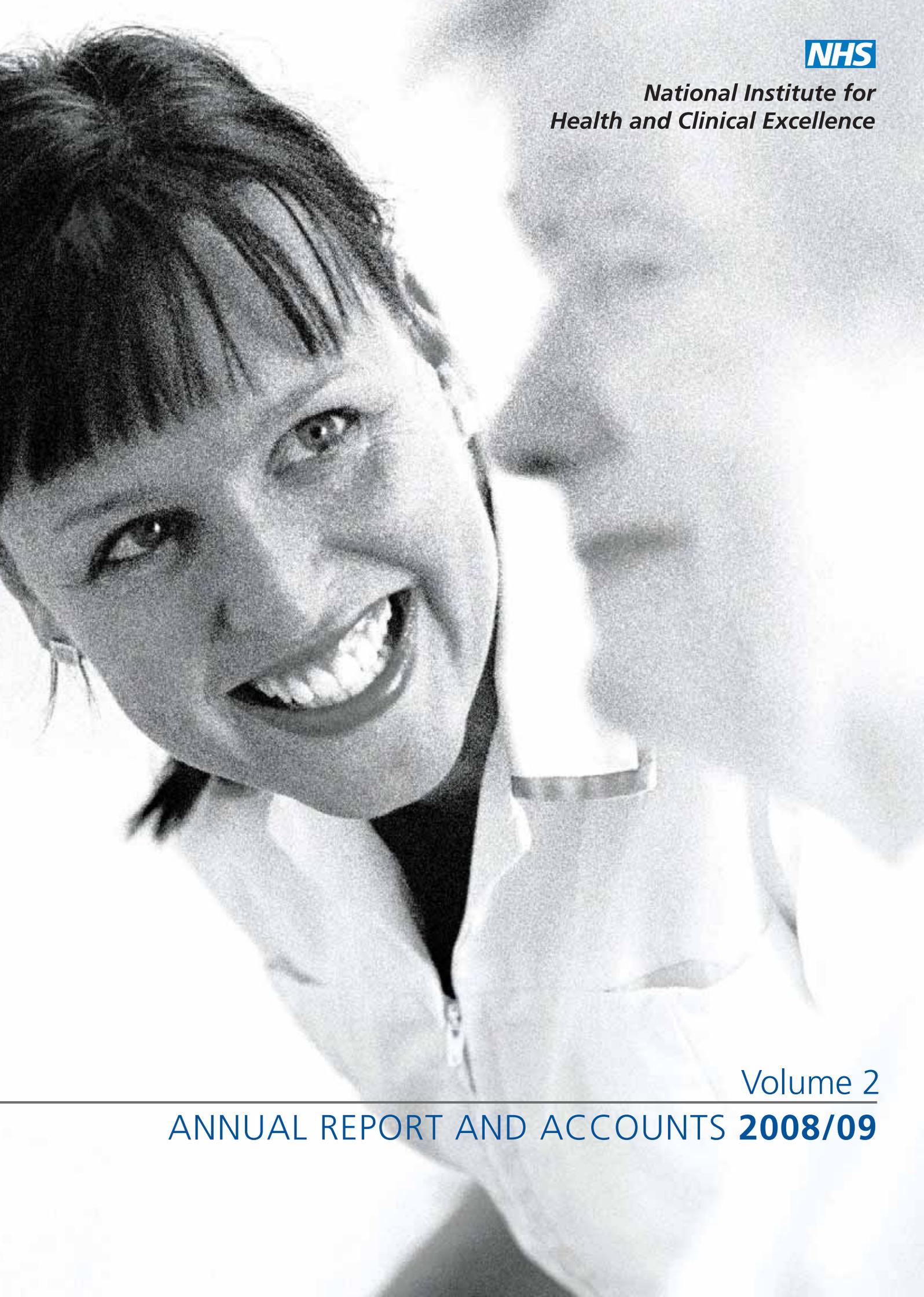




*National Institute for
Health and Clinical Excellence*



Volume 2

ANNUAL REPORT AND ACCOUNTS **2008/09**

National Institute for Health and Clinical Excellence (Special Health Authority)

Annual Report and Accounts 2008/09

*Presented to Parliament pursuant to Paragraph 6 (3), Section 232, Schedule 15
of the National Health Service Act 2006*

Volume 2

Ordered by the House of Commons to be printed 8 July 2009

MANAGEMENT COMMENTARY

These accounts have been produced as a supplement to the Annual Report. Detailed information about the membership of the Board and about the performance of the organisation during 2008/09 is contained in the Annual Report. Further information about the National Institute for Health and Clinical Excellence (NICE) and its activities is available on our website: www.nice.org.uk

WHAT DOES NICE DO?

The National Institute for Health and Clinical Excellence (NICE) is the independent organisation responsible for providing national guidance on the promotion of good health and the prevention and treatment of ill health.

NICE produces guidance in three areas of health:

- public health – guidance on the promotion of good health and the prevention of ill health for those working in the NHS, education, local authorities and the wider public, private, voluntary and community sectors
- health technologies – guidance on the use of new and existing medicines, treatments and procedures within the NHS

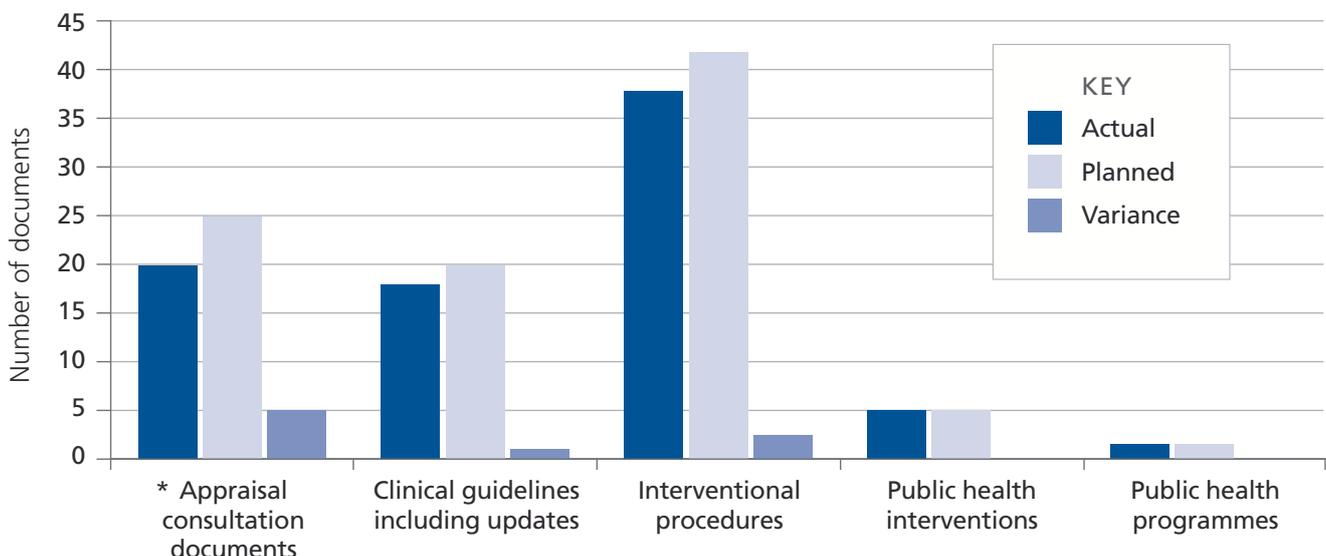
- clinical practice – guidance on the appropriate treatment and care of people with specific diseases and conditions within the NHS.

