

NATIONAL HEALTH SERVICE ACT 2006

Summarised Accounts of Strategic Health Authorities, Primary Care Trusts and NHS Trusts for the year ended 31 March 2008 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 129-II of 2007-2008)

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

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# NHS (England) Summarised Accounts 2007-2008



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# NHS (England) Summarised Accounts 2007-2008

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Report on the NHS Summarised Accounts 2007-08

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# 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 2007 to 31 March 2008. The Comptroller and Auditor General (C&AG) is responsible for auditing each of the summarised accounts. In 2007-2008, audited figures were received from the following
  - 10 Strategic Health Authorities (SHAs);
  - 178 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 2007-2008.
- 4 Thirty NHS Foundation Trusts (FTs) were established during 2007-2008, with three coming into existence on 1 April 2007 and the remaining 27 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 27 NHS Foundation Trusts that came into being after 1 April 2007, but only for the period they operated as NHS Trusts. The number of NHS Foundation Trusts will continue to increase in 2008-2009.
- 5 NHS Foundation Trusts 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 2007-2008

- 7 The 2007-2008 NHS Operating Framework stressed the importance of the NHS building on the financial recovery achieved in 2006-2007 to create a sustainable financial position for the future.
- 8 Three clear financial objectives were set for the year
  - Delivery of a net surplus of at least £250 million generated by organisations to recover historic overspending;
  - A significant reduction in the value of gross deficits; and
  - All but a small handful of organisations operating in recurrent balance throughout the year.
- 9 Measured against these three objectives, the NHS ended 2007-2008 in a very strong financial position. In aggregate, the 2007-2008 final accounts for PCTs, NHS Trusts and SHAs indicate a revenue resource underspend for the NHS of £1,674 million (£515 million underspend in 2006-2007) and a capital resource underspend of £521 million (£503 million underspend in 2006-2007). The gross deficit fell significantly from just over £916 million in 2006-2007, to £124 million by the end of 2007-2008, with just eleven organisations recording a deficit in their final accounts, compared to 82 at the end of last year. This level of surplus demonstrates a continued improvement in the financial health of the NHS and in the quality and consistency of financial forecasting and reporting.

- 10 Very early in the year, the Department recognised, for a number of reasons, that the NHS would significantly exceed these financial objectives.
- Organisations releasing contingencies in excess of the anticipated 0.5 per cent (or £526 million) mainly because they were ahead in terms of delivering against cost improvement plans;
  - The impact of a reduction in the reimbursement prices of generic medicines; and
  - An improvement in the financial position of a number of organisations that had anticipated a deficit or break even in the early part of the year.
- 11 Looking ahead to 2008-2009, the NHS Operating Framework emphasises 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.

### Format of the accounts

- 12 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.
- 13 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.
- 14 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.

### 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.

### Strategic Health Authorities

- 16 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

### 17 SHAs have three main financial duties

- a To contain resource 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).

## Overall Financial Performance of Strategic Health Authorities in 2007-2008

- 18 In 2007-2008 (as in 2006-2007), all 10 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. The SHAs reported a £903 million underspend against the revenue resource limit (2006-2007: £962 million underspend) and a £66 million underspend against the capital resource limit (2006-2007: £71 million underspend).

## Better Payment Practice Code – Strategic Health Authorities

- 19 The percentage of bills paid in compliance with the better payment practice code in 2007-2008 is as follows

**Table 1**

Compliance Level	Number of Strategic Health Authorities			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	3	2	4	5
Between 85% and 94.9%	6	5	5	5
Between 75% and 84.9%	1	2	1	0
Less than 75%	0	1	0	0
Total	10	10	10	10
Overall Performance 2007-2008	89.6%	88.7%	92.4%	94.9%

- 20 In 2006-2007 SHAs paid 81.5 per cent of their non-NHS bills and 82.5 per cent of their NHS bills by number, and 91.4 per cent non-NHS bills and 89.6 per cent NHS bills by value within 30 days/contracted terms. The improved performance in 2007-2008 is in the context of SHAs processing and paying over 135,000 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.
- 21 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

- 22 PCTs first came into existence in April 2000, and are responsible for the commissioning of health care on behalf of their resident population. Some PCTs also provide healthcare and community services to their population.
- 23 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

24 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 2007-2008

- 25 In 2007-2008 PCTs reported a revenue resource limit underspend of £391 million (2006-2007: £370 million overspend).
- 26 PCTs reported an aggregate underspend of £170 million on the capital resource limit, compared to an underspend of £230 million in 2006-2007.
- 27 The overall 2007-2008 revenue position comprises 146 PCTs reporting an aggregate underspend of £436 million (£266 million in 2006-2007) and 4 PCTs reporting an aggregate overspend of £45 million (£636 million in 2006-2007). Two PCTs reported a balanced position.
- 28 142 PCTs reported an aggregate capital underspend of £170.6 million with one PCT reporting an overspend of £0.4 million (the aggregate underspend was £230 million in 2006-2007). Nine PCTs reported neither an under nor overspend.
- 29 In 2007-2008 there were no PCTs (12 in 2006-2007) with provider functions that did not fully recover their costs from income provided by commissioners.

## Better Payment Practice Code – Primary Care Trusts

30 The percentage of bills paid in compliance with the better payment practice code in 2007-2008 is as follows

**Table 2**

Compliance Level	Number of Primary Care Trusts			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	24	24	41	96
Between 85% and 94.9%	67	26	62	44
Between 75% and 84.9%	38	37	32	10
Between 65% and 74.9%	18	20	9	2
Between 55% and 64.9%	1	26	6	0
Less than 55%	4	19	2	0
Total	152	152	152	152
Overall Performance 2007-2008	85.1%	73.8%	87.0%	94.6%

- 31 In 2006-2007, PCTs paid 84.4 per cent of their non-NHS bills and 73.3 per cent of their NHS bills by number, and 86.2 per cent of non-NHS bills and 92.4 per cent of NHS bills when measured by value within 30 days/contracted terms. The slightly improved 2007-2008 performance is in the context of PCTs processing and paying over 4.3 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.
- 32 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

- 33 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

- 34 NHS Trusts have five main financial duties, which are
- a 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 2007-2008

- 35 In 2007-2008 NHS Trusts reported an income and expenditure surplus, on an accruals basis, of £380 million compared to a £77 million deficit in 2006-2007.
- 36 The overall 2007-2008 position comprises 168 NHS Trusts reporting an aggregate surplus of £459 million (£204 million in 2006-2007) and seven NHS Trusts reporting an aggregate deficit of £79 million (£281 million in 2006-2007), three trusts reported a break even position.

- 37 Seven NHS Trusts reported an in-year deficit in 2007-2008. A further 26 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'. Five Trusts are in their 3rd or 4th year of recovery and have not agreed extended recovery periods with their SHAs; these Trusts have therefore also failed their statutory duty to break-even. One further organisation is in its 4th year of recovery and is still in discussions with their SHA with respect to its recovery period.
- 38 Seven NHS Trusts out of the 178 were identified by the Department of Health as having significant financial difficulties at the end of 2007-2008 compared to 39 in 2006-2007.
- 39 A Trust is assessed as having a significant financial difficulty if the in-year deficit exceeds the lower of £1 million or one per cent of total annual income.
- 40 Table 3 summarises the performance of NHS Trusts against the three other financial duties.

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

	<b>Number</b>	<b>Percentage</b>
<b>Total NHS Trusts</b>	178	100%
<i>NHS Trusts achieving targets</i>		
<b>Capital Absorption Rate</b>		
Total achieving 3.5% or more <sup>2</sup>	53	35%
After adjusting for immaterial results <sup>2</sup>	128	85%
<b>External Financing Limit</b>		
Total meeting limit	174	98%
After adjusting for de minimis overshoots <sup>3</sup>	177	99%
<b>Capital Resource Limit</b>		
Total meeting limit	176	99%
After adjusting for de minimus overshoots <sup>4</sup>	176	99%

- 41 Analysis of the 2007-2008 results show that
- Seven Trusts (40 in 2006-2007) had an income and expenditure deficit – 4 per cent of all NHS Trusts (19 per cent in 2006-2007).
  - There were 31 statutory break-even duty failures (15 in 2006-2007).
  - 98 did not make a 3.5 per cent return on capital (compared to 107 in 2006-2007) – 65 per cent of all NHS Trusts (58 per cent in 2006-2007).
  - Four (12 in 2006-2007) overshoot their EFL – 2 per cent of all NHS Trusts (6 per cent in 2006-2007).
  - Two (10 in 2006-2007) overshoot their CRL – 1 per cent of all NHS Trusts (5 per cent in 2006-2007).

1 Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2007-08 by Department of Health.

2 A shortfall on the rate of return duty of less than 0.5% is treated as immaterial. The 27 Trusts that achieved Foundation Trust status in 2007-08 have been excluded from the Cost 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 the de minimis limits.

- 42 When non-material failures are discounted
- Seven (39 in 2006-2007) had an income and expenditure deficit (a deficit of more than 0.5 per cent of total annual income) – 4 per cent of all NHS Trusts (19 per cent in 2006-2007).
  - 23 (15 in 2006-2007) did not make a 3.5 per cent return on capital – 15 per cent of all NHS Trusts (8 per cent in 2006-2007).
  - One (12 in 2006-2007) overshot their EFL – 0.5 per cent of all NHS Trusts (5.7 per cent in 2006-2007).
  - Two (8 in 2006-2007) overshot their CRL – 1 per cent of all NHS Trusts (3.8 per cent in 2006-2007).
- 43 The 27 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.
- 44 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% and have been excluded from the cost absorption figures in Table 3.

### Better Payment Practice Code – NHS Trusts

- 45 The percentage of bills paid in compliance with the better payment practice code in 2007-2008 is as follows

**Table 4**

Compliance Level	Number of Trusts			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	24	25	41	44
Between 85% and 94.9%	88	31	80	34
Between 75% and 84.9%	31	36	27	32
Between 65% and 74.9%	22	28	16	26
Between 55% and 64.9%	5	24	11	18
Less than 55%	8	34	3	24
Total	178	178	178	178
Overall Performance 2007-2008	83.3%	69.3%	84.8%	76.2%

- 46 In 2006-2007 NHS Trusts paid 79.1 per cent of their non-NHS bills and 65.6 per cent of their NHS bills by number, and 81.0 per cent of non-NHS bills and 74.8 per cent of NHS bills when measured by value within 30 days or contracted terms. This improved performance in 2007-2008 is in the context of NHS Trusts processing and paying circa 8.3 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.
- 47 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

- 48 The Healthcare Commission Annual Healthcheck published on 16 October 2008 showed that the NHS overall is improving. 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 is now recording a healthy surplus – it will be able to use this money to continue to improve services for patients in the context of a modern health service. This has allowed the NHS to end the year in its strongest financial position for many years, and to establish a firm and sustainable financial position for 2008-2009 and beyond.
- 49 We are pleased to see improvements in the overall numbers of NHS bodies demonstrating improved performance in their use of resources. Over and above this, we have seen more trusts gain foundation trust status – further highlighting good financial standing in the NHS. However, there is room for further improvement. A small number of organisations continue to face significant financial challenges and we are working with SHAs to improve their financial performance.

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

- 50 Where analysis of an NHS body's financial performance leads the SHA to believe there is an underlying recurrent financial difficulty, the NHS body is required to prepare a recovery plan.
- 51 The appropriate SHA will agree the plan and monitor the results closely. This may involve monthly reporting to SHA, regular meetings with the NHS body's senior managers and the NHS body achieving specific milestones to ensure satisfactory progress is being made.
- 52 SHAs will focus on the NHS bodies which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans in place appear not to be producing the designed results.

*David Nicholson*  
Accounting Officer

7 November 2008



# 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 have 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 2007-2008

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 2007-2008 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 2007-2008 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 public concerns about information governance and security across the public sector, the NHS has taken steps to provide assurances regarding the processing of person identifiable information. As a result there has been a tightening of policies and procedures, particularly in the transfer of information within organisations and to outside locations. All NHS organisations must now

- 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 2008 every SHA was providing evidence that a system of internal control was in place.

SHAs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. Where organisations did report gaps, they showed the following

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	50%	50%
Organisational controls	50%	50%
Clinical controls	0%	0%
	100%	100%

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

*David Nicholson*  
Accounting Officer

7 November 2008

# 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 Strategic Health Authorities for the year ended 31 March 2008 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 2007-2008; Overall 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 HM Treasury 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 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 judgments 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 2008 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 2007-2008; Overall 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**

Please see my report on these financial statements at HC 63-I.

*TJ Burr*  
Comptroller and Auditor General

14 November 2008

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

## Operating Cost Statement for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Continuing operations</b>			
Authority operating costs	2.1	5,125,111	4,126,608
Operating income	3	(59,524)	(146,727)
<b>Net operating costs</b>		<b>5,065,587</b>	<b>3,979,881</b>

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

		2007-2008 £000	2006-2007 £000
Unrealised surplus on the revaluation of fixed assets	11	2,034	2,216
Net transfer from/(to) NHS bodies and Department of Health	12	895	(13,109)
Fixed asset impairment losses	11	(2,545)	0
<b>Recognised gains/(losses) for the financial year</b>		<b>384</b>	<b>(10,893)</b>

*The notes at pages A11 to A25 form part of this account.*

## Balance Sheet as at 31 March 2008

	Notes	31 March 2008 £000	31 March 2007 £000
<b>Fixed assets</b>			
Intangible assets	4.1	455	380
Tangible assets	4.2	<b>32,223</b>	34,359
		<b>32,678</b>	34,739
<b>Current assets</b>			
Debtors	5	<b>124,685</b>	160,479
Cash at bank and in hand	14	<b>223</b>	21,978
		<b>124,908</b>	182,457
<b>Creditors: amounts falling due within one year</b>	6	<b>(260,112)</b>	(197,721)
<b>Net current (liabilities)</b>		<b>(135,204)</b>	(15,264)
<b>Total assets less current liabilities</b>		<b>(102,526)</b>	19,475
<b>Creditors: amounts falling due after more than one year</b>	7	<b>(554)</b>	(617)
<b>Provisions for liabilities and charges</b>	8	<b>(38,205)</b>	(50,838)
		<b>(141,285)</b>	(31,980)
<b>Taxpayers' equity</b>			
General Fund	12	<b>(152,213)</b>	(43,831)
Revaluation reserve	11	<b>10,928</b>	11,851
		<b>(141,285)</b>	(31,980)

*The notes at pages A11 to A25 form part of this account.*

David Nicholson  
Accounting Officer

7 November 2008

## Cash Flow Statement for the year Ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
Net cash (outflow) from operating activities	15	<b>(4,979,933)</b>	(3,987,882)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire fixed assets		<b>(1,742)</b>	(4,471)
Receipts from the sale of fixed assets		<b>620</b>	864
<b>Net cash (outflow) from investing activities</b>		<b>(1,122)</b>	(3,607)
<b>Net cash (outflow) before financing</b>		<b>(4,981,055)</b>	(3,991,489)
<b>Analysis of Financing</b>			
Net Parliamentary Funding	12	<b>4,959,300</b>	4,013,113
(Decrease)/increase in cash	14	<b>(21,755)</b>	21,624

*The notes at pages A11 to A25 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 2007-2008 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, 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.

