

NATIONAL HEALTH SERVICE ACT 2006

Summarised Accounts of Strategic Health Authorities, Primary Care Trusts and NHS Trusts for the year ended 31 March 2009.

Presented pursuant to National Health Service Act 2006 Schedule 15 s. 7 (6) (b)

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# NHS (England) Summarised Accounts 2008-2009

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# NHS (England) Summarised Accounts 2008-2009

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# Contents

	Page
Annual Report	2–9
Summarised Account of the Strategic Health Authorities	A1–A26
Summarised Account of Primary Care Trusts	B1–B36
Summarised Account of NHS Trusts	C1–C36

# Annual Report

## Introduction

- 1 The summarised accounts for the NHS, and all analysis in this annual report, are based on the underlying audited accounts of individual NHS organisations, and relate to the period 1 April 2008 to 31 March 2009. The Comptroller and Auditor General (C&AG) is responsible for auditing each of the summarised accounts. In 2008-2009, audited figures were received from the following
  - 10 Strategic Health Authorities (SHAs);
  - 149 NHS Trusts in England (including NHS Direct); and
  - 152 Primary Care Trusts in England (PCTs).
- 2 The Prescription Pricing Division of the NHS Business Services Authority separately provides audited figures for pharmaceutical services. These figures have been included in the PCT summarised account.
- 3 There were no in-year mergers in the SHA or PCT sectors during 2008-2009.
- 4 Twenty-six NHS Foundation Trusts (FTs) were established during 2008-2009, with three coming into existence on 1 April 2008 and the remaining 23 established as the year progressed. As each FT was established, the corresponding NHS Trust was dissolved. The NHS Trust summarised account therefore includes accounting entries for the 23 FTs that came into being after 1 April 2008, but only for the period they operated as NHS Trusts. The number of FTs will continue to increase in 2009-2010.
- 5 FTs are not subject to direction by the Secretary of State for Health but instead are subject to directions from the Independent Regulator (Monitor) with the approval of Treasury. They are also accountable to their local community, and, under the relevant sections of the Health and Social Care (Community Health and Standards) Act 2003, are required to lay their accounts individually before Parliament. Monitor is responsible for both producing the FT summarised account and for laying this account before Parliament.
- 6 The Accounting Officer responsible for the NHS summarised accounts (namely the NHS Chief Executive) has taken all reasonable steps to ensure that he is aware of all relevant audit information, and to establish that the auditors of the NHS Summarised Accounts are aware of any such relevant audit information.

## Review of NHS financial performance in 2008-2009

- 7 The Operating Framework for 2008-2009 built on the principles underlying the management of NHS finances stated in 2007-2008: transparency, consistency, independence and fairness. It emphasised the importance of SHAs and PCTs achieving a surplus at the same level recorded in 2007-2008, and NHS Trusts achieving a sufficient surplus to both service working capital loan arrangements and recover legacy debt. NHS finances will continue to be supported by principles of fairness, transparency, consistency and independence.
- 8 The final accounts for 2008-2009 show that the NHS (excluding Foundation Trusts) recorded an overall year end surplus of £1.738 billion, with every SHA area reporting a significant surplus. This surplus was in line with the 2008-2009 Operating Framework, 2008-2009 forecasting, the overall NHS financial strategy and is key to supporting the long-term goals set out in high quality care for all.
- 9 A healthy surplus in both the PCT and NHS Trust sectors means that legacy debt continues to reduce, and working capital loans issued by the Department continued to be repaid. However, there was one organisation, West Middlesex University Hospitals NHS Trust, that missed a repayment on its working capital loan and discussions are continuing between the Department and London SHA as to the appropriate action to be taken.
- 10 For 2009-2010, the NHS Operating Framework states that the aggregate surplus from 2008-2009 will be carried forward into 2009-2010. This surplus can then start to be deployed in a planned and managed way and based on SHA and PCT bottom up plans, this will total some £800 million over the next two-year period.

## Format of the accounts

- 11 Both the requirement to submit summarised accounts to the Department, and the format of those accounts, is clearly specified in legislation
- Section 232, Schedule 15, National Health Service Act 2006: requires all NHS organisations in England to prepare and submit annual accounts to the Department of Health. These annual accounts must be audited by auditors appointed by the Audit Commission.
  - Section 232, Schedule 15 also requires the Secretary of State for Health to prepare summarised accounts (by sector) based on the individual accounts submitted by NHS organisations, and the Accounting Officer to sign these summarised accounts. The Act also requires the C&AG to examine, certify and report on the summarised accounts, and permits him to examine the underlying accounts of individual organisations, along with any records or audit reports relating to them.
  - The 2006 Act also removed the requirement for the Secretary of State to prepare summarised accounts in respect of special health authorities.
- 12 The format of the summarised accounts is consistent with that of the respective underlying accounts of individual organisations. As SHAs and PCTs receive the majority of their income directly from Government, both their individual and summarised accounts will include an Operating Cost Statement. NHS Trusts derive the majority of their income from 'trading activities', so their accounts include an income and expenditure statement as one of their primary financial statements.
- 13 NHS bodies with more than 250 employees are required to include disclosures about their policies in respect of disabled employees, including a description of action taken to maintain or develop the provision of information to, and consultation with, employees. This should contain any relevant information regarding health, safety and welfare at work. Where applicable these disclosures are included in the Annual Reports of the individual organisations.
- 14 In addition, the required disclosures for the following items can be found in the Annual Reports of the underlying NHS bodies
- sickness absence data;
  - data loss incidents; and
  - auditors' remuneration in respect of non-audit services.

## Remuneration Report

- 15 The Treasury Financial Reporting Manual requires organisations to disclose details of the remuneration and pension entitlements of their most senior managers. Given the number of individual accounts which support the summarised account for each sector, it is not practicable for this Annual Report to aggregate these details for all relevant employees.

## Pension Liabilities

- 16 The treatment of pension liabilities is detailed in the following notes to the accounts
- Note 1.9 in the Summarised Account of the SHAs;
  - Note 1.12 in the Summarised Account of the NHS Trusts; and
  - Note 1.9 in the Summarised Account of the PCTs.

## Strategic Health Authorities

- 17 SHAs are statutory bodies responsible for the performance management of the NHS, acting as local headquarters on behalf of the Department of Health. Their role therefore includes the performance management of NHS Trusts and PCTs.

## Financial Duties of Strategic Health Authorities

- 18 SHAs have three main financial duties
- To contain resource expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
  - To contain cash expenditure within approved limits (a statutory duty).
  - To contain capital expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).

## Overall Financial Performance of Strategic Health Authorities in 2008-2009

- 19 In 2008-2009 (as in 2007-2008), all 10 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. The SHAs reported a £1,055 million under-spend against the revenue resource limit (2007-2008: £903 million under-spend) and a £2 million under-spend against the capital resource limit (2007-2008: £66 million under-spend).

## Better Payment Practice Code – Strategic Health Authorities

- 20 The percentage of bills paid in compliance with the better payment practice code in 2008-2009 is as follows

**Table 1**

	Number of Strategic Health Authorities			
	By number of bills		By value of bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	3	5	5	9
Between 85% and 94.9%	7	4	5	1
Between 75% and 84.9%	0	1	0	0
Less than 75%	0	0	0	0
Total	10	10	10	10
Overall Performance 2008-2009 (%)	93.5	93.7	94.8	97.6

- 21 In 2007-2008 SHAs paid 89.6 per cent of their non-NHS bills and 88.7 per cent of their NHS bills by number, and 92.4 per cent non-NHS bills and 94.9 per cent NHS bills by value within 30 days/contracted terms. The improved performance in 2008-2009 is in the context of SHAs processing and paying over 155,000 invoices during the year. Currently all SHAs must meet a Better Payment Practice Code target of paying 95 per cent of bills within contract terms or 30 days where no terms are agreed.
- 22 In addition, David Nicholson, NHS Chief Executive, wrote to all NHS Chief Executives on 21 October 2008 asking them to examine and review existing payment practices and payment performance and to move as closely as possible to the ten-day payment commitment that has been set for Government Departments wherever practical.
- 23 The Department of Health works with poor performing SHAs to achieve and maintain a level of payment performance consistent with Managing Public Money regulations and the Better Payment Practice Code.

## Primary Care Trusts

- 24 PCTs first came into existence in April 2000, and are responsible for the commissioning of health care on behalf of their resident population. Most PCTs also provide healthcare and community services to their population.
- 25 In 2002-2003, PCTs took responsibility for the full range of commissioning activities, the majority of which were previously undertaken by Health Authorities. Any commitments relating to financial recovery plan arrangements entered into by predecessor Health Authorities were also devolved to PCTs.

## Financial Duties of Primary Care Trusts

- 26 PCTs have four main financial duties
- a To contain revenue expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
  - b To contain cash expenditure within approved limits (a statutory duty).
  - c To contain capital expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).
  - d PCTs that have a provider function are required to recover the full cost of those functions (not a statutory duty but an accounting requirement).

## Overall Financial Performance of Primary Care Trusts in 2008-2009

- 27 In 2008-2009 PCTs reported a revenue resource limit under-spend of £448 million (2007-2008: £391 million under-spend).
- 28 PCTs reported an aggregate under-spend of £26 million on the capital resource limit, compared to an under-spend of £170 million in 2007-2008.
- 29 The overall 2008-2009 revenue position comprises 151 PCTs (2007-2008: 146 PCTs) reporting an aggregate under-spend of £455 million (2007-2008: £436 million) and 1 PCT (2007-2008: 4 PCTs) reporting an over-spend of £7 million (2007-2008: £45 million). No PCTs reported an exactly balanced position in 2008-2009 (2007-2008: 2 PCTs).
- 30 133 PCTs reported an aggregate capital under-spend of £26 million (2007-2008: £170.6m) with no PCTs reporting an over-spend (2007-2008: £0.4m). Nineteen PCTs reported neither an under nor over-spend.
- 31 In 2008-2009 there were 3 PCTs (none in 2007-2008) with provider functions that did not fully recover their costs from income provided by commissioners.



## Better Payment Practice Code – Primary Care Trusts

32 The percentage of bills paid in compliance with the better payment practice code in 2008-2009 is as follows

**Table 2**

	Number of Primary Care Trusts			
	By number of bills		By value of bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	35	26	46	113
Between 85% and 94.9%	80	38	73	35
Between 75% and 84.9%	23	42	22	2
Less than 75%	14	46	11	2
Total	152	152	152	152
Overall Performance 2008-2009 (%)	88.3	80.1	89.5	96.3

- 33 In 2007-2008, PCTs paid 85.1 per cent of their non-NHS bills and 73.8 per cent of their NHS bills by number, and 87.0 per cent of non-NHS bills and 94.6 per cent of NHS bills when measured by value within 30 days/contracted terms. The improved 2008-2009 performance is in the context of PCTs processing and paying over 5.1 million invoices during the year. Currently all PCTs are required to meet a Better Payment Practice Code target of paying 95 per cent of bills within contract terms or 30 days where no terms have been agreed.
- 34 In addition, David Nicholson, NHS Chief Executive, wrote to all NHS Chief Executives on 21 October 2008 asking them to examine and review existing payment practices and payment performance and to move as closely as possible to the ten-day payment commitment that has been set for Government Departments wherever practical.
- 35 SHAs monitor the performance of individual PCTs and work with poor performing organisations to achieve and maintain a level of payment performance consistent with Managing Public Money regulations and the Better Payment Practice Code.

## NHS Trusts

- 36 NHS Trusts were established under the National Health Service and Community Care Act 1990 as amended by the National Health Service Act 2006 and are responsible for the provision of health care. They receive most of their income from commissioners (mainly PCTs).

## Financial Duties of NHS Trusts

- 37 NHS Trusts have five main financial duties, which are
- To ensure that revenue is not less than sufficient, taking one year with another, to meet outgoings properly chargeable to the revenue account. This is the prime financial duty for NHS Trusts (a statutory duty).
- This is known as the break-even duty and NHS Trusts normally plan to meet this duty by achieving a balanced position on their income and expenditure account each and every year. However, the duty is to break-even 'taking one financial year with another'. This provides a degree of flexibility about the time-scale for matching income with those costs whose incidence is uneven, such as early retirement and clinical negligence, and when managing the recovery of an NHS Trust with serious financial difficulties.
- This duty is assumed to have been met if a material cumulative deficit (arising after 1 April 1997) on the income and expenditure account is recovered over a three year period (starting and including the year that the NHS Trust first goes into material cumulative deficit). A deficit is regarded as material if it exceeds more than 0.5 per cent of total annual turnover.

Exceptionally, and with the express agreement of the relevant SHA, the recovery period can be extended to five years, (starting and including the year that the NHS Trust first goes into material cumulative deficit).

- b A duty to break-even each and every year (a departmental/regulatory duty).
- c A requirement to absorb the cost of capital at a rate of 3.5 per cent of average relevant net assets (3.5 per cent in 2007-2008) (a departmental/regulatory duty).
- d To remain within the External Financing Limit (EFL) set for each NHS Trust by the Department of Health (a departmental/regulatory duty).
- e To remain within the Capital Resource Limit (CRL) set for each NHS Trust by the Department of Health (a departmental/regulatory duty).

### Overall Financial Performance of NHS Trusts in 2008-2009

- 38 In 2008-2009 NHS Trusts reported an income and expenditure surplus, on an accruals basis, of £235 million compared to a £380 million surplus in 2007-2008.
- 39 The overall 2008-2009 position comprises 135 NHS Trusts reporting an aggregate surplus of £352 million (£459 million in 2007-2008) and 14 NHS Trusts reporting an aggregate deficit of £116 million (£79 million in 2007-2008).
- 40 There were six NHS Trusts that reported an in-year operating deficit in 2008-2009. In addition, there were eight further NHS Trusts reporting a deficit due to technical accounting reasons, relating either to the International Financial Reporting Standards (IFRS) impact on impairment funding or phasing issues relating to a part year Foundation Trust, and are not part of the organisations' underlying operating position.
- 41 Twenty three Trusts are in their 5th year, or more, of recovering a cumulative deficit and have therefore breached their statutory financial duty to break-even 'taking one financial year with another'. Each of these 23 organisations has a plan in place to ensure it is no longer breaching their break-even duty within five years.
- 42 NHS Trusts reported an aggregate under-spend of £126 million against the capital resource limit, compared to an under-spend of £285 million in 2007-2008.

43 The performance of NHS Trusts against their financial duties is analysed below.

**Table 3<sup>1</sup>**

	<b>Number</b>	<b>Percentage</b>
<b>Total NHS Trusts</b>	149	100
<i>NHS Trusts achieving targets</i>		
<b>Capital Absorption Rate</b>		
Total achieving 3.5% or more <sup>2</sup>	109	87
After adjusting for immaterial results <sup>2</sup>	119	94
<b>External Financing Limit</b>		
Total meeting limit	144	97
After adjusting for de minimis overshoots <sup>3</sup>	145	97
<b>Capital Resource Limit</b>		
Total meeting limit	145	97
After adjusting for de minimis overshoots <sup>4</sup>	146	98

Analysis of the 2008-2009 results show that

- a Fourteen Trusts (7 in 2007-2008) had an income and expenditure deficit - 9 per cent of all NHS Trusts (4 per cent in 2007-2008).
- b There were 23 statutory break-even duty failures (31 in 2007-2008).
- c Seventeen did not make a 3.5 per cent return on capital (compared to 98 in 2007-2008) – 13 per cent of all NHS Trusts (65 per cent in 2007-2008).<sup>2</sup>
- d Five overshoot their EFL (4 in 2007-2008) – 3 per cent of all NHS Trusts (2 per cent in 2007-2008).
- e Four overshoot their CRL (2 in 2007-2008) – 3 per cent of all NHS Trusts (1 per cent in 2006-2007).

44 When non-material failures are discounted

- a Four (7 in 2007-2008) had an income and expenditure deficit (a deficit of more than 0.5 per cent of total annual income) – 3 per cent of all NHS Trusts (4 per cent in 2007-2008).
- b Seven (23 in 2007-2008) did not make a 3.5 per cent return on capital – 6 per cent of all NHS Trusts (15 per cent in 2007-2008).<sup>2</sup>
- c Four (1 in 2007-2008) overshoot their EFL – 3 per cent of all NHS Trusts (0.5 per cent in 2007-2008).<sup>3</sup>
- d Three (2 in 2007-2008) overshoot their CRL – 2 per cent of all NHS Trusts (1 per cent in 2007-08).<sup>4</sup>

45 The 23 NHS Trusts that achieved Foundation Trust status part way through the year had the opportunity to set their EFL and CRL control totals to match the charge against the EFL and CRL incurred during the part of the year that they were NHS Trusts.

1 Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2008-2009 by Department of Health.

2 A shortfall on the rate of return duty of less than 0.5 per cent is treated as immaterial. The 26 Trusts that achieved Foundation Trust status in 2008-2009 have been excluded from the Capital Absorption Rate analysis.

3 An EFL overshoot of less than £10,000 is treated as being within de minimis limits.

4 A CRL overshoot of less than £50,000 is treated as being within de minimis limits.

- 46 The achievement of the capital cost absorption duty is an annual measure. As a result, the NHS Trusts that achieved Foundation Trust status part way through the year did not achieve 3.5 per cent and have been excluded from the cost absorption figures in Table 3.

### Better Payment Practice Code – NHS Trusts

- 47 The percentage of bills paid in compliance with the better payment practice code in 2008-2009 is as follows:

**Table 4**

	Number of NHS Trusts			
	By number of bills		By value of bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	20	16	28	28
Between 85% and 94.9%	78	33	78	38
Between 75% and 84.9%	29	32	23	31
Less than 75%	22	68	20	52
Total	149	149	149	149
Overall Performance 2008-2009 (%)	84.1	72.8	84.5	80.4

- 48 In 2007-2008 NHS Trusts paid 83.3 per cent of their non-NHS bills and 69.3 per cent of their NHS bills by number, and 84.8 per cent of non-NHS bills and 76.2 per cent of NHS bills when measured by value within 30 days or contracted terms. This performance in 2008-2009 is in the context of NHS Trusts processing and paying circa 7.5 million invoices during the year. Currently all NHS Trusts must meet a Better Payment Practice Code target of paying 95 per cent of bills within contract terms or 30 days where no terms have been agreed.
- 49 In addition, David Nicholson, NHS Chief Executive, wrote to all NHS Chief Executives on 21 October 2008 asking them to examine and review existing payment practices and payment performance and to move as closely as possible to the ten-day payment commitment that has been set for Government Departments wherever practical.
- 50 SHAs monitor the performance of individual NHS Trusts and work with poor performing organisations to achieve and maintain a level of payment performance consistent with Managing Public Money regulations and the Better Payment Practice Code.

### Conclusion

- 51 The NHS has come a long way since 2006-2007 to improve its finances – tackling deep-rooted problems and putting better transparency and rigour in the system. The NHS continues to record a healthy surplus, which will be used to continue to improve services for patients in the context of a modern health service. In 2008-2009 the NHS has once again ended the year in a strong financial position and this improves its ability to respond to the challenging global economic position.

### Action taken by the Strategic Health Authorities in cases where NHS bodies face serious financial difficulties

- 52 The Department is continuing to work through SHAs to ensure that all organisations reporting a deficit in 2008-2009, or forecasting a deficit in 2009-2010, are developing recovery plans to return to financial balance whilst maintaining and improving services.

# Summarised Account of the Strategic Health Authorities

## Statement of Secretary of State's and Accounting Officer's responsibilities

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare summarised accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of Strategic Health Authorities at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

The Treasury has appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of the Strategic Health Authorities. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in *Managing Public Money*.

## Statement on Internal Control 2008-2009

This statement is given in respect of the Summarised Account for National Health Service Strategic Health Authorities (SHAs).

### Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring SHAs maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

### Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The extent to which SHAs had these processes in place during the financial year 2008-2009 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

### Capacity to handle risk

SHAs provided effective leadership and management of risk processes within their organisations through board ownership and delegation of responsibilities to lead directors supported by governance, audit, risk management and other sub-committees. Additionally they have wider responsibilities for ensuring NHS Trusts and PCTs have effective risk management arrangements in place.

SHAs made staff aware of their responsibilities through establishing clear policies and procedures and incorporating risk responsibilities into individuals' personal objectives related to the SHA business objectives. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

### The risk and control framework

To help me fulfil my responsibilities as set out above, I appointed the Chief Executive of each SHA as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. Guidance has been issued to SHAs describing the principles to be applied to the identification, evaluation and control of risk. For 2008-2009 all SHAs were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process SHAs were required to identify gaps in controls and/or assurance arrangements and provide evidence that these had been or were being addressed.

SHAs described their own Assurance Frameworks in their Statements on Internal Control (SICs) and provided comments on their risk management processes in planning and across all activities and how they had developed a risk management culture and shared information across the local health economy and with other agencies.

In view of the importance of information governance and security across the public sector, the NHS has policies and procedures to provide assurances regarding the processing of person identifiable information, particularly in the transfer of information within organisations and to outside locations. All NHS organisations

- identify a Senior Information Risk Owner at Board level;
- explicitly include how risks to information are being managed and controlled in their annual statements on internal control; and

- include details of any serious untoward incidents involving loss data loss or confidentiality breach in their annual reports.

I made an assessment of the quality of the Assurance Frameworks against a number of criteria and by taking into consideration the SHA Head of Internal Audit opinions. This showed that at 31 March 2009 every SHA was providing evidence that a system of internal control was in place and had been for the full year.