NICE guidance is developed using the expertise of the NHS and the wider healthcare community including NHS staff, healthcare professionals, patients and carers, industry and the academic world.

OVERALL POSITION

During the year NICE continued its guidance development programme, as well as planning for and implementing some significant new programmes. The prime measure of its performance is the achievement of targets related to each guidance programme. These are summarised in figure 1:

FIGURE 1
PROGRAMME ACTIVITY FOR 12 MONTHS TO END MARCH 2009



* The figures shown for Appraisal consultation documents do not represent actual guidance documents issued. For a full list of guidance published, please refer to the Annual Report (volume 1).

NEW DEVELOPMENTS

The Darzi report, 'High quality care for all', was published in June 2008. NICE will take forward a number of initiatives resulting from this report over the next year and beyond. These include:

- further development of the NHS Evidence service
- responsibility for developing the Quality and Outcomes Framework indicators for the NHS
- setting national quality standards for the NHS
- development of a NICE fellowship programme
- expansion of existing programmes including the development of guidance on devices and diagnostics.

As a result, NICE's annual budget will rise to about £60 million in 2009/10.

During 2008/09 NICE set up NHS Evidence, a web-based service that will help people find, access and use high-quality clinical and non-clinical evidence and best practice. The functions of the National Library for Health were transferred from the NHS Institute for Innovation and Improvement into NICE on 1 April 2009. NHS Evidence was successfully launched, on target, on 29 April 2009. The development and set-up costs incurred during 2008/09 were within the budget of £1.5 million.

The other new activities outlined above will start during 2009/10. As a result, the total number of staff will increase to about 450 whole-time equivalents during 2009/10. During 2008/09, further floor space was acquired and fitted-out at the Manchester office to accommodate this increase in staffing. A good value lease was negotiated and the capital works were completed to time and within budget.

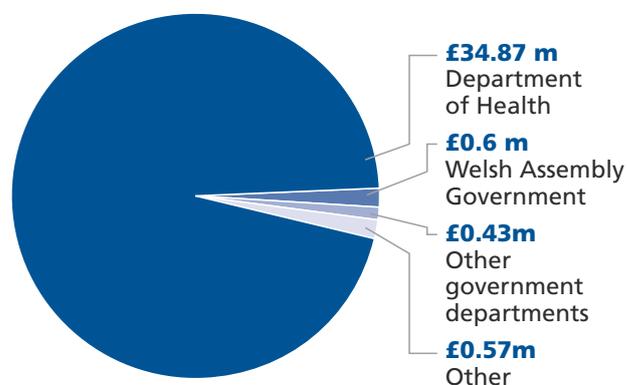
Overall in 2008/09, NICE had an underspend of £58,000 against the budget. This position was net of some variances on the original plan. There was programme slippage in a number of areas, particularly within the public health programme, where topic referrals had been delayed. The national collaborating centres – close partners of NICE – underwent significant restructuring and mergers. This resulted in some additional, one-off costs.

Significant costs were incurred as a result of legal action taken against NICE. These were partially covered by provision made within 2007/08 resources.

HOW IS NICE FUNDED?

Most of NICE's funding comes from the Department of Health. This year it received £34.87 million (including £0.8 million for capital) as shown in figure 2. It also received £0.6 million from the Welsh Assembly Government, £0.43 million from other government departments and £0.57 million from other sources.

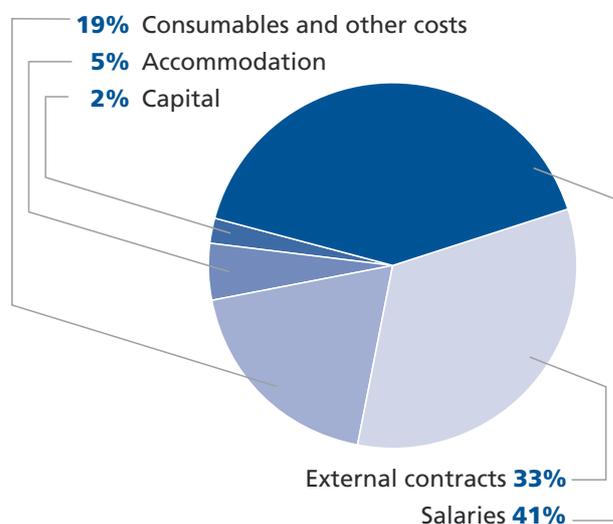
FIGURE 2



HOW WAS THE FUNDING USED?

Figure 3 shows what the money was spent on in 2008/09. The main areas of expenditure were external contracts and salaries. External contracts include the national collaborating centres which help us to produce clinical and public health guidance.

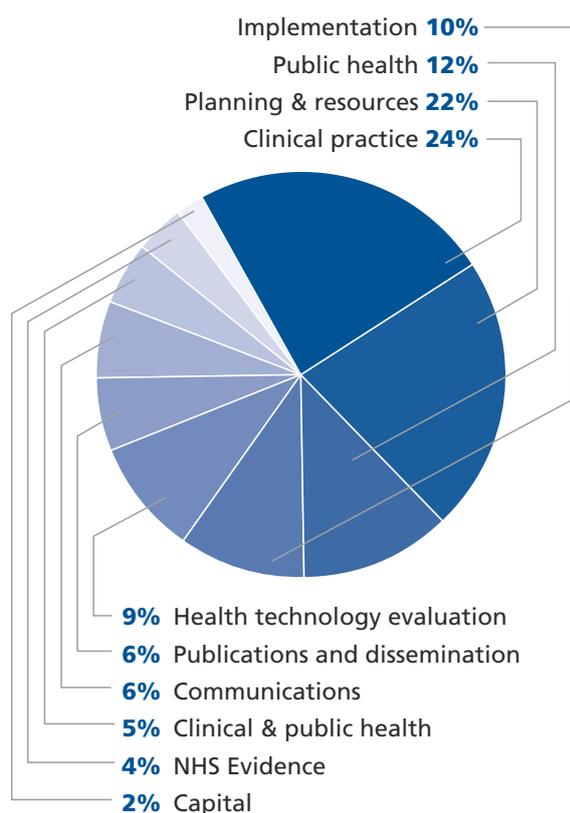
FIGURE 3



PROGRAMME COSTS

Figure 4 shows how the spending was split between NICE's work programmes and the support functions.

