

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973

NATIONAL HEALTH SERVICE ACT 1977

NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990

Summarised Accounts of Strategic Health Authorities, Primary Care Trusts and NHS Trusts, of the National Blood Authority, NHS Logistics and NHS Professionals, and of Funds Held on Trust by Primary Care Trusts, NHS Trusts, Special Health Authorities and Special Trustees in England, for the year ended 31 March 2004 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 505-II of 2003-2004)

Presented pursuant to NHS Act 1977 c.49, s.98(4)

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# NHS (England) Summarised Accounts 2003-2004



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# NHS (England) Summarised Accounts 2003-2004

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# Foreword

## General

- 1 Section 98(2) of the National Health Service Act 1977 requires NHS organisations in England to prepare annual accounts and to transmit them to the Department of Health. The accounts must be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales.
- 2 Section 98(4) of the Act also requires the Secretary of State to prepare summarised accounts from the individual accounts of the bodies, in such form as the Treasury may direct, and transmit them to the Comptroller and Auditor General (C&AG). The Act requires the C&AG to examine, certify and report on those summarised accounts and permits him to examine the accounts of the individual bodies, any records relating to them and any report of the auditors on them.
- 3 The Government Resources and Accounts Act 2000 (Audit of Health Service Bodies) Statutory Instrument 2003 No.1324 changed the statutory auditors for the special health authorities and the Dental Practice Board from auditors appointed by the Audit Commission to the C&AG. This removed the dual audit requirement and reduced bureaucracy.
- 4 The Government Resources and Accounts Act 2000 (Summarised Accounts of Special Health Authorities) Statutory Instrument 2003 No.983 removed the requirement for the Secretary of State to prepare summarised accounts for existing special health authorities where their accounts are consolidated into the Department of Health Resource Account or the Central Government Account.
- 5 The Government Resources and Accounts Act 2000 (Summarised Accounts of Special Health Authorities) Statutory Instrument 2004 No.1416 extended the exemption to produce summarised accounts to new special health authorities established in 2004.
- 6 The summarised accounts have been prepared from the accounts of the individual health bodies, for the year ended 31 March 2004, of
  - the 28 Strategic Health Authorities (SHAs);
  - the 269 NHS Trusts in England;
  - the 303 Primary Care Trusts in England (PCTs);
  - the three Special Health Authorities (SpHAs) not exempted by the relevant Statutory Instruments; and
  - the 310 funds held on trust by NHS Trusts, PCTs, SpHAs, Section 11 Trustees and Special Trustees.
- 7 These summarised accounts are based on audited figures submitted by the individual organisations, with one exception. The unaudited submission for the charitable funds held on trust for Sandwell & West Birmingham Hospitals NHS Trust has been included in the relevant summarised account.
- 8 As Permanent Secretary and Chief Executive of the NHS, and in my capacity as Accounting Officer, I have responsibility for Health Service expenditure covered by Request for Resources 1 (Securing health care for those who need it). Accordingly I have signed the summarised accounts listed above. The following sections provide background information on each of the accounts.

## Format of the accounts

- 9 The formats of the summarised accounts follow those of the underlying accounts.
- 10 The Operating Cost Statement format is used for public sector bodies which receive the majority of their income direct from government, like SHAs and PCTs.

- 11 NHS Trusts, NHS Logistics Authority, NHS Professionals and the National Blood Authority receive their funding from 'trading' activities so produce income and expenditure accounts. For 2003-2004 only, NHS Professionals have produced accounts in the Operating Cost Statement format as funding was received directly from the Department of Health prior to being fully operational.
- 12 NHS bodies with more than 250 employees should include disclosures on their policy in relation to disabled employees and also 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 Forewords of the annual accounts of the individual organisations.

### Charitable Funds Held on Trust

- 13 NHS bodies holding charitable funds are required to submit accounts to the Secretary of State for summarisation under the National Health Service Act 1977. They are also required to submit accounts to the Charity Commission under the Charities Act 1993 if the gross income or total expenditure is more than £10,000.
- 14 The funds held by the 310 NHS bodies as at 31 March 2004 totalled £1,643m. These funds are administered by the NHS bodies acting as trustees who have powers to receive new funds and incur expenditure in accordance with their governing documents.

### Overall NHS Performance

- 15 In aggregate, PCTs, NHS Trusts and SHAs achieved a revenue resource underspend of £73m and a capital resource underspend of £161m in 2003-2004.

### Strategic Health Authorities

- 16 SHAs are statutory bodies established on the 1 April 2002 by Statutory Instrument 2002 No.553 under the powers of the National Health Service Act 1977, as amended by Statutory Instrument 2002 No.2469 under the National Health Service Reform and Health Care Professions Act 2002. They are responsible for performance managing the NHS as the local headquarters of the NHS on behalf of the Department of Health. This includes the performance management of NHS Trusts and PCTs.

### Financial duties of Strategic Health Authorities

- 17 SHAs have four main financial duties
  - a To contain expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
  - b To contain cash spend within approved limits (a statutory duty).
  - c To achieve financial balance without the need of unplanned financial support (not a statutory duty but a performance management measure).
  - d To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).

### Overall financial performance of Strategic Health Authorities in 2003-2004

- 18 In 2003-2004, all 28 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. The SHAs reported a £206m underspend against the revenue resource limit and a £20m underspend against the capital resource limit in 2003-2004.



## Better Payment Practice Code - Strategic Health Authorities

19 The percentage of bills paid in compliance with the better payment practice code in 2003-2004 is as follows

Compliance level	Number of Strategic Health Authorities	
	By number of bills	By value of bills
Between 95% and 100%	6	11
Between 85% and 94.9%	4	8
Between 75% and 84.9%	11	3
Between 65% and 74.9%	4	6
Between 55% and 64.9%	1	0
Between 50% and 54.9%	2	0
Less than 50%	0	0
Total	28	28
Overall performance 2003-2004	82%	88%

- 20 In 2003-2004 SHAs paid 82% of their bills (88% when measured by value) within 30 days/contracted terms. This in the context of SHAs processing and paying over 145,000 invoices per annum.
- 21 The Department of Health works with poor performing SHAs to achieve and maintain a level of payment performance consistent with Government Accounting regulations and the Better Payment Practice Code.