SHAs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. Three SHAs did not report any gaps. Where organisations did report gaps, they showed the following

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	21%	33%
Organisational controls	50%	44%
Clinical controls	29%	22%
	100%	100%
	(may not sum due to rounding)	

### Review of effectiveness

I draw my major source of assurance on the SHAs' systems of internal control from SICs signed by Accountable Officers in support of the accounts for each SHA.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have gained further assurance by examining the SHAs' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, to determine whether they are fit for purpose. I have also identified any inconsistencies between each SHA SIC and

- the external audit opinion; and
- the SHA Head of Internal Audit opinion.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;
- other internal reviewers, for example clinical auditors;
- external reviewers; and
- audit committees, risk management committees, governance committees and other board committees.

Inconsistencies were identified in two SHAs' SICs where they had not disclosed controls and assurance gaps identified in the Assurance Frameworks. SHAs have been reminded of the need to make appropriate disclosures.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies, the national reports made by the National Audit Office on NHS issues, and reports made by the Healthcare Commission.



### Significant control issues

No significant control issues were disclosed by any SHA.

### Conclusion

The maintenance of Assurance Frameworks, with all ten SHAs assessed as having systems of internal control in place, has provided a robust structure and consistency across the NHS for the public assurances about how organisations are managing their risks.

*David Nicholson*  
Accounting Officer

17 August 2009

## The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the summarised financial statements of the Strategic Health Authorities for the year ended 31 March 2009 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information, which comprises the Introduction; Review of NHS Financial Performance in 2008-2009; Overall Financial Performance of Strategic Health Authorities; and Better Payment Practice Code for Strategic Health Authorities, included in the Annual Report, is consistent with the financial statements. I also report 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.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department of Health's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Strategic Health Authorities or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Strategic Health Authorities' 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 fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of the Strategic Health Authorities' affairs as at 31 March 2009 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information, which comprises the Introduction; Review of NHS Financial Performance in 2008-2009; Overall Financial Performance of Strategic Health Authorities; and Better Payment Practice Code for Strategic Health Authorities, included within the Annual Report, is consistent with the financial statements.

### **Opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

1 September 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Operating Cost Statement for the year ended 31 March 2009

	Notes	2008-2009 £000	2007-2008 £000
<b>Continuing operations</b>			
Authority operating costs	2.1	<b>5,410,417</b>	5,125,111
Operating Income	3	<b>(70,689)</b>	(59,524)
<b>Net operating costs</b>		<b><u>5,339,728</u></b>	<u>5,065,587</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2009

		2008-2009 £000	2007-2008 £000
Unrealised surplus on the revaluation of fixed assets	11	<b>178</b>	2,034
Net transfer from/(to) NHS bodies and Department of Health	12	<b>(4,043)</b>	895
Fixed asset impairment losses	11	<b>(3,290)</b>	(2,545)
<b>Recognised gains/(losses) for the financial year</b>		<b><u>(7,155)</u></b>	<u>384</u>

*The notes at pages A11 to A26 form part of this account*

## Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £000	31 March 2008 £000
<b>Fixed assets</b>			
Intangible assets	4.1	500	455
Tangible assets	4.2	24,226	32,223
		<u>24,726</u>	<u>32,678</u>
<b>Current assets</b>			
Debtors	5	53,960	124,685
Cash at bank and in hand	14	91	223
		<u>54,051</u>	<u>124,908</u>
<b>Creditors: amounts falling due within one year</b>	6	(260,622)	(260,112)
<b>Net current (liabilities)</b>		<b>(206,571)</b>	(135,204)
<b>Total assets less current liabilities</b>		<b>(181,845)</b>	(102,526)
<b>Creditors: amounts falling due after more than one year</b>	7	(827)	(554)
<b>Provisions for liabilities and charges</b>	8	(25,869)	(38,205)
		<u>(208,541)</u>	<u>(141,285)</u>
<b>Taxpayers' equity</b>			
General Fund	12	(214,351)	(152,213)
Revaluation reserve	11	5,810	10,928
		<u>(208,541)</u>	<u>(141,285)</u>

*The notes at pages A11 to A26 form part of this account*

David Nicholson  
Accounting Officer

17 August 2009

## Cash Flow Statement for the year ended 31 March 2009

	Notes	<b>2008-2009</b>	2007-2008
		<b>£000</b>	£000
Net cash (outflow) from operating activities	15	<b>(5,284,618)</b>	(4,979,933)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire fixed assets		<b>(1,268)</b>	(1,742)
Receipts from the sale of fixed assets		<b>0</b>	620
<b>Net cash (outflow) from investing activities</b>		<b>(1,268)</b>	(1,122)
<b>Net cash (outflow) before financing</b>		<b>(5,285,886)</b>	(4,981,055)
<b>Analysis of financing</b>			
Net Parliamentary Funding	12	<b>5,285,754</b>	4,959,300
(Decrease)/increase in cash	14	<b>(132)</b>	(21,755)

*The notes at pages A11 to A26 form part of this account*

# Notes to the Account

## 1 Accounting policies

The Department of Health has directed that the financial statements of Strategic Health Authorities shall meet the accounting requirements of the Strategic Health Authority Manual for Accounts, which has been agreed with HM Treasury. Consequently, the underlying and summarised financial statements have been prepared in accordance with the 2008-2009 Manual for Accounts, issued by the Department. The accounting policies contained in the manual follow UK generally accepted accounting practices for companies (UK GAAP) and HM Treasury's Government Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS.

### 1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to current costs. This is in accordance with directions issued by HM Treasury. Strategic Health Authorities are not required to provide a reconciliation between current cost and historical cost surplus and deficits.

### 1.2 Acquisitions and discontinued operations

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

### 1.3 Operating income

The main source of funding for Strategic Health Authorities is allocations from the Department of Health within an approved cash limit, which is credited to the General Fund. Operating income is income which relates directly to the operating activities of the Strategic Health Authorities. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Request for Resources 1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Income is accounted for applying the accruals convention, and where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.4 Taxation

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

### 1.5 Capital charges

A charge, reflecting the cost of capital utilised by Strategic Health Authorities, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2008-2009 was 3.5 per cent (2007-2008: 3.5 per cent) on all assets less liabilities, except for cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

## 1.6 Fixed assets

### a Capitalisation

All assets falling into the following categories are capitalised

- i Intangible assets which can be valued, are capable of being used for more than one year and have a cost, individually or as a group equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.
- iii Tangible assets which are capable of being used for more than one year, and which
  - individually have a cost equal to or greater than £5,000; or
  - collectively have a cost equal to or greater than £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates, and are under single management control; or
  - form part of the initial setting-up cost of a new building, irrespective of their individual or collective cost.

### b Valuation

#### *Intangible fixed assets*

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events change or circumstances indicate the carrying value may not be recoverable.

#### *Tangible fixed assets*

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

Borrowing costs associated with the construction of new assets are not capitalised.

### i Land and buildings

All land and buildings are restated to current value using professional valuations in accordance with FRS15. The NHS-wide five yearly revaluation was carried out as at 1 April 2005, although individual Strategic Health Authorities will have revalued land and buildings since that date. Subsequent revaluations by individual Strategic Health Authorities will have been carried out by various qualified valuers. The date of the latest revaluation and the name and details of the valuer are disclosed in the accounts of the underlying bodies. Professional valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value.

To meet the underlying objectives established by the Department of Health the following accepted variations of the RICS Appraisal and Valuation Manual have been required:



- no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
  - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is carried at current value. Where assets are of low value, and/or have short useful economic lives, these are carried at depreciated historic cost as a proxy for current value. Equipment surplus to requirements is valued at net recoverable amount.
  - iii Assets in the course of construction are valued at current cost. These assets include any existing land or buildings under the control of a contractor.
  - iv Where indexation is used as the basis for revaluation Strategic Health Authorities can select an appropriate index, and the details of the index used are disclosed in the accounts of the underlying bodies.
  - v Gains arising from indexation and revaluations are taken to the Revaluation Reserve. Losses arising from revaluation are recognised as impairments and are charged to the Revaluation Reserve to the extent that a balance exists in relation to the revalued asset. Losses in excess of that amount are charged to the current year's Operating Cost Statement, unless it can be demonstrated that the recoverable amount is greater than the revalued amount in which case the impairment is taken to the Revaluation Reserve. Diminutions in value when newly constructed assets are brought into use are charged in full to the OCS. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.
- c Depreciation

The accounts include a FReM departure which has been agreed with HM Treasury, whereby the accumulated depreciation as at 31 March 2008 has been netted off against the cost of the assets brought forward as at 1 April 2008 for the Buildings (ex Dwellings) class of assets.

Depreciation is charged on each individual fixed asset as follows

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.
- iv Buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by a professional valuer. Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over their expected useful life.

Estimated lives of fixed assets held by SHAs fall within the following limits

Software Licences: between 1 year and 5 years

Buildings excluding dwellings: between 4 years and 60 years

Plant and Machinery: between 2 years and 5 years

Transport Equipment: 5 years

Information Technology: between 1 year and 8 years

Furniture and Fittings: between 1 year and 25 years.

### 1.7 Losses and special payments

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

Losses and special payments are charged to the relevant functional headings on an accruals basis, including losses which would have been made good through insurance cover had Strategic Health Authorities not been bearing their own risks (with insurance premiums then being included as normal relevant expenditure).

### 1.8 Clinical negligence costs

From 1 April 2000, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all Existing Liabilities Scheme (ELS) cases unsettled at that date and from 1 April 2002 all Clinical Negligence Scheme for Trusts (CNST) cases. Provisions for these are included in the accounts of the NHSLA. Although the NHSLA is administratively responsible for all cases from 1 April 2000, the legal liability remains with the Strategic Health Authority. The value of provisions of the Strategic Health Authority carried by the NHSLA is disclosed in Note 8.

### 1.9 Pensions costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions). The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities. Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and an FRS17 accounting valuation every year. An outline of these follows:

#### *a Full actuarial (funding) valuation*

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14 per cent of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6 per cent of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5 per cent up to 8.5 per cent of their pensionable pay depending on total earnings.

#### *b FRS17 Accounting valuation*

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

#### *Scheme Provisions as at 31 March 2009*

The scheme is a 'final salary' scheme.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the operating cost statement at the time the Authority commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made. From 1 April 2008 a voluntary additional pension facility becomes available, under which members may purchase up to £5,000 per annum of additional pension at a cost determined by the actuary from time-to-time.

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

#### *Existing members at 1 April 2008*

Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there is the opportunity of giving up some of the pension to increase the retirement lump sum. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

#### *New entrants from 1 April 2008*

Annual pensions for new entrants from 1 April 2008 will be based on 1/60th of the best three-year average of pensionable earnings in the ten years before retirement. Members wishing to obtain a retirement lump sum may give up some of this pension to obtain a retirement lump of up to 25 per cent of the total value of their retirement benefits. Survivor pensions will be available to married and unmarried partners and will be equal to 37.5 per cent of the member's pension.

### **1.10 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit the project. It is revalued on the basis of current cost. The amortisation is calculated on the same basis as used for depreciation, on a quarterly basis.

### **1.11 Leases**

Rentals under operating leases are charged on a straight line basis over the lease term.

### **1.12 Foreign exchange**

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Resulting exchange gains and losses are taken to the Operating Cost Statement.

### **1.13 Provisions**

Strategic Health Authorities provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2 per cent (2007-2008 2.2 per cent) in real terms.

### **1.14 Financial instruments**

From 2008-2009 HM Treasury requires Strategic Health Authorities to follow three new accounting standards in respect of financial instruments. These are FRS25 (Financial Instruments Disclosure and Presentation), FRS26 (Financial Instruments Measurement Recognition and Derecognition), and FRS29 (Financial Instruments Disclosure). No restatement of prior period figures is required.

#### *Financial assets*

Financial assets are recognised on the balance sheet when the Authority becomes party to the financial instrument contract or, in the case of trade debtors, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques determined by the Authority in accordance with FRS26.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

At the balance sheet date, the Authority assesses whether any financial assets are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the operating cost statement and the carrying amount of the asset is reduced directly, or through a provision for impairment of debtors.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the operating cost statement to the extent that the carrying amount of the debtor at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

*Financial liabilities*

Financial liabilities are recognised on the balance sheet when the Authority becomes party to the contractual provisions of the financial instrument or, in the case of trade creditors, when the goods or services have been received. Financial liabilities are derecognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

As Strategic Health Authorities only have 'other financial liabilities', after initial recognition, all financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

**2.1 Authority operating costs**

	Notes	2008-2009 £000	2007-2008 £000
<i>The expenses of the authorities were</i>			
Non-executive members' remuneration		<b>1,006</b>	984
Other staff costs		<b>187,890</b>	150,387
Consultancy services		<b>52,061</b>	43,390
Premises and fixed plant		<b>26,659</b>	41,133
Establishment costs		<b>28,029</b>	17,654
Training costs		<b>4,374,030</b>	4,128,554
Transport and moveable plant		<b>1,356</b>	1,122
External contractors		<b>6,614</b>	3,395
Capital: Depreciation	4.2	<b>1,447</b>	1,848
Amortisation	4.1	<b>139</b>	81
Impairment of tangible fixed assets	4.2	<b>310</b>	458
Capital charge interest		<b>(6,127)</b>	(3,402)
Loss on disposal of fixed assets		<b>0</b>	1,055
		<b>(4,231)</b>	40
Auditors' remuneration – Audit fee <sup>1</sup>		<b>2,118</b>	2,132
Auditors' remuneration – Other fees		<b>116</b>	122
Interest payable		<b>12</b>	1
Unwinding of discount on provisions	8	<b>58</b>	109
Impairment of debtors		<b>10</b>	0
Redundancies		<b>5,286</b>	4,661
Commissioning of healthcare		<b>289,663</b>	263,787
High cost drugs		<b>105,227</b>	84,584
NHS Direct funding		<b>141,965</b>	137,632
Miscellaneous expenditure		<b>192,548</b>	245,424
		<b>5,410,417</b>	5,125,111

The figures have been adjusted to remove expenditure and income in relation to the Electronic Staff Records project. This is hosted by Yorkshire and the Humber SHA on behalf of the Department but is funded by cash only.

<sup>1</sup> The audit fee represents the cost for the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included within the audit fee disclosed within the Department of Health Resource Account.

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

£12,000 was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2007-2008: £NIL). No compensation was paid to cover debt recovery costs under this legislation (2007-2008: £NIL).

*Hire and operating rentals included in expenses*

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Hire of plant and machinery	<b>593</b>	486
Other operating leases	<b>10,677</b>	7,465
	<b>11,270</b>	7,951

*Staff costs*

	<b>2008-2009</b>	<b>Permanently</b>	<b>Other</b>	2007-2008
	<b>Total</b>	<b>employed</b>	<b>£000</b>	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Salaries and wages	<b>157,955</b>	<b>120,416</b>	<b>37,539</b>	121,175
Social security costs	<b>12,497</b>	<b>12,291</b>	<b>206</b>	11,662
Employer contributions to NHS Pensions Agency	<b>16,994</b>	<b>16,659</b>	<b>335</b>	15,706
Other pension costs	<b>444</b>	<b>444</b>	<b>0</b>	1,844
	<b>187,890</b>	<b>149,810</b>	<b>38,080</b>	150,387

The average number of persons employed during the year was as follows

	<b>2008-2009</b>	<b>Permanently</b>	<b>Other</b>	2007-2008
	<b>Total</b>	<b>employed</b>	<b>Number</b>	Total
	<b>Number</b>	<b>Number</b>	<b>Number</b>	Number
Total	<b>3,149</b>	<b>2,455</b>	<b>694</b>	2,628

*Retirements due to ill-health*

During the year, 1 employee retired due to ill health (2007-2008: 5). The additional pension liability for this employee is estimated at £58,000 (2007-2008: £622,000) (calculated on an average basis and borne by the NHS Pension Scheme).

*Employee benefits*

The amount spent on employee benefits during the year totalled £371,000 (2007-2008: £350,000).

**2.2 Segmental reporting**

	SHA Activities	MPET	Other	Total
	£000	£000	£000	£000
Net operating costs	296,360	4,399,062	644,306	5,339,728
Net (liabilities) at 31 March 2009	(21,677)	(148,208)	(38,656)	(208,541)

The Multi Professional Education and Training (MPET) expenditure funds the education and training of staff throughout the NHS.

**2.3 Performance against Revenue Resource Limit**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Net operating costs	<b>5,339,728</b>	5,065,587
Revenue resource limit	<b>6,394,571</b>	5,969,014
Underspend against revenue resource limit	<b>1,054,843</b>	903,427

**3 Operating income**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Fees and charges	<b>8,997</b>	14,108
Rental income from leases <sup>1</sup>	<b>1,079</b>	0
Other income	<b>60,613</b>	45,416
	<b>70,689</b>	59,524

**4 Fixed assets****4.1 Intangible fixed assets**

Software licences are the only intangible fixed assets held by Strategic Health Authorities

	Total	Software Licences	Licences and Trademarks	Patents	Development Expenditure
	£000	£000	£000	£000	£000
Gross cost at 31 March 2008	706	706	0	0	0
Transfers from/(to) NHS bodies	0	0	0	0	0
Additions - purchased	184	184	0	0	0
Reclassification	0	0	0	0	0
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Other in-year revaluation	0	0	0	0	0
Disposals	(22)	(22)	0	0	0
<b>Gross cost at 31 March 2009</b>	<b>868</b>	<b>868</b>	<b>0</b>	<b>0</b>	<b>0</b>
Accumulated amortisation at 31 March 2008	251	251	0	0	0
Transfers (to) NHS bodies	0	0	0	0	0
Charged in year	139	139	0	0	0
Reclassification	0	0	0	0	0
Indexation	0	0	0	0	0
Impairments	0	0	0	0	0
Other in year revaluation	0	0	0	0	0
Disposals	(22)	(22)	0	0	0
<b>Accumulated amortisation at 31 March 2009</b>	<b>368</b>	<b>368</b>	<b>0</b>	<b>0</b>	<b>0</b>
Net book value at 31 March 2008	455	455	0	0	0
<b>Net book value at 31 March 2009</b>	<b>500</b>	<b>500</b>	<b>0</b>	<b>0</b>	<b>0</b>

<sup>1</sup> Rental income from leases has been separately identified in 2008-2009 for the first time.

**4.2 Tangible fixed assets**

	<b>Total</b>	Land	Buildings	Assets under exc construction dwellings or payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000	£000	£000
Cost or valuation 31 March 2008	<b>40,421</b>	11,681	15,289	0	327	174	8,622	4,328
Transfers from/(to) NHS bodies	<b>(4,043)</b>	(1,399)	(2,640)	0	0	0	(4)	0
Additions – purchased	<b>915</b>	0	89	0	10	0	603	213
Reclassification	<b>0</b>	0	0	0	0	0	0	0
Indexation	<b>194</b>	41	110	0	0	0	0	43
Impairments	<b>(3,290)</b>	(2,810)	(480)	0	0	0	0	0
Other in-year revaluation	<b>0</b>	0	0	0	0	0	0	0
Disposals	<b>(1,168)</b>	0	0	0	(182)	(173)	(732)	(81)
<b>Gross cost at 31 March 2009</b>	<b>33,029</b>	7,513	12,368	0	155	1	8,489	4,503
Accumulated depreciation at 31 March 2008	<b>8,198</b>	0	0	0	258	174	6,258	1,508
Transfers (to) NHS bodies	<b>0</b>	0	0	0	0	0	0	0
Charged in year	<b>1,447</b>	0	623	0	19	0	557	248
Reclassification	<b>0</b>	0	0	0	0	0	0	0
Indexation	<b>16</b>	0	0	0	0	0	0	16
Impairments	<b>310</b>	0	310	0	0	0	0	0
Other in year revaluation	<b>0</b>	0	0	0	0	0	0	0
Disposals	<b>(1,168)</b>	0	0	0	(182)	(173)	(732)	(81)
<b>Accumulated depreciation at 31 March 2009</b>	<b>8,803</b>	0	933	0	95	1	6,083	1,691
Net book value at 31 March 2008	<b>32,223</b>	11,681	15,289	0	69	0	2,364	2,820
<b>Net book value at 31 March 2009</b>	<b>24,226</b>	7,513	11,435	0	60	0	2,406	2,812

There were no dwellings in the reporting period.

The net book value of land and buildings at 31 March 2009 comprised

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Freehold	<b>17,960</b>	25,766
Long leasehold	<b>542</b>	702
Short leasehold	<b>446</b>	502
	<b>18,948</b>	26,970

No assets in 2008-2009 or 2007-2008 were held under finance leases or acquired under hire purchase agreements.

There was no depreciation charged to the operating cost statement in respect of assets held under finance leases and hire purchase contracts in 2008-2009 or 2007-2008.



**5 Debtors**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
NHS Debtors	<b>21,363</b>	32,937
Non-NHS trade debtors	<b>5,219</b>	1,704
Prepayments	<b>10,611</b>	55,222
Accrued income	<b>1,483</b>	540
Provision for irrecoverable debts	<b>(134)</b>	(225)
Other debtors	<b>15,418</b>	34,507
	<b>53,960</b>	124,685

There were no debtors falling due after more than one year.