FIGURE 4



HEALTH AND SAFETY

NICE adheres to the Health and Safety at Work Act 1974 and other related requirements to ensure staff and clients enjoy the benefits of a safe environment. There were five reportable incidents at work during the year. These were risk-assessed and appropriate action taken. No days were lost due to injury at work.

EMPLOYEE INVOLVEMENT

NICE has established clear communications with its employees, including formal consultation when necessary. Internal communication is maintained by team briefings and regular updates.

SUSTAINABLE DEVELOPMENT

NICE developed its Sustainable Development Action Plan in 2007. A staff committee was formed to progress targets and continue to consider further environmental issues relevant to NICE's activities.

EQUALITY AND DIVERSITY

NICE is committed to promoting equality and eliminating unlawful discrimination. We have an equality and diversity policy and an equality scheme that ensures compliance with all relevant legislation and practice. All staff are required to attend equality and diversity training every three years.

NICE is committed to ensuring that all sections of society have the opportunity to be considered for the appointments we make and we operate a Guaranteed Interview scheme for disabled applicants. As well as being fair, we believe that the quality of those appointed will improve if we are able to draw from the widest possible pool of talent available.

NICE can and does make reasonable adjustments for disabled employees – for example, flexible working arrangements, working from home and adaptations to the working environment. There is a disabled representative on the Staff Involvement Forum.

NICE also has flexible working arrangements in place to meet its requirements under sex and gender legislation.

NICE produces an equal opportunities report each year for the Secretary of State for Health which systematically monitors adherence to employment legislation on equality and diversity.

STATUTORY FRAMEWORK

The accounts for the year ended 31 March 2009 have been prepared in accordance with the direction given by the Secretary of State in accordance with the NHS Act 2006 and in a format determined by the Department of Health with the approval of HM Treasury.

NICE was established as the National Institute for Clinical Excellence on 26 February 1999 as a Special Health Authority to become operational on 1 April 1999. On 1 April 2005 the National Institute for Health and Clinical Excellence was established, which incorporated the functions of the Health Development Agency which had been disestablished on 31 March 2005. Founding legislation includes the National Health Services Act 1977 c49, S.I. 1999/220, S.I. 260 and S.I. 2005/497. It is required to produce an annual report on its activities and finances to the Secretary of State for Health and the Welsh Assembly Government.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Following an announcement in the 2007 budget and an amendment in 2008, government bodies will be required to adopt International Financial Reporting Standards (IFRS) in full from 1 April 2009. They will also be required to restate 2008/09 accounts, using IFRS to provide comparative information.

The transition from Financial Reporting Manual (FRM) Financial Reporting Standards-based accounts to fully IFRM IFRS-compliant accounts in 2009/10 is being achieved using a 'trigger point' approach. The first two trigger points were successfully completed in 2008/09, with the remaining two to follow in the middle of 2009/10.

NICE is fully prepared for the transition to IFRS.

OTHER INFORMATION

NICE's performance under the Better Payments Practice Code is detailed in note 2.3 on page 25.

NICE is not aware of any incidents during the year related to loss or unauthorised disclosure of protected personal data.

AUDITORS

The accounts have been audited by the Comptroller and Auditor General in accordance with the National Health Service Act 2006. The Audit Certificate can be found on pages 12 to 13.

The Comptroller and Auditor General is Amyas C E Morse. His address is:

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

AUDIT ASSURANCE

As far as I am aware, there is no relevant information of which NICE's auditors are unaware. I have taken all the steps that I could to make myself aware of any relevant audit information and to establish that NICE's auditors are aware of that information.

Signed

Andrew Dillon
Chief Executive and Accounting Officer

8 June 2009

REMUNERATION REPORT

The remuneration of the Chair and non-executive directors is set by the Secretary of State for Health.

The salaries of the three consultant clinicians are subject to direction from the Secretary of State and the remuneration of the Chief Executive is subject to approval by the Department of Health. The remuneration of the other senior managers is set by the Remuneration and Terms of Service Committee.

The remuneration of all the senior managers is set out in the table on page 7.

The information contained in the tables in this Remuneration Report has been audited. Information on NICE's remuneration policy and membership of the Remuneration and Terms of Service Committee can be found in the Annual Report. This latter information has not been audited.

PERFORMANCE APPRAISAL

For all senior managers below executive director level, NICE complies with – and follows the procedures as set out in – the NHS National Terms and Appraisal of Service (Agenda for Change). A personal objective-setting process is managed by the line managers. This links into the annual appraisals and review process and supports the Knowledge and Skills Framework.

Executive directors take the lead on this process within the areas they are responsible for. They are also subject to a performance review, in line with the Very Senior Managers' Pay Framework.

TERMS AND CONDITIONS: THE NICE CHAIR AND NON-EXECUTIVE DIRECTORS

1. STATUTORY BASIS FOR APPOINTMENT

They hold a statutory office under the National Health Service Act 1977. Their appointment does not create any contract of service or contract for services between them and the Secretary of State or between them and NICE.

2. EMPLOYMENT LAW

The appointments are not within the jurisdiction of Employment Tribunals. Neither is there any entitlement for compensation for loss of office through employment law.

3. REAPPOINTMENTS

They are eligible for reappointment at the end of their period of office, but they have no right to be reappointed. The Appointments Commission will usually consider afresh the question of who should be appointed. However, it is likely to consider a second term of appointment without competition for people whose performance has been consistently good during their first term. If reappointed, further terms will only be considered after open competition, subject to a maximum service of 10 years with the same organisation and in the same role.

4. TERMINATION OF APPOINTMENT

Regulation 5 of the NHS Regulations sets out the grounds for terminating an appointment. A Chair or non-executive member may resign by giving notice in writing to the Secretary of State or the Appointments Commission. Their appointment will be terminated if, in accordance with regulations, they become disqualified for the post. In addition, the Appointments Commission may terminate it on the following grounds:

- if it believes that it is not in the interests of NICE or the NHS for them to continue to hold office
- if the Chair or non-executive member does not attend a NICE meeting for a period of 3 months
- if they fail to disclose a pecuniary interest in matters under discussion at a NICE meeting.

There is no provision in NICE's annual accounts for the early termination of any non-executive director's appointment.

The following list provides examples of when it may no longer be in the interests of the health service for an appointee to continue in office. The list is not exhaustive or definitive; the Appointment Commission will consider each case on its merits, taking account of all relevant factors.