## Primary Care Trusts

- 22 PCTs first came into existence in April 2000. They were established under the National Health Service Act 1977 as amended by the Health Act 1999. PCTs are responsible for the commissioning of health care on behalf of their resident population. Some PCTs are also responsible for providing community services to their population.
- 23 In 2002-2003, PCTs took over the full range of commissioning activities, the majority of which were previously undertaken by Health Authorities. Also, commitments relating to financial recovery plan arrangements entered into by predecessor Health Authorities were devolved to PCTs.

## Financial duties of Primary Care Trusts

- 24 PCTs have five main financial duties
- To contain expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
  - To contain cash spend within approved limits (a statutory duty).
  - To achieve financial balance without the need of unplanned financial support (not a statutory duty but a performance management measure).
  - To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).
  - 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 2003-2004

- 25 In 2003-2004 PCTs reported a revenue resource limit under-spend of £4m, compared to a £93m under-spend in 2002-2003.
- 26 PCTs reported an aggregate underspend of £68m on the capital resource limit, compared to £29m in 2002-2003.
- 27 The 2003-2004 revenue position is made up of 262 PCTs reporting an aggregate underspend of £95m (£123m in 2002-2003) and 41 PCTs reporting an aggregate overspend of £91m (£30m in 2002-2003).
- 28 On capital, 301 PCTs reported an aggregate underspend of £69m with two PCTs reporting an aggregate overspend of £1m (the underspend was £29m in 2002-2003). The two PCTs which reported a capital overspend failed this statutory duty (12 in 2002-2003).
- 29 In 2003-2004 there were 22 PCTs (2002-2003: 39 PCTs) with provider functions that did not fully recover the cost of functions from income provided by commissioners as required.

## Better Payment Practice Code – Primary Care Trusts

- 30 The percentage of bills paid in compliance with the better payment practice code in 2003-2004 is as follows

Compliance level	Number of Primary Care Trusts	
	By number of bills	By value of bills
Between 95% and 100%	62	100
Between 85% and 94.9%	103	112
Between 75% and 84.9%	75	60
Between 65% and 74.9%	53	21
Between 55% and 64.9%	7	7
Between 50% and 54.9%	3	1
Less than 50%	0	2
Total	303	303
Overall performance 2003-2004	85%	89%

- 31 In 2003-2004 PCTs paid 85% of their bills (89% when measured by value) within 30 days/contracted terms. This is in the context of PCTs processing and paying over 3.7m invoices per annum.
- 32 SHAs monitor the performance of individual PCTs and work with poor performing PCTs to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.

## NHS Trusts

- 33 NHS Trusts were established under the National Health Service and Community Care Act 1990 and are responsible for the provision of health care. They receive most of their income from commissioners of health care (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.

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 position (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% 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 departmental duty to breakeven each and every year.
- c NHS Trusts are required to absorb the cost of capital at a rate of 3.5% of average relevant net assets (6% in 2002-2003).
- d To remain within the External Financing Limit (EFL) set for each NHS Trust by the Department of Health.
- e To remain within the Capital Resource Limit (CRL) set for each NHS Trust by the Department of Health.

## Overall financial performance of NHS Trusts in 2003-2004

- 35 In 2003-2004 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £138m compared to a £94m deficit in 2002-2003.
- 36 The 2003-2004 position is made up of 65 NHS Trusts reporting an aggregate deficit of £175m, offset by 204 NHS Trusts reporting an aggregate surplus of £37m.
- 37 While 65 NHS Trusts reported a deficit in 2003-2004, none breached their statutory financial duty to break-even 'taking one financial year with another'. However, at 31 March 2004 some 13 NHS Trusts had agreed extended periods of recovery with their SHAs.
- 38 62 NHS Trusts out of the 269 were identified by the Department of Health as having significant financial difficulties at the end of 2003-2004 compared to 53 in 2002-2003.
- 39 A Trust is assessed as having a significant financial difficulty if the underlying (which broadly means the recurrent) deficit being managed in any one year exceeds the lower of £1m or 1% of total annual income.

40 Table 1 below summarises the performance of NHS Trusts against the three subsidiary financial duties.

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

	<b>Number</b>	<b>Percentage</b>
Total NHS Trusts	269	100%
<i>NHS Trusts achieving targets</i>		
Capital Absorption Rate		
Total achieving 3.5% or more	178	66%
After adjusting for immaterial results <sup>2</sup>	261	97%
External Financing Limit		
Total meeting limit	253	94%
After adjusting for de minimus overshoots <sup>3</sup>	262	97%
Capital Resource Limit		
Total meeting limit	254	94%
After adjusting for de minimus overshoots <sup>4</sup>	259	96%

41 Analysis of the 2003-2004 results show that

- a 65 (50 in 2002-2003) had an income and expenditure deficit – 24% of all NHS Trusts (18% in 2002-2003);
- b no statutory breakeven duty failures (none in 2002-2003);
- c 91 did not make a 3.5% return on capital (75 in 2002-2003 did not make a 6% return on capital) – 34% of all NHS Trusts (27% in 2002-2003);
- d 16 (12 in 2002-2003) overshoot their EFL – 6% of all NHS Trusts (4% in 2002-2003); and
- e 15 (12 in 2002-2003) overshoot their CRL – 6% of all NHS Trusts (4% in 2002-2003).

42 When non-material failures are discounted

- a 49 (40 in 2002-2003) had an income and expenditure deficit<sup>5</sup> – 18% of all NHS Trusts (15% in 2002-2003);
- b eight (21 in 2002-2003) did not make a 3.5% return on capital – 3% of all NHS Trusts (8% in 2002-2003);
- c seven (10 in 2002-2003) overshoot their EFL – 3% of all NHS Trusts (4% in 2002-2003); and
- d 10 (10 in 2002-2003) overshoot their CRL – 4% of all NHS Trusts (4% in 2002-2003).