*Provision for the impairment of debtors*

	<b>2008-2009</b>
	<b>£000</b>
Balance at 1 April 2008	<b>(225)</b>
Provision for impairment of debtors	<b>(176)</b>
Amount written off during the year	<b>101</b>
Amount recovered during the year	<b>166</b>
<b>Balance at 31 March 2009</b>	<b>(134)</b>

**Debtors past due but not impaired**

	<b>£000</b>
By up to three months	<b>10,450</b>
By three to six months	<b>292</b>
By more than six months	<b>1,492</b>
	<b>12,234</b>

**6 Creditors: Amounts falling due within one year**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
NHS creditors	<b>140,784</b>	133,917
Non-NHS trade creditors	<b>68,454</b>	74,244
Payments received on account	<b>3</b>	29
Income tax and social security	<b>2,314</b>	1,984
VAT	<b>87</b>	35
Capital creditors	<b>0</b>	169
Rentals due under operating leases	<b>0</b>	1
Accruals and deferred income	<b>42,869</b>	41,321
Other creditors	<b>6,111</b>	8,412
	<b>260,622</b>	260,112

**7 Creditors: Amounts falling due after more than one year**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Other creditors	<b>827</b>	554
	<b>827</b>	554

**8 Provisions for liabilities and charges**

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Restruct- uring £000	Other £000	<b>Total</b> <b>£000</b>
At 31 March 2008	747	3,928	7,598	3,205	22,727	<b>38,205</b>
Arising during the year	0	928	5,077	4,627	3,341	<b>13,973</b>
Utilised during the year	(32)	(812)	(1,507)	(1,493)	(1,488)	<b>(5,332)</b>
Reversed unused	0	(143)	(2,831)	(1,379)	(16,682)	<b>(21,035)</b>
Unwinding of discount	16	30	0	12	0	<b>58</b>
<b>At 31 March 2009</b>	<b>731</b>	<b>3,931</b>	<b>8,337</b>	<b>4,972</b>	<b>7,898</b>	<b>25,869</b>

*Expected timing of cashflows*

Within one year	21	644	7,443	4,972	7,898	<b>20,978</b>
Within 1 to 5 years	242	1,732	894	0	0	<b>2,868</b>
Over 5 years	468	1,555	0	0	0	<b>2,023</b>

£1,129,122,000 is included in the accounts of the NHS Litigation Authority (NHSLA) for Existing Liabilities Scheme (ELS) liabilities in Strategic Health Authorities. The figure above represents provisions held in respect of formal legal claims only, and so is prepared on a different basis to those reported by Health Authorities in previous periods. The NHSLA accounts for provisions arising other than for current legal claims separately, determining these nationally on an actuarial basis. Certain of these liabilities would, in previous periods, have been included in Strategic Health Authorities' gross clinical negligence provisions.

**9 Finance lease obligations**

Strategic Health Authorities do not hold any assets under finance leases.

**10 Operating lease commitments**

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the tables below, analysed according to the period in which the lease expires.

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
<b>Land and buildings</b>		
Within one year	<b>1,901</b>	1,435
Between one and five years	<b>1,832</b>	5,084
After five years	<b>6,539</b>	11,949
	<b>10,272</b>	18,468
<b>Other leases</b>		
Within one year	<b>118</b>	391
Between one and five years	<b>1,025</b>	855
After five years	<b>0</b>	0
	<b>1,143</b>	1,246

**11 Revaluation reserve**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Balance at 1 April	<b>10,928</b>	11,851
Transfer from General Fund in respect of prior period adjustment	<b>0</b>	0
At 1 April restated	<b>10,928</b>	11,851
Revaluations and indexation	<b>178</b>	2,034
Impairments	<b>(3,290)</b>	(2,545)
Transfers to General Fund – realised elements	<b>(2,006)</b>	(412)
<b>Balance at 31 March</b>	<b>5,810</b>	10,928

**12 General Fund**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Balance at 1 April	<b>(152,213)</b>	(43,831)
Transfer from Revaluation Reserve in respect of prior period adjustment	<b>0</b>	0
At 1 April restated	<b>(152,213)</b>	(43,831)
Net operating cost for the year	<b>(5,339,728)</b>	(5,065,587)
Net Parliamentary funding	<b>5,285,754</b>	4,959,300
Transfer from/(to) NHS bodies	<b>(4,043)</b>	895
Transfers from Revaluation Reserve	<b>2,006</b>	412
Capital charges interest	<b>(6,127)</b>	(3,402)
<b>Balance at 31 March</b>	<b>(214,351)</b>	(152,213)

**13 Movements in working capital other than cash**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Decrease/(increase) in debtors	<b>70,725</b>	35,794
Increase/(decrease) in creditors	<b>952</b>	62,453
Net change in working capital other than cash	<b>71,677</b>	98,247

**14 Analysis of changes in net debt**

	As at 31 March 2008 £000	Cash flows £000	As at <b>31 March 2009</b> <b>£000</b>
Cash at OPG	219	(135)	<b>84</b>
Cash at commercial bank and in hand	4	3	<b>7</b>
	<u>223</u>	<u>(132)</u>	<u><b>91</b></u>

**15 Reconciliation of operating cost to operating cash flows**

	Notes	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
<b>Net operating cost</b>		<b>(5,339,728)</b>	(5,065,587)
Adjustment for non-cash transactions		<b>(11,235)</b>	18,324
Adjustment for movements in working capital other than cash	13	<b>71,677</b>	98,247
Use of provisions	8	<b>(5,332)</b>	(30,917)
Net cash (outflow) from operating activities		<u><b>(5,284,618)</b></u>	<u>(4,979,933)</u>

**16 Contingent liabilities and contingent assets**

	<b>31 March 2009</b> <b>£000</b>	31 March 2008 £000
<i>Authorities reported contingent liabilities as follows</i>		
Contingent liabilities	<b>(11,003)</b>	(2,360)
Amounts recoverable	<b>0</b>	0
	<u><b>(11,003)</b></u>	<u>(2,360)</u>
Contingent assets	<u><b>9,300</b></u>	<u>0</u>

These contingent assets and liabilities have not been accrued in this account due to uncertainty over the ultimate outcome. The contingent asset relates to a VAT reclaim submitted under the Conde Naste ruling in respect of transactions between 1973 and 1995. If the claim is successful the proceeds will be distributed to the NHS organisations to which the original transactions relate, hence there is a contingent liability for the same value. The remaining balance of contingent liabilities relate to long term secondments following the restructuring of the Strategic Health Authorities on 1 July 2006, potential mesothelioma and asbestosis claims and Agenda for Change grading reviews.

**17 Capital commitments**

*Strategic Health Authorities had the following capital commitments as at 31 March*

	<b>31 March 2009</b> <b>£000</b>	31 March 2008 £000
Contracted	<b>1,200</b>	942
Authorised but not contracted	<b>0</b>	0
	<u><b>1,200</b></u>	<u>942</u>

**18 Other commitments**

Strategic Health Authorities have not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2009 (2007-2008: £NIL).

**19 Losses and special payments**

There were 72 cases of losses (2007-2008: 74 cases) totalling £69,000 (2007-2008: £389,000) and ten cases of special payments (2007-2008: 47 cases) totalling £468,000 (2007-2008: £3,542,000) approved during 2008-2009. There were NIL cases (2007-2008: 2 cases, £2,855,000) where the net payment exceeded £250,000.

**20 Related party transactions**

Strategic Health Authorities are bodies corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year Strategic Health Authorities had a significant number of material transactions with the Department and potentially with other entities for which the Department is regarded as the parent Department, i.e. all NHS Trusts, all NHS Foundation Trusts, all NHS agencies, all Primary Care Trusts and all Special Health Authorities.

In addition Strategic Health Authorities had a significant number of material transactions with other Government Departments and other central and local Government bodies.

Details of all the Strategic Health Authorities' related party transactions are shown in the individual Strategic Health Authority accounts.

**21 Financial instruments**

The Strategic Health Authority summarised account includes the accounts of ten underlying NHS bodies. It is within the underlying accounts of these ten NHS bodies that detailed disclosures have been made. The following paragraphs provide an overview of the major financial risks for Strategic Health Authorities and how they are managed at the individual level.

*Financial risk management*

FRS29 Financial Instruments: Disclosures requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of Strategic Health Authority activities and the way in which they are financed, the Strategic Health Authorities are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies. Strategic Health Authorities have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Strategic Health Authorities in undertaking their activities.

*Liquidity risk*

Strategic Health Authorities' net operating costs are financed from resources voted annually by Parliament, as is their capital expenditure. The Strategic Health Authorities are not therefore exposed to significant liquidity risks.

*Interest rate risk*

The great majority of the Strategic Health Authorities' financial assets and financial liabilities carry nil or fixed rates of interest. Strategic Health Authorities are not, therefore, exposed to any significant interest rate risk.

*Foreign currency risk*

Strategic Health Authorities have no or negligible foreign currency income or expenditure and therefore are not exposed to significant foreign currency risk.

*Credit risk*

Since the majority of Strategic Health Authorities' income comes from Parliamentary funding, they have low exposure to credit risk. The maximum exposure as at 31 March 2009 is in receivables as disclosed in the debtors note.

*Market risk*

Strategic Health Authorities do not operate in an open market and therefore are not exposed to significant market risk.

*Fair values*

The fair values of financial assets and financial liabilities for Strategic Health Authorities approximates to their book values.

**22 Post balance sheet events**

There are no post balance sheet events to report. These accounts were authorised for issue on 1 September 2009.

**23 Intra-government balances**

	Debtors Amounts falling due within one year £000	Debtors Amounts falling due after more than one year £000	Creditors Amounts falling due within one year £000	Creditors Amounts falling due after more than one year £000
Balances with other central Government bodies	24,950	0	42,230	0
Balances with Local Authorities	433	0	473	0
Balances with NHS Trusts	6,115	0	107,554	0
Balances with public corporations and trading funds	613	0	67	0
Total Intra Government balances	32,111	0	150,324	0
Balances with bodies external to Government	21,849	0	110,298	827
<b>At 31 March 2009</b>	<b>53,960</b>	<b>0</b>	<b>260,622</b>	<b>827</b>
Balances with other central Government bodies	37,007	0	31,362	0
Balances with Local Authorities	53	0	1,678	0
Balances with NHS Trusts	25,879	0	110,375	0
Balances with public corporations and trading funds	0	0	103	0
Total Intra Government balances	62,939	0	143,518	0
Balances with bodies external to Government	61,746	0	116,593	554
At 31 March 2008	124,685	0	260,111	554



# Summarised Account of Primary Care Trusts



## Statement of Secretary of State's and Accounting Officer's responsibilities

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare summarised accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of Primary Care Trusts at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of Primary Care Trusts. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in *'Managing Public Money'*.

## Statement on Internal Control 2008-2009

This statement is given in respect of the Summarised Account for National Health Service Primary Care Trusts (PCTs).

### Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring PCTs maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

### Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The extent to which PCTs had these processes in place during the financial year 2008-2009 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

### Capacity to handle risk

PCTs provided effective leadership and management of risk processes within their organisations in ways that varied with the organisations' management structures.

Some PCTs identified a lead director with overarching responsibility across all the organisation's activities, whereas others had opted for an approach whereby areas of responsibility were allocated across a number of directors. For example, the leadership responsibilities for clinical risks assigned to clinical directors and financial risks to the finance director.

Similarly, PCTs had varying approaches to the roles of their sub committees in handling risk. These ranged from those that had established overarching corporate governance committees to those that had separate committees, frequently with the key responsibilities assigned to the audit, risk management and clinical governance committees.

PCTs made staff aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

### The risk and control framework

To help me fulfil my responsibilities set out above, I appointed the Chief Executive of each PCT as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. Guidance has been issued to each PCT describing the principles to be applied to the identification, evaluation and control of risk.

For 2008-2009 all PCTs were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process PCTs were required to identify gaps in controls and/or assurance arrangements and provide evidence that these had been or were being addressed.

PCTs described their own Assurance Frameworks in their Statements on Internal Control (SICs). They also provided a range of comments on their risk management processes in planning and across all activities, developing a risk management culture and how they share information across the local health economy and with other agencies.

In view of the importance of information governance and security across the public sector, the NHS has policies and procedures to provide assurances regarding the processing of person identifiable information, particularly in the transfer of information within organisations and to outside locations. All NHS organisations

- identify a Senior Information Risk Owner at Board level;
- explicitly include how risks to information are being managed and controlled in their annual statements on internal control; and
- include details of any serious untoward incidents involving loss data, loss or confidentiality breach in their annual reports.

Strategic Health Authorities (SHAs) made an independent assessment of the quality and embedding of the PCT Assurance Frameworks against a number of criteria and this showed at 31 March 2009

- all PCTs had their system of internal control in place for the full year;
- 99 per cent (150) were providing evidence that a system of internal control was in place; and
- one per cent (2) were not providing evidence that a sufficiently complete system of internal control was in place.

This represents a small increase compared with the 2007-2008 position when 97 per cent of PCTs provided evidence that system of internal control was in place.

PCTs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. 29 PCTs did not report any gaps. Where organisations did report gaps, they showed the following at 31 March:

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	26%	25%
Organisational controls	41%	42%
Clinical controls	33%	33%
	100%	100%

SHAs performance managed the ongoing development of the PCTs Assurance Frameworks and the actions taken by the PCTs to address any significant gaps in control or assurance.

### Review of effectiveness

I draw my major source of assurance on the PCTs systems of internal control from SICs, signed by Accountable Officers in support of the accounts for each PCT, that have been summarised by the SHAs.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have gained further assurance from reports from SHA Chief Executives that confirm whether the PCTs' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, are fit for purpose. The SHA Chief Executives also report if there are inconsistencies between each PCT SIC and

- the external audit opinion;
- evidence from the SHA performance management reviews; and
- the PCT head of internal audit opinion.

I have carried out sample checks of the analysis of the PCTs' Assurance Frameworks and SICs prepared by the SHAs. I am satisfied that these reflect the underlying position.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;
- other internal reviewers, for example clinical auditors;
- external reviewers including the Healthcare Commission and external auditors; and
- audit committees, risk management committees, governance committees and other board committees.

The SHA Chief Executives' reports recorded the following inconsistencies

- one PCT had been given an adverse conclusion in respect of compliance with Audit Commission Use of Resources guidance.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies, and the national reports made by the National Audit Office on NHS issues. I am aware that the appointed auditors for a number of PCTs issued reports to Secretary of State in respect of the PCTs' financial situation.

My review also drew on the Value for Money (VfM) 2008-2009 opinion of the PCTs' external auditors. This assesses how well NHS trusts and PCTs managed and used their financial resources. 59 per cent of PCTs received unqualified opinions demonstrating adequate or more than adequate value for money and 41 per cent of PCTs received qualified opinions.

My review also noted that one PCTs' accounts were qualified on regularity.

The PCT summarised account consolidates the income that is received from prescription charges. The account in which prescription charges are recorded, the NHS Business Services Authority (BSA) Pharmaceutical Account, has been qualified for many years on the grounds of regularity, due to patients falsely claiming that they are entitled to free prescriptions. The estimate of the level of this fraud has increased from £47 million in 2002-2003 to £100 million in 2007-2008, with two per cent of patients wrongly claiming exemptions in 2007-2008 compared to 1.6 per cent in 2002-2003. Both estimates were outcomes of NHS Counter Fraud Service (CFS) measurement exercises. The Department and the CFS will be taking work forward, with the BSA and PCTs, to better understand the nature and extent of fraud and to consider how to reduce it.

### Significant control issues

My review of effectiveness concluded that there were few significant control issues excepting those related to PCTs' financial position and full compliance with Standards for Better Health. 65 PCTs disclosed a total of 211 significant control issues<sup>1</sup> in their SICs and most of these were concerned with compliance or the lack of assurance of compliance with Standards for Better Health.

### Conclusion

The maintenance of Assurance Frameworks, with 99 per cent being assessed by SHAs as having systems of internal control in place, has provided a robust structure and consistency across PCTs for the public assurances about how they are managing their risks.

*David Nicholson*  
Accounting Officer

17 August 2009

<sup>1</sup> From 2007-2008 each breach of any of the core Standards for Better Health is counted as a significant control issue, as is any Serious Untoward Incident involving data security. For this reason the total number of significant control issues is not comparable to the totals in previous years

## The Certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the summarised financial statements of the Primary Care Trusts for the year ended 31 March 2009 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

### Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information, which comprises the Introduction; Review of NHS Financial Performance in 2008-2009; Overall Financial Performance of Primary Care Trusts; and Better Payment Practice Code for Primary Care Trusts, included in the Annual Report, is consistent with the financial statements. I also report 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.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department of Health's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Primary Care Trusts or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

### Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Primary Care Trusts' 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 fraud or error, 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of the Primary Care Trusts' affairs as at 31 March 2009 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information, which comprises the Introduction; Review of NHS Financial Performance in 2008-2009; Overall Performance of Primary Care Trusts; and Better Payment Practice Code for Primary Care Trusts, included within the Annual Report, is consistent with the financial statements.

### **Opinion on regularity**

In my opinion, 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.

### **Report**

I have no observations to make on these financial statements.

*Amyas C E Morse*  
Comptroller and Auditor General

1 September 2009

National Audit Office  
151 Buckingham Palace Road  
Victoria  
London SW1W 9SS

## Operating Cost Statement for the year ended 31 March 2009

	Notes	2008-2009 £000	2007-2008 £000
<b>Continuing operations</b>			
Programme costs	2.1	<b>80,489,513</b>	75,880,228
Operating income	4	<b>(3,074,831)</b>	(2,880,068)
<b>Net operating cost for the financial year</b>		<b><u>77,414,682</u></b>	<u>73,000,160</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2009

	Notes	2008-2009 £000	2007-2008 £000
Unrealised surplus/(loss) on the indexation and revaluation of fixed assets	15.2 - 15.4	<b>(461,829)</b>	411,555
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	15.3, 15.4	<b>6,477</b>	4,533
Net increase in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	15.1	<b>8,748</b>	10,214
(Decrease)/increase in the donated asset reserve and Government grant reserve due to transfer of assets (to)/from NHS bodies	15.3, 15.4	<b>(46)</b>	(227)
Fixed asset impairment losses	15.2 - 15.4	<b>(230,926)</b>	(31,010)
(Reductions) to other reserves	15.2 - 15.5	<b>(39,494)</b>	(20,326)
<b>Recognised gain/(loss) relating to the year</b>		<b><u>(717,070)</u></b>	<u>374,739</u>
Prior period adjustments	15.1	<b>(42,780)</b>	0
<b>Recognised gain/(loss) for the financial year</b>		<b><u>(759,850)</u></b>	<u>374,739</u>

*The notes at pages B11 to B36 form part of this account.*

## Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £000	31 March 2008 £000
<b>Fixed assets</b>			
Intangible assets	6.1	17,477	13,574
Tangible assets	6.2	6,078,027	6,609,363
Investments		0	32,645
Financial assets	10	33,793	0
		<b>6,129,297</b>	6,655,582
<b>Current assets</b>			
Stocks and work in progress	7	23,071	22,225
Debtors	8	1,216,630	1,543,242
Other financial assets	10	3,020	0
Cash at bank and in hand	11	17,805	29,325
		<b>1,260,526</b>	1,594,792
<b>Creditors: amounts falling due within one year</b>	12.1	<b>(5,512,259)</b>	(5,603,213)
Other financial liabilities falling due within one year		0	0
<b>Net current (liabilities)</b>		<b>(4,251,733)</b>	(4,008,421)
<b>Total assets less current liabilities</b>		<b>1,877,564</b>	2,647,161
Creditors: amounts falling due after more than one year	12.2	(239,800)	(179,412)
Other financial liabilities falling due after more than one year		0	0
Provisions for liabilities and charges	13	(521,399)	(655,998)
		<b>1,116,365</b>	1,811,751
<b>Taxpayers' equity</b>			
General Fund	15.1	(756,904)	(778,377)
Revaluation reserve	15.2	1,743,453	2,439,606
Donated asset reserve	15.3	101,730	106,428
Government grant reserve	15.4	37,321	42,576
Other reserves	15.5	(9,235)	1,518
		<b>1,116,365</b>	1,811,751

The notes at pages B11 to B36 form part of this account.

David Nicholson  
Accounting Officer

17 August 2009



## Cash Flow Statement for the year ended 31 March 2009

	2008-2009 Notes      £000	2007-2008 £000
<b>Net cash (outflow) from operating activities</b>	16 <b>(76,877,917)</b>	(72,677,006)
<b>Servicing of finance and returns on investments</b>		
Interest received	<b>3,518</b>	1,998
Interest (paid)	<b>(1,290)</b>	(1,197)
Interest element of finance leases	<b>(12,147)</b>	(11,237)
<b>Net cash (outflow) from servicing of finance and returns on investments</b>	<b>(9,919)</b>	(10,436)
<b>Capital expenditure and financial investment</b>		
(Payments) to acquire intangible fixed assets	<b>(6,262)</b>	(6,368)
Receipts from sale of intangible fixed assets	<b>9</b>	0
(Payments) to acquire tangible fixed assets	<b>(606,941)</b>	(351,502)
Receipts from disposal of tangible fixed assets	<b>133,805</b>	335,538
(Payments) to acquire fixed asset investments		(6,571)
Receipts from disposal of fixed asset investments		702
(Payments) to acquire financial instruments	<b>(4,495)</b>	0
Receipts from sale of financial instruments	<b>2,204</b>	0
<b>Net cash (outflow) from capital expenditure and financial investment</b>	<b>(481,680)</b>	(28,201)
<b>Net cash (outflow) before financing</b>	<b>(77,369,517)</b>	(72,715,643)
<b>Financing</b>		
Net Parliamentary funding	<b>77,363,459</b>	72,731,348
Capital grants received	<b>3,580</b>	2,439
Capital element of finance leases	<b>(8,714)</b>	(3,496)
Cash transfers from/(to) other NHS bodies	<b>(11)</b>	425
<b>Increase/(decrease) in cash in the period</b>	11 <b>(11,203)</b>	15,073

*The notes at pages B11 to B36 form part of this account.*

# Notes to the Account

## 1 Accounting policies

The Department of Health has directed that the financial statements of Primary Care Trusts shall meet the accounting requirements of the Primary Care Trust Manual for Accounts, which has been agreed with HM Treasury. Consequently, the underlying and summarised financial statements have been prepared in accordance with the 2008-2009 Manual for Accounts, issued by the Department.