- if an annual appraisal or sequence of appraisals is unsatisfactory
- if the appointee no longer enjoys the confidence of the Board
- if the appointee loses the confidence of the public

- if the Chair fails to ensure that the Board monitors the performance of NICE effectively
- if work is not delivered against pre-agreed targets as part of their annual objectives
- if there is a breakdown in essential relationships, for example, between a Chair and a Chief Executive, or between an appointee and the rest of the Board
- if a newly appointed Chair, on reviewing the objectives of Board members, recommends to the Commission that an appointment is discontinued.

5. REMUNERATION

Under the Act, the Chair and non-executive members are entitled to be remunerated by NICE for so long as they continue to hold office. There is no entitlement to compensation for loss of office.

6. CONFLICT OF INTEREST

NHS Boards are required to adopt the Codes of Conduct and Accountability, published in April 1994. The codes require Chairs and Board members to declare, on appointment, any business interests or position of authority in a charity or voluntary body in health and social care, and any connection with bodies contracting for NHS services. These must be entered into a register which is available to the public.

7. INDEMNITY

NICE is empowered to indemnify the Chair and non-executive members against any personal liability which they may incur while carrying out their duties.

TERMS AND CONDITIONS: NICE EXECUTIVE DIRECTORS

1. BASIS FOR APPOINTMENT

All executive directors are appointed on a permanent basis and at an agreed annual salary. They are eligible to claim travel and subsistence costs, at rates set by NICE, for expenses incurred on its behalf.

2. TERMINATION OF APPOINTMENT

An executive director has to give 3 months notice. NICE will give an executive director 6 months notice for any substantive reason other than incapacity. In the case of incapacity, NICE will give 6 months notice once sick pay allowances have been exhausted.

There is no provision for compensation included in NICE's Annual Accounts for the early termination of any executive director's employment.

SALARIES AND ALLOWANCES – SENIOR MANAGERS’ REMUNERATION

Name	Title	2008/09			2007/08		
		Salary (of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in kind (rounded to the nearest £00)	Salary (of £5000) £000	Other Remuneration (bands of £5000) £000	Benefits in kind (rounded to the nearest £00)
Prof Sir Michael Rawlins	Chair	60 to 65	nil	nil	55 to 60	nil	nil
Mark Taylor	Vice Chair	5 to 10	nil	nil	5 to 10	nil	nil
Revd Frederick George	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Mercy Jeyasingham	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Prof Helen Roberts	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Prof Shah Ebrahim (1)	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Jenny Griffiths OBE	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Dr Margaret Helliwell	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Jonathan Tross CB	Non-Executive Director	10 to 15	nil	nil	10 to 15	nil	nil
Prof Rona McCandish	Non-Executive Director	5 to 10	nil	nil	5 to 10	nil	nil
Prof Patrick Morrison (2)	Non-Executive Director	5 to 10	nil	nil	0 to 5	nil	nil
Andrew Dillon CBE	Chief Executive	190 to 195	nil	nil	185 to 190	nil	nil
Andrea Sutcliffe (3)	Deputy Chief Executive and Planning & Resources Director	nil	nil	nil	80 to 85	nil	nil
Prof Peter Littlejohns	Clinical & Public Health Director	175 to 180	nil	nil	160 to 165	nil	nil
Dr Gillian Leng (4)	Implementation Director & Deputy Chief Executive	60 to 65	nil	nil	115 to 120	nil	nil
Dr Gillian Leng (5)	Deputy Chief Executive & Chief Operating Officer	85 to 90	nil	nil	nil	nil	nil
Dr Carole Longson	Health Technology Evaluation Centre Director	115 to 120	nil	nil	100 to 105	nil	nil
Prof Michael Kelly	Public Health Excellence Centre Director	105 to 110	nil	nil	95 to 100	nil	nil
Dr Mercia Page (6)	Clinical Practice Centre Director	5 to 10	nil	nil	95 to 100	nil	nil
Louise Fish (7)	Communications Director	5 to 10	nil	nil	95 to 100	nil	nil
Ben Bennett (8)	Business Planning and Resources Director	115 to 120	nil	nil	40 to 45	nil	nil
Dr Fergus Macbeth (9)	Clinical Practice Centre Director	75 to 80	nil	nil	nil	nil	nil
Jane Gizbert (10)	Communications Director	55 to 60	nil	nil	nil	nil	nil
Val Moore (11)	Acting Implementation Director	55 to 60	nil	nil	nil	nil	nil

(1). End of Non-Exec services 31/12/08

(2). Non-Exec Director from 01/11/07

(3). Left 26/11/07

(4). Added responsibility of Deputy Chief Exec from 26/11/07, released responsibility of Implementation Director from 31/08/08

(5). Added responsibility of Chief Operating Officer from 01/08/08

(6). Left 20/04/08

(7). Left 18/04/08

(8). Became Director from 26/11/07

(9). Director of Clinical Practice Centre from 29/09/08

(10). Director of Communications from 15/09/08

(11). Acting Director of Implementation from 01/09/08

The post of Director of Communications was filled through a contract arrangement with a third party from 01/04/08 to 19/09/08 at a cost of £119,521

PENSION BENEFITS – SENIOR MANAGEMENT

Name	Title	Real Increase in Pension at 60 (bands of £2500) £000	Lump Sum at aged 60 related to real increase in pension (bands of £2500) £000	Total accrued pension at age 60 at 31 March 2009 (bands of £5000) £000	Lump Sum at age 60 related to accrued pension at 31 March 2009 (bands of £5000) £000	Cash Equivalent Transfer Value at 31 March 2009 £000	Cash Equivalent Transfer Value at 31 March 2008 £000	Real Increase in Cash Equivalent Transfer Value	Employers contribution to growth in CETV	Employers contribution to Stakeholder Pension
Andrew Dillon CBE	Chief Executive	5 to 7.5	15 to 17.5	75 to 80	235 to 240	1719	1200	491,276	343,893	0
Prof Peter Littlejohns	Clinical & Public Health Director	5 to 7.5	15 to 17.5	65 to 70	195 to 200	1378	952	403,106	282,174	0
Dr Gillian Leng (4&5)	Deputy Chief Executive and Chief Operating Officer	5 to 7.5	20 to 22.5	35 to 40	110 to 115	669	424	234,539	164,177	0
Dr Carole Longson	Health Technology Evaluation Centre Director	2.5 to 5	7.5 to 10	10 to 15	35 to 40	210	131	76,139	53,297	0
Prof Michael Kelly	Public Health Excellence Centre Director	5 to 7.5	15 to 17.5	40 to 45	130 to 135	1022	658	347,478	243,234	0
Dr Mercia Page (6)	Clinical Practice Centre Director	0 to 2.5	0 to 2.5	15 to 20	50 to 55	324	245	72,912	51,038	0
Louise Fish (7)	Communications Director	(0 to 2.5)	(0 to 2.5)	5 to 10	20 to 25	95	77	15,755	11,029	0
Ben Bennett (8)	Business Planning and Resources Director	10 to 12.5	35 to 37.5	35 to 40	110 to 115	661	345	307,789	215,452	0
Dr Fergus Macbeth (9)	Clinical Practice Centre Director	0 to 2.5	0 to 2.5	70 to 75	215 to 220	0	0	0	0	0
Jane Gizbert (10)	Communications Director	0 to 2.5	0 to 2.5	0 to 5	0 to 5	14	0	14,189	9,932	0
Val Moore (11)	Acting Implementation Director	5 to 7.5	20 to 22.5	25 to 30	75 to 80	431	248	176,944	123,861	0

See footnotes on page 7

CASH EQUIVALENT TRANSFER VALUES

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the Pension Scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the Scheme. A CETV is a payment made by a Pension Scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the Pension Scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures and the other pension details include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS Pension Scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing

additional years of pension service in the Scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

REAL INCREASE IN CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of the period.