#### 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.

### 1.2 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.

### 1.3 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.

### 1.4 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 2007-2008 was 3.5 per cent (2006-2007: 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.

### 1.5 Fixed assets

#### a Capitalisation

All assets falling into the following categories are capitalised

#### *Intangible fixed assets*

- 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.

#### *Tangible fixed assets*

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 using an appropriate index figure. 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.

#### i Land and buildings

Valuations are carried out by the District Valuer of the HM Revenue & 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. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied as at 31 March 2005.

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; 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 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.
- c Depreciation

Depreciation is charged on each individual tangible 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 (including dwellings) 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 its 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 5 years and 65 years;
- Plant and Machinery: between 1 year and 5 years;
- Transport Equipment: between 5 years and 7 years;
- Information Technology: between 1 year and 8 years; and
- Furniture and Fittings: between 1 year and 15 years.

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.

## 1.6 Losses and special payments

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).

## 1.7 Clinical negligence costs

From 1 April 2000, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all ELS cases unsettled at that date and from 1 April 2002 all 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.

## 1.8 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.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk). 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 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 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 2008*

The Scheme is a 'final salary' scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final 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.

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.

*Scheme provisions from 1 April 2008*

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website [www.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk).

**1.9 Leases**

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. Rentals under operating leases are charged on a straight line basis over the lease term.

**1.10 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.

**1.11 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.

**1.12 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 (2006-2007 2.2 per cent) in real terms.

**2.1 Authority operating costs**

	Notes	2007-2008 £000	2006-2007 £000
<i>The expenses of the authorities were</i>			
Non-executive members' remuneration		<b>984</b>	1,155
Other staff costs		<b>150,387</b>	229,093
Consultancy services <sup>3</sup>		<b>43,390</b>	0
Premises and fixed plant		<b>41,133</b>	31,526
Establishment costs		<b>17,654</b>	16,803
Training costs <sup>5</sup>		<b>4,128,554</b>	3,381,052
Transport and moveable plant		<b>1,122</b>	1,607
External contractors		<b>3,395</b>	16,275
Capital: Depreciation	4.2	<b>1,848</b>	2,628
Amortisation	4.1	<b>81</b>	95
Impairments	4.2	<b>458</b>	659
Capital charge interest		<b>(3,402)</b>	(1,867)
Loss on disposal of fixed assets		<b>1,055</b>	362
		<b>40</b>	1,877
Auditors' remuneration - Audit fee <sup>1</sup>		<b>2,132</b>	3,865
Auditors' remuneration - Other fees		<b>122</b>	42
Interest payable		<b>1</b>	22
Unwinding of discount on provisions	8	<b>109</b>	126
Redundancies		<b>4,661</b>	98,185
Commissioning of healthcare <sup>4</sup>		<b>263,787</b>	0
High cost drugs <sup>4</sup>		<b>84,584</b>	0
NHS Direct funding <sup>2</sup>		<b>137,632</b>	123,487
Miscellaneous expenditure		<b>245,424</b>	221,493
		<b>5,125,111</b>	4,126,608

The 2007-2008 figures have been adjusted to remove expenditure and income in relation to the Electronic Staff Record project. This is hosted by Yorkshire and the Humber SHA on behalf of the Department but is funded by cash only.

1 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.

2 NHS Direct funding was included within miscellaneous in 2006-2007. The 2006-2007 figures have been restated to separately disclose the NHS Direct funding expenditure.

3 Consultancy spend has been separately identified in 2007-2008 for the first time. In 2006-2007 it was included in 'Miscellaneous expenditure'.

4 London SHA received the budget for commissioning national specialist services and high drug costs in 2007-2008. These budgets were held by the Department of Health in 2006-2007; therefore no comparatives are available.

5 Training costs in 2007-2008 include £449m in respect of student bursaries accounted for by SHAs from 1 April 2007. Previously these were accounted for by the NHS Business Services Authority.

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

£NIL was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2006-2007: £NIL). No compensation was paid to cover debt recovery costs under this legislation (2006-2007: £NIL).

*Hire and operating rentals included in expenses*

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Hire of plant and machinery	<b>486</b>	534
Other operating leases	<b>7,465</b>	12,555
	<b>7,951</b>	13,089

*Staff costs*

	<b>2007-2008</b>	<b>Permanently</b>	<b>Other</b>	2006-2007
	<b>Total</b>	<b>employed</b>	<b>£000</b>	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Salaries and wages	<b>121,175</b>	<b>100,803</b>	<b>20,372</b>	183,902
Social security costs	<b>11,662</b>	<b>11,494</b>	<b>168</b>	15,455
Employer contributions to NHS Pensions Agency	<b>15,706</b>	<b>15,435</b>	<b>271</b>	20,789
Other pension costs	<b>1,844</b>	<b>1,844</b>	<b>0</b>	8,947
	<b>150,387</b>	<b>129,576</b>	<b>20,811</b>	229,093

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

	<b>2007-2008</b>	<b>Permanently</b>	<b>Other</b>	2006-2007
	<b>Total</b>	<b>employed</b>	<b>Number</b>	Total
	<b>Number</b>	<b>Number</b>	<b>Number</b>	Number
<b>Total</b>	<b>2,628</b>	<b>2,184</b>	<b>444</b>	3,949

**Retirements due to ill-health**

During the year, five employees retired due to ill health (2006-2007: 3). The additional pension liability for these staff is estimated at £622,000 (2006-2007: £347,000) (calculated on an average basis and borne by the NHS Pension Scheme).

**Employee benefits**

The amount spent on employee benefits during the year totalled £350,000 (2006-07: £327,000).

**2.2 Segmental reporting**

	SHA Activities	MPET	Other	Total
	£000	£000	£000	£000
Net operating costs	302,789	4,151,868	610,930	5,065,587
Net (liabilities) at 31 March 2008	(9,379)	(99,894)	(32,012)	(141,285)

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>2007-2008</b> <b>£000</b>	2006-2007 £000
Net operating costs	<b>5,065,587</b>	3,979,881
Revenue resource limit	<b>5,969,014</b>	4,941,644
Underspend against revenue resource limit	<b>903,427</b>	961,763

**3 Operating income**

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Fees and charges	<b>14,108</b>	12,389
Other income	<b>45,416</b>	134,338
	<b>59,524</b>	146,727

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

Software licences are the only intangible fixed assets held by strategic health authorities

	Software Licences £000
Gross cost at 31 March 2007	822
Additions – purchased	222
Disposals	(338)
<b>Gross cost at 31 March 2008</b>	<b>706</b>
Accumulated amortisation at 31 March 2007	442
Charged in year	81
Disposals	(272)
<b>Accumulated amortisation at 31 March 2008</b>	<b>251</b>
Net book value at 31 March 2007	380
<b>Net book value at 31 March 2008</b>	<b>455</b>



## 4.2 Tangible fixed assets

	<b>Total</b>	Land	Buildings exc dwellings	Assets under construction 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 2007	<b>42,305</b>	11,241	16,547	121	304	174	9,426	4,492
Transfers from/(to) NHS bodies	<b>833</b>	188	782	0	(41)	0	(74)	(22)
Additions – purchased	<b>1,395</b>	0	241	179	63	0	531	381
Reclassification	<b>0</b>	0	310	(310)	0	0	0	0
Indexation	<b>2,091</b>	607	1,373	10	1	4	0	96
Impairments	<b>(2,545)</b>	(355)	(2,190)	0	0	0	0	0
Other in-year revaluation	<b>(53)</b>	0	184	0	0	0	(237)	0
Disposals	<b>(2,160)</b>	0	(513)	0	0	(4)	(1,024)	(619)
<b>Gross cost at 31 March 2008</b>	<b>41,866</b>	<b>11,681</b>	<b>16,734</b>	<b>0</b>	<b>327</b>	<b>174</b>	<b>8,622</b>	<b>4,328</b>
Accumulated depreciation at 31 March 2007	<b>7,946</b>	0	0	0	259	172	6,248	1,267
Transfers (to) NHS bodies	<b>(62)</b>	0	0	0	(19)	0	(31)	(12)
Charged in year	<b>1,848</b>	0	765	0	17	0	721	345
Indexation	<b>53</b>	0	38	0	1	0	0	14
Impairments	<b>458</b>	0	458	0	0	0	0	0
Other in year revaluation	<b>(49)</b>	0	184	0	0	4	(237)	0
Disposals	<b>(551)</b>	0	0	0	0	(2)	(443)	(106)
<b>Accumulated depreciation at 31 March 2008</b>	<b>9,643</b>	<b>0</b>	<b>1,445</b>	<b>0</b>	<b>258</b>	<b>174</b>	<b>6,258</b>	<b>1,508</b>
Net book value at 31 March 2007	<b>34,359</b>	11,241	16,547	121	45	2	3,178	3,225
<b>Net book value at 31 March 2008</b>	<b>32,223</b>	<b>11,681</b>	<b>15,289</b>	<b>0</b>	<b>69</b>	<b>0</b>	<b>2,364</b>	<b>2,820</b>

There were no dwellings in the reporting period.

### The net book value of land and buildings at 31 March 2008 comprised

	<b>2007-2008 £000</b>	2006-2007 £000
Freehold	<b>25,766</b>	26,761
Long leasehold	<b>702</b>	719
Short leasehold	<b>502</b>	308
	<b>26,970</b>	27,788

No assets in 2007-2008 or 2006-2007 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 2007-2008 or 2006-2007.

**5 Debtors**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
NHS Debtors	<b>32,937</b>	51,999
Prepayments	<b>55,222</b>	67,874
Accrued income	<b>540</b>	1,385
Provision for irrecoverable debts	<b>(225)</b>	(274)
Other debtors	<b>36,211</b>	39,495
	<b>124,685</b>	160,479

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

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
NHS creditors	<b>133,917</b>	110,586
Non-NHS trade creditors	<b>74,244</b>	50,037
Payments received on account	<b>29</b>	100
Income tax and social security	<b>2,019</b>	4,496
Capital creditors	<b>169</b>	294
Rentals due under operating leases	<b>1</b>	0
Accruals and deferred income	<b>41,321</b>	17,521
Other creditors	<b>8,412</b>	14,687
	<b>260,112</b>	197,721

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Other creditors	<b>554</b>	617
	<b>554</b>	617

**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 £000</b>
At 31 March 2007	4,855	11,203	4,857	17,011	12,912	<b>50,838</b>
Arising during the year	357	220	6,465	2,951	21,709	<b>31,702</b>
Utilised during the year	(4,212)	(6,709)	(1,510)	(11,755)	(6,731)	<b>(30,917)</b>
Reversed unused	(317)	(831)	(2,214)	(5,002)	(5,163)	<b>(13,527)</b>
Unwinding of discount	64	45	0	0	0	<b>109</b>
<b>At 31 March 2008</b>	<b>747</b>	<b>3,928</b>	<b>7,598</b>	<b>3,205</b>	<b>22,727</b>	<b>38,205</b>

*Expected timing of cashflows*

Within one year	27	757	3,416	3,205	6,139	<b>13,544</b>
Within 1 to 5 years	243	1,609	4,182	0	16,588	<b>22,622</b>
Over 5 years	477	1,562	0	0	0	<b>2,039</b>

£990,728,000 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**

	<b>2007-2008 £000</b>	2006-2007 £000
<b>Land and buildings</b>		
<i>Commitments under non-cancellable operating leases which expire</i>		
Within one year	<b>1,435</b>	1,710
Between one and five years	<b>5,084</b>	3,133
After five years	<b>11,949</b>	11,145
	<b>18,468</b>	15,988
<b>Other leases</b>		
<i>Commitments under non-cancellable operating leases which expire</i>		
Within one year	<b>391</b>	369
Between one and five years	<b>855</b>	720
After five years	<b>0</b>	0
	<b>1,246</b>	1,089

**11 Revaluation reserve**

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Balance at 1 April	<b>11,851</b>	18,585
Revaluations and indexation	<b>2,034</b>	2,216
Impairments	<b>(2,545)</b>	0
Transfers to General Fund – realised elements	<b>(412)</b>	(8,950)
<b>Balance at 31 March</b>	<b>10,928</b>	11,851

**12 General Fund**

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Balance at 1 April	<b>(43,831)</b>	(71,037)
Net operating cost for the year	<b>(5,065,587)</b>	(3,979,881)
Net Parliamentary funding	<b>4,959,300</b>	4,013,113
Transfer from/(to) NHS bodies	<b>895</b>	(13,109)
Transfers from Revaluation Reserve	<b>412</b>	8,950
Capital charges interest	<b>(3,402)</b>	(1,867)
<b>Balance at 31 March</b>	<b>(152,213)</b>	(43,831)

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

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Decrease/(increase) in debtors	<b>35,794</b>	(28,938)
Increase/(decrease) in creditors	<b>62,453</b>	(16,254)
Net change in working capital other than cash	<b>98,247</b>	(45,192)

**14 Analysis of changes in net debt**

	As at 31 March 2007 £000	Cash flows £000	As at <b>31 March</b> <b>2008</b> <b>£000</b>
Cash at OPG	21,968	(21,749)	<b>219</b>
Cash at commercial bank and in hand	10	(6)	<b>4</b>
Bank overdraft	0	0	<b>0</b>
Net change in cash		(21,755)	
Debt due within one year	0	0	<b>0</b>
Debt due after one year	0	0	<b>0</b>
	21,978	(21,755)	<b>223</b>

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

	Notes	2007-2008 £000	2006-2007 £000
Net operating cost		<b>(5,065,587)</b>	(3,979,881)
Adjustment for non-cash transactions		<b>18,324</b>	48,607
Adjustment for movements in working capital other than cash	13	<b>98,247</b>	(45,192)
Use of provisions	8	<b>(30,917)</b>	(11,416)
Net cash (outflow) from operating activities		<b>(4,979,933)</b>	(3,987,882)

**16 Contingent liabilities**

	31 March 2008 £000	31 March 2007 £000
Authorities reported contingent liabilities as follows		
Contingent liabilities	<b>(2,360)</b>	(7,499)
Amounts recoverable	<b>0</b>	0
	<b>(2,360)</b>	(7,499)

These contingent liabilities have not been accrued in this account due to uncertainty over the ultimate outcome. The liabilities are mainly in respect of long term secondments following the restructuring of the Strategic Health Authorities on 1 July 2006 and in respect of the former Trent Strategic Health Authority.

