing these issues.

October 2004 Improving emergency care in England

Examines whether there has been progress against the NHS Plan target for maximum total time spent in A&E as well as with the wider modernisation of emergency care.

November 2004 Reforming NHS Dentistry: ensuring effective management of risk

Examines the rationale for proposed changes to NHS dentistry in England, analyses the strengths and weaknesses of the existing system and identifies the risks that the Department and the NHS will need to manage if the new system is to overcome the problems facing NHS dentistry.

January 2005 Patient choice at the point of referral

Examines whether the Department is on track to deliver choice at the point of referral successfully by the target date of December 2005.

February 2005 Darent Valley Hospital: the PFI contract in action

In 1997, the Dartford & Gravesham NHS Trust (the Trust) awarded the first NHS PFI contract for a new hospital at Darent Valley, to a company now known as The Hospital Company (Dartford) Limited. Examines the value for money of the first NHS PFI contract for a new hospital following three years of operation

February 2005 Tackling cancer: improving the patient journey

Summarises the results of a follow-up survey of the 1999-2000 Department of Health national survey of cancer patients

March 2005 The NHS Cancer Plan: a progress report

Reviews the content of the NHS Cancer Plan, examines its implementation and reports progress to date against Plan targets and commitments.

#### **Audit Commission reports**

April 2004 Achieving First-class Financial Management in the NHS

Sets out the Commission's views on the improvements needed over the coming years in order for the benefits of current and extra NHS funding to be realised fully and to address the challenges ahead.

July 2004 Introducing payment by results

Sets out the Commission's views on the opportunities and incentives of the introduction of payment by results, the major risks and the need to manage these well to avoid financial instability and service difficulties.

July 2004 Stewardship and Governance

Sets out the Commission's views on the principles of good financial reporting and summarises the key findings of the Commission's auditors' work on NHS bodies' 2002/03 accounts

July 2005 Stewardship and Governance

Sets out the Commission's views on the principles of good financial reporting and summarises the key findings of the Commission's auditors' work on NHS bodies' 2003/04 accounts

Joint NAO and Audit Commission report

June 2005 Financial Management in the NHS; NHS(England) Summarised Accounts 2003/04

Financial management in the NHS sets out the state of NHS finances in 2003/04, looks at current financial management and reporting issues, and briefly considers the most significant financial management issues facing NHS bodies in 2004/05 and beyond

External Auditors – reports

Reports are made under either Section 8 or Section 19 (or both) of the Audit Commission Act 1998. Section 8 requires external auditors appointed by the Audit Commission to consider whether, in the public interest, there should be a report on any significant matter coming to his or her attention. Section 19 requires external auditors to consider whether the body or an officer of the body is about to make or has made an unlawful expenditure.

September 2004 The Mid Yorkshire Hospitals NHS Trust

Failure to break even within 2 years – 2002/03 and 2003/04 (Section 8)

December 2004 Hammersmith and Fulham PCT

Failure to break even within 2 years – 2002/03 and 2003/04 (Section 8)

February 2005 Worcestershire Mental Health Partnership NHS Trust

Unlawful expenditure regarding the severance package for a former Chief Executive (Section 19)

March 2005 Bedfordshire Heartlands PCT

Poor and deteriorating financial position of the PCT – 2002/03 to 2004/05 (Section 8)

March 2005 Surrey and Sussex Healthcare NHS Trust

Failure to break even within 2 years – 2003/04 and 2004/05 (Section 8)











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