The accounting policies contained in the manual follow UK generally accepted accounting practices for companies (UK GAAP) and HM Treasury's Government Financial Reporting Manual (FRoM) to the extent that they are meaningful and appropriate to the NHS.

### 1.1 Accounting convention

This account has been prepared under the historical cost convention, modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs. This is in accordance with directions issued by HM Treasury.

### 1.2 Acquisitions and discontinued operations

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

### 1.3 Operating income

The main source of funding for Primary Care Trusts is allocations from the Department of Health within an approved cash limit, which is credited to the General Fund. Operating income is income which relates directly to the operating activities of the Primary Care Trusts. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Request for Resources 1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Income is accounted for applying the accruals convention, and where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.4 Taxation

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

### 1.5 Capital charges

A charge, reflecting the cost of capital utilised by Primary Care Trusts, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2008-2009 was 3.5 per cent (2007-2008 3.5 per cent) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

## 1.6 Fixed assets

### a Capitalisation

Borrowing costs associated with the construction of new assets are not capitalised.

All assets falling into the following categories are capitalised

- i Intangible assets which can be valued, are capable of being used for more than one year and have a cost equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. They are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Tangible assets which are capable of being used for a period which exceeds one year, and which:
  - individually have a cost equal to or greater than £5,000; or
  - collectively have a cost equal to or greater than £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates; and are under single management control; or
  - form part of the initial setting-up cost of a new building, irrespective of their individual or collective cost.

### b Valuation

#### *Intangible fixed assets*

Intangible fixed assets held for operational use are valued at historical cost, except Research and Development which is revalued on the basis of current cost. Surplus intangible assets are valued at the net recoverable amount.

The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

#### *Tangible fixed assets*

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

#### *i Land and buildings*

All land and buildings are restated to current cost using professional valuations in accordance with FRS15.

Professional valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury.

The NHS-wide five yearly revaluation was carried out at 1 April 2005, although individual Primary Care Trusts will have revalued land and buildings since that date. Subsequent revaluations by individual Primary Care Trusts will have been carried out by various qualified valuers. The date of the latest revaluation and the name and details of the valuer are disclosed in the accounts of the underlying bodies.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value.

Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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

Where indexation is used as the basis for revaluation, Primary Care Trusts can select an appropriate index, and the details of the index used are disclosed in the accounts of the underlying bodies.

Gains made from indexation and revaluations are taken to the revaluation reserve. Losses arising from revaluations are recognised as impairments and are charged to the revaluation reserve to the extent that a balance exists in relation to the revalued asset. Losses in excess of that amount are charged to the current year's Operating Cost Statement (OCS), unless it can be demonstrated that the recoverable amount is greater than the revalued amount in which case the impairment is taken to the revaluation reserve. Falls in value when newly constructed assets are brought into use are charged in full to the OCS. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

#### *ii Equipment*

Operational equipment is carried at current value. Where assets are at low value, and/or have short useful economic lives, these are carried at depreciated historic cost as a proxy for current value. Equipment surplus to requirements is valued at net recoverable amount and assets held under finance leases are capitalised at the fair value of the assets.

#### *iii Assets in the course of construction*

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

#### *iv Residual interests in off-balance sheet Private Finance Initiative (PFI) properties*

Residual interests in off-balance sheet PFI properties are included in tangible fixed assets under 'assets under construction and payments on account' where the PFI contract specifies the amount at which the asset will be transferred to the Primary Care Trust at the end of the contract. The residual interest is built up during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance.

#### **c Depreciation and amortisation**

The accounts include a FReM departure which has been agreed with HM Treasury, whereby the accumulated depreciation at 31 March 2008 has been netted off against the cost of the assets brought forward as at 1 April 2008 for the following classes of assets – i) Land, ii) Buildings (exc dwellings), iii) Dwellings and iv) Assets under construction and payments on account.

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

- i Intangible assets are amortised evenly over the estimated lives of the assets.

- ii Freehold land and land and buildings surplus to requirements are not depreciated. Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Primary Care Trust, respectively.
- iii Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by a professional valuer. Leaseholds are depreciated over the primary lease term.
- iv Equipment is depreciated on current cost evenly over the estimated life of the asset.

Estimated lives of fixed assets held by PCTs fall within the following limits

- Software licences: between 1 year and 19 years
- Licences and trademarks: between 2 years and 10 years
- Development expenditure: between 2 years and 25 years
- Buildings excluding dwellings: between 1 year and 109 years
- Dwellings: between 5 years and 99 years
- Plant & machinery: between 1 year and 54 years
- Transport equipment: between 1 year and 10 years
- Information technology: between 1 year and 17 years
- Furniture and fittings: between 1 year and 51 years

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the asset to its value at the point of sale.

#### d Donated assets

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

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

#### e Government Grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed. Gains and losses on revaluations are also taken to the government grant reserve and, each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the income and expenditure account. Similarly, any impairment on grant funded assets charged to the income and expenditure account is matched by a transfer from the government grant reserve. On the sale of government granted assets, the value of the sale proceeds is transferred from the government grant reserve to the General Fund.

### 1.7 Stocks and work-in-progress

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

## 1.8 Losses and special payments

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

Losses and special payments are charged to the relevant functional headings on an accruals basis, including losses which would have been made good through insurance cover had the Primary Care Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

## 1.9 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions). The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying Scheme assets and liabilities.

Therefore, the Scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the Scheme is taken as equal to the contributions payable to the Scheme for the accounting period.

The Scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and an FRS17 accounting valuation every year. An outline of these follows

### a Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the Scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the Scheme actuary reported that employer contributions could continue at the existing rate of 14 per cent of pensionable pay. On advice from the Scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6 per cent of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5 per cent up to 8.5 per cent of their pensionable pay depending on total earnings.

### b FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the Scheme Actuary as at the balance sheet date by updating the results of the full actuarial valuation.

Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office.

### **Scheme Provisions as at 31 March 2009**

The scheme is a 'final salary' scheme.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the operating cost statement at the time the PCT commits itself to the retirement, regardless of the method of payment.

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

From 1 April 2008 a voluntary additional pension facility became available, under which members may purchase up to £5,000 per annum of the additional pension at a cost determined by the actuary from time-to-time.

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

### **Existing members at 1 April 2008**

Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there is the opportunity of giving up some of the pension to increase the retirement lump sum. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

### **New entrants from 1 April 2008**

Annual pensions for new entrants from 1 April 2008 will be based on 1/60th of the best three-year average of pensionable earnings in the ten years before retirement. Members wishing to obtain a retirement lump sum may give up some of this pension to obtain a retirement lump of up to 25 per cent of the total value of their retirement benefits. Survivor pensions will be available to married and unmarried partners and will be equal to 37.5 per cent of the member's pension.

## **1.10 Research and development**

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

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

Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as for depreciation, on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred.



Primary Care Trusts are unable to disclose the total amount of research and development expenditure charged to the Operating Cost Statement because some research and development activity cannot be separated from patient care activity. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

### **1.11 Foreign exchange**

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Resulting exchange gains and losses are taken to the Operating Cost Statement.

### **1.12 Leases**

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

### **1.13 Provisions**

Primary Care Trusts provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2 per cent in real terms (2007-2008: 2.2 per cent).

### **1.14 Clinical negligence costs**

From 1 April 2002 the NHS Litigation Authority (NHSLA) took over full financial responsibility for all Primary Care Trust clinical negligence claims unsettled at that date and is responsible for any new cases. Provisions for these are included in the accounts of the NHSLA and not the Primary Care Trusts. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with Primary Care Trusts.

The total value of clinical negligence provisions carried by the NHSLA on behalf of Primary Care Trusts is disclosed at Note 13.

### **1.15 Non-clinical risk pooling**

Most Primary Care Trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. The schemes commenced on 1 April 1999. Both are risk pooling schemes under which Primary Care Trusts pay an annual contribution to the NHSLA and in return receive assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses as and when they become due.

### **1.16 Third party assets**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since Primary Care Trusts have no beneficial interest in them. Details of third party assets are given in Note 24 to the accounts.

### **1.17 Inclusion of Pharmaceutical Services Account Figures**

Accounts are prepared for Pharmaceutical Services expenditure by the NHS Business Services Authority. This account is included within this Primary Care Trust summarised account as this expenditure is considered the responsibility of the Primary Care Trusts.



### **1.18 Private Finance Initiative (PFI) Schemes**

The NHS follows HM Treasury's 'Technical Note 1 (Revised) How to Account for PFI Transactions' which provides practical guidance for the application of the FRS5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2)'. PFI schemes are schemes under which 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 asset on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

Where the balance of risks and rewards of ownership of the PFI property are borne by 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. Disclosures are included within Note 20.

### **1.19 Pooled budgets**

A number of Primary Care Trusts have entered into a pooled budget with Local Authorities. Under the arrangement funds are pooled under s75 of the NHS Act 2006 for joint activities and a memorandum note provided in the underlying accounts of all the relevant bodies which provides details of the joint income and expenditure.

### **1.20 Financial instruments**

From 2008-2009 HM Treasury requires Primary Care Trusts to follow three new accounting standards in respect of financial instruments. These are FRS25 (Financial Instruments Disclosure and Presentation) FRS26 (Financial Instruments Measurement Recognition and Derecognition) FRS29 (Financial Instruments Disclosure). No restatement of prior period figures is required.

#### **Financial assets**

Financial assets are recognised on the balance sheet when the PCT becomes party to the financial instrument contract or, in the case of trade debtors, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value.

Financial assets are classified into the following categories: financial assets 'at fair value through profit and loss'; 'held to maturity investments'; 'available for sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### **Financial assets at fair value through profit and loss**

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the Operating Cost Statement. The net gain or loss incorporates any interest earned on the financial asset.

#### **Held to maturity investments**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

**Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the Operating Cost Statement on de-recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques determined by the Primary Care Trusts in accordance with FRS26.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

At the balance sheet date, the Primary Care Trusts assess whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the Operating Cost Statement and the carrying amount of the asset is reduced directly, or through a provision for impairment of debtors.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Operating Cost Statement to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**Financial liabilities**

Financial liabilities are recognised on the balance sheet when the Primary Care Trust becomes party to the contractual provisions of the financial instrument or, in the case of trade creditors, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or other financial liabilities.

**Financial liabilities at fair value through profit and loss**

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the Operating Cost Statement. The net gain or loss incorporates any interest earned on the financial asset.

**Other financial liabilities**

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

## 1.21 Prior Period Adjustment

Due to a change in accounting policy Primary Care Trusts are no longer able to charge falls in valuation on new builds and enhancements to the revaluation reserve. This has resulted in a prior period adjustment in the accounts of some Primary Care Trusts that were holding negative revaluations due to these falls in valuation.

## 2.1 Programme costs

	Notes	2008-2009 £000	2007-2008 £000
Goods and services from NHS bodies		<b>24,363,904</b>	27,079,667
Goods and services from NHS Foundation Trusts		<b>17,999,373</b>	12,870,482
Staff costs		<b>7,300,959</b>	6,556,525
Board members	2.2	<b>159,667</b>	148,662
Capital: Depreciation	6.2	<b>316,003</b>	313,177
Amortisation	6.1	<b>4,978</b>	3,413
Impairments and reversals <sup>1</sup>		<b>90,193</b>	85,331
Capital charges interest		<b>51,934</b>	58,753
(Profit)/loss on disposal	6.6	<b>636</b>	(14,010)
			446,664
Premises and fixed plant		<b>953,906</b>	819,190
Establishment expenses		<b>506,632</b>	430,566
Transport and moveable plant		<b>51,102</b>	48,528
Supplies and services – clinical		<b>659,234</b>	593,060
Supplies and services – general		<b>174,233</b>	152,506
Prescribing costs		<b>7,749,329</b>	7,663,417
GMS, PMS, APMS and PCTMS <sup>2</sup>		<b>7,142,104</b>	7,066,606
Contractor led GDS and PDS <sup>3</sup>		<b>2,460,143</b>	2,311,876
Trust led GDS and PDS		<b>35,809</b>	30,556
Non-GMS services from GPs		<b>107,160</b>	87,445
Pharmaceutical services		<b>1,222,918</b>	1,174,596
New Pharmacy Contract		<b>574,076</b>	279,973
General ophthalmic services		<b>430,001</b>	404,653
Expenditure on drugs action teams		<b>369,240</b>	341,934
Social care from independent providers		<b>364,839</b>	328,975
Purchase of healthcare from non-NHS bodies		<b>6,424,637</b>	5,717,489
Expenditure on NHS trust impairments		<b>98</b>	323,613
Interest payable		<b>13,442</b>	12,234
Other finance costs – unwinding of discount		<b>8,021</b>	9,044
Auditor's remuneration: Audit Fees <sup>4</sup>		<b>34,412</b>	35,161
Auditor's remuneration: Other Fees		<b>5,467</b>	5,259
Consultancy services		<b>220,567</b>	132,643
Redundancies		<b>14,984</b>	66,015
Education and training <sup>5</sup>		<b>131,698</b>	0
Miscellaneous expenditure		<b>547,814</b>	742,889
		<b>80,489,513</b>	75,880,228

1 Impairments and reversals includes the impairment of financial assets, in addition to the impairments and reversals reported in Notes 6.1 and 6.2.

2 General Medical Services, Personal Medical Services, Alternative Provider Medical Services and Primary Care Trust Medical Services are differing models for providing primary care services.

3 General Dental Services and Personal Dental Services are alternative models for dental care.

4 The audit fee represents the cost of the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included in the audit fee disclosed within the Department of Health Resource Account.

5 Education and training has been separately identified in 2008-2009 for the first time. In 2007-2008 it was included in Miscellaneous expenditure.

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

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Amounts included within interest payable arising from claims made under this legislation	<b>74</b>	36
Compensation paid to cover debt recovery costs under this legislation	<b>3</b>	3

**2.2 Board members' remuneration**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
PCT Board members' remuneration	<b>137,814</b>	129,486
Non-officer members' remuneration	<b>21,853</b>	19,176
<b>Total remuneration</b>	<b>159,667</b>	148,662

**2.3 Staff costs**

	<b>2008-2009</b>		2007-2008
	<b>Total Permanently employed</b>	<b>Other</b>	Total
	<b>£000</b>	<b>£000</b>	£000
Salaries and wages	<b>6,330,942</b>	<b>5,669,710</b>	661,232
Social security costs	<b>422,709</b>	<b>415,187</b>	7,522
Employer contributions to NHSPA	<b>736,445</b>	<b>724,632</b>	11,813
Other pension costs	<b>4,868</b>	<b>4,532</b>	336
	<b>7,494,964</b>	<b>6,814,061</b>	680,903
			6,748,892

The total staff costs will not agree with the figures in Note 2.1 as expenditure for executive directors is disclosed in board member costs in Note 2.1. An element of staff costs is also included in the GMS, PMS, APMS and PCTMS spend in Note 2.1.

**2.4 Employee benefits**

The amount spent on employee benefits during the year totalled £1,061,000 (2007-2008: £963,000).

## 2.5 Retirements due to ill-health

During 2008-2009 there were 347 early retirements from Primary Care Trusts on the grounds of ill-health (2007-2008: 375). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £18,806,000 (2007-2008: £16,851,000).

## 2.6 Average number of persons employed

	2008-2009		Other Number	2007-2008
	Total Number	Permanently employed Number		Total Number
Medical and dental	5,771	4,803	968	5,756
Administration and estates	69,047	61,155	7,892	59,580
Healthcare assistants and other support staff	26,191	24,491	1,700	22,092
Nursing, midwifery and health visiting staff	71,413	67,563	3,850	72,292
Nursing, midwifery and health visiting learners	987	869	118	1,953
Scientific, therapeutic and technical staff	30,142	28,331	1,811	28,703
Social care staff	2,695	2,449	246	2,899
Other (including Ambulance staff)	3,253	2,758	495	3,031
	<b>209,499</b>	<b>192,419</b>	<b>17,080</b>	<b>196,306</b>

## 3 Healthcare and related services commissioned

### 3.1 Primary healthcare commissioned by primary care trusts

	2008-2009 £000	2007-2008 £000
GMS, PMS, APMS and PCTMS <sup>1</sup>	7,141,747	7,071,673
Prescribing costs	7,748,691	7,634,372
Pharmaceutical services	1,225,651	1,205,372
New Pharmacy Contract	572,718	279,938
Contractor led GDS and PDS <sup>2</sup>	2,447,392	2,284,733
Trust led GDS and PDS <sup>2</sup>	107,779	74,537
General ophthalmic services	430,006	400,206
Department of Health initiative funding	946	1,686
Non-GMS services from GPs	98,044	76,576
Other	150,450	131,709
<b>Total primary healthcare commissioned</b>	<b>19,923,424</b>	<b>19,160,802</b>

1 General Medical Services, Personal Medical Services, Alternative Provider Medical Services and Primary Care Trust Medical Services are differing models for providing primary care services.

2 General Dental Services and Personal Dental Services are alternative models for dental care.

### 3.2 Secondary healthcare commissioned by PCTs

	2008-2009 £000	2007-2008 £000
Learning difficulties	2,428,036	2,363,451
Mental illness	7,824,071	7,190,505
Maternity	1,968,563	1,786,896
General and acute	32,302,376	30,157,165
Accident and emergency	1,856,497	1,732,451
Community Health Services	7,105,122	6,275,942
Other	2,299,648	2,095,540
<b>Total secondary healthcare commissioned</b>	<b>55,784,313</b>	<b>51,601,950</b>
Impairments for Trusts	4,550	311,016
Revenue grants to fund capital projects – GMS	16,147	21,111
Revenue grants to fund capital projects – LAs	69,444	42,182
Revenue grants to fund capital projects – private sector	29,435	48,132
Revenue grants to fund capital projects – other	8,961	6,294
Revenue grants to fund capital projects – dental	15,123	48,885
<b>Total Healthcare commissioned by primary care trusts</b>	<b>75,851,397</b>	<b>71,240,372</b>
<b>Social Care from independent providers</b>	<b>364,651</b>	<b>332,339</b>

### 4 Operating income

Operating income analysed by activity, is as follows

	2008-2009 £000	2007-2008 £000
Fees and charges to external customers	106,676	101,186
Prescription charge income	459,273	451,243
Dental Services income	571,057	538,326
Income from Local Authorities	763,925	716,332
Income from NHS bodies and Department of Health	619,563	567,832
Rental income from finance leases <sup>1</sup>	186	0
Rental income from operating leases <sup>1</sup>	43,671	0
Other income	510,480	505,149
<b>Total</b>	<b>3,074,831</b>	<b>2,880,068</b>

<sup>1</sup> Rental income from finance and operating leases has been separately identified in 2008-2009 for the first time.