### Reasons for NHS Trusts failing financial duties

43 Other reasons for NHS Trusts failing financial duties are similar to those reported in previous years and include one or more of

- a shortfalls on planned income/cost improvements – which in some cases are due to optimistic planning assumptions;
- b increased use of locum medical and agency staff due to recruitment problems;
- c costs incurred in the achievement of waiting list/activity targets; and
- d timing of capital expenditure and income over financial year end.

<sup>1</sup> Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2003-2004 by Department of Health.

<sup>2</sup> A shortfall on the rate of return duty of less than 0.5% is treated as immaterial.

<sup>3</sup> An EFL overshoot of less than £10,000 is treated as being within de minimus limits.

<sup>4</sup> A CRL overshoot of less than £50,000 is treated as being within de minimus limits.

<sup>5</sup> A deficit of more than 0.5% of total annual income.

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

- 44 Where analysis of an NHS Trust's financial performance leads the SHA to believe there is an underlying recurrent financial difficulty, the NHS Trust is required to prepare a recovery plan.
- 45 The appropriate SHA will agree the plan and monitor the results closely. This may involve monthly reporting to SHA, regular meetings with NHS Trust senior managers and the NHS Trust achieving specific milestones to ensure satisfactory progress is being made.
- 46 SHAs will focus on the NHS Trusts 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.

## Better Payment Practice Code – NHS Trusts

- 47 The percentage of bills paid in compliance with the better payment practice code in 2003-2004 is as follows

Compliance level	Number of Trusts	
	By number of bills	By value of bills
Between 95% and 100%	59	72
Between 85% and 94.9%	110	111
Between 75% and 84.9%	64	48
Between 65% and 74.9%	17	19
Between 55% and 64.9%	10	13
Between 50% and 54.9%	2	1
Less than 50%	7	5
Total	269	269
Overall performance 2003-2004	84%	84%

- 48 In 2003-2004 NHS Trusts paid 84% of their bills (2002-2003: 82%) by number (84% when measured by value (2002-2003: 83%) within 30 days/contracted terms. This in the context of NHS Trusts processing and paying circa 12.7m invoices per annum.
- 49 SHAs monitor the performance of individual NHS Trusts and work with poor performing NHS Trusts to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.

## Special Health Authorities

### National Blood Authority

- 50 On 1 April 1993 the National Blood Authority was formed to replace the Central Blood Laboratories Authority and was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977. On 1 April 1994 the National Blood Authority took over responsibility for the 13 Regional Transfusion Centres from Regional Health Authorities. The Authority now provides a national blood service from the collection of blood through to the testing and processing of blood products, manufacture of plasma products and the resultant distribution to hospitals. The majority of the revenue expenses of the Authority are defrayed by sales income, while the remainder of revenue expenses and all capital funds are defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

- 51 The Authority issued 2,157,000 units of red cells (2002-2003: 2,186,000 units) and 220,000 units of platelets (2002-2003: 216,000 units). The Authority charges customers for the costs of collection, processing and distribution (£110.92 in 2003-2004 and £99.77 in 2002-2003). There is no charge for the blood itself which is donated on a voluntary basis.
- 52 The 2004-2005 Business Planning period represents a departure from previous planning years, in that it will be necessary, at least for the first six months of this plan, to focus the majority of efforts and resources in maintaining the sufficiency and security of the blood supply. This change of emphasis is in response to the anticipated pressures that the Service will face in light of recent Ministerial announcements and the additional measures the National Blood Service is implementing to reduce further the possible risk of transmission of vCJD by blood transfusion.
- 53 The Authority recorded a £16,389,000 deficit (2002-2003: £4,134,000 surplus) on an income of £375,519,000 (2002-2003: £360,355,000).

### NHS Logistics Authority

- 54 The National Health Service Logistics Authority was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977 on 1 April 2000. It evolved from NHS Supplies wholesaling division with a remit to develop from a wholesale operation into the chain of supply operation for the NHS.
- 55 The Cabinet Office Review of NHS Procurement, published in 1998, envisaged efficiency savings from this development, as the existing infrastructure of the Authority's national supply channel is increasingly utilised by the NHS and, as a result, supply volumes approach optimum levels. The Authority has seven distribution centres around the country with a fleet of over 200 vehicles. Deliveries are made to more than 10,000 physical locations to trusts throughout England.
- 56 The Authority has launched its own e-ordering system and has consolidated its estate for improved efficiency.
- 57 The Authority achieved a surplus of £853,000 (2002-2003 deficit of £80,000) on turnover of £676,956,000 (2002-2003: £622,424,000). All revenue income was derived from sales or fees, with £2,737,000 received from the Department for capital from Request for Resources 1.

### NHS Professionals

- 58 This body was constituted as a Special Health Authority on 1 January 2004 under section 11 of the National Health Service Act 1977. The Authority became fully operational on 1 April 2004.
- 59 The Authority was established to manage and recruit a flexible workforce in the National Health Service in an efficient and cost effective way.
- 60 The accounts for the three month period to 31 March 2004 show the costs incurred in the setting up of the Authority and not of its operational functions.

### Better Payment Practice Code - Special Health Authorities measure of compliance

- 61 Each Special Health Authority is required to pay their non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or valid invoice (whichever is later) unless the payment terms have been agreed with the supplier.