**17 Capital commitments**

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

	31 March 2008 £000	31 March 2007 £000
Contracted	<b>942</b>	534
Authorised but not contracted	<b>0</b>	290
	<b>942</b>	824

**18 Other commitments**

Strategic Health Authorities have not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2008 (2006-2007: £NIL).

**19 Losses and special payments**

There were 74 cases of losses (2006-2007: 34 cases) totalling £389,000 (2006-2007: £42,000) and 47 cases of special payments (2006-2007: 11 cases) totalling £3,542,000 (2006-2007: £471,000) approved during 2007-2008. There were two cases (2006-07: nil cases) where the net payment exceeded £250,000 in respect of asbestos claims (£2,855,000).

Cases in 2006-2007 were reported on a cash basis but in 2007-2008 are reported on an accruals basis; therefore the figures are not directly comparable.

## 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 10 underlying NHS bodies. It is within the underlying accounts of these 10 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 instruments*

FRS 13, Derivatives and Other Financial Instruments, 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. (FRS 13 will be replaced in the NHS in 2008-2009 by the disclosure and presentation requirements of FRS 25, 26 and 29.)

### *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.

### *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 14 November 2008.

## 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	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
Balances with bodies external to government	61,746	0	116,593	554
<b>At 31 March 2008</b>	<b>124,685</b>	<b>0</b>	<b>260,111</b>	<b>554</b>
Balances with other central government bodies	41,422	0	49,305	0
Balances with Local Authorities	240	0	686	0
Balances with NHS Trusts	23,223	0	65,907	0
Balances with public corporations and trading funds	2,920	0	1,188	0
Balances with bodies external to government	92,675	0	80,635	617
At 31 March 2007	160,480	0	197,721	617





# 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;
- 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 2007-2008

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 2007-2008 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. Some PCTs had appointed specialist risk managers to support the function.

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 2007-2008 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 public concerns about information governance and security across the public sector, the NHS has taken steps to provide assurances regarding the processing of person identifiable information. As a result there has been a tightening of policies and procedures, particularly in the transfer of information within organisations and to outside locations. All NHS organisations must now

- 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 2008

- 97 per cent (148) were providing evidence that a system of internal control was in place;
- 3 per cent (4) were not providing evidence that a sufficiently complete system of internal control was in place.

This represents a small increase compared with the 2006-2007 position when 96 per cent of PCTs provided evidence that a 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. 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	28%	26%
Organisational controls	42%	44%
Clinical controls	31%	30%
	100%	100%
(totals may not sum due to rounding)		

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.

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.

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 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 audit; and
- audit committees, risk management committees, governance committees and other board committees.

The SHA Chief Executive's reports recorded the following inconsistencies

- One PCT had been given a 'limited assurance' by its internal auditor but this was not reflected in their SIC or the Independent Auditor report; and
- One PCT's assurance framework was found to be inadequate for its strategic direction.

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 in the public interest in respect of the PCTs' financial situation.

My review also drew on the Auditors' Local Evaluation 2007-2008 assessments coordinated by the Audit Commission. This assesses how well NHS trusts and PCTs managed and used their financial resources. The assessment showed that 99 per cent of PCTs demonstrated adequate or more than adequate performance in their implementation of their systems of internal control, while only one PCT failed to meet the minimum requirements. One PCT demonstrated the highest possible standard with its system of internal control.

My review also noted that six PCTs' accounts were qualified on regularity. Four of these were in respect of spending in excess of revenue resource limits and two were for making irregular payments.

### 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. 66 PCTs disclosed a total of 185 significant control issues 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 97 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

7 November 2008

# 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 2008 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 2007-2008; Overall 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 HM Treasury 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 judgments 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 2008 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 2007-2008; 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**

Please see my report on these financial statements at HC 63-I.

*TJ Burr*  
Comptroller and Auditor General

14 November 2008

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

## Operating Cost Statement for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Continuing operations</b>			
Programme costs	2.1	<b>75,880,228</b>	69,898,585
Operating income	4	<b>(2,880,068)</b>	(2,871,565)
<b>Net operating cost for the financial year</b>		<b><u>73,000,160</u></b>	<u>67,027,020</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
Unrealised surplus on the indexation and revaluation of fixed assets	13.2 - 13.4	<b>411,555</b>	312,238
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	13.3, 13.4	<b>4,533</b>	12,643
Net increase in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	13.1	<b>10,214</b>	78,859
(Decrease)/increase in the donated asset reserve and Government grant reserve due to transfer of assets (to)/from NHS bodies	13.3, 13.4	<b>(227)</b>	864
Fixed asset impairment losses	13.2, 13.3	<b>(31,010)</b>	(19,290)
(Reductions) to other reserves	13.2 - 13.5	<b>(20,326)</b>	(83,982)
<b>Recognised gains relating to the year</b>		<b><u>374,739</u></b>	<u>301,332</u>
Prior period adjustments		<b>0</b>	(36,532)
<b>Recognised gains for the financial year</b>		<b><u>374,739</u></b>	<u>264,800</u>

*The notes at pages B11 to B31 form part of this account.*



## Balance Sheet as at 31 March 2008

	Notes	31 March 2008 £000	31 March 2007 £000
<b>Fixed assets</b>			
Intangible assets	6.1	13,574	9,297
Tangible assets	6.2	6,609,363	6,420,811
Investments	6.5	32,645	26,446
		<b>6,655,582</b>	6,456,554
<b>Current assets</b>			
Stocks and work in progress	7	22,225	27,232
Debtors	8	1,543,242	1,408,084
Cash at bank and in hand	9	29,325	18,278
		<b>1,594,792</b>	1,453,594
<b>Creditors: amounts falling due within one year</b>	10.1	<b>(5,603,213)</b>	(5,515,464)
<b>Net current (liabilities)</b>		<b>(4,008,421)</b>	(4,061,870)
<b>Total assets less current liabilities</b>		<b>2,647,161</b>	2,394,684
Creditors: amounts falling due after more than one year	10.2	(179,412)	(191,662)
Provisions for liabilities and charges	11	(655,998)	(568,796)
		<b>1,811,751</b>	1,634,226
<b>Taxpayers' equity</b>			
General Fund	13.1	(778,377)	(682,904)
Revaluation reserve	13.2	2,439,606	2,174,348
Donated asset reserve	13.3	106,428	102,461
Government grant reserve	13.4	42,576	40,104
Other reserves	13.5	1,518	217
		<b>1,811,751</b>	1,634,226

The notes at pages B11 to B31 form part of this account.

David Nicholson  
Accounting Officer

7 November 2008

## Cash Flow Statement for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Net cash (outflow) from operating activities</b>	14	<b>(72,677,006)</b>	(66,629,083)
<b>Servicing of finance</b>			
Interest received		1,998	837
Interest (paid)		(1,197)	(1,748)
Interest element of finance leases		(11,237)	(6,028)
<b>Net cash (outflow) from servicing of finance</b>		<b>(10,436)</b>	(6,939)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		(6,368)	(3,818)
(Payments) to acquire tangible fixed assets		(351,502)	(528,927)
Receipts from disposal of tangible fixed assets		335,538	175,800
(Payments) to acquire fixed asset investments		(6,571)	(8,007)
Receipts from disposal of fixed asset investments		702	180
<b>Net cash (outflow) from investing activities</b>		<b>(28,201)</b>	(364,772)
<b>Net cash (outflow) before financing</b>		<b>(72,715,643)</b>	(67,000,794)
<b>Financing</b>			
Net Parliamentary funding		72,731,348	66,995,083
Capital grants received		2,439	6,274
Capital element of finance leases		(3,496)	(2,036)
Cash transfers from/(to) other NHS bodies		425	(310)
<b>Increase/(decrease) in cash in the period</b>	9	<b>15,073</b>	(1,783)

The notes at pages B11 to B31 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 2007-2008 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 the Government Financial Reporting Manual (FRM) 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.

#### *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.

### 1.2 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.

### 1.3 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.

### 1.4 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 2007-2008 was 3.5 per cent (2006-2007: 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.

## 1.5 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 equal to or greater than £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.

- ii 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 held for operational use are valued at historical cost, except Research and Development which is revalued using an appropriate index figure. Surplus intangible assets are valued at the net recoverable amount. Tangible fixed assets are valued at current cost as follows

#### *Land and buildings*

Land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office and included in the Manual for Accounts. Valuations are carried out by the District Valuers of the HM Revenue & Customs Government Department at five-yearly intervals. A five-yearly revaluation was carried out as at 1 April 2005.

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. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and have been applied as at 31 March 2005.

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 by the District Valuer. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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

All adjustments arising from indexation and five-yearly revaluations are taken to the revaluation reserve. All impairments resulting from price changes are charged to the statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

#### *Fixed asset investments*

Fixed asset investments are recorded at Market Value and revalued annually as at 31 March. Any increase in value is taken in full to the revaluation reserve. Any impairment in value is charged, initially, to the revaluation reserve to the extent that there is a balance in the reserve in respect of this asset, with the remainder then charged to operating expenditure.

#### *Equipment*

Equipment surplus to requirements is valued at net recoverable amount and assets held under finance leases are capitalised at the fair value of the asset. With those exceptions, equipment is valued at estimated net current replacement cost through annual uplift by the change in the value of the GDP deflator.

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

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

#### *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

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

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

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Leaseholds are depreciated over the primary lease term.

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

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

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

- Software Licences: between 1 year and 10 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 115 years
- Dwellings: between 2 years and 99 years
- Plant and Machinery: between 1 year and 34 years
- Transport Equipment: between 1 year and 15 years
- Information Technology: between 1 year and 20 years
- Furniture and Fittings: between 1 year and 51 years

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

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.

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

#### d Second hand assets

From 2003-2004, the method for accounting for second hand assets on acquisition was changed from disclosing gross costs and accumulated depreciation to disclosing net acquisition costs.

#### e Donated assets

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

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

### 1.6 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.

### 1.7 Losses and special payments

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 trust not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### 1.8 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.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk). 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 six per cent of pensionable pay. From 1 April 2008, employees contributions are on a tiered scale from five 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 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 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 2008**

The Scheme is a 'final salary' scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final 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.

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.

#### **Scheme provisions from 1 April 2008**

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website [www.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk).

### **1.9 Research and development**

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in SSAP13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP13 to take account of the not-for-profit context. 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.

### **1.10 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.

### **1.11 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.

### **1.12 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 (2006-2007: 2.2 per cent).

### **1.13 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 11.



### **1.14 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.

### **1.15 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 22 to the accounts.

### **1.16 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.

### **1.17 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 FRS 5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2)'. PFI schemes are schemes under which premises and facilities are constructed and run by private sector organisations in return for annual payments from Primary Care Trusts for the services provided at those premises or facilities.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where Primary Care Trusts have contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement. Where, at the end of a PFI contract, a property reverts to the Primary Care Trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset. Where the balance of risks and rewards of ownership of the PFI property are borne by the Primary Care Trusts, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge. Disclosures are included within Note 18.

### **1.18 Pooled budgets**

A number of Primary Care Trusts have entered into a pooled budget with Local Authorities. Under the arrangement funds are pooled under S31 of the Health Act 1999 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.

**2.1 Programme costs**

	Notes	£000	2007-2008 £000	2006-2007 £000
Goods and services from NHS bodies			<b>27,079,667</b>	28,626,899
Goods and services from NHS Foundation Trusts			<b>12,870,482</b>	7,956,497
Staff costs			<b>6,556,525</b>	6,394,574
Board members	2.2		<b>148,662</b>	171,190
Capital: Depreciation	6.2	<b>313,177</b>		244,893
Amortisation	6.1	<b>3,413</b>		2,710
Impairments and reversals	6.1, 6.2	<b>85,331</b>		50,469
Capital charges interest		<b>58,753</b>		54,269
(Profit) on disposal	6.7	<b>(14,010)</b>		(34,299)
			<b>446,664</b>	318,042
Premises and fixed plant			<b>819,190</b>	600,214
Establishment expenses			<b>430,566</b>	382,486
Transport and moveable plant			<b>48,528</b>	42,047
Supplies and services – clinical			<b>593,060</b>	475,581
Supplies and services – general			<b>152,506</b>	152,845
Prescribing costs			<b>7,663,417</b>	7,590,004
GMS, PMS, APMS and PCTMS <sup>3</sup>			<b>7,066,606</b>	6,937,544
Contractor led GDS and PDS <sup>4</sup>			<b>2,311,876</b>	2,131,360
Trust led GDS and PDS			<b>30,556</b>	49,105
General dental services			<b>0</b>	26,328
Non-GMS services from GPs			<b>87,445</b>	25,733
Pharmaceutical services			<b>1,174,596</b>	1,141,135
New Pharmacy Contract			<b>279,973</b>	224,491
General ophthalmic services			<b>404,653</b>	380,874
Expenditure on drugs action teams			<b>341,934</b>	292,852
Social care from independent providers			<b>328,975</b>	262,555
Purchase of healthcare from non-NHS bodies			<b>5,717,489</b>	4,685,111
Expenditure on NHS trust impairments			<b>323,613</b>	259,851
Interest payable			<b>12,234</b>	8,364
Other finance costs – unwinding of discount			<b>9,044</b>	10,544
Auditor's remuneration: Audit Fees <sup>1</sup>			<b>35,161</b>	43,981
Auditor's remuneration: Other Fees			<b>5,259</b>	2,712
Consultancy services <sup>2</sup>			<b>132,643</b>	0
Redundancies			<b>66,015</b>	84,517
Miscellaneous expenditure			<b>742,889</b>	621,149
			<b>75,880,228</b>	69,898,585

1 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 within the audit fee disclosed within the Department of Health Resource Account.