**5 Performance against revenue resource limit**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Net operating costs	<b>77,414,682</b>	73,000,160
Adjustment for non discretionary expenditure	<b>(430,003)</b>	(1,026,235)
Net operating cost attributable to PCTs	<b>76,984,679</b>	71,973,925
Revenue resource limit	<b>77,432,499</b>	72,364,740
Under/(over)spend against revenue resource limit	<b>447,820</b>	390,815

**6.1 Intangible fixed assets**

	<b>Total</b>	Software	Licences and	Development
	<b>£000</b>	Licences	trademarks	Expenditure
		£000	£000	£000
Gross cost at 31 March 2008	<b>31,942</b>	24,575	0	7,367
Additions - purchased	<b>8,045</b>	8,045	0	0
Additions - Government Granted	<b>224</b>	1	0	223
Other revaluations	<b>9</b>	9	0	0
Reclassifications	<b>1,141</b>	1,141	0	0
Disposals	<b>(173)</b>	(173)	0	0
<b>Gross cost at 31 March 2009</b>	<b>41,188</b>	33,598	0	7,590
Accumulated amortisation at 31 March 2008	<b>18,368</b>	11,069	0	7,299
Reclassifications	<b>93</b>	93	0	0
Impairments	<b>392</b>	392	0	0
Charged in year	<b>4,978</b>	4,972	0	6
Disposals	<b>(120)</b>	(120)	0	0
<b>Accumulated amortisation at 31 March 2009</b>	<b>23,711</b>	16,406	0	7,305
Net book value				
Purchased at 31 March 2008	<b>13,502</b>	13,434	0	68
Donated at 31 March 2008	<b>2</b>	2	0	0
Government Granted at 31 March 2008	<b>70</b>	70	0	0
Net book value at 31 March 2008	<b>13,574</b>	13,506	0	68
<b>Net book value</b>				
<b>Purchased at 31 March 2009</b>	<b>17,233</b>	17,171	0	62
<b>Donated at 31 March 2009</b>	<b>1</b>	1	0	0
<b>Government Granted at 31 March 2009</b>	<b>243</b>	20	0	223
<b>Net book value at 31 March 2009</b>	<b>17,477</b>	17,192	0	285

## 6.2 Tangible Fixed Assets

	Total	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2008	<b>7,029,287</b>	2,272,420	3,715,866	26,558	143,569	289,431	14,361	444,967	122,115
Transfers from/(to) NHS bodies	<b>8,380</b>	3,547	4,924	0	0	(95)	0	4	0
Additions – purchased	<b>654,431</b>	51,317	246,890	3,667	190,857	39,246	1,453	99,495	21,506
Additions – donated	<b>3,883</b>	0	1,872	0	662	769	16	37	527
Additions – Government granted	<b>1,258</b>	0	555	0	697	0	0	6	0
Reclassifications	<b>(197)</b>	884	109,170	5,199	(144,197)	7,053	672	16,483	4,539
Impairments	<b>(230,926)</b>	(135,862)	(94,947)	(51)	(36)	(3)	0	(21)	(6)
Indexation	<b>(368,932)</b>	(288,245)	(84,610)	(841)	(1,135)	4,120	134	0	1,645
Other in year revaluations	<b>(96,097)</b>	(72,579)	(23,188)	(1,317)	(20)	485	0	(26)	548
Disposals	<b>(149,663)</b>	(38,866)	(68,883)	(928)	(1,469)	(8,240)	(1,114)	(24,389)	(5,774)
<b>Gross cost at 31 March 2009</b>	<b>6,851,424</b>	1,792,616	3,807,649	32,287	188,928	332,766	15,522	536,556	145,100
Accumulated depreciation at 31 March 2008	<b>419,924</b>	0	0	0	0	143,671	9,964	215,780	50,509
Transfers (to) NHS bodies	<b>(76)</b>	0	(21)	0	0	(54)	(1)	0	0
Reclassifications	<b>927</b>	0	(249)	363	0	(861)	(99)	1,633	140
Impairments and reversals	<b>86,074</b>	13,084	66,238	15	0	2,211	484	2,553	1,489
Indexation	<b>2,306</b>	0	0	0	0	1,749	91	0	466
Other in year revaluation	<b>(5,497)</b>	0	(7,404)	(9)	0	501	0	793	622
Charged in year	<b>316,003</b>	0	178,508	1,727	0	32,600	1,375	88,345	13,448
Disposals	<b>(46,265)</b>	0	(7,536)	(901)	0	(7,579)	(1,074)	(23,962)	(5,213)
<b>Accumulated depreciation at 31 March 2009</b>	<b>773,396</b>	13,084	229,536	1,195	0	172,238	10,740	285,142	61,461
Net book value									
Purchased at 31 March 2008	<b>6,460,209</b>	2,255,917	3,592,812	26,546	142,350	139,147	4,212	229,022	70,203
Donated at 31 March 2008	<b>106,648</b>	12,190	85,740	12	1,172	6,328	175	58	973
Government Granted at 31 March 2008	<b>42,506</b>	4,313	37,314	0	47	285	10	107	430
Net book value at 31 March 2008	<b>6,609,363</b>	2,272,420	3,715,866	26,558	143,569	145,760	4,397	229,187	71,606
<b>Net book value</b>									
<b>Purchased at 31 March 2009</b>	<b>5,939,219</b>	1,765,553	3,463,778	31,092	187,375	153,824	4,641	250,971	81,985
<b>Donated at 31 March 2009</b>	<b>101,730</b>	10,997	81,466	0	1,434	6,376	141	63	1,253
<b>Government Granted at 31 March 2009</b>	<b>37,078</b>	2,981	32,869	0	119	328	0	380	401
<b>Net book value at 31 March 2009</b>	<b>6,078,027</b>	1,779,531	3,578,113	31,092	188,928	160,528	4,782	251,414	83,639
<b>Asset Financing</b>									
Owned	<b>5,817,948</b>	1,764,828	3,364,825	30,006	178,422	146,498	4,782	251,414	77,173
Finance leased	<b>247,239</b>	14,703	210,954	1,086	0	14,030	0	0	6,466
On balance sheet PFI contracts	<b>2,362</b>	0	1,900	0	462	0	0	0	0
PFI residual interest	<b>10,478</b>	0	434	0	10,044	0	0	0	0
<b>Net book value at 31 March 2009</b>	<b>6,078,027</b>	1,779,531	3,578,113	31,092	188,928	160,528	4,782	251,414	83,639



**6.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2009 comprises**

	Purchased	Donated	Government Granted	<b>2008-2009 Total £000</b>	2007-2008 Total £000
	£000	£000	£000		
Freehold	4,915,191	89,867	32,502	<b>5,037,560</b>	5,746,618
Long leasehold	304,665	2,596	2,698	<b>309,959</b>	203,393
Short leasehold	40,567	0	650	<b>41,217</b>	64,832
	<u>5,260,423</u>	<u>92,463</u>	<u>35,850</u>	<b><u>5,388,736</u></b>	<u>6,014,843</u>

**6.4 Net book value of assets held under finance leases and hire purchase contracts comprises**

	<b>2008-2009 £000</b>	2007-2008 £000
Land	<b>14,703</b>	4,782
Buildings including dwellings	<b>212,040</b>	153,841
Plant & machinery	<b>14,030</b>	19,408
Information technology	<b>0</b>	90
Furniture & fittings	<b>6,466</b>	3,364
	<b><u>247,239</u></b>	<u>181,485</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £12,121,000 (2007-2008: £10,300,000).

**6.5 Summary of fixed assets**

	Purchased	Donated	Government granted	<b>2008-2009 Total £000</b>	2007-2008 Total £000
	£000	£000	£000		
Net book value					
Intangible fixed assets	17,233	1	243	<b>17,477</b>	13,574
Land	1,765,553	10,997	2,981	<b>1,779,531</b>	2,272,420
Buildings	3,463,778	81,466	32,869	<b>3,578,113</b>	3,715,866
Dwellings	31,092	0	0	<b>31,092</b>	26,558
Assets under construction	187,375	1,434	119	<b>188,928</b>	143,569
Plant and machinery	153,824	6,376	328	<b>160,528</b>	145,760
Transport equipment	4,641	141	0	<b>4,782</b>	4,397
Information technology	250,971	63	380	<b>251,414</b>	229,187
Furniture and fittings	81,985	1,253	401	<b>83,639</b>	71,606
Investments	0	0	0	<b>0</b>	32,645
Other financial assets	0	0	0	<b>33,793</b>	0
	<u>5,956,452</u>	<u>101,731</u>	<u>37,321</u>	<b><u>6,129,297</u></b>	<u>6,655,582</u>

**6.6 Other gains and losses**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
(Loss) on disposal of intangible fixed assets	<b>0</b>	(7)
Profit on disposal of land and buildings	<b>4,176</b>	22,242
(Loss) on disposal of land and buildings	<b>(4,245)</b>	(4,497)
Profit on disposal of plant and equipment	<b>131</b>	28
(Loss) on disposal of plant and equipment	<b>(830)</b>	(3,796)
Profit on disposal of investments	<b>132</b>	40
Change in fair value of financial assets carried at fair value through profit and loss	<b>0</b>	0
	<b>(636)</b>	14,010

**7 Stocks and work in progress**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Raw materials and consumables	<b>16,166</b>	16,110
Work in progress	<b>102</b>	66
Finished processed goods	<b>6,803</b>	6,049
	<b>23,071</b>	22,225

**8 Debtors****8.1 Amounts falling due within one year**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
NHS debtors	<b>297,647</b>	339,241
Non NHS trade debtors	<b>255,219</b>	267,539
Provision for irrecoverable debts	<b>(26,424)</b>	(36,937)
Prepayments and accrued income	<b>348,423</b>	535,893
Capital debtors – NHS	<b>71</b>	15,654
Capital debtors – non NHS	<b>7,174</b>	24,568
Current part of PFI prepayments	<b>161</b>	0
Other debtors	<b>285,618</b>	345,816
	<b>1,167,889</b>	1,491,774

**8.2 Amounts falling due after more than one year**

NHS debtors	<b>3,530</b>	3,627
Non NHS trade debtors	<b>5,492</b>	5,053
Prepayments and accrued income	<b>15,864</b>	13,419
Provisions for irrecoverable debts	<b>(199)</b>	(17)
Capital debtors – non NHS	<b>4,436</b>	7,277
Other debtors	<b>19,618</b>	22,109
	<b>48,741</b>	51,468
<b>Total debtors</b>	<b>1,216,630</b>	1,543,242

**9 Movement in the provision for impairment of debtors**

	At 31 March 2009 £000
Balance at beginning of year	(36,954)
Amount written off during the year	9,718
Amount recovered during the year	2,965
(Increase)/decrease in allowance recognised in operating cost statement	(2,352)
<b>Total</b>	<b>(26,623)</b>

**Debtors past due date but not impaired**

	£000
By up to three months	247,189
By three to six months	34,342
By more than six months	52,692
	<b>334,223</b>

**10 Other financial assets**

	Current assets At 31 March 2009 £000	Fixed assets At 31 March 2009 £000
Financial assets carried at fair value through profit and loss	416	7,369
Held to maturity investments carried at amortised cost	2,267	1,292
Available for sale financial assets carried at fair value	333	12,205
Loans carried at amortised costs	4	12,927
<b>Total</b>	<b>3,020</b>	<b>33,793</b>

**11 Analysis of changes in debt**

	At 31 March 2008 £000	Non-cash changes £000	Change during the year £000	At 31 March 2009 £000
Cash at OPG	24,374	0	(12,397)	11,977
Cash at commercial banks and in hand	4,951	0	877	5,828
Bank overdrafts	(4,519)	0	317	(4,202)
	24,806	0	(11,203)	13,603
Finance leases due within one year	(7,844)	(3,287)	1,022	(10,109)
Finance leases due after one year	(162,269)	(41,466)	5,733	(198,002)
	(145,307)	(44,753)	(4,448)	(194,508)

1 Amounts payable in more than 1 year but not longer than 2 have been separately identified in 2008-2009 for the first time. The equivalent figure for 2007-2008 is included in the in more than 2 years but no longer than 5 figure

**12.1 Creditors: Amounts falling due within one year**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Bank overdrafts	<b>4,202</b>	4,519
NHS creditors	<b>1,095,307</b>	1,378,319
FHS contractors	<b>1,828,272</b>	1,652,932
Non-NHS trade creditors – revenue	<b>901,920</b>	994,599
Non-NHS trade creditors – capital	<b>90,583</b>	86,935
Tax	<b>49,529</b>	33,900
Social security	<b>49,669</b>	34,374
VAT	<b>586</b>	527
Payments received on account	<b>3,976</b>	2,462
Obligations under finance leases and HP contracts	<b>9,781</b>	7,544
Other creditors	<b>248,210</b>	238,692
Accruals and deferred income	<b>1,229,896</b>	1,168,110
Current part of finance lease element of on balance sheet PFI contracts	<b>328</b>	300
	<b><u>5,512,259</u></b>	<u>5,603,213</u>

**12.2 Creditors: Amounts falling due after more than one year**

NHS creditors	<b>13,413</b>	4,302
Obligations under finance leases and HP contracts	<b>193,131</b>	157,434
Other creditors	<b>28,385</b>	12,841
Imputed finance leases element of on balance sheet PFI contracts	<b>4,871</b>	4,835
	<b><u>239,800</u></b>	<u>179,412</u>

**12.3 Finance lease obligations**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Leases payable		
In not more than 1 year or on demand	<b>19,929</b>	13,625
In more than 1 year but not longer than 2 <sup>1</sup>	<b>55,303</b>	0
In more than 2 years but no longer than 5	<b>79,179</b>	159,129
After five years	<b>109,941</b>	35,070
Finance charges allocated to future periods	<b>(56,241)</b>	(37,711)
	<b><u>208,111</u></b>	<u>170,113</u>

**13 Provisions for liabilities and charges**

	Pensions for former members £000	Pensions to other staff £000	Legal claims £000	Restruct- urings £000	Continuing care £000	Other £000	<b>Total £000</b>
1 April 2008	8,591	307,361	36,441	21,515	130,028	152,062	655,998
Transfers (to)/from other NHS bodies	36	458	92	(442)	2,289	(2,904)	(471)
Arising during the year	435	16,087	8,911	10,815	34,148	47,003	117,399
Utilised during the year	(701)	(54,372)	(8,799)	(11,711)	(50,985)	(35,612)	(162,180)
Reversed unused	(842)	(6,201)	(5,317)	(4,866)	(48,465)	(31,677)	(97,368)
Unwinding of discount	154	6,672	293	53	98	751	8,021
<b>At 31 March 2009</b>	<b>7,673</b>	<b>270,005</b>	<b>31,621</b>	<b>15,364</b>	<b>67,113</b>	<b>129,623</b>	<b>521,399</b>
<i>Expected timing of cash flows</i>							
Within 1 year	1,124	29,516	11,949	11,159	55,730	58,262	167,740
1-5 years	3,006	109,102	7,984	3,186	8,783	46,766	178,827
After 5 years	3,543	131,387	11,688	1,019	2,600	24,595	174,832

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of Primary Care Trusts is £95,884,000 (2007-2008: £68,667,000).

**14 Movements in working capital other than cash**

	<b>2008-2009 £000</b>	2007-2008 £000
(Increase)/decrease in stocks	<b>(846)</b>	5,007
Decrease/(increase) in revenue debtors	<b>290,794</b>	(250,661)
(Decrease)/increase in revenue creditors	<b>(34,215)</b>	28,192
Transfer of balances to NHS bodies	<b>(626)</b>	0
Financing transactions	<b>(12,360)</b>	13,498
	<b>242,748</b>	(203,964)

**15 Reserves****15.1 The movement on the General Fund in the year comprised**

	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Balance at 1 April	<b>(778,377)</b>	(682,904)
Transfer from reserve in respect of prior period adjustment	<b>(42,780)</b>	0
Balance at 1 April restated	<b>(821,157)</b>	(682,904)
Net operating costs for the year	<b>(77,414,682)</b>	(73,000,160)
Net Parliamentary funding	<b>77,363,459</b>	72,731,348
Transfer of realised profits	<b>26,268</b>	84,360
Non-cash items:		
Capital charge interest	<b>51,934</b>	58,753
Transfers from other NHS bodies	<b>8,748</b>	10,214
Other movements	<b>28,526</b>	20,012
<b>Balance at 31 March</b>	<b>(756,904)</b>	(778,377)

**15.2 The movement on the revaluation reserve in the year comprised**

	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Balance at 1 April	<b>2,439,606</b>	2,174,348
Transfer from General Fund in respect of prior period adjustment	<b>42,789</b>	0
Balance at 1 April restated	<b>2,482,395</b>	2,174,348
Impairments	<b>(227,673)</b>	(30,861)
Revaluation/indexation of fixed assets	<b>(455,388)</b>	402,043
Other movements	<b>(29,613)</b>	(21,564)
Transfer to General Fund: realised revaluation	<b>(26,268)</b>	(84,360)
<b>Balance at 31 March</b>	<b>1,743,453</b>	2,439,606

**15.3 The movement on the donated asset reserve in the year comprised**

	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Balance at 1 April	<b>106,428</b>	102,461
Transfer to General Fund in respect of prior period adjustment	<b>(7)</b>	0
Balance at 1 April restated	<b>106,421</b>	102,461
Impairments	<b>(1,847)</b>	(149)
Transfers to NHS bodies	<b>(46)</b>	(131)
Other revaluation/indexation of fixed assets	<b>(2,685)</b>	7,625
Receipt of donated assets	<b>4,980</b>	2,016
Depreciation of donated assets	<b>(5,841)</b>	(5,131)
Transfer of realised profits	<b>(6)</b>	(256)
Other movements	<b>754</b>	(7)
<b>Balance at 31 March</b>	<b>101,730</b>	106,428

**15.4 The movement on the Government grant reserve in the year comprised**

	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Balance at 1 April	<b>42,576</b>	40,104
Transfer to General Fund in respect of prior period adjustment	<b>(2)</b>	0
Balance at 1 April restated	<b>42,574</b>	40,104
Other revaluation/indexation of fixed assets	<b>(3,756)</b>	1,887
Transfer to NHS bodies	<b>0</b>	(96)
Receipt of Government granted assets	<b>1,497</b>	2,517
Depreciation of Government granted assets	<b>(1,706)</b>	(1,617)
Transfer of realised profits	<b>0</b>	(163)
Impairments	<b>(1,406)</b>	0
Other movements	<b>118</b>	(56)
<b>Balance at 31 March</b>	<b>37,321</b>	42,576

**15.5 The movement on other reserves in the year comprised**

	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Balance at 1 April	<b>1,518</b>	217
Other movements	<b>(10,753)</b>	1,301
<b>Balance at 31 March</b>	<b>(9,235)</b>	1,518

**16 Reconciliation of operating cost to operating cash flows**

	Notes	<b>2008-2009</b> <b>£000</b>	2007-2008 £000
Net operating cost for the year		<b>(77,414,682)</b>	(73,000,160)
Adjust for non-cash transactions		<b>463,744</b>	701,331
Adjust for movements in working capital other than cash	14	<b>242,748</b>	(203,964)
Use of provisions	13	<b>(162,180)</b>	(167,465)
Transfer from donated asset reserve	15.3	<b>(5,841)</b>	(5,131)
Transfer from Government grant reserve	15.4	<b>(1,706)</b>	(1,617)
<b>Net cash (outflow) from operating activities</b>		<b>(76,877,917)</b>	(72,677,006)

**17 Contingent assets and liabilities**

Contingent assets and liabilities have not been accrued in this account due to uncertainty over the ultimate outcome. At 31 March 2009, there were net contingent liabilities of £31,360,000 (2007-2008: £53,681,000). These were mainly in respect of continuing care and practice based commissioning savings liabilities.

There were also contingent assets of £23,012,000 (2007-2008: £NIL). These contingent assets mainly relate to legal charges on properties which have been purchased using grants from PCTs.

**18 Capital commitments**

At 31 March 2009 the value of contracted capital commitments was £139,853,000 (2007-2008: £68,550,000).

## 19 Commitments under operating leases

Expenses of the PCTs include the following in respect of hire and operating lease rentals

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Hire of plant and machinery	<b>14,008</b>	11,477
Other operating leases	<b>283,096</b>	222,828
	<b>297,104</b>	234,305

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires

	<b>2008-2009</b>		2007-2008	
	<b>Land and buildings</b>	<b>Other</b>	Land and buildings	Other
	<b>£000</b>	<b>£000</b>	£000	£000
Within one year	<b>10,745</b>	<b>11,679</b>	10,949	14,316
Between one and five years	<b>37,334</b>	<b>25,186</b>	36,821	20,985
After five years	<b>221,359</b>	<b>2,090</b>	206,680	159
	<b>269,438</b>	<b>38,955</b>	254,450	35,460

## 20 Commitments under PFI contracts

20.1 In this financial year, 40 Primary Care Trusts reported off balance sheet PFI schemes over £1,000,000 (2007-2008: 38 Primary Care Trusts). The estimated capital value of these schemes over £1,000,000 is £689,513,000 (2007-2008: £512,000,000). The amount included within operating expenses for these schemes is £78,180,000 (2007-2008: £63,008,000).

Primary Care Trusts are committed to make the following payments under off balance sheet PFI contracts during 2008-2009, analysed by the period during which the commitment expires

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Within one year	<b>0</b>	567
2 to 5 years (inclusive)	<b>0</b>	0
6 to 10 years (inclusive)	<b>0</b>	0
11 to 15 years (inclusive)	<b>869</b>	414
16 to 20 years (inclusive)	<b>4,895</b>	1,508
21 to 25 years (inclusive)	<b>52,175</b>	35,916
26 to 30 years (inclusive)	<b>36,662</b>	33,983
31 to 35 years (inclusive)	<b>2,449</b>	2,464
36 years and beyond	<b>0</b>	0
	<b>97,050</b>	74,852



20.2 Devon Primary Care Trust has entered into an on-balance sheet PFI contract. The asset is treated as an asset of the Primary Care Trust. The substance of the contract is the Primary Care Trust has a finance lease and payments comprise an imputed finance lease charge and a service charge. The value of assets brought onto the balance sheet in respect of this scheme is £1,900,000 (2007-2008: £2,238,000) and the amount included within operating expenses is £297,000 (2007-2008: £292,000).

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Rentals due within 1 year	<b>328</b>	300
Rentals due more than 1 year but less than 2 years <sup>1</sup>	<b>349</b>	0
Rentals due within 2 to 5 years	<b>1,188</b>	1,406
Rentals due thereafter	<b>6,081</b>	6,554
	<b>7,946</b>	8,260
Less interest element	<b>(2,747)</b>	(3,125)
	<b>5,199</b>	5,135

## 21 Losses and special payments

There were 16,649 cases of losses (2007-2008: 18,007 cases) totalling £5,694,000 (2007-2008: £7,076,000) and 953 cases of special payments (2007-2008: 1,032 cases) totalling £5,163,000 (2007-2008: £7,294,000) approved during 2008-2009. There were no cases of loss or special payments over £250,000 in 2008-2009 (2007-2008: 3 cases)

## 22 Related parties

Primary Care Trusts are bodies corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Primary Care Trusts had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. all Strategic Health Authorities, all NHS Trusts, all NHS Foundation Trusts, all NHS agencies and all Special Health Authorities.

In addition Primary Care Trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.

Primary Care Trusts also had some transactions with a number of charitable funds, certain trustees for which are also members of the Primary Care Trust board.

Details of all the Primary Care Trusts' related party transactions are shown in the individual Primary Care Trust accounts.

## 23 Financial instruments

This summarised account includes the accounts of 152 Primary Care Trusts and the NHS Business Services Authority's Pharmaceutical Accounts. It is within these underlying accounts that detailed disclosures have been made. The following paragraphs provide an overview of the major financial risks for Primary Care Trusts and how they are managed at the individual level.

<sup>1</sup> Rentals due more than 1 year but less than 2 years has been separately identified in 2008-2009 for the first time.