	Percentage of bills paid within target – Compliance level			
	2003-2004		2002-2003	
	Number	£000	Number	£000
National Blood Authority	87.8%	89.5%	83.9%	85.9%
NHS Logistics Authority	77.2%	Not stated	65.6%	68.0%
NHS Professionals	94.6%	Not stated	n/a	n/a

### Future developments

- 62 10 NHS trusts were established as NHS Foundation Trusts (FTs) from 1 April 2004 and 10 more from 1 July 2004. Other applicants may become FTs with establishment dates throughout 2004-2005. FTs are not subject to direction by the Secretary of State for Health but they are subject to directions from the FT regulator with the approval of Treasury and are accountable to their local community. Summarised accounts will not be prepared for FTs by the Department and they will lay their accounts individually before Parliament.
- 63 Two new special health authorities were established on 1 April 2004, the NHS Pensions Agency and NHS Direct. The Department commissioned a review of all its arm's length bodies, including Special Health Authorities, with a view to improving efficiency and cutting out bureaucracy. Preliminary findings were announced in July 2004 and an implementation framework in November 2004. This involves a reduction in the number of arm's length bodies from 38 to 20.
- 64 The following changes have been announced regarding NHS Professionals, the National Blood Authority and NHS Logistics. NHS Professionals is to become self-financing and take on new status by 2007-2008. The National Blood Authority will be dissolved by October 2005 and replaced by a new body which will also encompass the work of UK Transplant. The Department is currently considering the future arrangements for the work undertaken by NHS Logistics. Further details can be found in An Implementation Framework for Reconfiguring the DH Arm's Length Bodies, November 2004.
- 65 From 1 April 2004 the NHS has started to introduce a system of financial flows based on the principle of payments by results against a standard tariff for treatment in NHS trusts and FTs. The system is part of the reform programme in the NHS which will increase patient choice and provide strong incentives for providers to focus on quality and increasing patient satisfaction as well as efficiency. The standard tariff will keep transaction costs down and remunerate trusts in a fair and transparent way.
- 66 An Order under the Regularity Reform Act 2001 has been introduced to Parliament to remove the dual accountability of the charitable funds held on trust. On the passing of the order, NHS trusts, PCTs, Special Trustees and Section 11 Trustees will no longer need to submit the funds held on trust accounts to the Department of Health and the Department will not prepare a summarised account for them.

*Sir Nigel Crisp*  
Accounting Officer

13 December 2004





# Summarised Account of Strategic Health Authorities



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

Section 98 (4) of the National Health Service Act 1977 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 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 Permanent Secretary and 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 'Government Accounting'.

## Statement on Internal Control 2003-2004

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, I acknowledge my personal overall responsibility for ensuring SHAs maintain effective systems of internal control that support the achievement of their policies, aim and objectives and that they review the effectiveness of those systems.

### 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 2003-2004 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 described how they 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.

They recorded that they make 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

The Department has issued guidance to SHAs describing the principles to be applied to the identification, evaluation and control of risk. For 2003-2004 all SHAs were required to embed Assurance Frameworks that set out the strategic and high level directorate risks 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.

Some SHAs use a balanced scorecard system with a 'traffic light' system to flag up risk priorities.

SHAs described their own Assurance Frameworks in their Statements on Internal Control and provided comments on the embedding of risk management 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.

I made an assessment of the quality and embedding of the Assurance Frameworks against a number of criteria, and by taking into consideration the SHA Head of Internal Audit Opinions. This showed that

- |    |                            |   |   |
|----|----------------------------|---|---|
| 27 | SHAs achieved Category "A" | - | an acceptable assessment  |
| 1  | SHA achieved Category "B"  | - | because the Assurance Framework was embedded after 31 March 2004. |

**Note**

Category 'A'	Provides evidence that a system of internal control was in place.
Category 'B'	Insufficient evidence that a system of internal control was in place at 31 March 2004.

This represents a substantial improvement over 2002-2003 when none of the 28 SHAs were able to sign full statements. The Department has now provided further training and guidance for Strategic Health Authorities and made the assessment criteria more stringent for 2004-2005. This will help raise progressively the standard of internal control as evinced by the Assurance Frameworks.

The Department performance managed the ongoing development of the SHAs' Assurance Frameworks and the actions taken to address significant gaps in control or assurance.

**Review of effectiveness**

To help me fulfil this responsibility, I appointed the Chief Executive of each of the SHAs as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. I have issued guidance to each Accountable Officer regarding corporate governance, risk management, internal control and on the Assurance Framework.

I draw my major source of assurance on the SHAs systems of internal control from

- Statements on Internal Control, signed by Accountable Officers in support of the accounts for each SHA.

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;
- the Opinion provided by the SHA head of internal audit.

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.

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;
- Audit Committees, Risk Management Committees, Governance Committees and other Board Committees.

External auditors did not identify any inconsistencies in the SHA SICs.

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.

## Significant control issues

One SHA disclosed significant control issues in their Statements on Internal Control as detailed in the table below. The Department of Health is monitoring the action that the SHA is and will be taking to address these issues.

## Significant control issues –SHAs

### **Details of significant control issues disclosed in Statements on Internal Control**

Avon, Gloucester and Wiltshire community has faced major challenges during 2003-2004, and that during this period there have been new Chief Executives and Chairs of several PCTs and NHS Trusts appointed.

The most significant issue relates to Kennet and North Wiltshire PCT, where the previous forecast of breakeven position moved to reported outturn overspend of £1.471m. This arose from a breakdown in basic systems and controls which resulted in the discovery, at the very end of the final accounts process, of previously unaccounted expenditure. In accordance with national Controls Assurance requirements, the Board of the PCT had previously assured itself that the organisation was meeting the necessary standards for internal controls and systems. Such a breakdown is a serious matter and is not acceptable. The PCT's Acting Chief Executive has asked the Audit Commission to investigate the causes of the failures and identify action needed to ensure the required standards are achieved in future. The report is expected in early July.

The risk register includes assessment of the significance of risks, both internally and across the community. The most significant risks are those community-wide ones around failure to achieve financial balance or to meet critical service modernisation targets. There are detailed programmes in place to manage these risks but they remain significant risks.

Within the SHA, the action plan designed to respond to issues arising from the national controls assurance standards has two significant elements; to ensure Freedom of Information Act processes are fully ready by January 2005, and that purchasing and supply processes are brought up to highest standards of practice. Management plans to address these requirements are in place.