2 Consultancy spend has been separately identified in 2007-2008 for the first time. In 2006-2007 it was included in 'Miscellaneous expenditure'.

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

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

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Amounts included within interest payable arising from claims made under this legislation	<b>36</b>	16
Compensation paid to cover debt recovery costs under this legislation	<b>3</b>	0

**2.2 Board members' remuneration**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
PCT Board members' remuneration	<b>129,486</b>	144,575
Non-officer members' remuneration	<b>19,176</b>	26,615
<b>Total remuneration</b>	<b>148,662</b>	171,190

**2.3 Staff costs**

	<b>2007-2008</b>			2006-2007
	<b>Total Permanently employed</b>	<b>Other</b>		<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Salaries and wages	<b>5,670,067</b>	<b>5,220,688</b>	<b>449,379</b>	5,553,571
Social security costs	<b>391,627</b>	<b>384,698</b>	<b>6,929</b>	398,556
Employer contributions to NHSPA	<b>670,799</b>	<b>661,623</b>	<b>9,176</b>	664,806
Other pension costs	<b>16,399</b>	<b>15,484</b>	<b>915</b>	19,712
	<b>6,748,892</b>	<b>6,282,493</b>	<b>466,399</b>	6,636,645

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, etc spend on Note 2.1.

**2.4 Employee benefits**

The amount spent on employee benefits during the year totalled £963,000 (2006-2007: £959,000).

**2.5 Retirements due to ill-health**

During 2007-2008 there were 375 early retirements from PCTs on the grounds of ill-health (2006-2007: 361). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £16,851,000 (2006-2007: £18,294,000).

**2.6 Average number of persons employed**

	<b>2007-2008</b>			2006-2007
	<b>Total Permanently employed</b>	<b>Other</b>		<b>Total</b>
	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Medical and dental	<b>5,756</b>	<b>4,964</b>	<b>792</b>	5,954
Administration and estates	<b>59,580</b>	<b>54,678</b>	<b>4,902</b>	59,839
Healthcare assistants and other support staff	<b>22,092</b>	<b>20,771</b>	<b>1,321</b>	19,117
Nursing, midwifery and health visiting staff	<b>72,292</b>	<b>68,651</b>	<b>3,641</b>	75,900
Nursing, midwifery and health visiting learners	<b>1,953</b>	<b>1,743</b>	<b>210</b>	3,559
Scientific, therapeutic and technical staff	<b>28,703</b>	<b>27,551</b>	<b>1,152</b>	29,433
Social care staff	<b>2,899</b>	<b>2,675</b>	<b>224</b>	2,921
Other (including Ambulance staff)	<b>3,031</b>	<b>2,783</b>	<b>248</b>	2,948
	<b>196,306</b>	<b>183,816</b>	<b>12,490</b>	199,671

### 3 Healthcare and related services commissioned

#### 3.1 Primary healthcare commissioned by primary care trusts

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
GMS, PMS, APMS and PCTMS	<b>7,071,673</b>	6,943,367
Prescribing costs	<b>7,634,372</b>	7,593,010
Pharmaceutical services	<b>1,205,372</b>	1,147,483
New Pharmacy Contract	<b>279,938</b>	220,195
General dental services	<b>0</b>	26,328
Contractor led GDS and PDS	<b>2,284,733</b>	2,097,745
Trust led GDS and PDS	<b>74,537</b>	80,633
General ophthalmic services	<b>400,206</b>	378,975
Department of Health initiative funding	<b>1,686</b>	4,282
Non-GMS services from GPs	<b>76,576</b>	24,907
Other	<b>131,709</b>	113,873
<b>Total primary healthcare commissioned</b>	<b>19,160,802</b>	18,630,798

#### 3.2 Secondary healthcare commissioned by PCTs

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
Learning difficulties	<b>2,363,451</b>	2,048,645
Mental illness	<b>7,190,505</b>	6,578,788
Maternity	<b>1,786,896</b>	1,616,777
General and acute	<b>30,157,165</b>	27,468,216
Accident and emergency	<b>1,732,451</b>	1,697,302
Community Health Services	<b>6,275,942</b>	5,583,591
Other	<b>2,095,540</b>	1,859,365
<b>Total secondary healthcare commissioned</b>	<b>51,601,950</b>	46,852,684
Impairments and depreciation for Trusts	<b>311,016</b>	251,974
Revenue grants to fund capital projects – GMS	<b>21,111</b>	20,398
Revenue grants to fund capital projects – LAs	<b>42,182</b>	71,306
Revenue grants to fund capital projects – private sector	<b>48,132</b>	42,108
Revenue grants to fund capital projects – other	<b>6,294</b>	22,879
Revenue grants to fund capital projects – GDS/PDS	<b>48,885</b>	5,092
<b>Total Healthcare commissioned by primary care trusts</b>	<b>71,240,372</b>	65,897,239
Social Care from independent providers	<b>332,339</b>	256,658

#### 4 Operating income

Operating income analysed by activity, is as follows

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Fees and charges to external customers	<b>101,186</b>	104,438
Prescription charge income	<b>451,243</b>	433,531
Dental Services income	<b>538,326</b>	479,485
Income from Local Authorities	<b>716,332</b>	687,998
Income from NHS bodies and Department of Health	<b>567,832</b>	623,983
Other income	<b>505,149</b>	542,130
<b>Total</b>	<b><u>2,880,068</u></b>	<u>2,871,565</u>

#### 5 Performance against revenue resource limit

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Net operating costs	<b>73,000,160</b>	67,027,020
Adjustment for non discretionary expenditure	<b>(1,026,235)</b>	(1,055,681)
Net operating cost attributable to PCTs	<b><u>71,973,925</u></b>	<u>65,971,339</u>
Revenue resource limit	<b><u>72,364,740</u></b>	<u>65,601,608</u>
Under/(over)spend against revenue resource limit	<b><u>390,815</u></b>	<u>(369,731)</u>

#### 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 2007	24,732	17,225	140	7,367
Additions – purchased	7,249	7,249	0	0
Additions – Government Granted	20	20	0	0
Reclassifications	493	493	0	0
Transfers (to) NHS bodies	(3)	(3)	0	0
Disposals	(549)	(409)	(140)	0
<b>Gross cost at 31 March 2008</b>	<b>31,942</b>	<b>24,575</b>	<b>0</b>	<b>7,367</b>
Accumulated amortisation at 31 March 2007	15,435	8,065	96	7,274
Reclassifications	59	59	0	0
Impairments	1	1	0	0
Charged in year	3,413	3,344	44	25
Transfers (to) NHS bodies	(5)	(5)	0	0
Disposals	(535)	(395)	(140)	0
<b>Accumulated amortisation at 31 March 2008</b>	<b>18,368</b>	<b>11,069</b>	<b>0</b>	<b>7,299</b>
<b>Net book value</b>				
Purchased at 31 March 2007	9,217	9,080	44	93
Donated at 31 March 2007	1	1	0	0
Government Granted at 31 March 2007	79	79	0	0
Net book value at 31 March 2007	9,297	9,160	44	93
<b>Net book value</b>				
<b>Purchased at 31 March 2008</b>	<b>13,502</b>	<b>13,434</b>	<b>0</b>	<b>68</b>
<b>Donated at 31 March 2008</b>	<b>2</b>	<b>2</b>	<b>0</b>	<b>0</b>
Government Granted at 31 March 2008	70	70	0	0
<b>Net book value at 31 March 2008</b>	<b><u>13,574</u></b>	<b><u>13,506</u></b>	<b><u>0</u></b>	<b><u>68</u></b>

## 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 2007	<b>6,744,460</b>	2,222,639	3,652,190	30,784	108,835	257,166	15,340	353,385	104,121
Transfers from/(to) NHS bodies	<b>9,226</b>	6,471	3,234	0	(550)	85	(23)	(3)	12
Additions – purchased	<b>400,672</b>	26,877	101,325	51	123,753	33,448	1,960	98,386	14,872
Additions – donated	<b>2,096</b>	0	445	0	641	988	0	0	22
Additions – Government granted	<b>2,276</b>	0	1,943	0	142	0	0	16	175
Reclassifications	<b>(745)</b>	3,787	64,617	24	(88,994)	5,165	318	10,533	3,805
Impairments	<b>(31,009)</b>	(4,363)	(26,643)	0	0	(3)	0	0	0
Indexation	<b>438,945</b>	118,696	301,421	2,897	6,582	6,482	326	0	2,541
Other in year revaluations	<b>(22,294)</b>	7,398	(24,981)	0	(4,700)	(82)	0	86	(15)
Disposals	<b>(249,348)</b>	(95,093)	(113,716)	(167)	(2,140)	(13,818)	(3,560)	(17,436)	(3,418)
<b>Gross cost at 31 March 2008</b>	<b>7,294,279</b>	2,286,412	3,959,835	33,589	143,569	289,431	14,361	444,967	122,115
Accumulated depreciation at 31 March 2007	<b>323,649</b>	0	0	0	0	119,991	11,144	155,240	37,274
Transfers (to) NHS bodies	<b>(69)</b>	0	0	0	0	(4)	(23)	(42)	0
Reclassifications	<b>(310)</b>	0	400	0	0	(1,434)	242	(285)	767
Impairments and reversals	<b>85,330</b>	13,992	63,571	4,134	0	2,262	54	1,231	86
Indexation	<b>3,593</b>	0	0	0	0	2,683	227	0	683
Other in year revaluation	<b>1,706</b>	0	1,549	8	0	83	(1)	67	0
Charged in year	<b>313,177</b>	0	188,861	2,899	0	31,347	1,191	74,732	14,147
Disposals	<b>(42,160)</b>	0	(10,412)	(10)	0	(11,257)	(2,870)	(15,163)	(2,448)
<b>Accumulated depreciation at 31 March 2008</b>	<b>684,916</b>	13,992	243,969	7,031	0	143,671	9,964	215,780	50,509
<b>Net book value</b>									
Purchased at 31 March 2007	<b>6,278,325</b>	2,207,010	3,540,573	30,773	102,499	130,502	3,573	197,893	65,502
Donated at 31 March 2007	<b>102,461</b>	11,565	80,775	11	2,285	6,368	288	102	1,067
Government granted at 31 March 2007	<b>40,025</b>	4,064	30,842	0	4,051	305	335	150	278
Net book value at 31 March 2007	<b>6,420,811</b>	2,222,639	3,652,190	30,784	108,835	137,175	4,196	198,145	66,847
Net book value:									
<b>Purchased at 31 March 2008</b>	<b>6,460,431</b>	2,255,917	3,592,888	26,546	142,496	139,147	4,212	229,022	70,203
<b>Donated at 31 March 2008</b>	<b>106,426</b>	12,190	85,664	12	1,026	6,328	175	58	973
<b>Government granted at 31 March 2008</b>	<b>42,506</b>	4,313	37,314	0	47	285	10	107	430
<b>Net book value at 31 March 2008</b>	<b>6,609,363</b>	2,272,420	3,715,866	26,558	143,569	145,760	4,397	229,187	71,606

## 6.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2008 comprises

	Purchased	Donated	Government Granted	<b>2007-2008 Total</b>	2006-2007 Total
	£000	£000	£000	£000	£000
Freehold	5,615,829	91,971	38,818	<b>5,746,618</b>	5,691,945
Long leasehold	196,757	4,037	2,599	<b>203,393</b>	195,041
Short leasehold	64,832	0	0	<b>64,832</b>	18,691
	<b>5,877,418</b>	<b>96,008</b>	<b>41,417</b>	<b>6,014,843</b>	<b>5,905,677</b>

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Land	<b>4,782</b>	3,568
Buildings including dwellings	<b>153,841</b>	133,845
Plant and machinery	<b>19,408</b>	17,562
Information technology	<b>90</b>	130
Furniture and fittings	<b>3,364</b>	3,690
	<b>181,485</b>	158,795

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £10,300,000 (2006-2007: £6,800,000).