Signed
Andrew Dillon
Chief Executive and Accounting Officer

8 June 2009

ACCOUNTS 2008/09

STATEMENT OF THE BOARD'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under the National Health Service Act 2006, the Secretary of State has directed the National Institute for Health and Clinical Excellence (NICE) to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of NICE's state of affairs at the year end and of its net resource outturn, recognised gains and losses and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular to:

- observe the Accounts Direction issued by the Secretary of State, 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 as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- prepare the accounts on a going concern basis.

The Accounting Officer for the Department of Health has appointed the Chief Executive of the National Institute for Health and Clinical Excellence as the Accounting Officer for NICE. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding NICE's assets, are set out in the *Government Financial Reporting Manual* published by HM Treasury.

Signed
Andrew Dillon CBE
Accounting Officer

STATEMENT ON INTERNAL CONTROL 2008/09

1. SCOPE OF RESPONSIBILITY

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

NICE works closely with its sponsor branch at the Department of Health and the Welsh Assembly Government and there are arrangements in place for regular performance monitoring and review.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place in NICE for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

NICE's Assurance Framework includes the identification and documentation of risks that are drawn from the business planning processes. These are monitored through Senior Management Team (SMT) meetings, the Audit Committee and by the Board.

3. CAPACITY TO HANDLE RISK

The Audit Committee deals with risk management. It oversees the operation of the risk management processes and receives reports on specific risk issues as they arise. The Senior Management Team acts as the risk management group and reviews the risk

register. Managers are required to consider risk issues in the formal annual business planning processes and also in relation to any changes that arise during the year. They receive appropriate support and guidance in this from the Governance Manager. When unforeseen adverse events occur NICE has processes in place to carry out a retrospective review of the causes so that the underlying risks can be identified and reassessed, and appropriate management action taken.

4. THE RISK AND CONTROL FRAMEWORK

I have responsibility for maintaining a sound system of internal control that supports the achievement of NICE's policies, aims and objectives. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risks.

Risk management assessment is carried out annually by the SMT as part of the business planning process. Key risks and handling strategies are included in the business plan and reported to the Board. These are reviewed quarterly by the Audit Committee and are informed by the work of internal and external audit. Resources required to enable implementation of the plan are fully considered by the SMT and assigned a priority within the overall constraints of the resources available.

Where appropriate local risk registers are maintained within programmes and significant issues escalated through the reporting process for SMT and Audit Committee scrutiny.

A separate risk assessment exercise is carried out to establish the Board's assurance framework and to identify areas of organisational risk. This included a review of NICE's systems, equipment, policies, premises and information governance.

These assessment exercises resulted in a prioritised risk management register highlighting the key controls in place and assurances on those controls. This was reported to the Audit Committee. The minutes of the meetings of the Audit Committee are received by the Board at its public meetings.

NICE's internal auditors have assessed the risk maturity of NICE as risk managed, i.e. there is an institute-wide approach to risk management at the highest level. This will be further developed and embedded in NICE decision making.

Control measures are in place to ensure that NICE's obligations under equality, diversity and human rights legislation are complied with and these have been reported to, and approved by, the Board.

The work that Government has done on best practice to ensure the security of personal data held by government departments and arms' length bodies has been reported to the Audit Committee and the Board.

NICE does not handle sensitive personal data in medical records as part of its general functions. Where other sensitive personal data is held it is not usual for it to be transferred on portable media and it is closely controlled within the systems that process it.

NICE is implementing guidance from the Department of Health on information governance on a risk-assessed basis which will be reported to the Audit Committee and Board. Board-level responsibility for the management of information risk rests with the Business Planning and Resources Director who is the Senior Information Risk Officer. All significant information risks are included in the risk register and reported to the SMT and Audit Committee.

Policies and procedures for managing the security of personal data are being reviewed in light of guidance from the Department of Health and these will underpin the standards for information governance. Staff have been reminded of what to be alert for in the handling of sensitive personal data as defined by the Department of Health and training will be provided for key personnel as required.

There have been no Serious Untoward Incidents involving sensitive personal data in the past year and the overarching information risk is considered low.

IT governance, as part of corporate governance, has delivered on NICE's business needs to date. Further work will be undertaken to strengthen our

long-term IT strategy to support our information governance standards and to reflect future needs as NICE expands.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer contributions and payments into the Scheme are in accordance with Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the regulations.

5. REVIEW OF EFFECTIVENESS

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

The effectiveness of the system of internal control has been subject to review by our internal auditors who, in liaison with the external auditors, plan and carry out a programme of work that is approved by the Audit Committee, to review the design and operation of the systems of internal financial control. Where weaknesses have been identified these are reported to the Audit Committee and an action plan agreed with management to implement the recommendations agreed as part of this process.

Andrew Dillon
Chief Executive

8 June 2009

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

I certify that I have audited the financial statements of the National Institute for Health and Clinical Excellence (NICE) 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. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

RESPECTIVE RESPONSIBILITIES OF THE BOARD, THE CHIEF EXECUTIVE AND AUDITOR

The Board and Chief Executive, as Accounting Officer are responsible for preparing the Annual Report, the Remuneration Report and the financial statements in accordance with the National Health Service Act 2006 and the directions made thereunder by the Secretary of State with the approval of HM Treasury 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 and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 the directions made thereunder by the Secretary of State with the approval of HM Treasury. I report to you whether, in my opinion, the information, which comprises the Financial Overview and Management Commentary 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 NICE has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects NICE'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 NICE's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Board and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to NICE's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited 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 and the part of the Remuneration Report to be audited.