### **Developments during 2003-2004**

During 2003-2004 the Department provided further training for Strategic Health Authorities to assist them with the development of effective Assurance Frameworks. The Department monitored the actions taken by the Strategic Health Authorities and provided additional help where it was indicated that they may not have all the necessary processes in place by 31 March 2004 to meet the requirements of the Statement.

#### *Performance management of strategic health authorities*

The Department will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by SHAs to provide the structured evidence to support statements for 2004-2005 and the actions taken to address significant issues and gaps in control or assurance.

## Conclusion

The ongoing development of Assurance Frameworks with 27 of the 28 SHAs assessed as Category A has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. SHAs were able to demonstrate that they had made considerable progress since 31 March 2003 and arrangements are in place to further develop Assurance Frameworks with the Department applying more stringent criteria for 2004-2005.

Sir Nigel Crisp  
Accounting Officer

13 December 2004

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

I certify that I have audited the financial statements on pages A9 to A25 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages A12 to A16.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page A3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages A4 to A6 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Strategic Health Authorities, or their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Strategic Health Authorities at 31 March 2004 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Operating Cost Statement for the year ended 31 March 2004

### Continuing operations

	Notes	2002-2003 £000	2002-2003 £000
<b>Expenditure</b>			
Healthcare and related services commissioned	2	0	1,463,257
Authority administration and programme expenditure	3	<b>3,780,024</b>	3,364,063
		<b>3,780,024</b>	4,827,320
Miscellaneous income	4	<b>(143,420)</b>	(176,417)
<b>Net operating costs</b>		<b>3,636,604</b>	4,650,903

## Statement of Recognised Gains and Losses for the year ended 31 March 2004

		2002-2003 £000	2002-2003 £000
Unrealised surplus on the revaluation of fixed assets	12	<b>6,809</b>	20,653
Net transfer to NHS bodies and Department of Health	13	<b>(2,178)</b>	958,573
<b>Recognised gains for the financial year</b>		<b>4,631</b>	979,226

*The notes at pages A12 to A25 form part of this account.*

## Balance Sheet as at 31 March 2004

	Notes	£000	2002-2003 £000
<b>Fixed assets</b>			
Intangible assets	5.1	273	41
Tangible assets	5.2	63,922	102,605
		<b>64,195</b>	102,646
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	139,414	263,356
Cash at bank and in hand	15	312	4,156
		<b>139,726</b>	267,512
<b>Creditors: amounts falling due within one year</b>	7	<b>(137,186)</b>	(216,688)
<b>Net current assets</b>		<b>2,540</b>	50,824
<b>Total assets less current liabilities</b>			
		<b>66,735</b>	153,470
Creditors: amounts falling due after more than one year	8	(2,980)	(1,973)
Provisions for liabilities and charges	9	(19,115)	(62,524)
		<b>44,640</b>	88,973
<b>Taxpayers' equity</b>			
General fund	13	29,783	70,620
Revaluation reserve	12	14,857	18,353
		<b>44,640</b>	88,973

*The notes at pages A12 to A25 form part of this account.*

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the year ended 31 March 2004

	Notes	2002-2003 £000	2002-2003 £000
Net cash (outflow) from operating activities	16	<b>(3,587,842)</b>	(4,625,033)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire fixed assets		<b>(4,053)</b>	(3,984)
Receipts from the sale of fixed assets		<b>1,588</b>	47,745
Net cash (outflow)/inflow from investing activities		<b>(2,465)</b>	43,761
<b>Net cash (outflow) before financing</b>		<b>(3,590,307)</b>	(4,581,272)
<b>Analysis of financing</b>			
Net parliamentary funding	13	<b>3,586,555</b>	4,544,480
Cash transferred to PCTs		<b>0</b>	(20,310)
<b>(Decrease) in cash</b>	15	<b>(3,752)</b>	(57,102)

*The notes at pages A12 to A25 form part of this account.*

# Notes to the Account

## 1 Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by strategic health authorities are described below. They have been consistently applied 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 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 income 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 2003-2004 was 3.5% (2002-2003: 6%) 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

- 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.

- iii Tangible assets which are capable of being used for a period which exceeds one year, and which
  - individually have a cost equal to or greater than £5,000; or
  - collectively have a cost equal to or greater than £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates and are anticipated to have simultaneous disposal dates; and are under single management control; or
  - form part of the initial setting-up cost of a new building, irrespective of their individual or collective cost.

b Valuation

Intangible fixed assets

Intangible fixed assets held for operational use are valued at historical cost, except Research and Development which is revalued 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 in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

i Land, buildings, installations and fittings

Valuations are carried out by the District Valuer of the Inland Revenue 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 1999 as at the prospective valuation date of 1 April 2000.

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 the expected useful life

	Years
<i>Plant and machinery</i>	
Moveable engineering plant and equipment and long life medical equipment	15
Furniture and medium life medical equipment	10
Short life medical and other equipment	5
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5
Transport equipment	7
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7

From 2000-2001, 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.

From 2003-2004, the method for accounting for second hand assets on acquisition has been changed from disclosing gross costs and accumulated depreciation to disclosing net acquisition costs. The change will have no effect on the balance sheet figures and comparative figures have not been amended.

## 1.6 Losses and special payments

Losses and special payments are charged to the relevant functional headings, 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 9.

### 1.8 Pensions costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the strategic health authority to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2003-2004 was £8,226,000 (2002-2003: £9,912,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due at 31 March 2004.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2003-2004 were set at 14% of pensionable pay (2002-2003: 7%). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central Budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%.

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 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension, 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.

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 can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the strategic health authority commits itself to the retirement, regardless of the method of payment.

### **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.

### **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 should be 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 3.5% in real terms. This is a change from the rate of 6% applied to 2002-2003 and earlier. The effect of this change is to increase the carrying value of the provisions and this is shown in Note 9.