**6.5 Fixed asset investments**

	Equity Shareholding £000	Loan stock £000	<b>Total</b> <b>£000</b>
Balance at 1 April 2007	5,844	20,602	<b>26,446</b>
Additions	3,384	3,233	<b>6,617</b>
Revaluations	4	198	<b>202</b>
Disposals	(14)	(606)	<b>(620)</b>
<b>Balance at 31 March 2008</b>	<b>9,218</b>	<b>23,427</b>	<b>32,645</b>

**6.6 Summary of fixed assets**

	Purchased £000	Donated £000	Government granted £000	<b>2007-2008</b> <b>Total</b> <b>£000</b>	2006-2007 Total £000
<b>Net book value</b>					
Intangible fixed assets	13,502	2	70	<b>13,574</b>	9,297
Land	2,255,917	12,190	4,313	<b>2,272,420</b>	2,222,639
Buildings	3,592,888	85,664	37,314	<b>3,715,866</b>	3,652,190
Dwellings	26,546	12	0	<b>26,558</b>	30,784
Assets under construction	142,496	1,026	47	<b>143,569</b>	108,835
Plant and machinery	139,147	6,328	285	<b>145,760</b>	137,175
Transport equipment	4,212	175	10	<b>4,397</b>	4,196
Information technology	229,022	58	107	<b>229,187</b>	198,145
Furniture and fittings	70,203	973	430	<b>71,606</b>	66,847
Investments	32,645	0	0	<b>32,645</b>	26,446
	<b>6,506,578</b>	<b>106,428</b>	<b>42,576</b>	<b>6,655,582</b>	<b>6,456,554</b>

**6.7 Profit and loss on disposal of fixed assets**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
(Loss) on disposal of intangible fixed assets	(7)	0
Profit on disposal of land and buildings	<b>22,242</b>	38,039
(Loss) on disposal of land and buildings	<b>(4,497)</b>	(3,267)
Profit on disposal of plant and equipment	<b>28</b>	47
(Loss) on disposal of plant and equipment	<b>(3,796)</b>	(520)
Profit on disposal of investments	<b>40</b>	0
	<b>14,010</b>	34,299

**7 Stocks and work in progress**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Raw materials and consumables	<b>16,110</b>	18,489
Work in progress	<b>66</b>	87
Finished processed goods	<b>6,049</b>	8,656
	<b>22,225</b>	27,232

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
NHS debtors	<b>339,241</b>	383,659
Provision for irrecoverable debts	<b>(36,937)</b>	(21,669)
Prepayments and accrued income	<b>535,893</b>	287,441
Capital debtors	<b>40,222</b>	142,888
Other debtors	<b>613,355</b>	559,095
	<b>1,491,774</b>	1,351,414

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

NHS debtors	<b>3,627</b>	3,953
Prepayments and accrued income	<b>13,419</b>	10,156
Provisions for irrecoverable debts	<b>(17)</b>	(16)
Capital debtors	<b>7,277</b>	20,114
Other debtors	<b>27,162</b>	22,463
	<b>51,468</b>	56,670
<b>Total debtors</b>	<b>1,543,242</b>	1,408,084



**9 Analysis of changes in debt**

	At 31 March 2007 £000	Non-cash changes £000	Change during the year £000	At 31 March 2008 £000
Cash at OPG	16,420	0	7,954	24,374
Cash at commercial banks and in hand	1,858	0	3,093	4,951
Bank overdrafts	(8,545)	0	4,026	(4,519)
	9,733	0	15,073	24,806
Finance leases due within one year	(7,412)	(1,139)	707	(7,844)
Finance leases due after one year	(166,779)	2,450	2,060	(162,269)
	(164,458)	1,311	17,840	(145,307)

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

	2007-2008 £000	2006-2007 £000
Bank overdrafts	4,519	8,545
NHS creditors	1,378,319	1,765,359
Family Health Services (FHS) contractors	1,652,932	1,650,926
Non-NHS trade creditors – revenue	994,599	768,429
Non-NHS trade creditors – capital	86,935	35,602
Tax	34,427	39,794
Social security	34,374	35,651
Payments received on account	2,462	2,466
Obligations under finance leases and HP contracts	7,844	7,412
Other creditors	238,692	241,455
Accruals and deferred income	1,168,110	959,825
	<b>5,603,213</b>	<b>5,515,464</b>

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

NHS creditors	4,302	11,590
Obligations under finance leases and HP contracts	162,269	166,779
Other creditors	12,841	13,293
	<b>179,412</b>	<b>191,662</b>

**10.3 Finance lease obligations**

	2007-2008 £000	2006-2007 £000
Leases payable		
Within one year	13,625	7,412
Between one and five years	159,129	128,957
After five years	35,070	70,391
Finance charges allocated to future periods	(37,711)	(32,569)
	<b>170,113</b>	<b>174,191</b>

**11 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 2007	16,415	353,777	44,210	39,331	23,082	91,981	<b>568,796</b>
Transfers (to)/from other NHS bodies	(417)	3,180	(6,745)	730	7,762	(1,700)	<b>2,810</b>
Arising during the year	1,970	26,735	11,992	21,655	118,063	102,151	<b>282,566</b>
Utilised during the year	(8,540)	(77,487)	(9,280)	(36,847)	(9,241)	(26,070)	<b>(167,465)</b>
Reversed unused	(435)	(7,203)	(4,042)	(3,418)	(9,741)	(14,914)	<b>(39,753)</b>
Unwinding of discount	(402)	8,359	306	64	103	614	<b>9,044</b>
<b>At 31 March 2008</b>	<b>8,591</b>	<b>307,361</b>	<b>36,441</b>	<b>21,515</b>	<b>130,028</b>	<b>152,062</b>	<b>655,998</b>
<i>Expected timing of cash flows</i>							
Within 1 year	968	33,425	15,083	17,995	106,168	76,491	<b>250,130</b>
1-5 years	3,205	113,596	8,673	2,385	15,730	45,415	<b>189,004</b>
After 5 years	4,418	160,340	12,685	1,135	8,130	30,156	<b>216,864</b>

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of primary care trusts is £68,667,000 (2006-2007: £46,104,000).

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

	<b>2007-2008 £000</b>	2006-2007 £000
Decrease/(increase) in stocks	<b>5,007</b>	(4,740)
(Increase) in revenue debtors	<b>(250,661)</b>	(143,139)
Increase in revenue creditors	<b>28,192</b>	277,310
Transfer of balances to/(from) NHS bodies	<b>0</b>	(61,184)
Financing transactions	<b>13,498</b>	7,779
	<b>(203,964)</b>	76,026

**13 Reserves****13.1 The movement on the General Fund in the year comprised**

	<b>2007-2008 £000</b>	2006-2007 £000
Balance at 1 April	<b>(682,904)</b>	(904,289)
Net operating costs for the year	<b>(73,000,160)</b>	(67,027,020)
Net Parliamentary funding	<b>72,731,348</b>	66,995,083
Transfer of realised profits	<b>84,360</b>	46,151
Non-cash items		
Capital charge interest	<b>58,753</b>	54,269
Transfers from other NHS bodies	<b>10,214</b>	78,859
Other movements	<b>20,012</b>	74,043
<b>Balance at 31 March</b>	<b>(778,377)</b>	(682,904)

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Balance at 1 April	<b>2,174,348</b>	1,966,809
Impairments	<b>(30,861)</b>	(19,290)
Transfers from NHS bodies	<b>0</b>	50,948
Revaluation/indexation of fixed assets	<b>402,043</b>	305,905
Other movements	<b>(21,564)</b>	(83,873)
Transfer to General Fund: realised revaluation	<b>(84,360)</b>	(46,151)
<b>Balance at 31 March</b>	<b><u>2,439,606</u></b>	<u>2,174,348</u>

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Balance at 1 April	<b>102,461</b>	100,900
Impairments	<b>(149)</b>	0
Transfers from NHS bodies	<b>(131)</b>	686
Other revaluation/indexation of fixed assets	<b>7,625</b>	4,208
Receipt of donated assets	<b>2,016</b>	3,924
Depreciation of donated assets	<b>(5,131)</b>	(4,723)
Transfer of realised profits	<b>(256)</b>	(1,515)
Other movements	<b>(7)</b>	(1,019)
<b>Balance at 31 March</b>	<b><u>106,428</u></b>	<u>102,461</u>

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Balance at 1 April	<b>40,104</b>	30,766
Other revaluation/indexation of fixed assets	<b>1,887</b>	2,125
Transfer from NHS bodies	<b>(96)</b>	178
Receipt of Government granted assets	<b>2,517</b>	8,719
Depreciation of Government granted assets	<b>(1,617)</b>	(1,326)
Transfer of realised profits	<b>(163)</b>	0
Other movements	<b>(56)</b>	(358)
<b>Balance at 31 March</b>	<b><u>42,576</u></b>	<u>40,104</u>

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Balance at 1 April	<b>217</b>	(1,051)
Other movements	<b>1,301</b>	1,268
<b>Balance at 31 March</b>	<b><u>1,518</u></b>	<u>217</u>

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

	Notes	2007-2008 £000	2006-2007 £000
Net operating cost for the year		<b>(73,000,160)</b>	(67,027,020)
Adjust for non-cash transactions		<b>701,331</b>	438,980
Adjust for movements in working capital other than cash	12	<b>(203,964)</b>	76,026
Use of provisions	11	<b>(167,465)</b>	(110,245)
Transfer from donated asset reserve	13.3	<b>(5,131)</b>	(6,238)
Transfer from Government grant reserve	13.4	<b>(1,617)</b>	(1,326)
Other		<b>0</b>	740
<b>Net cash (outflow) from operating activities</b>		<b><u>(72,677,006)</u></b>	<b><u>(66,629,083)</u></b>

**15 Contingent liabilities**

At 31 March 2008, there were net contingent liabilities of £53,681,000 (2006-2007: £79,623,000).

Primary Care Trusts have provided for liabilities in Note 11 where they can reasonably estimate the likely value of potential claims received. Where these obligations cannot be reliably estimated a contingent liability has been recorded. These include potential liabilities for continuing care, equal pay, LIFT and data challenges to providers.

**16 Capital commitments**

At 31 March 2008 the value of contracted capital commitments was £68,550,000 (2006-2007: £51,976,000).

**17 Commitments under operating leases**

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

	2007-2008 £000	2006-2007 £000
Hire of plant and machinery	<b>11,477</b>	9,202
Other operating leases	<b>222,828</b>	166,359
	<b><u>234,305</u></b>	<b><u>175,561</u></b>

Primary Care Trusts are committed to make the following payments during the next year in respect of operating leases expiring

	2007-2008		2006-2007	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
within one year	<b>10,949</b>	<b>14,316</b>	10,984	11,939
between one and five years	<b>36,821</b>	<b>20,985</b>	22,464	22,855
after five years	<b>206,680</b>	<b>159</b>	132,012	1,138
	<b><u>254,450</u></b>	<b><u>35,460</u></b>	<b><u>165,460</u></b>	<b><u>35,932</u></b>

**18 Commitments under PFI contracts**

18.1 In this financial year, 38 Primary Care Trusts reported off balance sheet PFI schemes over £1 million (2006-2007: 30 Primary Care Trusts). The estimated capital value of these schemes over £1 million is £512.0 million (2006-2007: £446.0 million). The amount included within operating expenses for these schemes is £63.0 million (2006-07: £49.6 million).

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>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Within one year	<b>567</b>	0
2 to 5 years (inclusive)	<b>0</b>	0
6 to 10 years (inclusive)	<b>0</b>	0
11 to 15 years (inclusive)	<b>414</b>	399
16 to 20 years (inclusive)	<b>1,508</b>	1,032
21 to 25 years (inclusive)	<b>35,916</b>	22,791
26 to 30 years (inclusive)	<b>33,983</b>	35,098
31 to 35 years (inclusive)	<b>2,464</b>	5,617
36 years and beyond	<b>0</b>	0
	<b>74,852</b>	64,937

18.2 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 £2.2 million (2006-2007: £3.5 million) and the amount included within operating expenses is £292,000 (2006-2007: £275,000).

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Rentals due within 1 year	<b>300</b>	300
Rentals due within 2 to 5 years	<b>1,406</b>	1,321
Rentals due thereafter	<b>6,554</b>	6,939
	<b>8,260</b>	8,560
Less interest element	<b>(3,125)</b>	(3,729)
	<b>5,135</b>	4,831

## 19 Losses and special payments

There were 18,007 cases of losses (2006-2007: 17,796 cases) totalling £7,076,000 (2006-2007: £4,244,000) and 1,032 cases of special payments (2006-2007: 1,412 cases) totalling £7,294,000 (2006-2007: £2,735,000) approved during 2007-2008.

There were three cases of loss or special payments over £250,000 in 2007-2008 (2006-2007: one fraud case gross value £339,100. The majority of the loss was recovered in 2007-08 with a net loss of £4,000).

The three cases in 2007-2008 involved a bad debt written off in respect of Surestart Government Grant Scheme (£1,313,000), an ex gratia redundancy payment (£253,000) and a severance payment under legal obligation (£254,000).

Cases in 2006-2007 were reported on a cash basis but in 2007-2008 are reported on an accruals basis, therefore the figures are not directly comparable.

## 20 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.

## 21 Financial instruments

The Primary Care Trust summarised account includes the accounts of 153 underlying NHS bodies. It is within the underlying accounts of these 153 NHS bodies that detailed FRS 13 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.

### *Financial instruments*

FRS 13, Derivatives and Other Financial Instruments, 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. (FRS 13 will be replaced in the NHS in 2008-2009 by the disclosure and presentation requirements of FRS 25, 26 and 29.)

### *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.

## 22 Third party assets

The balance of patients money held within the Primary Care Trust bank accounts at the Balance Sheet date was £4,069,000 (31 March 2007: £2,159,000). 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.

## 23 Post balance sheet events

There are no material post balance sheet events to report. These accounts were authorised for issue on 14 November 2008.

## 24 Intra-government balances

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	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
Balances with bodies external to government	<u>793,484</u>	<u>42,982</u>	<u>3,877,524</u>	<u>117,629</u>
<b>At 31 March 2008</b>	<b><u>1,491,774</u></b>	<b><u>51,468</u></b>	<b><u>5,603,213</u></b>	<b><u>179,412</u></b>
Balances with other central government bodies	73,061	3,544	169,947	37,912
Balances with Local Authorities	225,795	5,132	243,806	5,283
Balances with NHS Trusts	314,575	409	1,761,964	24,031
Balances with public corporations and trading funds	14,139	0	14,547	6
Balances with bodies external to government	<u>723,844</u>	<u>47,585</u>	<u>3,325,200</u>	<u>124,430</u>
At 31 March 2007	<u>1,351,414</u>	<u>56,670</u>	<u>5,515,464</u>	<u>191,662</u>





# 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 2007-2008

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 2007-2008 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. Some NHS Trusts had appointed specialist risk managers to support the function.

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 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 fulfil 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 2007-2008 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 public concerns about information governance and security across the public sector, the NHS has taken steps to provide assurances regarding the processing of person identifiable information. As a result there has been a tightening of policies and procedures, particularly in the transfer of information within organisations and to outside locations. All NHS organisations must now

- 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 Trust Assurance Frameworks against a number of criteria and this showed that at 31 March 2008: 98 per cent (147) of NHS Trusts were providing evidence that a system of internal control was in place 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 2006-2007 position when 94 per cent of NHS Trusts provided evidence that a 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. Where organisations did report gaps, they showed the following

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	30%	26%
Organisational controls	36%	43%
Clinical controls	34%	31%
	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, which 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 opinion 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

- seven NHS Trusts failed to disclose Serious Untoward Incidents;
- four NHS Trusts had not included gaps in compliance with Standards for Better Health in their SICs; and
- three NHS Trusts failed to disclose national performance targets that they had not met.