OPINIONS

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and the directions made thereunder by the Secretary of State with the approval of HM Treasury, of the state of the NICE's affairs as at 31 March 2009 and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 2006 the directions made thereunder by the Secretary of State with the approval of HM Treasury; and
- information, which comprises the Financial Overview and the Management Commentary, 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
National Audit Office
151 Buckingham Palace Road
Victoria
London SW1W 9SS

12 June 2009

FINANCIAL STATEMENTS 2008/09

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

CONTINUING OPERATIONS

	Notes	2008/09 £000	2007/08 £000
Programme costs	2.1	35,603	33,603
Operating income	4	(1,593)	(1,025)
Net operating cost before interest		34,010	32,578
Interest payable		0	0
Net operating cost		34,010	32,578
Net resource outturn	3.1	34,010	32,578

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2009

		2008/09 £000	2007/08 £000
Unrealised surplus/(deficit) on the revaluation of fixed assets	11.2	(11)	(47)
Unrealised surplus/(deficit) on the indexation of fixed assets	11.2	0	17
Fixed asset impairment losses	11.2	0	0
Recognised gains and (losses) for the financial year		(11)	(30)

The notes at pages 17 to 37 form part of these accounts.

BALANCE SHEET AS AT 31 MARCH 2009

	Notes	31 March 2009 £000	31 March 2008 £000
Fixed assets			
Intangible assets	5.1	40	19
Tangible assets	5.2	2,064	1,629
		2,104	1,648
Current assets			
Stocks		0	0
Debtors	6	2,300	3,220
Cash at bank and in hand	7	229	599
		2,529	3,819
Creditors: amounts falling due within one year	8.1	(1,868)	(2,249)
Net current assets/liabilities		661	1,570
Total assets less current liabilities		2,765	3,218
Creditors: amounts falling due after more than one year	8.2	0	0
Provisions for liabilities and charges	9	(385)	(1,063)
		2,380	2,155
Taxpayers' equity			
General Fund	11.1	2,278	2,042
Revaluation reserve	11.2	102	113
		2,380	2,155

The financial statements on pages 14 to 16 were approved by the Board on 4 June 2009 and signed by

Signed:
Andrew Dillon
Accounting Officer

8 June 2009

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2008/09 £000	2007/08 £000
Net cash (outflow) from operating activities	12	(33,916)	(31,594)
Servicing of finance			
Interest paid		0	0
Interest element of finance leases		0	0
Net cash (outflow) from servicing finance		0	0
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(39)	0
(Payments) to acquire tangible fixed assets		(585)	(1,212)
Receipts from disposal of intangible fixed assets		0	0
Receipts from disposal of tangible fixed assets		0	0
Net cash outflow from investing activities		(624)	(1,212)
Net cash outflow before financing		(34,540)	(32,806)
Financing			
Net Parliamentary funding		34,170	33,405
(Decrease)/increase in cash in the period	7	(370)	599

The notes at pages 17 to 37 form part of these accounts.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the *Government Financial Reporting Manual* issued by HM Treasury. The particular accounting policies adopted by NICE are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

1.1 ACCOUNTING CONVENTION

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 their current cost. This is in accordance with directions issued by the Secretary of State for Health and approved 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 INCOME

Income is accounted for applying the accruals convention. The main source of funding for NICE is Parliamentary grant from the Department of Health from Request for Resources within an approved cash limit, which is credited to the general fund. Parliamentary funding is recognised in the financial period in which the cash is received.

Operating income is income which relates directly to the operating activities of NICE. It principally comprises fees and charges for services provided on a full-cost basis to external customers, but it also includes other income such as that from the Department of Health, NHS Quality Improvement Scotland and the Welsh Assembly. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as miscellaneous income. 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

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

1.5 CAPITAL CHARGES

The treatment of fixed assets in the account is 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 2008/09 was 3.5% (2007/08 3.5%) 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 where they 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
 - collectively have a cost of at least £5,000, and an individual cost of more than £250, where the assets are functionally interdependent, and 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.

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 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 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.

i Land, buildings, installations and fittings

Valuations are carried out by the District Valuer of HM Revenue and Customs Government Department at five-yearly intervals in accordance with FRS15. Between valuations price indices appropriate to the category of asset are applied to arrive at the current value. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office. The valuations were 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. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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:

- specialised operational assets have been valued on a replacement rather than modern substitute basis
 - no adjustment has been made to the cost figures of operational assets in respect of dilapidations
 - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
- iv All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Due to the current economic climate and the negative pressure on prices, no indexation was applied to any asset class during 2008/09.

c. Depreciation and amortisation

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 under construction are not depreciated
- iv Buildings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term
- v Each equipment asset is depreciated evenly over the expected useful life:

	Years
Furniture	10
Office, information technology, and other equipment	3-5

1.7 STOCKS AND WORK IN PROGRESS

The net realisable value of publication stocks is nil. NICE has no other stocks or 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, including losses which would have been made good through insurance cover had NICE not been bearing its 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 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's 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% 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% of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from 5% up to 8.5% 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 NICE commits itself to the retirement, regardless of the method of payment.

The Scheme provides the opportunity for 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 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 the 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% 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% 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% 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 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 should be 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.

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.

1.12 LEASES

Where substantially all risks and rewards of ownership of a leased asset are borne by NICE, 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 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 term of the lease.

1.13 PROVISIONS

NICE provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms.

1.14 FINANCIAL INSTRUMENTS

Financial assets

Financial assets are recognised on the balance sheet when NICE 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 operating cost statement'; '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 operating cost statement](#)

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 the Operating Cost Statement. 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.

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, NICE assesses whether any financial assets, other than those held at 'fair value through operating cost statement' 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 NICE 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 operating cost statement' or other financial liabilities.

Financial liabilities at fair value through operating cost statement

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 Operating Cost Statement. 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.

2. GENERAL OPERATING COSTS

2.1 Programme costs

	Notes	£000	2008/09 £000	2007/08 £000
Non-executive members' remuneration			159	153
Staff costs	2.2		14,577	12,681
Capital: Depreciation and amortisation	5.1, 5.2	286		292
Impairments	5.1, 5.2	0		0
Capital charges interest		65		50
(Profit)/loss on disposal	5.3	8		12
			359	354
Premises and fixed plant			1,286	1,630
Transport and moveable plant			6	19
External contractors			13,571	12,241
Publications and conferences			804	1,036
Establishment expenses			3,118	2,869
Auditor's remuneration: audit fees*			57	45
Supplies and services – general			217	260
Provisions (sum of arising this year and prior year unused)			(44)	1,063
Rentals under operating leases			1,493	1,252
			35,603	33,603

*No non-audit fees were charged

2.2 Staff numbers and related costs

	2008/09 Total £000	Permanently employed staff £000	Other £000	2007/08 £000
Salaries and wages	11,618	10,130	1,488	10,449
Social security costs	995	995		918
Employer contributions to NHSPA	1,428	1,428		1,268
Other pension costs	31	31		0
Redundancies	505	505		47
	14,577	13,089	1,488	12,681

The average number of employees during the year was:

	2008/09 Total Number	Permanently employed staff Number	Other Number	2007/08 Number
	279	257	22	261

Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £16,001 (2007/08: £9,231).