*Financial instruments*

FRS29 Financial Instruments: Disclosures requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of Primary Care Trust activities and the way in which they are financed, the Primary Care Trusts are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies. Primary Care Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Primary Care Trusts in undertaking their activities.

*Liquidity risk*

Primary Care Trusts' net operating costs are financed from resources voted annually by Parliament, as is their capital expenditure. The Primary Care Trusts are not therefore exposed to significant liquidity risks.

*Interest rate risk*

The great majority of the Primary Care Trusts' financial assets and financial liabilities carry nil or fixed rates of interest. Primary Care Trusts are not, therefore, exposed to any significant interest rate risk.

*Foreign currency risk*

Primary Care Trusts have no or negligible foreign currency income or expenditure and therefore are not exposed to significant foreign currency risk.

*Fair values*

The fair values of financial assets and financial liabilities for Primary Care Trusts approximates to their book values.

*Market risk*

Primary Care Trusts do not operate in an open market and therefore are not exposed to significant market risk.

*Credit risk*

Since the majority of Primary Care Trusts' income comes from Parliamentary funding, they have low exposure to credit risk. The maximum exposure as at 31 March 2009 is in receivables as disclosed in the debtors note.

**24 Third party assets**

The balance of patients money held within the Primary Care Trust bank accounts at the Balance Sheet date was £2,182,000 (31 March 2008: £4,069,000). This has been excluded from the Balance Sheet as they are not assets of the Primary Care Trusts but are held on trust on behalf of patients.

**25 Post balance sheet events**

There are no material post balance sheet events to report. These accounts were authorised for issue on 2009.

**26 Intra-government balances**

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central government bodies	75,690	3,496	188,652	348
Balances with Local Authorities	235,403	4,030	199,855	7,798
Balances with NHS Trusts/FTs	235,593	34	1,055,986	13,092
Balances with public corporations and trading funds	5,129	0	32,535	0
Total intra Government balances	551,815	7,560	1,477,028	21,238
Balances with bodies external to government	616,074	41,181	4,035,230	218,562
<b>At 31 March 2009</b>	<b>1,167,889</b>	<b>48,741</b>	<b>5,512,258</b>	<b>239,800</b>
Balances with other central government bodies	59,200	3,592	66,438	35,754
Balances with Local Authorities	328,381	4,859	164,150	5,580
Balances with NHS Trusts	302,498	35	1,441,596	20,449
Balances with public corporations and trading funds	8,211	0	53,505	0
Total intra Government balances	698,290	8,486	1,725,689	61,783
Balances with bodies external to government	793,484	42,982	3,877,524	117,629
At 31 March 2008	1,491,774	51,468	5,603,213	179,412



# Summarised Account of NHS Trusts

## Statement of Secretary of State's and Accounting Officer's responsibilities

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of NHS Trusts at the year end and their income and expenditure, total recognised gains and losses and cash flows for the financial year

In preparing the accounts the Accounting Officer is required to:

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

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of NHS Trusts. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in '*Managing Public Money*'.

# Statement on Internal Control

This statement is given in respect of the Summarised Account for National Health Service Trusts (NHS Trusts).

## Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring NHS Trusts maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

## Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. The extent to which NHS Trusts had these processes in place during the financial year 2008-2009 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

## Capacity to handle risk

NHS Trusts provided effective leadership and management of risk processes within their organisations in ways that varied with the size and complexity of the organisations and management structures.

Some NHS Trusts identified a lead director with overarching responsibility across all the organisation's activities, whereas others had opted for an approach whereby areas of responsibility were allocated across a number of directors. For example, the leadership responsibilities for clinical risks assigned to clinical directors and financial risks to the finance director.

Similarly, NHS Trusts had varying approaches to the roles of their sub committees in handling risk. These ranged from those that had established overarching corporate governance committees to those that had separate committees led by non-executive directors or with the key responsibilities were assigned to the audit, risk management and clinical governance committees.

NHS Trusts made staff aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

## The risk and control framework

To help me fulfill my responsibilities set out above, I appointed the Chief Executive of each NHS Trust as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. Guidance has been issued to each NHS Trust describing the principles to be applied to the identification, evaluation and control of risk.

For 2008-2009 all NHS Trusts were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process NHS Trusts were required to identify gaps in controls and/or assurance arrangements and provide evidence that these had been or were being addressed.

NHS Trusts described their own Assurance Frameworks in their Statements on Internal Control (SICs). They also provided a range of comments on their risk management processes in planning and across all activities, developing a risk management culture and how they share information across the local health economy.

In view of the importance of information governance and security across the public sector, the NHS has policies and procedures to provide assurances regarding the processing of person identifiable information, particularly in the transfer of information within organisations and to outside locations. All NHS organisations

- identify a Senior Information Risk Owner at Board level;
- explicitly include how risks to information are being managed and controlled in their annual statements on internal control; and
- include details of any serious untoward incidents involving loss data, loss or confidentiality breach in their annual reports.

Strategic Health Authorities (SHAs) made an independent assessment of the quality of the NHS Trusts' Assurance Frameworks against a number of criteria and this showed that at 31 March 2009:

- 98 per cent (126) of NHS Trusts were providing evidence that a system of internal control was in place;
- 97 per cent (125) of NHS Trusts had their system of internal control in place for the entire year; and
- two per cent (3) of NHS Trusts were not providing evidence that a sufficiently complete system of internal control was in place.

This represents an increase compared with the 2007-2008 position when 97 per cent of NHS Trusts provided evidence that system of internal control was in place.

NHS Trusts were also asked to provide an indication at a generic level where they had identified gaps in control or assurance which nevertheless did not necessarily impact on the overall assessment of the control framework.

Thirty two NHS Trusts did not report any gaps. Where organisations did report gaps, they showed the following:

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	29%	32%
Organisational controls	40%	36%
Clinical controls	31%	32%
	100%	100%

SHAs performance managed the ongoing development of NHS Trusts' Assurance Frameworks and the actions taken by the NHS Trusts to address any significant gaps in control or assurance.

### Review of effectiveness

I draw my major source of assurance on the NHS Trusts' systems of internal control from SICs, signed by Accountable Officers in support of the accounts for each NHS Trust, that have been summarised by the SHAs.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have gained further assurance from reports from SHA Chief Executives that confirm whether NHS Trusts' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, are fit for purpose. The SHA Chief Executives also reported if there were inconsistencies between each NHS Trust SIC and

- the external audit opinion;
- evidence from the SHA performance management reviews; and
- the NHS Trust head of internal audit opinion.



I have carried out sample checks of the analysis of the NHS Trusts' Assurance Frameworks and SICs prepared by the SHAs. I am satisfied that these reflect the underlying position.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;
- other internal reviewers, for example clinical auditors;
- external reviewers including the Healthcare Commission and external audit; and
- audit committees, risk management committees, governance committees and other board committees.

The SHA Chief Executives' reports recorded the following inconsistencies

- One trust did not disclose in its SIC that its system of internal control was not in place for a period during the year;
- One NHS Trust did not make reference to a Section 19 auditor's report on its accounts; and
- Two NHS Trusts failed to disclose performance-related issues encountered during the year.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies and the national reports made by the National Audit Office on NHS issues. I am aware that the appointed auditors for a small number of NHS Trusts issued reports in the public interest mainly in respect of the trusts' financial situation.

My review also drew on the Value for Money (VfM) 2008-2009 opinion of the NHS Trusts external auditors. This assesses how well NHS Trusts and PCTs managed and used their financial resources. 86 per cent of NHS Trusts received unqualified opinions demonstrating adequate or more than adequate value for money and 14 per cent of NHS Trusts received qualified opinions.

### Significant control issues

My review of effectiveness concluded that there were few significant control issues excepting those related to trusts' financial position, data security and full compliance with the Standards for Better Health. 75 NHS Trusts disclosed a total of 317 significant control issues in their SICs. The Department has maintained a centrally managed programme to support a number of NHS Trusts to ensure that they deliver key targets and financial balance, and trusts have taken or are taking action to comply with the Standards for Better Health.

### Conclusion

The maintenance of Assurance Frameworks with 98 per cent of NHS Trusts being assessed by SHAs as having systems of internal control in place has provided a robust structure and consistency across NHS Trusts for the public assurances about how they are managing their risks.

*David Nicholson*  
Accounting Officer

17 August 2009

# The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the summarised financial statements of the NHS Trusts for the year ended 31 March 2009 under the National Health Service Act 2006. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

## Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information, which comprises the Introduction; Review of NHS Financial Performance in 2008-2009; Overall Financial Performance of NHS Trusts; and Better Payment Practice Code for NHS Trusts, included in the Annual Report, is consistent with the financial statements.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Department of Health's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or the NHS Trusts or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

## Basis of audit opinions

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the NHS Trusts' 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 fraud or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinions**

In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of the NHS Trusts' affairs as at 31 March 2009 and of the surplus, total recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information, which comprises the Introduction; Review of NHS Financial Performance in 2008-09; Overall Financial Performance of NHS Trusts; and Better Payment Practice Code for NHS Trusts, included within the Annual Report, is consistent with the financial statements.

Report

I have no observations to make on these financial statements.

*Amyas CE Morse*  
Comptroller and Auditor General

1 September 2009

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

## Income and Expenditure Account for the year ended 31 March 2009

### Continuing operations

	Notes	2008-2009 £000	2007-2008 £000
<b>Operating activities</b>			
Income from activities	2	26,920,274	29,798,999
Other operating income	3	3,233,349	3,434,987
Operating expenses	4.1	(29,212,138)	(32,145,984)
<b>Operating surplus</b>		<b>941,485</b>	1,088,002
Cost of fundamental reorganisation/restructuring		0	(3,020)
(Loss)/profit on disposal of fixed assets	6	(1,702)	14,857
<b>Surplus before interest</b>		<b>939,783</b>	1,099,839
Interest receivable	7	73,640	121,151
Interest payable	7	(56,624)	(60,394)
Other finance costs - unwinding of discount	15	(6,831)	(7,662)
<b>Surplus on ordinary activities</b>		<b>949,968</b>	1,152,934
Public dividend capital dividends payable		(714,768)	(772,664)
<b>Retained surplus/(deficit) for the year</b>		<b>235,200</b>	380,270
<b>Capital cost absorption rate</b>	8	<b>3.6%</b>	3.3%

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2009

	Notes	2008-2009 £000	2007-2008 £000
<b>Surplus on ordinary activities for the financial year</b>		<b>949,968</b>	1,152,934
Fixed asset impairment losses	17.1 - 17.3	(437,027)	(156,094)
Unrealised (deficit)/surplus on fixed asset revaluations/indexation	17.1 - 17.3	(1,719,350)	1,578,889
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	17.2, 17.3	62,817	75,943
(Reduction) in other reserves	17.4	(987)	(38,402)
<b>Total recognised (loss)/gains for the financial year</b>		<b>(1,144,579)</b>	2,613,270
<b>Prior period adjustment</b>		<b>(347,759)</b>	0
<b>Total recognised (loss)/gains</b>		<b>(1,492,338)</b>	2,613,270

The notes at pages C11 to C36 form part of this account.

## Balance Sheet as at 31 March 2009

	Notes	31 March 2009 £000	31 March 2008 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	97,630	97,206
Tangible fixed assets	10.1	18,506,968	23,872,266
Financial assets	13	165	0
		<b>18,604,763</b>	23,969,472
<b>Current assets</b>			
Stocks and work in progress		375,431	398,555
Debtors – amounts falling due			
Within one year	11.1	1,496,452	2,128,506
After more than one year	11.2	598,456	793,380
Investments	12	0	13,633
Financial assets	13	309	0
Cash at bank and in hand	20	836,779	851,586
		<b>3,307,427</b>	4,185,660
<b>Creditors: amounts falling due within one year</b>	14.1	<b>(2,662,909)</b>	(2,951,641)
<b>Net current assets</b>		<b>644,518</b>	1,234,019
<b>Total assets less current liabilities</b>		<b>19,249,281</b>	25,203,491
<b>Creditors: amounts falling due after more than one year</b>	14.2	<b>(683,120)</b>	(755,226)
<b>Provisions for liabilities and charges</b>	15	<b>(443,416)</b>	(542,094)
		<b>18,122,745</b>	23,906,171
<b>Financed by</b>			
<i>Taxpayers equity</i>			
Public dividend capital	16	12,428,419	14,721,836
Revaluation reserve	17.1	5,113,036	8,099,897
Donated asset reserve	17.2	615,729	746,093
Government grant reserve	17.3	15,371	17,907
Other reserves	17.4	147,794	187,674
Income and expenditure reserve	17.5	(197,604)	132,764
		<b>18,122,745</b>	23,906,171

*The notes at pages C11 to C36 form part of this account.*

David Nicholson  
Accounting Officer

17 August 2009

## Cash Flow Statement for the year ended 31 March 2009

	Notes	2008-2009 £000	2007-2008 £000
<b>Operating activities</b>			
Net cash inflow from operating activities	18	<b>2,500,207</b>	3,372,962
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>76,183</b>	119,685
Interest paid		<b>(34,193)</b>	(37,994)
Interest element of finance lease rental payments		<b>(22,532)</b>	(21,696)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>19,458</b>	59,995
<b>Capital expenditure</b>			
(Payments) to acquire tangible fixed assets		<b>(1,540,400)</b>	(1,928,856)
Receipts from sale of tangible fixed assets		<b>133,487</b>	307,057
(Payments) to acquire intangible fixed assets		<b>(24,462)</b>	(29,363)
Receipts from sale of intangible fixed assets		<b>0</b>	3,008
Receipt from financial assets		<b>4,141</b>	0
<b>Net cash (outflow) from capital expenditure</b>		<b>(1,427,234)</b>	(1,648,154)
<b>Dividends paid</b>		<b>(695,255)</b>	(760,183)
<b>Net cash inflow before management of liquid resources and financing</b>		<b>397,176</b>	1,024,621
<b>Management of liquid resources</b>			
(Payments) to acquire financial assets		<b>(2,630,748)</b>	(3,845,492)
Receipts from sale of financial assets		<b>2,613,900</b>	3,831,804
<b>Net cash (outflow) from management of liquid resources</b>		<b>(16,848)</b>	(13,688)
<b>Net cash inflow before financing</b>		<b>380,328</b>	1,010,933
<b>Financing</b>			
New public dividend capital issued		<b>423,515</b>	839,734
Repayment of public dividend capital		<b>(582,025)</b>	(819,783)
Loans received		<b>229,280</b>	60,072
Repayments of amounts borrowed		<b>(258,756)</b>	(223,966)
Other capital receipts		<b>35,905</b>	46,006
Capital element of finance lease rental payments		<b>(4,175)</b>	(3,087)
Cash transferred to Foundation Trusts		<b>(230,026)</b>	(214,871)
<b>Net cash (outflow) from financing</b>		<b>(386,282)</b>	(315,895)
<b>(Decrease)/increase in cash</b>	19	<b>(5,954)</b>	695,038

The notes at pages C11 to C36 form part of this account.

# Notes to the Account

## 1 Accounting policies

The Secretary of State for Health has directed that the financial statements of NHS Trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts, which shall be agreed with HM Treasury. The accounting policies contained in the Manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

### 1.1 Accounting conventions

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

### 1.2 Acquisitions and discontinued operations

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

### 1.3 Income recognition

Income is accounted for applying the accruals convention. The main source of income for NHS Trusts is from commissioners in respect of healthcare services provided under local agreements. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.4 Tangible fixed assets

#### i Capitalisation

Borrowing costs associated with the construction of new assets are not capitalised.

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

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

#### ii Valuation

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

All land and buildings are restated to current value using professional valuations in accordance with FRS15. Valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. The NHS-wide five yearly revaluation was carried out as at 1 April 2005, although individual NHS

Trusts will have revalued land and buildings since that date. Subsequent revaluations by individual NHS Trusts will have been carried out by various qualified valuers. The date of the latest revaluation and the name and details of the valuer are disclosed in the accounts of the underlying bodies.

The valuations are carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. The value of land for existing use purposes is assessed at Existing Use Value. For non-operational properties including surplus land, the valuations are carried out at Open Market Value.

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

Where indexation is used as the basis for revaluation NHS Trusts can select an appropriate index, and the details of the index used are disclosed in the accounts of the underlying bodies

Gains arising from indexation and revaluations are taken to the revaluation reserve. Losses arising from revaluation are recognised as impairments and are charged to the revaluation reserve to the extent that a balance exists in relation to the revalued asset. Losses in excess of that amount are charged to the current year's Income & Expenditure account, unless it can be demonstrated that the recoverable amount is greater than the revalued amount in which case the impairment is taken to the revaluation reserve. Diminutions in value when newly constructed assets are brought into use are charged in full to the Income & Expenditure account. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

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

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

Operational equipment is carried at current value. Where assets are of low value, and/or have short useful economic lives, these are carried at depreciated historic cost as a proxy for current value. Equipment surplus to requirements is valued at net recoverable amount.

### iii Depreciation and amortisation

The accounts include a FReM departure which has been agreed with HM Treasury, whereby the accumulated depreciation as at 31 March 2008 has been netted off against the cost of the asset brought forward as at 1 April 2008 for the following classes of assets:

- Land
- Buildings (ex Dwellings)
- Dwellings
- Assets under construction and payments on account

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



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

Buildings and dwellings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term.

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

Where the useful economic life of an asset is reduced from that initially estimated due to the revaluation of an asset for sale, depreciation is charged to bring the value of the asset to its value at the point of sale.

Estimated lives of tangible fixed assets held by NHS Trust fall within the following limits

Buildings excluding dwellings: between 1 and 191 years

Dwellings: between 1 and 184 years

Plant and machinery: between 1 and 50 years

Transport equipment: between 1 and 15 years

Information technology: between 1 and 40 years

Fixtures and fittings: between 1 and 99 years

### **1.5 Intangible fixed assets**

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

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

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

Purchased goodwill is amortised over its useful economic life.

Estimated lives of intangible fixed assets held by NHS Trusts fall within the following limits

Software licences: between 1 and 15 years

Licences and trademarks: between 3 and 8 years

Patents: between 3 and 5 years

Development expenditure: between 1 and 99 years

### **1.6 Donated assets**

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

### **1.7 Government grants**

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary vote. The government grants reserve is maintained at a level equal to the net book value of the assets which it has financed. Gains and losses on revaluations are also taken to the government grant reserve and, each year, an amount equal to the depreciation charge on the asset is released from the government grant reserve to the income and expenditure account. Similarly, any impairment on grant funded assets charged to the income and expenditure account is matched by a transfer from the government grant reserve. On the sale of government granted assets, the value of the sale proceeds is transferred from the government grant reserve to the income and expenditure reserve.

### **1.8 Stocks and work in progress**

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

### **1.9 Leases**

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

### **1.10 Research and development**

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

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

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

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

## 1.11 Provisions

NHS Trusts provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2 per cent (2007-2008 2.2 per cent) in real terms.

### Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which NHS Trusts pay an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with NHS Trusts. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS Trusts is disclosed at note 15.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence relates to the NHS Trusts contributions to the Clinical Negligence Scheme for Trusts.

### Non-clinical risk pooling

Most NHS trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. The schemes commenced on 1 April 1999. Both are risk pooling schemes under which NHS Trusts pay an annual contribution to the NHS Litigation Authority and in return receive assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses as and when they become due.

## 1.12 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions). The scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

The scheme is subject to a full actuarial valuation every four years (until 2004, based on a five year valuation cycle), and a FRS17 accounting valuation every year. An outline of these follows

### a Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004 and covered the period from 1 April 1999 to that date.

The conclusion from the 2004 valuation was that the scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the scheme actuary reported that employer contributions could continue at the existing rate of 14 per cent of pensionable pay. On advice from the scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6 per cent of pensionable pay. From 1 April 2008, employees' contributions are on a tiered scale from 5 per cent up to 8.5 per cent of their pensionable pay depending on total earnings.

### b FRS17 Accounting valuation

In accordance with FRS17, a valuation of the Scheme liability is carried out annually by the scheme actuary as at the balance sheet date by updating the results of the full actuarial valuation. Between the full actuarial valuations at a two-year midpoint, a full and detailed member data-set is provided to the Scheme Actuary. At this point the assumptions regarding the composition of the Scheme membership are updated to allow the Scheme liability to be valued.

The valuation of the Scheme liability as at 31 March 2009, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2009 with summary global member and accounting data.

The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions website. Copies can also be obtained from The Stationery Office."

#### **Scheme provisions as at 31 March 2009**

The scheme is a 'final salary' scheme.

For early retirements, other than those due to ill health, the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Trust commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity to members to increase their benefits through money purchase Additional Voluntary Contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made. From 1 April 2008 a voluntary additional pension facility becomes available, under which members may purchase up to £5,000 per annum of additional pension at a cost determined by the actuary from time-to-time.

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

#### **Existing members at 1 April 2008**

Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. From 1 April 2008 there is the opportunity of giving up some of the pension to increase the retirement lump sum. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse or eligible unmarried partner.

#### **New entrants from 1 April 2008**

Annual pensions for new entrants from 1 April 2008 will be based on 1/60th of the best three-year average of pensionable earnings in the ten years before retirement. Members wishing to obtain a retirement lump sum may give up some of this pension to obtain a retirement lump of up to 25 per cent of the total value of their retirement benefits. Survivor pensions will be available to married and unmarried partners and will be equal to 37.5 per cent of the member's pension.

### **1.13 Liquid resources**

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

### **1.14 Trust reorganisations**

There were no Trust reorganisations during 2008-2009.