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 Auditors' Local Evaluation 2007-2008 assessments coordinated by the Audit Commission. This assesses how well NHS Trusts and Primary Care Trusts managed and used their financial resources. The assessment showed that 97 per cent of NHS Trusts demonstrated adequate or more than adequate performance in their implementation of their systems of internal control, while three per cent failed to meet the minimum requirements. One NHS Trust's system of internal control demonstrated the highest possible standard.

### Significant control issues

My review of effectiveness concluded that there were few significant control issues excepting those related to Trusts' financial position and full compliance with the Standards for Better Health. 67 NHS Trusts disclosed a total of 257 significant control issues in their SICs and the majority of these were concerned with compliance with the Standards for Better Health. 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

7 November 2008

# 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 2008 under the National Health Service Act 2006. These comprise the Operating Cost Statement, 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 2007-2008; Overall 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 HM Treasury 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 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 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 2008 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 2007-2008; Overall Performance of NHS Trusts; and Better Payment Practice Code for NHS Trusts, included within the Annual Report, is consistent with the financial statements.

## Report

Please see my report on these financial statements at HC 63-I.

*TJ Burr*  
Comptroller and Auditor General

14 November 2008

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

## Income and Expenditure Account for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Continuing operations</b>			
<b>Operating activities</b>			
Income from activities	2	<b>29,798,999</b>	31,518,298
Other operating income	3	<b>3,434,987</b>	3,659,198
Operating expenses	4.1	<b>(32,145,984)</b>	(34,502,759)
<b>Operating surplus</b>		<b>1,088,002</b>	674,737
Cost of fundamental reorganisation/restructuring		<b>(3,020)</b>	0
Profit on disposal of fixed assets	6	<b>14,857</b>	60,318
<b>Surplus before interest</b>		<b>1,099,839</b>	735,055
Interest receivable		<b>121,151</b>	82,233
Interest payable	7	<b>(60,394)</b>	(25,020)
Other finance costs - unwinding of discount	14	<b>(7,662)</b>	(9,193)
<b>Surplus on ordinary activities</b>		<b>1,152,934</b>	783,075
Public dividend capital dividends payable		<b>(772,664)</b>	(860,486)
<b>Retained surplus/(deficit) for the year</b>		<b>380,270</b>	(77,411)
<b>Capital cost absorption rate</b>	8	<b>3.3%</b>	3.3%

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
Surplus on ordinary activities for the financial year		<b>1,152,934</b>	783,075
Fixed asset impairment losses	16.1-16.3	<b>(156,094)</b>	(136,685)
Unrealised surplus on fixed asset revaluations/indexation	16.1-16.3	<b>1,578,889</b>	1,601,613
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	<b>75,943</b>	74,412
(Reduction)/addition to other reserves	16.4	<b>(38,402)</b>	44,616
<b>Total recognised gains for the financial year</b>		<b>2,613,270</b>	2,367,031

The notes at pages C11 to C33 form part of this account.



## Balance Sheet as at 31 March 2008

	Notes	31 March 2008 £000	31 March 2007 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	97,206	78,077
Tangible fixed assets	10.1	<u>23,872,266</u>	<u>25,786,626</u>
		<b>23,969,472</b>	25,864,703
<b>Current assets</b>			
Stocks and work in progress		398,555	422,124
Debtors – amounts falling due within one year	11.1	2,128,506	2,665,225
After more than one year	11.2	793,380	853,090
Investments	12	13,633	6,792
Cash at bank and in hand	19	851,586	143,784
		<u>4,185,660</u>	<u>4,091,015</u>
<b>Creditors - amounts falling due within one year</b>	13.1	<u>(2,951,641)</u>	<u>(2,922,942)</u>
<b>Net current assets</b>		<u>1,234,019</u>	<u>1,168,073</u>
<b>Total assets less current liabilities</b>		<b>25,203,491</b>	27,032,776
<b>Creditors - amounts falling due after more than one year</b>	13.2	<b>(755,226)</b>	(903,401)
<b>Provisions for liabilities and charges</b>	14	<b>(542,094)</b>	(575,797)
		<u>23,906,171</u>	<u>25,553,578</u>
<b>Financed by</b>			
<i>Taxpayers Equity</i>			
Public dividend capital	15	14,721,836	16,268,363
Revaluation reserve	16.1	8,099,897	8,594,766
Donated asset reserve	16.2	746,093	800,144
Government grant reserve	16.3	17,907	20,856
Other reserves	16.4	187,674	224,647
Income and expenditure reserve	16.5	132,764	(355,198)
		<u>23,906,171</u>	<u>25,553,578</u>

The notes at pages C11 to C33 form part of this account.

David Nicholson  
Accounting Officer

7 November 2008

## Cash Flow Statement for the year ended 31 March 2008

	Notes	2007-2008 £000	2006-2007 £000
<b>Operating activities</b>			
Net cash inflow from operating activities	17	<b>3,372,962</b>	1,555,448
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>119,685</b>	80,517
Interest paid		<b>(37,994)</b>	(1,472)
Interest element of finance lease rental payments		<b>(21,696)</b>	(22,980)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>59,995</b>	56,065
<b>Capital expenditure</b>			
(Payments) to acquire tangible fixed assets		<b>(1,928,856)</b>	(1,988,776)
Receipts from sale of tangible fixed assets		<b>307,057</b>	399,239
(Payments) to acquire intangible fixed assets		<b>(29,363)</b>	(37,584)
Receipts from sale of intangible fixed assets		<b>3,008</b>	20
Receipt from fixed asset investments		<b>0</b>	3
<b>Net cash (outflow) from capital expenditure</b>		<b>(1,648,154)</b>	(1,627,098)
<b>Dividends paid</b>		<b>(760,183)</b>	(841,002)
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		<b>1,024,621</b>	(856,587)
<b>Management of liquid resources</b>			
(Payments) to acquire investments		<b>(3,845,492)</b>	(3,663,915)
Receipts from sale of investments		<b>3,831,804</b>	3,641,510
<b>Net cash (outflow) from management of liquid resources</b>		<b>(13,688)</b>	(22,405)
<b>Net cash inflow/(outflow) before financing</b>		<b>1,010,933</b>	(878,992)
<b>Financing</b>			
New public dividend capital issued		<b>839,734</b>	2,004,426
Repayment of public dividend capital		<b>(819,783)</b>	(1,751,929)
Loans received		<b>60,072</b>	775,910
Repayments of amounts borrowed		<b>(223,966)</b>	(485)
Other capital receipts		<b>46,006</b>	25,807
Capital element of finance lease rental payments		<b>(3,087)</b>	(2,698)
Cash transferred to Foundation Trusts		<b>(214,871)</b>	(135,897)
<b>Net cash (outflow)/inflow from financing</b>		<b>(315,895)</b>	915,134
<b>Increase in cash</b>	18	<b>695,038</b>	36,142

The notes at pages C11 to C33 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. Consequently, the following financial statements have been prepared in accordance with the 2007-2008 NHS Trust Manual for Accounts issued by the Department of Health. 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

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible 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 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 Fixed assets

#### i Capitalisation

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

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, 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 every five years and in the intervening years by the use of indices. The buildings index is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

Professional valuations are carried out by the District Valuers of the HM Revenue & Customs Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and agreed requirements of the Department of Health and HM Treasury. In accordance with the Valuation Manual insofar as these terms are consistent with the requirements of the Department of Health, the last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied on the 31 March 2005.

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.

All adjustments arising from indexation and five-yearly revaluations are taken to the revaluation reserve. All impairments resulting from price changes are charged to the statement of total recognised gains and losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

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

Residual interests in off-balance sheet Private Finance Initiative properties are included in tangible fixed assets as 'assets under construction and payments on account' where the PFI contract specifies the amount, or a nil value, at which the assets will be transferred to the Trust at the end of the contract. The residual interest is built up, on an actuarial basis, during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equals 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 other than IT equipment, which is considered to have nil inflation, 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 Depreciation, amortisation and impairments

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 188 years

Dwellings: between 1 and 184 years

Plant and machinery: between 1 and 80 years

Transport equipment: between 1 and 15 years  
 Information technology: between 1 and 40 years  
 Fixtures and fittings: between 1 and 99 years

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

Where, under FRS11, a fixed asset impairment is charged to the income and expenditure account, offsetting income may be paid by the Trust's main commissioner.

The income is used to repay Public Dividend Capital.

### **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 20 years  
 Licences and trademarks: between 1 and 15 years  
 Patents: between 1 and 15 years  
 Development expenditure: between 1 and 78 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

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, or at a rate of 3.5 per cent plus the current inflation rate where this is not known. 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 (2006-2007: 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 14.

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.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk). 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 six per cent of pensionable pay. From 1 April 2008, employees' contributions are on a tiered scale from five 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 2008, is based on detailed membership data as at 31 March 2006 (the latest midpoint) updated to 31 March 2008 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 2008*

The scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th of the best of the last three years pensionable pay for each year of service. A lump sum normally equivalent to three years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50 per cent of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final 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.

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.

#### *Scheme provisions from 1 April 2008*

From 1 April 2008 changes have been made to the NHS Pension Scheme contribution rates and benefits. Further details of these changes can be found on the NHS Pensions website [www.pensions.nhsbsa.nhs.uk](http://www.pensions.nhsbsa.nhs.uk).

### **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**

On 1 April 2007 an NHS Trust was merged with a Foundation Trust and NHS Direct, which was previously a Special Health Authority, became an NHS Trust. On 1 July 2007 one NHS Trust merged with an existing NHS Trust and on 1 October 2007 two NHS Trust merged to form one new NHS Trust.

### **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 FRS 5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2)'. PFI schemes are schemes under which premises and facilities are constructed and run by private sector organisations in return for annual payments from 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 22.



**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 27 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**

27 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 S31 of the Health Act 1999 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.

**1.23 EU Emissions Trading Scheme**

EU Emission Trading Scheme allowances are accounted for as government granted current asset investments, 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 investment, provision and government grant reserve are valued at current market value at the balance sheet date.

**2 Income from activities**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Strategic Health Authorities	<b>299,178</b>	41,109
Primary Care Trusts	<b>26,683,671</b>	28,310,707
Foundation Trusts	<b>95,443</b>	73,677
Local Authorities	<b>429,741</b>	537,651
Department of Health	<b>1,732,568</b>	1,914,577
NHS Other	<b>3,618</b>	12,342
Non-NHS – private patients	<b>238,439</b>	280,704
– overseas patients (non-reciprocal)	<b>18,462</b>	15,138
– injury cost recovery	<b>91,541</b>	93,815
– other	<b>206,338</b>	238,578
	<b>29,798,999</b>	31,518,298
Income recognised to offset impairments and accelerated depreciation	<b>258,073</b>	528,789

**3 Other operating income**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Patient transport services	<b>5,085</b>	9,213
Education, training and research	<b>1,791,699</b>	1,915,099
Charitable and other contributions to expenditure	<b>48,817</b>	72,901
Transfers from the donated asset reserve in respect of depreciation on donated assets	<b>68,666</b>	78,541
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	<b>1,497</b>	1,291
Non-patient care services to other bodies	<b>677,993</b>	631,232
Income generation	<b>330,451</b>	333,840
Other income from activities	<b>510,779</b>	617,081
	<b>3,434,987</b>	3,659,198

## 4 Operating expenses

### 4.1 Operating expenses comprise

	Notes	2007-2008 £000	2006-2007 £000
Contracts with other NHS bodies		<b>264,018</b>	314,335
Contracts with Foundation Trusts		<b>87,362</b>	79,423
Purchase of healthcare from non-NHS bodies		<b>295,079</b>	297,440
Directors' costs		<b>148,489</b>	167,968
Staff costs <sup>1</sup>	5.1	<b>20,815,307</b>	22,964,584
Supplies and services – clinical		<b>4,443,653</b>	4,567,305
Supplies and services – general		<b>730,125</b>	719,832
Consultancy services <sup>3</sup>		<b>132,429</b>	0
Establishment		<b>498,999</b>	532,976
Transport		<b>302,721</b>	282,507
Premises		<b>1,638,787</b>	1,645,365
Write off and movement in bad debt provisions		<b>38,410</b>	39,626
Depreciation	10	<b>1,167,089</b>	1,188,051
Amortisation	9	<b>17,665</b>	14,106
Fixed asset impairments and reversals		<b>381,975</b>	265,160
Auditors' remuneration: Audit fees <sup>2</sup>		<b>29,745</b>	33,515
Auditors' remuneration: Other remuneration		<b>4,072</b>	3,505
Clinical negligence		<b>305,136</b>	355,084
Redundancy		<b>62,273</b>	86,596
Other		<b>782,650</b>	945,381
		<b>32,145,984</b>	34,502,759

### 4.2 Hire and operating lease rentals

	2007-2008 £000	2006-2007 £000
Hire of plant and machinery	<b>60,250</b>	66,461
Other operating leases	<b>314,638</b>	310,922
	<b>374,888</b>	377,383

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 Consultancy costs have been separately identified for the first time in 2007-2008; therefore comparative figures are not available.