Retirements due to ill health

This note discloses the number and additional pension costs for individuals who retired early on ill-health grounds during the year. There was no retirement due to ill health during 2008/09 (2007/09: none).

Provision for redundancies

The redundancies figure represent an accrual for redundancy payments to be made in 2009/10.

2.3 Better Payment Practice Code – measure of compliance

	Number	£000
Total non NHS bills paid 2008/09	7,833	23,167
Total non NHS bills paid within target	7,432	21,433
Percentage of non NHS bills paid within target	94.9%	92.5%
Total NHS bills paid 2008/09	76	693
Total NHS bills paid within target	68	559
Percentage of NHS bills paid within target	89.5%	80.6%

The Late Payment of Commercial Debts (Interest) Act 1998

	2008/09 £000	2007/08 £000
Amounts included within interest payable arising from claims made by small businesses under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	0	0

3. RECONCILIATION

3.1 Reconciliation of net operating cost to net resource outturn

	2008/09 £000	2007/08 £000
Net operating cost	34,010	32,578
Prior period adjustment	0	0
Net resource outturn	34,010	32,578
Revenue resource limit	34,068	32,593
(Over)/underspend against limit	58	15

3.2 Reconciliation of gross capital expenditure to capital resource limit

	£000	£000
Gross capital expenditure	749	1,212
NBV of assets disposed	8	12
Less loss on disposal of donated assets	0	0
Capital grants	0	0
Net capital resource outturn	741	1,200
Capital resource limit	800	1,225
(Over)/underspend against limit	59	25

4. OPERATING INCOME ANALYSED BY CLASSIFICATION AND ACTIVITY

	2008/09 Appropriated In Aid Total £000	2007/08 £000
Programme income:		
Fees and charges to external customers	264	72
Income received from Scottish Parliament	118	115
Income received from National Assembly for Wales	600	600
Income received from Northern Ireland Assembly	175	173
Income received from Department of Health	3	0
Income received from other government departments	425	60
Other	8	5
Total	1,593	1,025

5. FIXED ASSETS

5.1 Intangible fixed assets

	Software licences £000
Gross cost at 31 March 2008	76
Indexation	0
Impairments	0
Additions – purchased	39
Additions – donated	0
Disposals	(19)
Gross cost at 31 March 2009	96
Accumulated amortisation at 31 March 2008	57
Indexation	0
Impairments	0
Provided during the year	14
Disposals	(15)
Accumulated amortisation at 31 March 2009	56
Net book value:	
Purchased at 31 March 2008	19
Donated at 31 March 2008	0
Total at 31 March 2008	19
Net book value:	
Purchased at 31 March 2009	40
Donated at 31 March 2009	0
Total at 31 March 2009	40

5.2 Tangible fixed assets

	Assets under construction £000	Leasehold improvements £000	Plant and machinery £000	Information technology £000	Furniture and fittings £000	Total £000
Cost or valuation at 31 March 2008	0	747	394	456	865	2,462
Indexation	0	0	0	0	0	0
Impairments						0
Additions – purchased	169	360	0	0	181	710
Additions – donated						0
Disposals	0	0	(133)	(161)	(7)	(301)
Gross cost at 31 March 2009	169	1,107	261	295	1,039	2,871
Accumulated depreciation at 31 March 2008	0		241	238	354	833
Indexation	0	0	0	0	0	0
Impairments						0
Provided during the year	0	95	43	46	87	271
Additions – purchased						0
Additions – donated						0
Disposals	0	0	(133)	(161)	(3)	(297)
Accumulated depreciation at 31 March 2009	0	95	151	123	438	807
Net book value:						
Purchased at 31 March 2008	0	747	153	218	511	1,629
Donated at 31 March 2008	0	0	0	0	0	0
Total at 31 March 2008	0	747	153	218	511	1,629
Net book value:						
Purchased at 31 March 2009	169	1,012	110	172	601	2,064
Donated at 31 March 2009	0	0	0	0	0	0
Total at 31 March 2009	169	1,012	110	172	601	2,064

There were no assets held under finance leases or hire purchase contracts at the balance sheet date.

5.3 Profit/(loss) on disposal of fixed assets

	2008/09 £000	2007/08 £000
Profit/(Loss) on disposal of intangible fixed assets	(4)	(11)
Profit/(Loss) on disposal of plant and equipment	(4)	(1)
	(8)	(12)

6. DEBTORS

6.1 Amounts falling due within one year

	2008/09 £000	2007/08 £000
NHS debtors	163	319
Provision for irrecoverable debts	(6)	(11)
Prepayments	1,313	1,719
Other debtors	830	1,193
Accrued income	0	0
	2,300	3,220

6.2 Amounts falling due after more than one year

Total debtors	0	0
	2,300	3,220

7. ANALYSIS OF CHANGES IN CASH

	At 31 March 2008 £000	Change during the year £000	At 31 March 2009 £000
Cash at OPG	599	(370)	229
Cash at commercial banks and in hand	0	(0)	0
	0	(370)	229

8. CREDITORS

8.1 Creditors: Amounts falling due within one year

	2008/09	2007/08
	£000	£000
Overdrafts	0	0
NHS creditors	0	(103)
Capital creditors	(180)	(54)
Tax and social security	0	(288)
Other creditors	(319)	(993)
Accruals	(1,351)	(806)
Deferred income	(18)	(5)
	(1,868)	(2,249)
	0	0
Total creditors	(1,868)	(2,249)

9. PROVISION FOR LIABILITIES AND CHARGES

	Pensions for former staff	Other	Total
	£000	£000	£000
At 31 March 2008	0	1,063	1,063
Arising during the year		185	185
Utilised during the year		(634)	(634)
Reversed unused		(229)	(229)
At 31 March 2009	0	385	385
Expected timing of cash flows:			
Within 1 year	0	385	385
1-5 years			
Over 5 years			

As at 31 March 2009 NICE has made a provision of £385k in respect of legal costs.

10. MOVEMENTS IN WORKING CAPITAL OTHER THAN CASH

	2008/09	2007/08
	£000	£000
Increase/(decrease) in stocks	0	0
Increase/(decrease) in debtors	(920)	161
(Increase)/decrease in creditors	507	72
	(413)	233

NICE takes account of movements in capital creditors in the calculation of movements in working capital other than cash.