**2 Healthcare and related services commissioned**

	<b>£000</b>	2002-2003 £000
<b>Primary healthcare commissioned by strategic health authorities</b>		
General medical services (discretionary)	0	989
General medical services (non discretionary)	0	1,116,722
Drug costs	0	29,647
Pharmaceutical services	0	54,729
General dental services	0	11,987
General ophthalmic services	0	153,853
Department of Health Initiative funding	0	1,493
	<u>0</u>	<u>1,369,420</u>
<b>Commission of healthcare by primary care act pilots</b>		
Personal medical services	0	35,822
Personal dental services	0	7,238
	<u>0</u>	<u>43,060</u>
<b>Secondary healthcare commissioned by strategic health authorities</b>		
Learning difficulties	0	3,016
Mental illness	0	5,320
Maternity	0	1,344
General and acute	0	24,210
Accident and emergency	0	861
Community Health Services	0	50
Other contractual	0	15,976
	<u>0</u>	<u>50,777</u>
<b>Total Healthcare commissioned</b>	<u>0</u>	<u>1,463,257</u>

**3 Authority administration and programme expenditure**

	£000	£000	2002-2003 £000
<i>The expenses of the authorities were</i>			
Non-executive members' remuneration		<b>1,684</b>	1,445
Other staff costs		<b>167,495</b>	180,870
Pension costs pre 1995 early retirements		<b>0</b>	32,972
Premises and fixed plant		<b>33,253</b>	46,643
Establishment costs		<b>21,395</b>	24,169
Training costs		<b>3,066,228</b>	2,659,343
Transport and moveable plant		<b>640</b>	739
<i>Capital: depreciation</i>	<b>1,907</b>		1,873
Impairments	<b>2,196</b>		1,217
Capital charge interest	<b>1,085</b>		914
(Profit)/loss on disposal of fixed assets	<b>0</b>		(91)
		<b>5,188</b>	3,913
Auditors' remuneration - Audit fee <sup>1</sup>		<b>3,164</b>	2,670
Auditors' remuneration - Other fees		<b>155</b>	329
Interest payable		<b>318</b>	24
Unwinding of discount on provisions		<b>1,074</b>	1,043
Change in the discount rate		<b>143</b>	0
Student Grants Unit		<b>369,209</b>	332,770
Miscellaneous		<b>110,078</b>	77,133
		<b>3,780,024</b>	3,364,063

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

£1,000 was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2002-2003: £1,000). No compensation was paid to cover debt recovery costs under this legislation (2002-2003: £Nil).

	£000	£000	2002-2003 £000
<i>Hire and operating rentals included in expenses</i>			
Hire of plant and machinery		<b>504</b>	303
Other operating leases		<b>9,981</b>	6,698
		<b>10,485</b>	7,001
<i>Executive members and staff costs</i>			
Salaries and wages		<b>133,632</b>	130,155
Social security costs		<b>12,497</b>	10,782
Employer contributions to NHS Pensions Agency		<b>8,226</b>	9,912
Other pension costs		<b>168</b>	1,904
Agency staff		<b>12,972</b>	8,688
		<b>167,495</b>	161,441

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

	Number
<i>Staff group</i>	
Senior Managers	685
Staff on inward secondment	217
Agency, temporary and contract staff	387
Officials	2,558
<b>Total</b>	<b>3,847</b>
Total 2002-2003	3,839

#### *Retirements due to ill-health*

During the year, 13 employees retired due to ill health (2002-2003: seven). The additional pension liabilities for these staff is estimated at £1,040,000 (2002-2003: £572,000) (calculated on an average basis and borne by the NHS Pension Scheme).

## **4 Miscellaneous income**

	£000	2002-2003 £000
Fees and charges	<b>4,743</b>	3,450
Prescription charge income	<b>0</b>	37,874
Other	<b>138,677</b>	135,093
	<b>143,420</b>	176,417

## **5 Fixed assets**

### **5.1 Intangible fixed assets**

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

	Software licences £000
Gross cost at 31 March 2003	102
Additions - purchased	250
<b>Gross cost at 31 March 2004</b>	<b>352</b>
Accumulated amortisation at 31 March 2003	61
Provided during the year	18
<b>Accumulated amortisation at 31 March 2004</b>	<b>79</b>
<b>Net book value</b>	
Purchased at 31 March 2003	41
<b>Purchased at 31 March 2004</b>	<b>273</b>

**5.2 Tangible fixed assets**

	Total	Land	Buildings exc dwellings	Dwellings	Assets under construction and pay on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>									
31 March 2003	108,896	57,837	41,819	106	6	492	152	7,130	1,354
Reclassification	0	56	1,191	0	(899)	0	0	59	(407)
Additions - purchased	3,553	22	814	0	893	126	0	1,195	503
Transfers to NHS bodies /NHS Estates	(38,636)	(29,379)	(9,802)	898	0	(247)	0	(545)	439
Indexation	6,489	3,161	3,194	98	0	4	3	0	29
Other in-year revaluation	349	(236)	(17)	608	0	(3)	(1)	0	(2)
Disposals	(9,736)	(2,516)	(5,057)	(1,594)	0	(32)	0	(533)	(4)
<b>Gross cost at 31 March 2004</b>	<b><u>70,915</u></b>	<b><u>28,945</u></b>	<b><u>32,142</u></b>	<b><u>116</u></b>	<b><u>0</u></b>	<b><u>340</u></b>	<b><u>154</u></b>	<b><u>7,306</u></b>	<b><u>1,912</u></b>
Accumulated depreciation at 31 March 2003	6,291	0	1,293	4	0	429	152	4,253	160
Provided during the year	1,889	0	989	24	0	16	0	671	189
Impairments	2,196	0	2,085	0	0	0	0	111	0
Transfers to NHS bodies /NHS Estates	(2,055)	0	(1,322)	0	0	(225)	0	(508)	0
Indexation	35	0	24	0	0	4	3	0	4
Other in-year revaluation	(6)	0	0	0	0	(4)	(1)	1	(2)
Disposals	(1,357)	0	(915)	(19)	0	(23)	0	(396)	(4)
<b>Accumulated depreciation at 31 March 2004</b>	<b><u>6,993</u></b>	<b><u>0</u></b>	<b><u>2,154</u></b>	<b><u>9</u></b>	<b><u>0</u></b>	<b><u>197</u></b>	<b><u>154</u></b>	<b><u>4,132</u></b>	<b><u>347</u></b>
<b>Net book value</b>									
Purchased at 31 March 2003	102,605	57,837	40,526	102	6	63	0	2,877	1,194
<b>Purchased at 31 March 2004</b>	<b><u>63,922</u></b>	<b><u>28,945</u></b>	<b><u>29,988</u></b>	<b><u>107</u></b>	<b><u>0</u></b>	<b><u>143</u></b>	<b><u>0</u></b>	<b><u>3,174</u></b>	<b><u>1,565</u></b>