### 4.3 NHS Trusts are committed to make the following payments during the next year in respect of operating leases

	<b>2007-2008</b> <b>£000</b>	2006-2007 £000
<b>Land and buildings</b>		
Expiring within 1 year	<b>8,995</b>	7,150
Expiring between 1 and 5 years	<b>21,464</b>	21,837
Expiring after 5 years	<b>219,879</b>	203,831
	<b>250,338</b>	232,818
<b>Other leases</b>		
Expiring within 1 year	<b>32,703</b>	32,239
Expiring between 1 and 5 years	<b>83,043</b>	99,534
Expiring after 5 years	<b>27,947</b>	25,319
	<b>143,693</b>	157,092

## 5 Staff costs and numbers

### 5.1 Staff costs

	Permanently employed £000	Other £000	<b>2007-2008</b> <b>Total</b> <b>£000</b>	2006-2007 Total £000
Salaries and wages	16,674,840	1,029,718	<b>17,704,558</b>	19,490,380
Social security costs	1,336,746	15,917	<b>1,352,663</b>	1,542,640
NHS Pension Agency pension costs	1,897,377	13,770	<b>1,911,147</b>	2,129,562
Other pension costs	11,385	972	<b>12,357</b>	16,162
	<b>19,920,348</b>	<b>1,060,377</b>	<b>20,980,725</b>	23,178,744

### 5.2 Average number of persons employed

	Permanently employed Number	Other Number	<b>2007-2008</b> <b>Total</b> <b>Number</b>	2006-2007 Total Number
Medical and dental	58,961	4,260	<b>63,221</b>	72,238
Ambulance staff	23,537	21	<b>23,558</b>	23,264
Administration and estates	118,057	6,679	<b>124,736</b>	144,572
Healthcare assistants and other support staff	71,309	4,079	<b>75,388</b>	79,884
Nursing, midwifery and health visiting staff	204,610	11,410	<b>216,020</b>	261,144
Nursing, midwifery and health visiting learners	4,518	296	<b>4,814</b>	4,779
Scientific, therapeutic and technical staff	70,837	1,739	<b>72,576</b>	90,657
Social care staff	2,591	872	<b>3,463</b>	3,109
Other	4,478	441	<b>4,919</b>	5,589
	<b>558,898</b>	<b>29,797</b>	<b>588,695</b>	685,236

### 5.3 Staff benefits

The amount spent on staff benefits during the year totalled £802,000 (2006-2007: £1,100,000).

### 5.4 Retirements due to ill health

During 2007-2008 there were 1,005 early retirements from NHS Trusts on the grounds of ill-health (2006-07: 1,181). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £49,127,000 (2006-2007: £72,444,000).

## 6 Profit/(loss) on disposal of fixed assets

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Net profit on disposal of fixed asset investments	<b>0</b>	5
Net profit/(loss) on disposal of intangible fixed assets	<b>2,161</b>	(102)
Net profit on disposal of land and buildings	<b>24,090</b>	66,815
Net (loss) on disposal of plant and equipment	<b>(11,394)</b>	(6,400)
	<b>14,857</b>	60,318

## 7 Interest payable and similar charges

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Interest payable is in respect of the following		
Finance leases	<b>21,686</b>	22,990
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	<b>117</b>	189
Department of Health loans	<b>35,355</b>	0
Other loans	<b>2,045</b>	826
Other interest	<b>1,191</b>	1,015
	<b>60,394</b>	25,020

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £6,000 (2006-2007: £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 £760 million (which is calculated based on forecast average net relevant assets), bears to actual average relevant net assets of £23,200 million, that is 3.3 per cent (2006-2007: 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 and trademarks £000	Patents £000	Development expenditure £000	<b>Total £000</b>
Gross cost at 1 April 2007	124,789		6	12	9,321	<b>134,128</b>
Transferred to Foundation Trusts at 1 April 2007	(1,972)					<b>(1,972)</b>
Adjustment for Trust mergers at 1 April 2007	(1,511)					<b>(1,511)</b>
Restated gross cost at 1 April 2007	121,306		6	12	9,321	<b>130,645</b>
Indexation					131	<b>131</b>
Impairments	(5)					<b>(5)</b>
Reclassifications	13,978				242	<b>14,220</b>
Other revaluation	(4)				(51)	<b>(55)</b>
Additions - purchased	28,536	893			2,812	<b>32,241</b>
Additions - donated	65					<b>65</b>
Additions - government granted	55					<b>55</b>
Disposals	(3,028)				(1,020)	<b>(4,048)</b>
Transferred to Foundation Trusts in-year	(11,507)				(187)	<b>(11,694)</b>
<b>Gross cost at 31 March 2008</b>	<b>149,396</b>	<b>893</b>	<b>6</b>	<b>12</b>	<b>11,248</b>	<b>161,555</b>
Amortisation at 1 April 2007	51,572	0	4	2	4,473	<b>56,051</b>
Transferred to Foundation Trusts at 1 April 2007	(771)					<b>(771)</b>
Adjustment for Trust mergers at 1 April 2007	(86)					<b>(86)</b>
Restated amortisation at 1 April 2007	50,715	0	4	2	4,473	<b>55,194</b>
Indexation					92	<b>92</b>
Reclassifications	(1,018)				525	<b>(493)</b>
Other revaluation	1					<b>1</b>
Charged during the year	17,053		2	2	608	<b>17,665</b>
Disposals	(2,911)				(285)	<b>(3,196)</b>
Transferred to Foundation Trusts in-year	(4,873)				(41)	<b>(4,914)</b>
<b>Amortisation at 31 March 2008</b>	<b>58,967</b>	<b>0</b>	<b>6</b>	<b>4</b>	<b>5,372</b>	<b>64,349</b>
<b>Net book value</b>						
Purchased at 1 April 2007	72,726	0	2	10	4,844	77,582
Donated at 1 April 2007	462					462
Government granted at 1 April 2007	29				4	33
Total at 1 April 2007	73,217	0	2	10	4,848	78,077
<b>Purchased at 31 March 2008</b>	<b>90,021</b>	<b>893</b>	<b>0</b>	<b>8</b>	<b>5,876</b>	<b>96,798</b>
<b>Donated at 31 March 2008</b>	<b>333</b>					<b>333</b>
<b>Government granted at 31 March 2008</b>	<b>75</b>					<b>75</b>
<b>Total at 31 March 2008</b>	<b>90,429</b>	<b>893</b>	<b>0</b>	<b>8</b>	<b>5,876</b>	<b>97,206</b>

## 10 Tangible fixed assets

### 10.1

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments	Plant and machinery on account	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Gross cost at 1 April 2007	6,824,373	15,447,268	382,394	919,223	4,283,256	298,910	1,203,565	329,427	29,688,416
Transferred to Foundation Trusts at 1 April 2007	(99,839)	(204,539)	(6,786)	(4,911)	(61,697)	(1,201)	(17,698)	(1,294)	(397,965)
Adjustment for Trust mergers at 1 April 2007	(16,126)	(67,358)	(1,468)	192	(15,434)	(192)	1,368	(2,129)	(101,147)
Restated gross cost at 1 April 2007	6,708,408	15,175,371	374,140	914,504	4,206,125	297,517	1,187,235	326,004	29,189,304
Additions - purchased	76,845	520,251	8,460	752,640	310,761	16,859	162,198	20,260	1,868,274
Additions - donated	5	28,596	92	12,745	25,058	88	1,867	1,093	69,544
Additions - government granted	5	2,336	0	2,407	508	0	0	91	5,347
Impairments	(43,973)	(100,847)	(7,487)	(3,452)	(120)	0	(4)	(206)	(156,089)
Reclassifications	(6,590)	614,331	13,993	(692,212)	36,619	13,167	75,936	5,762	61,006
Indexation	352,555	1,303,735	37,487	61,363	100,768	7,499	0	9,260	1,872,667
Revaluations	(2,875)	(145,059)	(4,227)	(10,382)	46	937	(33)	503	(161,090)
Disposals	(142,007)	(100,000)	(18,952)	(17,227)	(317,447)	(25,115)	(62,745)	(20,495)	(703,988)
Transferred to Foundation Trusts in-year	(723,036)	(2,137,551)	(32,876)	(59,905)	(341,876)	(5,533)	(135,552)	(37,538)	(3,473,867)
<b>Cost or valuation at 31 March 2008</b>	<b>6,219,337</b>	<b>15,161,163</b>	<b>370,630</b>	<b>960,481</b>	<b>4,020,442</b>	<b>305,419</b>	<b>1,228,902</b>	<b>304,734</b>	<b>28,571,108</b>
Depreciation at 1 April 2007	0	0	0	0	2,815,123	190,229	702,478	193,960	3,901,790
Transferred to Foundation Trusts at 1 April 2007					(38,082)	(777)	(11,537)	(1,075)	(51,471)
Adjustment for Trust mergers at 1 April 2007					(12,748)	(97)	(1,001)	(1,039)	(14,885)
Restated depreciation cost at 1 April 2007	0	0	0	0	2,764,293	189,355	689,940	191,846	3,835,434
Charged during the year	61	643,001	15,289	0	309,024	30,959	144,453	24,302	1,167,089
Impairments	18,254	266,649	25,163	65,337	9,318	31	264	657	385,673
Reversal of impairments	0	(3,129)	0	(569)	0	0	0	0	(3,698)
Reclassifications	(1,391)	123,877	500	0	(4,047)	(42)	5,173	(3,960)	120,110
Indexation	8	54,932	1,279	0	64,442	4,579	0	4,631	129,871
Revaluations	0	0	0	0	2,525	241	36	(69)	2,733
Disposals	(199)	(29,290)	(10,673)	0	(295,857)	(24,091)	(59,724)	(16,602)	(436,436)
Transferred to Foundation Trusts in-year	(545)	(176,074)	(2,143)	(528)	(214,371)	(4,471)	(80,866)	(22,936)	(501,934)
<b>Accumulated depreciation at 31 March 2008</b>	<b>16,188</b>	<b>879,966</b>	<b>29,415</b>	<b>64,240</b>	<b>2,635,327</b>	<b>196,561</b>	<b>699,276</b>	<b>177,869</b>	<b>4,698,842</b>
<b>Net book value</b>									
Purchased at 1 April 2007	6,786,905	14,889,850	379,534	898,285	1,281,634	107,733	495,181	129,499	24,968,621
Donated at 1 April 2007	37,351	544,880	2,860	15,983	184,377	926	5,541	5,765	797,683
Government granted 1 April 2007	117	12,538	0	4,955	2,122	22	365	203	20,322
Total at 1 April 2007	6,824,373	15,447,268	382,394	919,223	1,468,133	108,681	501,087	135,467	25,786,626
<b>Purchased at 31 March 2008</b>	<b>6,178,035</b>	<b>13,737,628</b>	<b>337,930</b>	<b>872,544</b>	<b>1,231,330</b>	<b>108,113</b>	<b>524,293</b>	<b>121,390</b>	<b>23,111,263</b>
<b>Donated at 31 March 2008</b>	<b>25,114</b>	<b>528,661</b>	<b>3,285</b>	<b>23,697</b>	<b>151,999</b>	<b>664</b>	<b>5,125</b>	<b>5,234</b>	<b>743,779</b>
<b>Government granted at 31 March 2008</b>	<b>0</b>	<b>14,908</b>	<b>0</b>	<b>0</b>	<b>1,786</b>	<b>81</b>	<b>208</b>	<b>241</b>	<b>17,224</b>
<b>Total at 31 March 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>

### 10.2 The net book value of assets held under finance leases and hire purchase contracts comprises:

4,208	248,007	716	1,678	2,385	0	19	0	257,013
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £6,770,000 (2006-2007: £6,374,000).

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

	<b>31 March 2008 £000</b>	31 March 2007 £000
Freehold	<b>20,435,103</b>	22,226,297
Long leasehold	<b>377,105</b>	408,572
Short leasehold	<b>13,353</b>	19,166
	<b><u>20,825,561</u></b>	<u>22,654,035</u>

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

	<b>31 March 2008 £000</b>	31 March 2007 £000
NHS debtors	<b>1,122,466</b>	1,568,354
Provision for irrecoverable debts	<b>(92,467)</b>	(83,803)
Other prepayments and accrued income	<b>442,546</b>	370,903
Other debtors	<b>655,961</b>	809,771
	<b><u>2,128,506</u></b>	<u>2,665,225</u>

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

NHS debtors	<b>78,236</b>	110,614
Provision for irrecoverable debts	<b>(7,322)</b>	(3,202)
Other prepayments and accrued income	<b>562,095</b>	551,908
Other	<b>160,371</b>	193,770
	<b><u>793,380</u></b>	<u>853,090</u>
<b>Total debtors</b>	<b><u>2,921,886</u></b>	<u>3,518,315</u>

**12 Short-term investments**

Short term investments held at the balance sheet date amounted to £13,633,000 (2006-2007: £6,792,000). The analysis of these is held within the individual NHS Trust accounts.



**13 Creditors****13.1 Amounts falling due within one year**

	<b>31 March 2008 £000</b>	31 March 2007 £000
Overdrafts	<b>15,744</b>	16,038
Current instalments due on loans	<b>153,823</b>	151,227
Interest payable	<b>1,968</b>	1,236
Payments received on account	<b>42,792</b>	33,366
NHS creditors	<b>377,068</b>	448,570
Non-NHS trade creditors – revenue	<b>643,012</b>	531,931
Non-NHS trade creditors – capital	<b>259,498</b>	372,167
Other Taxes and social security	<b>165,191</b>	258,795
Obligations under finance leases and hire purchase contracts	<b>3,561</b>	3,591
Other creditors	<b>246,906</b>	306,173
Accruals and deferred income	<b>1,042,078</b>	799,848
	<b><u>2,951,641</u></b>	<u>2,922,942</u>

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

Long term loans	<b>461,039</b>	627,135
Obligations under finance leases and hire purchase contracts	<b>223,066</b>	226,675
NHS creditors	<b>2,006</b>	1,801
Other creditors	<b>69,115</b>	47,790
	<b><u>755,226</u></b>	<u>903,401</u>

**13.3 Finance lease obligations**

	<b>31 March 2008 £000</b>	31 March 2007 £000
<b>Leases payable</b>		
Within one year	<b>24,801</b>	24,848
Between one and five years	<b>98,112</b>	100,191
After five years	<b>567,357</b>	633,853
	<b><u>690,270</u></b>	<u>758,892</u>
Finance charges allocated to future periods	<b>(463,643)</b>	(528,626)
	<b><u>226,627</u></b>	<u>230,266</u>

**14 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 2007	7,544	289,846	49,392	16,506	212,509	<b>575,797</b>
Transferred to Foundation Trusts at 1 April 2007		(1,183)	(173)		(1,400)	(2,756)
Adjustment for Trust mergers at 1 April 2007		40	(533)		(2,645)	<b>(3,138)</b>
Restated gross cost at 1 April 2007	7,544	288,703	48,686	16,506	208,464	<b>569,903</b>
Arising during the year	349	23,156	29,793	23,008	137,343	<b>213,649</b>
Utilised during the year	(1,720)	(29,891)	(13,366)	(8,518)	(63,606)	<b>(117,101)</b>
Reversed unused	(470)	(6,934)	(7,735)	(4,253)	(31,163)	<b>(50,555)</b>
Unwinding of discount	129	5,740	399	54	1,340	<b>7,662</b>
Transferred to Foundation Trusts in-year	(439)	(41,811)	(7,559)	(1,627)	(30,028)	<b>(81,464)</b>
<b>At 31 March 2008</b>	<b>5,393</b>	<b>238,963</b>	<b>50,218</b>	<b>25,170</b>	<b>222,350</b>	<b>542,094</b>
Expected timing of cashflows						
Within one year	661	19,244	24,756	18,694	122,768	<b>186,123</b>
One to five years	2,008	81,263	11,861	3,740	47,143	<b>146,015</b>
Over five years	2,724	138,456	13,601	2,736	52,439	<b>209,956</b>

£1,884,465,146 is included in the accounts of the NHS Litigation Authority (NHSLA) 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.