### **1.15 Private Finance Initiative (PFI) Schemes**

The NHS follows HM Treasury's 'Technical Note 1 (Revised) How to Account for PFI transactions' which provides practical guidance for the application of the Application Note F to FRS 5 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 NHS 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 NHS 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 Income and Expenditure Account. Where, at the end of a PFI contract, a property reverts to the NHS 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 NHS 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. Disclosures are included within note 23.

### **1.16 Value Added Tax**

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

### **1.17 Foreign exchange**

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

### **1.18 Third party assets**

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

### **1.19 Public Dividend Capital (PDC) and PDC Dividend**

Public dividend capital represents the outstanding public debt of an NHS Trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the NHS Trust.

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. Note 8 to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

### **1.20 Losses and special payments**

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

Losses and Special Payments are charged to the relevant functional headings on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### 1.21 Foundation Trusts

Twenty six NHS Trusts achieved Foundation Trust status in-year. Where the balance sheet notes show the movement in year, e.g. fixed asset note, balances have been adjusted using 'transfer to Foundation Trust in-year' line. Where the notes include balances at year end, e.g. creditors, balances for those NHS Trusts that obtained Foundation Trust status in-year are not included. Comparatives are not restated to remove accounting entries for NHS Trusts that become Foundation Trusts in the prior year.

### 1.22 Pooled budgets

A number of NHS Trusts have entered into a pooled budget with local authorities. Under the arrangement funds are pooled under S75 of the NHS Act 2006 for joint activities. Payments for services provided by Trusts are accounted for as income from local authorities. Trusts account for their share of the assets, liabilities, income and expenditure arising from the activities of the pooled budget, identified in accordance with the pooled budget agreement.

### 1.23 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as government granted current asset, valued at open market value. As the NHS Trust makes emissions a provision is recognised with an offsetting transfer from the government grant reserve. The provision is settled on surrender of the allowances. The current asset, provision and government grant reserve are valued at current market value at the balance sheet date.

### 1.24 Financial instruments

From 2008-2009 HM Treasury requires NHS Trusts to follow three new accounting standards in respect of financial instruments. These are: FRS25 (Financial Instruments Disclosure and Presentation), FRS26 (Financial Instruments Measurement Recognition and Derecognition), and FRS29 (Financial Instruments Disclosure). No restatement of prior period figures is required.

#### Financial assets

Financial assets are recognised on the balance sheet when the Trust becomes party to the financial instrument contract or, in the case of trade debtors, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

#### Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the income and expenditure account. The net gain or loss incorporates any interest earned on the financial asset.

#### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the income and expenditure account on derecognition.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques determined by the Trust in accordance with FRS26.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

At the balance sheet date, the Trust assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the income and expenditure account and the carrying amount of the asset is reduced directly, or through a provision for impairment of debtors.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income and expenditure account to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### Financial liabilities

Financial liabilities are recognised on the balance sheet when the Trust becomes party to the contractual provisions of the financial instrument or, in the case of trade creditors, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

As NHS Trusts only have 'Other Financial Liabilities', after initial recognition, all financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

## 1.25 Prior period adjustment

Due to a change in accounting policy Trusts are no longer able to charge falls in valuation on new builds and enhancements to the revaluation reserve. This has resulted in a prior period adjustment in the accounts of some NHS Trusts that were holding negative revaluations due to these falls in valuation.

## 2 Income from activities

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Strategic Health Authorities	<b>336,314</b>	299,178
Primary Care Trusts	<b>23,883,985</b>	26,683,671
Foundation Trusts	<b>113,067</b>	95,443
Local authorities	<b>255,581</b>	429,741
Department of Health	<b>1,771,005</b>	1,732,568
NHS Other	<b>15,378</b>	3,618
Non-NHS - private patients	<b>227,312</b>	238,439
- overseas patients (non-reciprocal)	<b>17,471</b>	18,462
- injury cost recovery	<b>109,137</b>	91,541
- other	<b>191,024</b>	206,338
	<b><u>26,920,274</u></b>	<u>29,798,999</u>
Income recognised to offset impairments and accelerated depreciation	<b>0</b>	258,073



**3 Other operating income**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Patient transport services	<b>3,400</b>	5,085
Education, training and research	<b>1,702,391</b>	1,791,699
Charitable and other contributions to expenditure	<b>40,191</b>	48,817
Transfers from the donated asset reserve in respect of depreciation on donated assets	<b>57,170</b>	68,666
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	<b>1,468</b>	1,497
Non-patient care services to other bodies	<b>681,581</b>	677,993
Income generation	<b>301,016</b>	330,451
Rental income from finance leases	<b>42</b>	0
Rental income from operating leases	<b>32,737</b>	0
Other income from activities	<b>413,353</b>	510,779
	<b><u>3,233,349</u></b>	<u>3,434,987</u>

The separate disclosure of rental income from operating and finance leases is a new requirement in 2008-2009 and comparative data is not available



## 4 Operating expenses

### 4.1 Operating expenses comprise

	Notes	2008-2009 £000	2007-2008 £000
Contracts with other NHS bodies		<b>47,906</b>	69,337
Contracts with Primary Care Trusts		<b>154,859</b>	194,681
Contracts with Foundation Trusts		<b>82,976</b>	87,362
Purchase of healthcare from non-NHS bodies		<b>236,863</b>	295,079
Directors' costs		<b>129,968</b>	148,489
Staff costs <sup>1</sup>	5.1	<b>19,047,476</b>	20,815,307
Supplies and services - clinical		<b>4,263,588</b>	4,443,653
Supplies and services - general		<b>675,150</b>	730,125
Consultancy services		<b>146,951</b>	132,429
Establishment		<b>419,145</b>	498,999
Transport		<b>328,438</b>	302,721
Premises		<b>1,506,023</b>	1,638,787
Impairment of debtors		<b>16,973</b>	38,410
Depreciation	10	<b>1,017,657</b>	1,167,089
Amortisation	9	<b>23,196</b>	17,665
Tangible fixed asset impairments and reversals		<b>146,122</b>	381,975
Intangible fixed asset impairments and reversals		<b>996</b>	0
Change in the fair value and impairment of financial instruments		<b>123</b>	0
Auditors' remuneration: Audit fees <sup>2</sup>		<b>24,793</b>	29,745
Auditors' remuneration: Other remuneration		<b>5,757</b>	4,072
Clinical negligence		<b>243,173</b>	305,136
Redundancy		<b>23,633</b>	62,273
Education and training <sup>3</sup>		<b>97,636</b>	0
Other		<b>572,736</b>	782,650
		<b>29,212,138</b>	32,145,984

### 4.2 Hire and operating lease rentals

	2008-2009 £000	2007-2008 £000
Hire of plant and machinery	<b>55,507</b>	60,250
Other operating leases	<b>351,159</b>	314,638
	<b>406,666</b>	374,888

1 Staff costs do not equal the figures disclosed in Note 5.1 as the latter includes expenditure relating to executive directors.

2 The audit fee represents the cost for the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included within the audit fee disclosed within the Department of Health Resource Account.

3 Education and training was not separately identified in 2007-2008, it was included in 'Other'.

**4.3 Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
<b>Land and buildings</b>		
Expiring within one year	<b>11,808</b>	8,995
Expiring between one and five years	<b>25,018</b>	21,464
Expiring after five years	<b>196,084</b>	219,879
	<b>232,910</b>	250,338
<b>Other leases</b>		
Expiring within 1 year	<b>28,858</b>	32,703
Expiring between 1 and 5 years	<b>74,397</b>	83,043
Expiring after 5 years	<b>67,899</b>	27,947
	<b>171,154</b>	143,693

**5 Staff costs and numbers**

**5.1 Staff costs**

	Permanently Employed	Other	<b>2008-2009</b>	2007-2008
	£000	£000	<b>Total</b>	£000
			<b>£000</b>	
Salaries and wages	15,058,885	1,201,797	<b>16,260,682</b>	17,704,558
Social security costs	1,197,828	17,121	<b>1,214,949</b>	1,352,663
NHS Pension Agency pension costs	1,701,532	13,648	<b>1,715,180</b>	1,911,147
Other pension costs	4,266	644	<b>4,910</b>	12,357
	<b>17,962,511</b>	<b>1,233,210</b>	<b>19,195,721</b>	20,980,725

**5.2 Average number of persons employed**

	Permanently Employed	Other	<b>2008-2009</b>	2007-2008
	Number	Number	<b>Total</b>	Number
			<b>Number</b>	
Medical and dental	53,373	4,925	<b>58,298</b>	63,221
Ambulance staff	24,231	25	<b>24,256</b>	23,558
Administration and estates	106,166	7,721	<b>113,887</b>	124,736
Healthcare assistants and other support staff	65,819	4,989	<b>70,808</b>	75,388
Nursing, midwifery and health visiting staff	173,658	11,635	<b>185,293</b>	216,020
Nursing, midwifery and health visiting learners	4,115	91	<b>4,206</b>	4,814
Scientific, therapeutic and technical staff	62,915	2,105	<b>65,020</b>	72,576
Social care Staff	1,304	638	<b>1,942</b>	3,463
Other	3,377	439	<b>3,816</b>	4,919
	<b>494,958</b>	<b>32,568</b>	<b>527,526</b>	588,695

**5.3 Staff benefits**

The amount spent on staff benefits during the year totalled £686,000 (2007-2008: £802,000).

#### 5.4 Retirements due to ill health

During 2008-2009 there were 743 early retirements from NHS Trusts on the grounds of ill-health (2007-2008: 1,005). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £48,470,000 (2007-2008: £49,127,000).

#### 6 Other gains and losses

	2008-2009 £000	2007-2008 £000
Net profit on disposal of financial instruments	12	0
Net (loss)/profit on disposal of intangible fixed assets	(167)	2,161
Net profit on disposal of land and buildings	5,378	24,090
Net (loss) on disposal of plant and equipment	(6,925)	(11,394)
Gain on foreign exchange	1	0
Change in fair value of financial assets carried at fair value through profit and loss	(71)	0
	<u>(1,772)</u>	<u>14,857</u>

'Gain on foreign exchange' was not separately identified in 2007-2008, no comparative is available.

#### 7 Finance costs

	2008-2009 £000	2007-2008 £000
<b>Payable</b>		
Finance leases	22,673	21,686
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	14	117
Department of Health loans	33,894	35,355
Bank loans and overdrafts	15	2,045
Other interest and finance costs	28	1,191
	<u>56,624</u>	<u>60,394</u>
<b>Interest receivable</b>		
Bank accounts	72,311	121,151
Other financial assets	1,329	0
	<u>73,640</u>	<u>121,151</u>

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £3,000 (2007-2008: £6,000).

#### 8 Capital cost absorption rate

NHS Trusts are required to absorb the cost of capital at a rate of 3.5 per cent of average relevant net assets. The rate disclosed in the income and expenditure account is calculated as the percentage that dividends paid on PDC totalling £695 million (which is calculated based on forecast average net relevant assets), bears to actual average relevant net assets of £19,246 million, that is 3.6 per cent (2007-2008: 3.3 per cent).

The amounts disclosed in income and expenditure as PDC dividend payable is different to dividends paid as NHS Trusts achieving Foundation Trust status during the year include in their accounts an accrual for PDC payable for the period they are an NHS Trust.

**9 Intangible fixed assets**

	Software licences £000	Goodwill £000	Licences & trademarks £000	Patents £000	Development expenditure £000	<b>Total £000</b>
Gross cost at 1 April 2008	149,396	893	6	12	11,248	<b>161,555</b>
Transferred to Foundation Trusts at 1 April 2008	(814)	0	0	0	0	<b>(814)</b>
Restated gross cost at 1 April 2008	148,582	893	6	12	11,248	<b>160,741</b>
Indexation	0	0	0	0	79	<b>79</b>
Impairments	(23)	0	0	0	0	<b>(23)</b>
Reclassifications	12,226	0	359	0	4,300	<b>16,885</b>
Other revaluation	(68)	0	(49)	0	(102)	<b>(219)</b>
Additions – purchased	20,412	0	26	0	5,208	<b>25,646</b>
Additions – donated	291	0	1	0	0	<b>292</b>
Additions – government granted	0	0	240	0	290	<b>530</b>
Disposals	(2,695)	0	0	0	(197)	<b>(2,892)</b>
Transferred to Foundation Trusts in-year	(19,636)	(893)	0	0	(21)	<b>(20,550)</b>
<b>Gross cost at 31 March 2009</b>	<b>159,089</b>	<b>0</b>	<b>583</b>	<b>12</b>	<b>20,805</b>	<b>180,489</b>
Amortisation at 1 April 2008	58,967	0	6	4	5,372	<b>64,349</b>
Transferred to Foundation Trusts at 1 April 2008	(473)	0	0	0	0	<b>(473)</b>
Restated amortisation at 1 April 2008	58,494	0	6	4	5,372	<b>63,876</b>
Indexation	0	0	0	0	79	<b>79</b>
Impairments	22	710	0	0	264	<b>996</b>
Reclassifications	1,850	0	121	0	3,008	<b>4,979</b>
Other revaluation	(15)	0	0	0	0	<b>(15)</b>
Charged during the year	22,375	11	1	3	806	<b>23,196</b>
Disposals	(2,522)	0	0	0	(197)	<b>(2,719)</b>
Transferred to Foundation Trusts in-year	(6,791)	(721)	0	0	(21)	<b>(7,533)</b>
<b>Amortisation at 31 March 2009</b>	<b>73,413</b>	<b>0</b>	<b>128</b>	<b>7</b>	<b>9,311</b>	<b>82,859</b>
<b>Net book value</b>						
Purchased at 1 April 2008	90,021	893	0	8	5,876	<b>96,798</b>
Donated at 1 April 2008	333	0	0	0	0	<b>333</b>
Government granted at 1 April 2008	75	0	0	0	0	<b>75</b>
Total at 1 April 2008	90,429	893	0	8	5,876	<b>97,206</b>
<b>Purchased at 31 March 2009</b>	<b>85,153</b>	<b>0</b>	<b>261</b>	<b>5</b>	<b>11,302</b>	<b>96,721</b>
<b>Donated at 31 March 2009</b>	<b>469</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>4</b>	<b>476</b>
<b>Government granted at 31 March 2009</b>	<b>54</b>	<b>0</b>	<b>191</b>	<b>0</b>	<b>188</b>	<b>433</b>
<b>Total at 31 March 2009</b>	<b>85,676</b>	<b>0</b>	<b>455</b>	<b>5</b>	<b>11,494</b>	<b>97,630</b>

**10 Tangible fixed assets****10.1**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross cost at 1 April 2008	6,203,149	14,281,197	341,215	896,241	4,020,442	305,419	1,228,902	304,734	<b>27,581,299</b>
Transferred to Foundation Trusts at 1 April 2008	(116,956)	(306,891)	(11,496)	(14,802)	(44,765)	(560)	(14,703)	(11,962)	<b>(522,135)</b>
Restated gross cost at 1 April 2008	6,086,193	13,974,306	329,719	881,439	3,975,677	304,859	1,214,199	292,772	<b>27,059,164</b>
Additions – purchased	18,591	404,895	2,324	670,934	256,560	19,444	103,918	14,916	<b>1,491,582</b>
Additions – donated	0	23,497	6	13,135	21,719	332	990	689	<b>60,368</b>
Additions – government granted	0	773	0	0	0	20	0	0	<b>793</b>
Impairments	(280,748)	(147,695)	(6,576)	(3,467)	(171)	(10)	(526)	(154)	<b>(439,347)</b>
Reclassifications	26,682	370,559	(4,151)	(539,133)	57,679	23,355	35,111	7,208	<b>(22,690)</b>
Indexation	(828,448)	(216,037)	(6,714)	388	56,842	6,758	(730)	3,822	<b>(983,389)</b>
Revaluations	(385,765)	(303,275)	(2,826)	(3,152)	(13,613)	(24)	(730)	(1,090)	<b>(710,475)</b>
Disposals	(44,479)	(63,802)	(8,734)	(1,715)	(220,949)	(27,690)	(49,510)	(7,135)	<b>(424,014)</b>
Transferred to Foundation Trusts in-year	(766,115)	(1,844,999)	(39,768)	(154,108)	(561,044)	(4,436)	(127,343)	(45,144)	<b>(3,542,957)</b>
<b>Cost or valuation at 31 March 2009</b>	<b>3,825,911</b>	<b>12,198,222</b>	<b>263,280</b>	<b>864,321</b>	<b>3,572,700</b>	<b>322,608</b>	<b>1,176,109</b>	<b>265,884</b>	<b>22,489,035</b>
Depreciation at 1 April 2008	0	0	0	0	2,635,327	196,561	699,276	177,869	<b>3,709,033</b>
Transferred to Foundation Trusts on 1 April 2008	0	0	0	0	(29,591)	(510)	(7,434)	(8,251)	<b>(45,786)</b>
Restated depreciation cost at 1 April 2008	0	0	0	0	2,605,736	196,051	691,842	169,618	<b>3,663,247</b>
Charged during the year	17	551,758	10,778	0	267,395	32,934	136,687	18,088	<b>1,017,657</b>
Impairments	4,332	121,740	5,391	11,541	2,834	42	1,938	162	<b>147,980</b>
Reversal of impairments		(1,308)		(518)		(32)			<b>(1,858)</b>
Reclassifications		477	(2,660)		(1,335)	(271)	(5,438)	(250)	<b>(9,477)</b>
Indexation	5,946	(5,663)	(247)		34,433	4,443		2,039	<b>40,951</b>
Revaluations					(14,240)	23	(474)	(1,020)	<b>(15,711)</b>
Disposals		(8,620)	(142)		(213,288)	(26,445)	(48,338)	(6,898)	<b>(303,731)</b>
Transferred to Foundation Trusts in-year	(105)	(61,543)	(1,609)		(385,621)	(3,423)	(74,658)	(30,032)	<b>(556,991)</b>
<b>Accumulated depreciation at 31 March 2009</b>	<b>10,190</b>	<b>596,841</b>	<b>11,511</b>	<b>11,023</b>	<b>2,295,914</b>	<b>203,322</b>	<b>701,559</b>	<b>151,707</b>	<b>3,982,067</b>

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Net book value</b>									
Purchased at 1 April 2008	6,178,035	13,737,628	337,930	872,544	1,231,330	108,113	524,293	121,390	23,111,263
Donated at 1 April 2008	25,114	528,661	3,285	23,697	151,999	664	5,125	5,234	743,779
Government granted 1 April 2008	0	14,908	0	0	1,786	81	208	241	17,224
<b>Total at 1 April 2008</b>	<b>6,203,149</b>	<b>14,281,197</b>	<b>341,215</b>	<b>896,241</b>	<b>1,385,115</b>	<b>108,858</b>	<b>529,626</b>	<b>126,865</b>	<b>23,872,266</b>
<b>Purchased at 31 March 2009</b>	<b>3,794,031</b>	<b>11,163,326</b>	<b>248,990</b>	<b>831,770</b>	<b>1,145,666</b>	<b>118,557</b>	<b>466,952</b>	<b>109,414</b>	<b>17,878,706</b>
<b>Donated at 31 March 2009</b>	<b>21,690</b>	<b>424,431</b>	<b>2,779</b>	<b>21,528</b>	<b>130,259</b>	<b>651</b>	<b>7,577</b>	<b>4,573</b>	<b>613,488</b>
<b>Government granted at 31 March 2009</b>		<b>13,624</b>			<b>861</b>	<b>78</b>	<b>21</b>	<b>190</b>	<b>14,774</b>
<b>Total at 31 March 2009</b>	<b>3,815,721</b>	<b>11,601,381</b>	<b>251,769</b>	<b>853,298</b>	<b>1,276,786</b>	<b>119,286</b>	<b>474,550</b>	<b>114,177</b>	<b>18,506,968</b>
<b>Asset Financing</b>									
Owned	3,813,275	11,349,656	251,126	748,871	1,272,800	118,876	474,244	114,177	18,143,025
Finance Leased	1,306	24,026	643		3,986	410	306		30,677
On balance sheet PFI contracts	557	218,796							219,353
PFI residual interests	583	8,903		104,427					113,913
<b>Net book value at 31 March 2009</b>	<b>3,815,721</b>	<b>11,601,381</b>	<b>251,769</b>	<b>853,298</b>	<b>1,276,786</b>	<b>119,286</b>	<b>474,550</b>	<b>114,177</b>	<b>18,506,968</b>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £9,851,000 (2007-2008: £6,770,000).