The net book value of land and buildings at 31 March 2004 comprised

	£000
Freehold	<b>57,904</b>
Long leasehold	<b>662</b>
Short leasehold	<b>474</b>
	<b><u>59,040</u></b>

No assets in 2003-2004 or 2002-2003 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 2003-2004 or 2002-2003.

**6 Debtors: amounts falling due within one year**

	£000	31 March 2003 £000
NHS debtors	<b>88,152</b>	203,070
Prepayments	<b>19,622</b>	17,872
Accrued income	<b>2,761</b>	906
Provision for irrecoverable debts	<b>(498)</b>	(527)
Capital debtors	<b>6,964</b>	173
Pension prepayments - in respect of staff and former directors	<b>91</b>	3
Other debtors	<b>22,322</b>	41,859
	<b>139,414</b>	263,356

**7 Creditors: amounts falling due within one year**

	£000	31 March 2003 £000
Bank overdrafts	<b>0</b>	92
NHS creditors	<b>78,003</b>	130,633
FHS creditors (contractors)	<b>0</b>	200
GPFH savings	<b>0</b>	548
Non-NHS trade creditors	<b>28,053</b>	37,254
Payments received on account	<b>306</b>	611
Income tax and social security	<b>1,412</b>	2,243
Capital creditors	<b>63</b>	313
Rentals due under operating leases	<b>25</b>	23
Pensions relating to former directors	<b>386</b>	36
Pensions relating to other staff	<b>2,926</b>	4,037
Other creditors	<b>26,012</b>	40,698
	<b>137,186</b>	216,688

**8 Creditors: amounts falling due after more than one year**

	£000	31 March 2003 £000
Pensions relating to former directors	<b>625</b>	0
Pensions relating to other staff	<b>2,355</b>	1,973
	<b>2,980</b>	1,973

**9 Provisions for liabilities and charges**

	Pensions relating to former directors £000	Pensions relating to other staff £000	Other legal claims £000	Restruct- uring £000	Other £000	<b>Total £000</b>
At 31 March 2003	4,462	44,443	259	9,513	3,847	<b>62,524</b>
Arising during the year	111	4,590	183	1,090	1,371	<b>7,345</b>
Utilised during the year	(1,486)	(4,274)	(208)	(6,554)	(1,852)	<b>(14,374)</b>
Reversal unused	(175)	(1,106)	0	(1,385)	(307)	<b>(2,973)</b>
Transfers and reclassifications	(1)	(35,274)	0	1,414	(763)	<b>(34,624)</b>
Change in the discount rate	36	105	0	2	0	<b>143</b>
Unwinding of discount	101	953	0	10	10	<b>1,074</b>
<b>At 31 March 2004</b>	<b>3,048</b>	<b>9,437</b>	<b>234</b>	<b>4,090</b>	<b>2,306</b>	<b>19,115</b>

*Expected timing of cashflows*

Within one year	419	2,539	149	1,653	985	<b>5,745</b>
Within one to five years	1,535	3,280	85	2,190	0	<b>7,090</b>
Over five years	1,094	3,618	0	247	1,321	<b>6,280</b>

£639,587,000 is included in the accounts of the NHSLA for 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.

**10 Finance lease obligations**

Strategic health authorities do not hold any assets under finance leases.

**11 Operating lease commitments**

	2002-2003 £000	£000
<b>Land and buildings</b>		
<i>Commitments under non-cancellable operating leases which expire</i>		
Within one year	<b>508</b>	23
Between one and five years	<b>3,751</b>	2,951
After five years	<b>10,903</b>	12,235
	<b>15,162</b>	15,209
<b>Other leases</b>		
<i>Commitments under non-cancellable operating leases which expire</i>		
Within one year	<b>134</b>	130
Between one and five years	<b>1,199</b>	818
After five years	<b>0</b>	0
	<b>1,333</b>	948

**12 Revaluation reserve**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>18,353</b>	162,236
Revaluations and indexation	<b>6,809</b>	20,653
Transfers to General Fund - realised elements	<b>(2,043)</b>	(3,938)
Transfers to General Fund - re transfers to PCTs	<b>(8,262)</b>	(160,598)
<b>At 31 March 2004</b>	<b>14,857</b>	18,353

**13 General fund**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>70,620</b>	(946,980)
Net operating cost for the year	<b>(3,636,604)</b>	(4,650,903)
Net Parliamentary funding	<b>3,586,555</b>	4,544,480
Transfer to NHS bodies	<b>(2,178)</b>	958,573
Transfers from Revaluation Reserve	<b>10,305</b>	164,536
Capital charges interest	<b>1,085</b>	914
<b>At 31 March 2004</b>	<b>29,783</b>	70,620

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

	<b>£000</b>	2002-2003 £000
Decrease in debtors	<b>130,733</b>	851,965
(Decrease) in creditors	<b>(78,245)</b>	(1,858,057)
Transfer of debtors/creditors between NHS bodies	<b>(129)</b>	991,322
	<b>52,359</b>	(14,770)