**15 Public dividend capital**

	<b>2007-2008 £000</b>	2006-2007 £000
At 1 April 2007	<b>16,268,363</b>	17,570,974
Transferred to Foundation Trusts 1 April 2007	<b>(143,317)</b>	0
Adjustment for Trust mergers at 1 April 2007	<b>(55,396)</b>	(112,626)
Restated at 1 April 2007	<b>16,069,650</b>	17,458,348
New public dividend capital received (including transfers from dissolved NHS Trusts)	<b>1,511,691</b>	2,623,744
Public dividend capital repaid in year	<b>(1,179,106)</b>	(1,643,796)
Public dividend capital transferred to Foundation Trusts	<b>(1,722,979)</b>	(2,163,969)
Other movements in public dividend capital in year	<b>42,580</b>	(5,964)
<b>As at 31 March 2008</b>	<b>14,721,836</b>	16,268,363

**16 Movement on reserves****16.1 Revaluation reserve**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
At 1 April 2007	<b>8,594,766</b>	9,375,173
Transferred to Foundation Trusts 1 April 2007	<b>(149,363)</b>	0
Adjustment for Trust mergers at 1 April 2007	<b>(32,284)</b>	(71,058)
Restated at 1 April 2007	<b>8,413,119</b>	9,304,115
Impairments	<b>(154,449)</b>	(134,021)
Other revaluations/indexation of fixed assets	<b>1,524,381</b>	1,542,670
Transfer of realised profits to I&E reserve	<b>(140,273)</b>	(201,883)
Other transfers between reserves	<b>(166,299)</b>	(194,215)
Other in-year movements	<b>(373,075)</b>	(572,754)
Transferred to Foundation Trusts in-year	<b>(1,003,507)</b>	(1,149,146)
<b>As at 31 March 2008</b>	<b>8,099,897</b>	8,594,766

**16.2 Donated asset reserve**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
At 1 April 2007	<b>800,144</b>	889,652
Transferred to Foundation Trusts 1 April 2007	<b>(53,978)</b>	0
Adjustment for Trust mergers at 1 April 2007	<b>(1,199)</b>	(2,192)
Restated at 1 April 2007	<b>744,967</b>	887,460
Impairments	<b>(1,645)</b>	(2,660)
Other revaluations/indexation of fixed assets	<b>53,080</b>	60,015
Transfer of realised profits to I&E reserve	<b>(440)</b>	(1,828)
Receipt of donated assets	<b>69,609</b>	64,078
Depreciation, impairment and disposal of donated assets	<b>(68,667)</b>	(78,541)
Other transfers between reserves	<b>(774)</b>	(191)
Other in year movements	<b>(4,175)</b>	532
Transferred to Foundation Trusts in-year	<b>(45,862)</b>	(128,721)
<b>As at 31 March 2008</b>	<b>746,093</b>	800,144

**16.3 Government grant reserve**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
At 1 April 2007	<b>20,856</b>	18,120
Adjustment for Trust mergers at 1 April 2007	<b>0</b>	(244)
Restated at 1 April 2007	<b>20,856</b>	17,876
Impairments	<b>0</b>	(4)
Surplus on other revaluation/indexation of fixed assets	<b>1,428</b>	(1,072)
Transfer of realised profits to I&E reserve	<b>0</b>	(188)
Receipt of government granted assets	<b>6,334</b>	10,334
Depreciation, impairment and disposal of government granted assets	<b>(1,497)</b>	(1,291)
Other transfers between reserves	<b>(1)</b>	(1,306)
Transferred to Foundation Trusts in-year	<b>(9,213)</b>	(3,493)
<b>As at 31 March 2008</b>	<b>17,907</b>	20,856

**16.4 Other reserves**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
At 1 April 2007	<b>224,647</b>	181,138
Transferred to Foundation Trusts 1 April 2007	<b>169</b>	0
Restated at 1 April 2007	<b>224,816</b>	181,138
Transfers between reserves	<b>78</b>	(1,618)
Other movements on reserves	<b>(38,402)</b>	44,616
Transferred to Foundation Trusts in-year	<b>1,182</b>	511
<b>As at 31 March 2008</b>	<b>187,674</b>	224,647

**16.5 Income and expenditure reserve**

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
At 1 April 2007	<b>(355,198)</b>	(459,564)
Transferred to Foundation Trusts 1 April 2007	<b>(4,949)</b>	0
Adjustment for Trust mergers at 1 April 2007	<b>9,541</b>	2,605
Restated at 1 April 2007	<b>(350,606)</b>	(456,959)
Transfer from income and expenditure account	<b>380,270</b>	(77,411)
Transfers of realised profits	<b>140,713</b>	203,898
Other transfers between reserves	<b>166,996</b>	197,330
Other in year movements	<b>8,746</b>	(74,727)
Transferred to Foundation Trusts in-year	<b>(213,355)</b>	(147,329)
<b>As at 31 March 2008</b>	<b>132,764</b>	(355,198)

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

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
Operating surplus	<b>1,088,002</b>	674,737
Depreciation and amortisation	<b>1,184,754</b>	1,202,157
Impairments	<b>381,975</b>	265,160
Transfer from donated asset reserve in respect of depreciation on donated assets	<b>(68,667)</b>	(78,541)
Transfer from the government grant reserve	<b>(1,497)</b>	(1,291)
(Increase) in stocks	<b>(15,252)</b>	(4,170)
Decrease/(increase) in debtors	<b>271,861</b>	(398,001)
Increase/(decrease) in creditors	<b>489,017</b>	(52,984)
Increase/(decrease) in provisions for liabilities and charges	<b>43,957</b>	(51,833)
Payments in respect of fundamental reorganisation/restructuring	<b>(1,188)</b>	214
Net cash inflow from operating activities	<b><u>3,372,962</u></b>	<u>1,555,448</u>

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

	<b>£000</b>	£000
Net debt at 1 April 2007		(874,089)
Transferred to Foundation Trusts 1 April 2007		(2,714)
Adjustment for Trust mergers at 1 April 2007		15,771
		<u>(861,032)</u>
Increase in cash in year	<b>695,038</b>	
Cash inflow from new debt	<b>(60,072)</b>	
Cash outflow from debt repaid and finance lease capital payments	<b>227,053</b>	
Cash outflow from increase in liquid resources	<b>13,688</b>	
		<u>875,707</u>
Changes in net debt resulting from cash flows		<b>875,707</b>
Non-cash changes in debt		<b>(4,463)</b>
Transferred to Foundation Trusts in-year		<b>(2,227)</b>
<b>Net debt at 31 March 2008</b>		<b><u>7,985</u></b>

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

	1 April 2007	Transferred to Foundation Trusts 1 April 2007	Adjustment for Trust Mergers at 1 April 2007	Restated at 1 April 2007	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 2008</b>
	£000	£000	£000	£000	£000	£000	£000	£000
OPG cash at bank	130,858	(2,237)	15,792	144,413	(214,350)	907,556		<b>837,619</b>
Commercial cash at bank and in hand	12,926	(477)	(20)	12,429	(548)	2,086		<b>13,967</b>
Bank overdrafts	(16,037)		(1)	(16,038)	27	267		<b>(15,744)</b>
	<u>127,747</u>	<u>(2,714)</u>	<u>15,771</u>	<u>140,804</u>	<u>(214,871)</u>	<u>909,909</u>		
Debt due within one year	(151,227)			(151,227)	750	14,020	(17,366)	<b>(153,823)</b>
Debt due after one year	(627,135)			(627,135)	2,250	149,874	13,972	<b>(461,039)</b>
Finance leases	(230,266)			(230,266)	1,573	3,087	(1,022)	<b>(226,628)</b>
Current asset investments	6,792			6,792	(6,800)	13,688	(47)	<b>13,633</b>
	<u>(874,089)</u>	<u>(2,714)</u>	<u>15,771</u>	<u>(861,032)</u>	<u>(217,098)</u>	<u>1,090,578</u>	<u>(4,463)</u>	<b>7,985</b>

**20 Capital commitments**

	<b>31 March 2008 £000</b>	31 March 2007 £000
Contracted at the balance sheet date	<b>440,360</b>	538,877

**21 Contingent liabilities**

Potential net contingent liabilities totalling £36,387,000 (2006-2007: £38,832,000) 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.

**22 Commitments under PFI contracts**

**22.1** In this financial year 81 NHS Trusts reported off balance sheet PFI schemes (2006-2007: 87). The estimated capital value of these schemes is £5.605 billion (2006-2007: £4.711 billion). The amount included within operating expenses for these schemes is £675 million (2006-2007: £615 million).

NHS 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>2007-2008 £000</b>	2006-2007 £000
Within 1 year	<b>8,862</b>	14,201
2nd to 5th years (inclusive)	<b>9,290</b>	26,542
6th to 10th years (inclusive)	<b>12,949</b>	36,672
11th to 15th years (inclusive)	<b>16,350</b>	39,720
16th to 20th years (inclusive)	<b>13,409</b>	32,076
21st to 25th years (inclusive)	<b>161,163</b>	149,456
26th to 30th years (inclusive)	<b>211,469</b>	166,616
31st to 35th years (inclusive)	<b>230,507</b>	201,605
36th year and beyond	<b>162,511</b>	201,368

**22.2** In this financial year, four NHS Trusts (2006-2007: 5) reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £210 million (2006-2007: £206 million) and the amount included within operating expenses is £45 million (2006-2007 £50 million).

	<b>2007-2008</b>	2006-2007
	<b>£000</b>	£000
<i>Inputed finance lease obligations comprise</i>		
Rentals due within one year	<b>21,010</b>	20,326
Rentals due between one and five years	<b>84,594</b>	81,306
Rentals due after five years	<b>500,389</b>	488,293
Finance charges allocated to future periods	<b>(465,801)</b>	(454,221)
	<b>140,192</b>	135,704

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

	<b>2007-2008</b>	2006-2007
	<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>0</b>	0
16th to 20th years (inclusive)	<b>0</b>	0
21st to 25th years (inclusive)	<b>17,623</b>	13,995
26th to 30th years (inclusive)	<b>20,837</b>	5,712
31st to 35th years (inclusive)	<b>0</b>	9,117
36th year and beyond	<b>190</b>	182

### **23 Losses and special payments**

There were 39,062 cases of losses totalling £21,824,306 during 2007-2008. These included one bad debts and claims abandoned loss of £455,713 at United Bristol Healthcare NHS Trust where the amount exceeded £250,000. (2006-2007 43,414, cases totalling £19,220,186 including one fruitless payment of £434,099 West Hertfordshire Hospitals NHS Trust).

There were 5,613 special payment cases totalling £14,899,768; there were no individual cases exceeding £250,000. (2006-2007 there were 6,203 cases totalling £36,496,583. These included one case of compensation under legal obligation of £10,637,000 University Hospital of North Staffordshire NHS Trust and one payment of extra contractual payment to contractors of £14,515,068 Dudley Group of Hospitals NHS Trust).

Cases in 2006-2007 were reported on a cash basis but in 2007-2008 are reported on an accruals basis; therefore the figures are not directly comparable.

### **24 Related party transactions**

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.

## **25 Post balance sheet events**

As at 31 March 2008 there were 151 NHS Trusts (including four Care Trusts). It is expected that further NHS Trusts will achieve Foundation Trust status in 2008-2009. There are no other material post balance sheet events to report.

These accounts were authorised for issue on 14 November 2008.

## **26 Financial Instruments**

The NHS Trust summarised account includes the accounts of 178 underlying NHS Trusts. It is within the underlying accounts of these 178 NHS Trusts that detailed FRS 13 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 13, Derivatives and Other Financial Instruments, 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, the 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. (FRS 13 will be replaced in the NHS in 2008-2009 by the disclosure and presentation requirements of FRS 25, 26 & 29.)

### *Liquidity risk*

NHS Trusts' net operating expenses are met by income generated under annual service agreements with Primary Care Trusts, which are financed from resources voted annually by Parliament. NHS Trusts also largely finance their capital expenditure from the funds made available from Government under agreed borrowing limits. NHS Trusts are not therefore exposed to significant liquidity risks.

### *Interest rate risk*

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

### *Foreign currency risk*

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

### *Fair values*

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

## **27 Third party assets**

The balance of patients money held within the NHS Trusts' bank accounts at the balance sheet date was £18,075,000 (31 March 2007: £19,116,000). 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.



**28 Intra-government balances**

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other Central Government Bodies	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	851,214	694,955	2,273,023	372,318
<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>
Balances with other Central Government Bodies	1,257,315	102,356	636,960	472,495
Balances with Local Authorities	83,474	0	11,133	58
Balances with NHS Trusts and Foundation Trusts	365,573	15,011	116,321	0
Balances with Public Corporations and Trading Funds	8,718	2,753	35,624	608
Intra government balances	<u>1,715,080</u>	<u>120,120</u>	<u>800,038</u>	<u>473,161</u>
Balances with bodies external to government	950,145	732,970	2,122,904	430,240
At 31 March 2007	<u>2,665,225</u>	<u>853,090</u>	<u>2,922,942</u>	<u>903,401</u>

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