**10.3 The net book value of land, buildings and dwellings comprises**

	<b>31 March 2009 £000</b>	31 March 2008 £000
Freehold	<b>15,310,079</b>	20,435,103
Long leasehold	<b>352,973</b>	377,105
Short leasehold	<b>5,819</b>	13,353
	<b><u>15,668,871</u></b>	<u>20,825,561</u>

**11 Debtors****11.1 Amounts falling due within one year**

	<b>31 March 2009 £000</b>	31 March 2008 £000
National Health Service debtors	<b>754,800</b>	1,122,466
Non NHS trade debtors	<b>200,584</b>	0
Provision for irrecoverable debts	<b>(82,563)</b>	(92,467)
Other prepayments and accrued income	<b>302,070</b>	442,546
Current part of PFI prepayment	<b>6,559</b>	0
Other debtors	<b>315,002</b>	655,961
	<b><u>1,496,452</u></b>	<u>2,128,506</u>

**11.2 Amounts due after more than one year**

National Health Service debtors	<b>54,909</b>	78,236
Non NHS trade debtors	<b>10,608</b>	0
Provision for irrecoverable debts	<b>(8,965)</b>	(7,322)
Other prepayments and accrued income	<b>430,166</b>	562,095
Other	<b>111,738</b>	160,371
	<b><u>598,456</u></b>	<u>793,380</u>
<b>Total debtors</b>	<b><u>2,094,908</u></b>	<u>2,921,886</u>

**11.3 Provision for the impairment of debtors**

Balance at 1 April 2008	<b>100,857</b>
Amount written off during the year	<b>(17,735)</b>
Amount recovered during the year	<b>(14,862)</b>
(Increase)/decrease in allowance recognised in expenditure	<b>31,835</b>
Transferred to Foundation Trusts in-year	<b>(8,567)</b>
Balance at 31 March 2009	<b><u>91,528</u></b>

**11.4 Debtors past due but not impaired**

Up to three months past due date	<b>225,221</b>
Between three and six months past due date	<b>35,527</b>
More than six months past due date	<b>65,042</b>
	<b><u>325,790</u></b>

## 12 Short-term investments

From 2008-2009 short term investments will be included in financial assets, in 2007-2008 details of short term investment is held within the individual NHS Trust accounts (2007-2008: £13,633,000).

## 13 Financial assets

	<b>Current Assets</b>	Fixed Assets
	<b>31 March</b>	31 March
	<b>2009</b>	2009
	<b>£000</b>	£000
Financial assets carried at fair value through profit and loss	<b>254</b>	0
Available for sale financial assets carried at fair value	<b>55</b>	165
	<b>309</b>	165

## 14 Creditors

### 14.1 Amounts falling due within one year

	<b>31 March</b>	31 March
	<b>2009</b>	2008
	<b>£000</b>	£000
Overdrafts	<b>15,845</b>	15,744
Current instalments due on loans	<b>155,400</b>	153,823
Interest payable	<b>1,793</b>	1,968
Payments received on account	<b>23,701</b>	42,792
National Health Service creditors	<b>280,846</b>	377,068
Non-NHS trade creditors – revenue	<b>528,113</b>	643,012
Non-NHS trade creditors – capital	<b>228,215</b>	259,498
Other Taxes and social security	<b>226,456</b>	165,191
VAT	<b>1,276</b>	0
Obligations under finance leases and hire purchase contracts	<b>2,090</b>	1,594
Other creditors	<b>245,074</b>	246,906
Accruals and deferred income	<b>951,989</b>	1,042,078
Current part of imputed finance lease element of on balance sheet PFI contract	<b>2,111</b>	1,967
	<b>2,662,909</b>	2,951,641

The separate disclosure of VAT is a new requirement in 2008-2009 and comparative data is not available

### 14.2 Amounts falling due after more than one year

Long term loans	<b>407,658</b>	461,039
Obligations under finance leases and hire purchase contracts	<b>24,472</b>	31,486
National Health Service creditors	<b>2,702</b>	2,006
Imputed finance lease element of on balance sheet PFI contracts	<b>189,768</b>	191,580
Other creditors	<b>58,520</b>	69,115
	<b>683,120</b>	755,226



**14.3 Finance lease obligations**

	<b>31 March 2009 £000</b>	31 March 2008 £000
<b>Leases payable</b>		
Within one year or on demand	<b>24,706</b>	24,801
In more than one year but no longer than two	<b>24,859</b>	0
In more than two years but no longer than five	<b>72,106</b>	98,112
In more than five years	<b>536,874</b>	567,357
	<b>658,545</b>	690,270
Finance charges allocated to future periods	<b>(440,104)</b>	(463,643)
Net obligations	<b>218,441</b>	226,627

The separate disclosure of leases payable 'in more than one year and but no longer than two' is a new requirement in 2008-2009, comparative data is included 'in more than two years but no longer than five'.

**15 Provisions for liabilities and charges**

	Pensions Relating to former directors £000	Pensions Relating to other staff £000	Other legal claims £000	Restruct- urings £000	Other* £000	<b>Total £000</b>
At 1 April 2008	5,393	238,963	50,218	25,170	222,350	<b>542,094</b>
Transferred to Foundation Trusts 1 April 2008		(2,720)	(523)	(511)	(607)	<b>(4,361)</b>
Restated gross at 1 April 2008	5,393	236,243	49,695	24,659	221,743	<b>537,733</b>
Arising during the year	976	18,368	18,040	7,590	80,012	<b>124,986</b>
Utilised during the year	(812)	(23,451)	(12,236)	(13,060)	(48,052)	<b>(97,611)</b>
Reversed unused	(78)	(5,077)	(9,543)	(2,416)	(43,401)	<b>(60,515)</b>
Unwinding of discount	150	4,775	346	51	1,509	<b>6,831</b>
Transferred to Foundation Trusts in-year	(232)	(26,356)	(6,589)	(2,148)	(32,683)	<b>(68,008)</b>
<b>At 31 March 2009</b>	<b>5,397</b>	<b>204,502</b>	<b>39,713</b>	<b>14,676</b>	<b>179,128</b>	<b>443,416</b>
<i>Expected timing of cashflows</i>						
Within one year	1,069	16,632	20,812	9,749	99,515	<b>147,777</b>
One and five years	2,152	73,042	7,117	3,759	39,658	<b>125,728</b>
Over five years	2,176	114,828	11,784	1,168	39,955	<b>169,911</b>

£2,234,935,862 is included in the accounts of the NHS Litigation Authority for clinical negligence liabilities in NHS Trusts.

\* The main components of 'other' relate to provisions for Agenda for Change, non-clinical liability cases and injury benefit claims.

**16 Public dividend capital**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
At 1 April 2008	<b>14,721,836</b>	16,268,363
Transferred to Foundation Trusts 1 April 2008	<b>(244,783)</b>	(143,317)
Adjustment for Trust mergers at 1 April 2008	<b>0</b>	(55,396)
Restated at 1 April 2008	<b>14,477,053</b>	16,069,650
New public dividend capital received (including transfers from dissolved NHS Trusts)	<b>423,515</b>	1,511,691
Public dividend capital repaid in year	<b>(582,025)</b>	(1,179,106)
Public dividend capital transferred to Foundation Trusts	<b>(1,890,124)</b>	(1,722,979)
Other movements in public dividend capital in year	<b>0</b>	42,580
<b>At 31 March 2009</b>	<b>12,428,419</b>	14,721,836

**17 Movement on reserves****17.1 Revaluation reserve**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
At 1 April 2008	<b>8,099,897</b>	8,594,766
Transferred to Foundation Trusts 1 April 2008	<b>(189,391)</b>	(149,363)
Adjustments for Trust mergers at 1 April 2008	<b>0</b>	(32,284)
Prior period adjustment in respect of change in accounting policy on revaluation	<b>347,759</b>	0
Restated at 1 April 2008	<b>8,258,265</b>	8,413,119
Impairments	<b>(431,007)</b>	(154,449)
Other revaluations/indexation of fixed assets	<b>(1,655,165)</b>	1,524,381
Transfer of realised profits to Income and Expenditure reserve	<b>(56,054)</b>	(140,273)
Other transfers between reserves	<b>(58,837)</b>	(166,299)
Other in year movements	<b>1,306</b>	(373,075)
Transferred to Foundation Trusts in-year	<b>(945,472)</b>	(1,003,507)
<b>As at 31 March 2009</b>	<b>5,113,036</b>	8,099,897

**17.2 Donated asset reserve**

	<b>£000</b>	£000
At 1 April 2008	<b>746,093</b>	800,144
Transferred to Foundation Trusts 1 April 2008	<b>(5,358)</b>	(53,978)
Adjustment for Trust mergers at 1 April 2008	<b>0</b>	(1,199)
Restated at 1 April 2008	<b>740,735</b>	744,967
Impairments	<b>(6,003)</b>	(1,645)
Other revaluations/indexation of fixed assets	<b>(63,945)</b>	53,080
Transfer of realised profits to Income and Expenditure reserve	<b>(212)</b>	(440)
Receipt of donated assets	<b>60,660</b>	69,609
Depreciation, impairment and disposal of donated assets	<b>(57,170)</b>	(68,667)
Other transfers between reserves	<b>601</b>	(774)
Other in year movements	<b>(82)</b>	(4,175)
Transferred to Foundation Trusts in-year	<b>(58,855)</b>	(45,862)
<b>As at 31 March 2009</b>	<b>615,729</b>	746,093

**17.3 Government grant reserve**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
At 1 April 2008	<b>17,907</b>	20,856
Transferred to Foundation Trusts 1 April 2008	<b>(240)</b>	0
Restated at 1 April 2008	<b>17,667</b>	20,856
Impairments	<b>(17)</b>	0
Other revaluation/indexation of fixed assets	<b>(240)</b>	1,428
Transfer of realised profits to Income and Expenditure reserve	<b>(240)</b>	0
Receipt of Government granted assets	<b>2,157</b>	6,334
Depreciation, impairment and disposal of Government granted assets	<b>(1,468)</b>	(1,497)
Other transfers between reserves	<b>17</b>	(1)
Transferred to Foundation Trusts in-year	<b>(2,505)</b>	(9,213)
<b>As at 31 March 2009</b>	<b>15,371</b>	17,907

**17.4 Other reserves**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
At 1 April 2008	<b>187,674</b>	224,647
Transferred to Foundation Trusts 1 April 2008	<b>(18,517)</b>	169
Restated at 1 April 2008	<b>169,157</b>	224,816
Transfers between reserves	<b>493</b>	78
Other movements on reserves	<b>(987)</b>	(38,402)
Transferred to Foundation Trusts in-year	<b>(20,869)</b>	1,182
<b>As at 31 March 2009</b>	<b>147,794</b>	187,674

**17.5 Income and Expenditure reserve**

	<b>£000</b>	£000
At 1 April 2008	<b>132,764</b>	(355,198)
Transferred to Foundation Trusts 1 April 2008	<b>(24,954)</b>	(4,949)
Adjustment for Trust merges at 1 April 2008	<b>0</b>	9,541
Prior period adjustment in respect of change in accounting policy on revaluation	<b>(347,759)</b>	0
Restated as at 1 April 2008	<b>(239,949)</b>	(350,606)
Transfer from income and expenditure account	<b>235,200</b>	380,270
Transfers of realised profits	<b>56,506</b>	140,713
Other transfers between reserves	<b>57,726</b>	166,996
Other in year movements	<b>(16,888)</b>	8,746
Transferred to Foundation Trusts in-year	<b>(290,199)</b>	(213,355)
<b>As at 31 March 2009</b>	<b>(197,604)</b>	132,764

**18 Reconciliation of operating surplus to net cash inflow from operating activities**

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Operating surplus	<b>941,485</b>	1,088,002
Depreciation and amortisation	<b>1,040,853</b>	1,184,754
Impairments	<b>147,241</b>	381,975
Transfer from donated asset reserve in respect of depreciation on donated assets	<b>(57,170)</b>	(68,667)
Transfer from the Government grant reserve	<b>(1,468)</b>	(1,497)
(Increase) in stocks	<b>(32,594)</b>	(15,252)
Decrease in debtors	<b>310,434</b>	271,861
Increase in creditors	<b>190,564</b>	489,017
(Decrease)/Increase in provisions for liabilities and charges	<b>(39,138)</b>	43,957
Payments in respect of fundamental reorganisation/restructuring	<b>0</b>	(1,188)
<b>Net cash inflow from operating activities</b>	<b><u>2,500,207</u></b>	<u>3,372,962</u>

**19 Reconciliation of net cash flows to movement in net debt**

	<b>£000</b>	£000
Net debt at 1 April 2008		7,985
Transferred to Foundation Trusts 1 April 2008		(7,103)
		<u>882</u>
Increase in cash in year	<b>(5,954)</b>	
Cash inflow from new debt	<b>(229,280)</b>	
Cash outflow from debt repaid and finance lease capital payments	<b>262,931</b>	
Cash outflow from increase in liquid resources	<b>16,848</b>	
Changes in net debt resulting from cash flows		44,545
Non-cash changes in debt		(9,347)
Transferred to Foundation Trusts in-year		3,664
<b>Net debt at 31 March 2009</b>		<b><u>39,744</u></b>

**20 Analysis of the change in net debt**

	1 April 2008	Transferred to Foundation Trusts 1 April 2008	Restated at 1 April 2008	Transferred to Foundation Trusts in- year/cash transferred (to)/from other NHS Bodies	other cash changes in year	Non-cash changes in year/other movements	<b>31 March 2009</b>
	£000	£000	£000	£000	£000	£000	£000
OPG cash at bank	837,619	(9,876)	827,743	(227,458)	233,580	0	<b>833,865</b>
Commercial cash at bank and in hand	13,967	922	14,889	(2,606)	(9,369)	0	<b>2,914</b>
Bank overdrafts	(15,744)	0	(15,744)	38	(139)	0	<b>(15,845)</b>
	0	(8,954)	826,888	(230,026)	224,072	0	<b>0</b>
Debt due within one year	(153,823)	638	(153,185)	(1,504)	8,063	(8,774)	<b>(155,400)</b>
Debt due after one year	(461,039)	1,313	(459,726)	12,921	29,128	10,019	<b>(407,658)</b>
Finance leases	(226,628)	0	(226,628)	10,247	3,708	(5,768)	<b>(218,441)</b>
Current Asset Investments	13,633	(100)	13,533	0	0	(13,533)	<b>0</b>
Current financial assets	0	0	0	(18,000)	9,600	8,709	<b>309</b>
	<u>7,985</u>	<u>(7,103)</u>	<u>882</u>	<u>(226,362)</u>	<u>274,571</u>	<u>(9,347)</u>	<b><u>39,744</u></b>

## 21 Capital commitments

	<b>31 March 2009 £000</b>	31 March 2008 £000
Contracted at the balance sheet date	<b><u>436,127</u></b>	<u>440,360</u>

## 22 Contingent liabilities

Potential net contingent liabilities totalling £30,969,000 (2007-2008: £36,387,000) have not been accrued as the outcome of these cases is uncertain. These contingent liabilities include agenda for change, equal pay and personal injury. These do not include cases of clinical litigation which are accounted for by the NHS Litigation Authority.

## 23 Commitments under PFI contracts

23.1 In this financial year 53 NHS Trusts reported off balance sheet PFI schemes (2007-2008: 81). The estimated capital value of these schemes is £5.060 billion (2007-2008: £5.605 billion). The amount included within operating expenses for these schemes is £644 million (2007-2008: £675 million).

NHS Trusts are committed to make the following payments under off balance sheet PFI contracts during 2009-2010, analysed by the period during which the commitment expires

	<b>2008-2009 £000</b>	2007-2008 £000
Within one year	<b>16,018</b>	8,862
2nd to 5th years (inclusive)	<b>7,938</b>	9,290
6th to 10th years (inclusive)	<b>7,795</b>	12,949
11th to 15th years (inclusive)	<b>15,027</b>	16,350
16th to 20th years (inclusive)	<b>24,484</b>	13,409
21st to 25th years (inclusive)	<b>134,340</b>	161,163
26th to 30th years (inclusive)	<b>198,344</b>	211,469
31st to 35th years (inclusive)	<b>181,583</b>	230,507
36th year and beyond	<b>88,061</b>	162,511

23.2 In this financial year 5, NHS Trusts (2007-2008: 4) reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £219 million (2007-2008: £210 million) and the amount included within operating expenses is £51 million (2007-2008: £45 million).

	<b>2008-2009 £000</b>	2007-2008 £000
Inputed finance lease obligations comprise		
Rentals due within one year	<b>21,637</b>	21,010
Rentals due between one and two years	<b>22,152</b>	0
Rentals due between two and five years	<b>65,462</b>	84,594
Rentals due after five years	<b>477,896</b>	500,389
Finance charges allocated to future periods	<b>(395,269)</b>	(465,801)
	<b><u>191,878</u></b>	<u>140,192</u>

The separate disclosure of 'rentals due between one and two years' is a new requirement in 2008-2009, comparative data is included in 'rentals due between two and five years'.

NHS Trusts are committed to make the following payments under on balance sheet PFI contracts during 2009-2010, analysed by the period during which the commitment expires

	<b>2008-2009</b>	2007-2008
	<b>£000</b>	£000
Within 1 year	<b>0</b>	0
2nd to 5th years (inclusive)	<b>0</b>	0
6th to 10th years (inclusive)	<b>0</b>	0
11th to 15th years (inclusive)	<b>168</b>	0
16th to 20th years (inclusive)	<b>0</b>	0
21st to 25th years (inclusive)	<b>17,252</b>	17,623
26th to 30th years (inclusive)	<b>21,983</b>	20,837
31st to 35th years (inclusive)	<b>0</b>	0
36th year and beyond	<b>204</b>	190

## 24 Losses and special payments

There were 50,415 cases of losses totalling £19,339,317 during 2008-2009. These included one fruitless payment of £850,000 at Barts and The London NHS Trust and one case of damage to buildings or property of £1,273,732 at North West London NHS Trust, where the amounts exceeded £250,000. (2007-2008 39,062, cases totalling £21,824,306 including one bad debts and claims abandoned loss of £455,713 at United Bristol Healthcare NHS Trust).

There were 5,281 special payments cases totalling £11,309,328. These included one compensation payment under legal obligations of £250,000 at Suffolk Mental Health Partnership NHS Trust, one extra contractual payment to contractors of £1,094,302 at East Midlands Ambulance Services NHS Trust and one ex gratia payment of £320,887 at Plymouth Hospital NHS Trust, where the amounts exceeded £250,000. (2007-2008 there were 5,613 cases totalling £14,899,768 there were no individual cases exceeding £250,000).

## 25 Related party transaction

NHS Trusts are bodies corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year NHS Trusts had a significant number of material transactions with the Department and potentially with other entities for which the Department is regarded as the parent Department, i.e. all Strategic Health Authorities, Primary Care Trusts, all NHS Agencies and all Special Health Authorities.

In addition NHS Trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.

NHS Trusts also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the NHS Trust boards.

Details of all the NHS Trust related party transactions are shown in the individual NHS Trust accounts.

## 26 Post balance sheet events

As at 31 March 2009 there were 126 NHS Trusts (including Care Trusts). It is expected that further NHS Trusts will achieve Foundation Trust status in 2009-2010. There are no other material post balance sheet events to report.

These accounts were authorised for issue on 1 September 2009.

## 27 Financial instruments

The NHS Trust summarised account includes the accounts of 149 underlying NHS Trusts. It is within the underlying accounts of these 149 NHS Trusts that detailed FRS 29 disclosures have been made. The following paragraphs provide an overview of the major financial risks for NHS Trusts and how they are managed at the individual level.

### *Financial instruments*

FRS 29 requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of NHS Trusts' activities and the way in which they are financed, NHS Trusts are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies. NHS Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing NHS Trusts in undertaking their activities.

### *Currency risk*

NHS Trusts are principally domestic organisations with the great majority of transactions, assets and liabilities being in the UK and sterling based. NHS Trusts do not have overseas operations and therefore have low exposure to currency rate fluctuations.

### *Interest-rate risk*

NHS Trusts borrow from Government for capital expenditure subject to affordability as confirmed by the Strategic Health Authority. The borrowings are for 1-25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. NHS Trusts therefore have low exposure to interest rate fluctuations.

### *Credit risk*

Because the majority of NHS Trusts' income comes from contracts with other public sector bodies, NHS Trusts have low exposure to credit risk. The maximum exposure as at 31 March 2009 are in receivables from customers, as disclosed in the debtors note.

### *Liquidity risk*

NHS Trusts' new operating costs are incurred under contract with Primary Care Trusts, which are financed from resources voted annually by Parliament. NHS Trusts fund their capital expenditure from funds obtained within the Prudential Borrowing Limit. NHS Trusts are not, therefore, exposed to significant liquidity risks.

### *Market risk*

NHS Trusts do not operate in an open market and therefore are not exposed to significant market risk.

## 28 Third party assets

The balance of patients money held within the NHS Trusts' bank accounts at the balance sheet date was £12,211,000 (31 March 2008: £18,075,000). This has been excluded from the balance sheet as they are not assets of the NHS Trusts but are held on trust on behalf of patients.

**29 Intra-government balances**

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other Central Government Bodies	669,596	58,228	480,202	334,400
Balances with Local Authorities	36,629	2,387	13,619	2,443
Balances with NHS Trusts and Foundation Trusts	159,283	14,115	93,381	1,264
Balances with Public Corporations and Trading Funds	2,979	544	16,195	195
Intra government balances	<u>868,487</u>	<u>75,274</u>	<u>603,397</u>	<u>338,302</u>
Balances with bodies external to government	<u>627,965</u>	<u>523,182</u>	<u>2,059,512</u>	<u>344,818</u>
<b>At 31 March 2009</b>	<b><u>1,496,452</u></b>	<b><u>598,456</u></b>	<b><u>2,662,909</u></b>	<b><u>683,120</u></b>
Balances with other Central Government Bodies	901,082	81,123	507,890	382,465
Balances with Local Authorities	62,690	1,963	27,959	58
Balances with NHS Trusts and Foundation Trusts	304,238	9,628	113,895	7
Balances with Public Corporations and Trading Funds	9,282	5,711	28,874	378
Intra government balances	<u>1,277,292</u>	<u>98,425</u>	<u>678,618</u>	<u>382,908</u>
Balances with bodies external to government	<u>851,214</u>	<u>694,955</u>	<u>2,273,023</u>	<u>372,318</u>
<b>At 31 March 2008</b>	<b><u>2,128,506</u></b>	<b><u>793,380</u></b>	<b><u>2,951,641</u></b>	<b><u>755,226</u></b>





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