11. RESERVES

11.1 The movement on the general fund in the year comprised:

	2008/09	2007/08
	£000	£000
Balance at 31 March 2008	2,042	1,118
Prior period adjustment	0	0
Net operating costs for the year	(34,010)	(32,578)
Net Parliamentary funding	34,170	33,405
Transfer of realised profits/losses from revaluation reserve	11	47
Non-cash items	0	0
Capital charge interest	65	50
Balance at 31 March 2009	2,278	2,042

11.2 The movement on the revaluation reserve in the year comprised:

	2008/09	2007/08
	£000	£000
Balance at 31 March 2008	113	143
Impairments	0	0
Indexation of fixed assets	0	17
Revaluation of fixed assets	0	0
Transfer to general fund: realised revaluation	(11)	(47)
Balance at 31 March 2009	102	113

12. RECONCILIATION OF OPERATING COST TO OPERATING CASH FLOWS

	Notes	2008/09 £000	2007/08 £000
Net operating cost before interest for the year		34,010	32,578
Adjust for non-cash transactions	2	(359)	(354)
Adjust for movements in working capital other than cash	10	(413)	233
(Increase)/decrease in provisions	9	678	(863)
Net cash outflow from operating activities		33,916	31,594

13. CONTINGENT LIABILITIES

NICE has a number of contingent liabilities which relate to potential legal claims, the outcome and cost of which is uncertain.

14. COMMITMENTS UNDER OPERATING LEASES

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

	2008/09 £000	2007/08 £000
Land and buildings	1,449	1,200
Hire of plant and machinery	36	43
Other operating leases	8	8
	1,493	1,251

Commitments under non-cancellable 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:

	£000	£000
Land and buildings		
Operating leases which expire: within 1 year	0	0
between 1 and 5 years	1,101	1,125
after 5 years	687	326
	1,788	1,451
Other leases		
within 1 year	9	7
between 1 and 5 years	26	29
after 5 years	0	0
	35	36

15. LOSSES AND SPECIAL PAYMENTS

There were 397 cases, totalling £39k, of losses and special payments during 2008/09 (2007/08: 537 cases totalling £12k).

16. RELATED PARTIES

NICE is a body 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 NICE has 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.:

- NICE receives part funding from the Welsh Assembly Government. This amounted to £600,000 in 2008/09.
- NICE receives part funding from Quality Improvement Scotland. This amounted to £118,000 in 2008/09.
- NICE receives part funding from the Northern Ireland Assembly. This amounted to £175,000 in 2008/09.
- NICE received £225,000 from East Midlands Strategic Health Authority relating to the Cancer Reform Strategy.
- NICE received £200,000 from the NHS Institute for Innovation and Improvement relating to the transfer of the National Library for Health.
- NICE has been charged £956,040 by the Velindre NHS Trust relating to the Collaborating Centre for Cancer which is hosted by the Trust.
- Liverpool Primary Care Trust hosts the National Prescribing Centre which has charged NICE £391,000 for the provision of national information.
- Payroll and Financial Services are provided to NICE by NHS Shared Business Services and charges of £77,964 have been made for this service.

17. POST BALANCE SHEET EVENTS

In accordance with the requirements of FRS21 events after the balance sheet date, post balance sheet events are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

The Darzi report, 'High quality care for all', published in June 2008, recommended the establishment of NHS Evidence. Subsequently NICE was asked to set up, host and run NHS Evidence. NHS Evidence came into existence as part of NICE on 1 April 2009. As part of the process of establishing NHS Evidence, the functions of the National Library for Health, which was hosted by the NHS Institute for Innovation and Improvement, were transferred to NICE. The transfer took place on the 1 April 2009. The annual recurring resource allocation of £7.9m was transferred, together with 19 whole-time equivalent staff. During 2008/09 NICE incurred revenue costs of £1.5m in setting up NHS Evidence.

18. FINANCIAL INSTRUMENTS

FRS29 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way special health authorities are financed, NICE is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS29 mainly applies. NICE has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing NICE in undertaking its activities.

Liquidity risk

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

Credit risk

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

Currency risk

NICE is principally a domestic organisation with the great majority of transactions, assets and liabilities being in the UK and sterling-based. NICE therefore has low exposure to currency rate fluctuations.

Interest rate risk

NICE's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. NICE is not, therefore, exposed to significant interest rate risk. The following tables show the interest rate profile of NICE's financial liabilities:

Financial assets

Currency	Total £000	Floating rate £000	Fixed rate £000	Non-interest bearing £000
At 31 March 2009				
Sterling	229	0	229	0
Other	0	0	0	0
Gross financial assets	<u>229</u>	<u>0</u>	<u>229</u>	<u>0</u>
At 31 March 2008				
Sterling	599	0	599	0
Other	0	0	0	0
Gross financial assets	<u>599</u>	<u>0</u>	<u>599</u>	<u>0</u>

Financial assets by category	2008/09 £000	2007/08 £000
Assets as per Balance Sheet		
NHS debtors (net of provision for irrecoverable debts)	157	308
Prepayments	1,313	1,719
Other debtors	830	1,193
Cash at bank and at hand	229	599
	2,529	3,819

Financial liabilities

Currency	Total £000	Floating rate £000	Fixed rate £000	Non-interest bearing £000
At 31 March 2009				
Sterling	0	0	0	0
Other	0	0	0	0
Gross financial liabilities	0	0	0	0
At 31 March 2008				
Sterling	0	0	0	0
Other	0	0	0	0
Gross financial liabilities	0	0	0	0

Financial liabilities by category	2008/09 £000	2007/08 £000
Liabilities as per Balance Sheet		
NHS creditors	(0)	(103)
Capital creditors	(180)	(54)
Tax and social security	0	(288)
Other creditors	(319)	(993)
Accruals	(1,351)	(806)
Deferred income	(18)	(5)
	(1,868)	(2,249)

Foreign currency risk

NICE has negligible foreign currency income or expenditure.

Fair values

A comparison, by category, of book values and fair values of NICE's financial assets and liabilities as at 31 March 2009 is as follows:

	Book value £000	Fair value £000	Basis of fair valuation
Financial assets:			
Cash	229	229	Cash basis
Debtors over 1 year	0	0	
Investments	0	0	
Total	229	229	
Financial liabilities:			
Overdraft	0	0	
Creditors over 1 year:			
Early retirements	0	0	<i>Note a</i>
Finance leases	0	0	<i>Note b</i>
Provisions under contract	0	0	<i>Note c</i>
Loans	0	0	
Total	0	0	

Notes:

- (a) Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.
- (b) To obtain fair value, cash flows have been discounted at prevailing market rates for finance leases for a similar term.
- (c) Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by HM Treasury discount rate of 2.2% in 'real terms'.

19. INTRA-GOVERNMENT BALANCES

	Debtors: Amounts falling due within one year £000	Creditors: Amounts falling due within one year £000
Balances with other central government bodies	709	151
Balances with local authorities		
Balances with NHS bodies	16	
Balances with public corporations and trading funds		4
Balances with bodies external to government	268	344
At 31 March 2009	993	499
Balances with other central government bodies	1,408	46
Balances with local authorities		
Balances with NHS bodies	1	103
Balances with public corporations and trading funds		48
Balances with bodies external to government	105	1,288
At 31 March 2008	1514	1485

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

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