**15 Analysis of changes in net debt**

	As at 31 March 2003 £000	Cash flows £000	As at 31 March 2004 £000
Cash at OPG	3,503	(3,420)	<b>83</b>
Cash at commercial bank and in hand	653	(424)	<b>229</b>
Bank overdraft	(92)	92	<b>0</b>
		(3,752)	
Debt due within one year	0		<b>0</b>
Debt due after one year	0		<b>0</b>
	4,064	(3,752)	<b>312</b>

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

	Notes	2002-2003 £000	2002-2003 £000
<b>Net operating cost</b>		<b>(3,636,604)</b>	(4,650,903)
Adjustment for non-cash transactions	3	<b>5,188</b>	55,768
Adjustment for movements in working capital other than cash	14	<b>52,359</b>	(14,770)
Adjust for movement in provisions	9	<b>(8,785)</b>	(15,128)
<b>Net cash (outflow) from operating activities</b>		<b>(3,587,842)</b>	(4,625,033)

**17 Contingent liabilities**

		31 March 2003 £000	31 March 2003 £000
<i>Authorities reported contingent liabilities as follows</i>			
Contingent liabilities		<b>(31)</b>	(570)
Amounts recoverable		<b>0</b>	0
		<b>(31)</b>	(570)

These contingent liabilities have not been accrued in this account due to uncertainty over the ultimate outcome.

**18 Capital commitments**

Strategic health authorities had the following capital commitments as at 31 March 2004

		31 March 2003 £000	31 March 2003 £000
Contracted		<b>18</b>	0
Authorised but not contracted		<b>0</b>	300
		<b>18</b>	300

**19 Losses and special payments (restated)**

There were 80 cases of losses and special payments (2002-2003: 376 cases) totalling £745,000 (2002-2003: £907,000) approved during 2003-2004. There was one fraud case of £527,000 where the net payment exceeded £100,000 (2002-2003: 0 cases). There were no personal injury cases where the payment exceeded £100,000 (2002-2003: two cases totalling £523,000). There were no clinical negligence cases, compensation under legal obligation or fruitless payment cases where the payment exceeded £100,000 (2002-2003: 0 cases).

There was one fraud case (2002-2003: 0 cases) of £527,051 (2002-2003: £0). This involved 21 incidents perpetrated by a payment clerk at the former Birmingham Health Authority between July 1997 and September 2002. The perpetrator has been jailed for three years for the offences. £114,547 worth of property has been confiscated with a further £80,900 due to be recovered.

**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 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 28 underlying NHS bodies. It is within the underlying accounts of these 28 NHS bodies that detailed FRS 13 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 the listed companies to which FRS 13 mainly applies. Strategic Health Authorities have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Strategic Health Authorities in undertaking their activities.

### *Liquidity risk*

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

### *Interest rate risk*

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

### *Foreign currency risk*

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

### *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 were no known post balance sheet events.

# The National Health Service in England Summarised Accounts Direction given by the Treasury in Accordance with Section 98(4) of the National Health Service Act 1977

## Strategic Health Authorities

- 1 The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 2003 and subsequent financial years in respect of the Strategic Health Authorities. The basis of preparation and the form and content shall be as set out in the following paragraphs and schedules.

## Basis of preparation

- 2 The summarised account of the Strategic Health Authorities shall be prepared from the audited accounts of the individual Strategic Health Authorities to which it relates and shall comply with accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding Schedules 1 and 5.

## Form and content

- 3 The Strategic Health Authorities' summarised account shall follow the format prescribed in the Resource Accounting Manual, but specifically excluding schedules 1 and 5.
- 4 The summarised account of the Strategic Health Authorities shall be prepared so as to
  - a give a true and fair view of the state of affairs as at 31 March 2003 (and subsequent years) and of net operating costs, recognised gains and losses and cash flows for the financial year(s) then ended; and
  - b provide disclosure of any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.
- 5 The main Foreword to all the summarised accounts shall include the Strategic Health Authorities.
- 6 The Foreword, Statement of Internal Control and Balance Sheet shall be signed by the Accounting Officer and dated.

## Miscellaneous

- 7 The direction shall be reproduced as an appendix to the published accounts.
- 8 The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

*David Loweth*  
Head of Central Accountancy Team  
HM Treasury

18 June 2003

## Schedule 1

### Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

#### **Companies Act**

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
- 2 The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the Foreword.
- 3 NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

#### **Accounting standards**

- 4 NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.

## Schedule 2

### Additional requirements

- 1 The Foreword shall include a statement that the summarised account has been prepared to comply with a Direction given by the Treasury in accordance with section 98(4) of the NHS Act 1977.
- 2 The Foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates, together with a fair review of their operational and financial activities and a summary of their performance against targets.



# Summarised Account of Primary Care Trusts



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

Section 98 (4) of the National Health Service Act 1977 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 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 Permanent Secretary and 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 'Government Accounting'.

## Statement on Internal Control 2003-2004

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, I acknowledge my personal overall responsibility for ensuring PCTs maintain effective systems of internal control that support the achievement of their policies, aims and objectives and that they review the effectiveness of those systems.

### 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 2003-2004 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 identified a number of ways in which they provided effective leadership and management of risk processes within their organisations. These 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. A number of the PCTs recorded that they had appointed specialist risk managers to support the function.

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

PCTs identified a number of ways in which staff were made aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also set out how they provided training on risk, in some instances mandatory, induction training and on the emphasis placed on continuing professional development.

### The risk and control framework

The Department has issued guidance to PCTs over a number of years describing the principles to be applied to the identification, evaluation and control of risk. For 2003-2004 all PCTs were required to embed Assurance Frameworks that set out the strategic and high level directorate risks 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. They also provided a range of comments on the embedding of risk management 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.



Strategic Health Authorities made an assessment of the quality and embedding of the Assurance Frameworks against a number of criteria and this showed that

291 (96%) of PCTs achieved a Category A – an acceptable assessment

12 (4%) of PCTs achieved a Category B – an unacceptable assessment

#### Note

Category "A" provides evidence that a system of internal control was in place.

Category "B" insufficient evidence that a system of internal control was in place at 31 March 2004.

This represents a substantial improvement over 2002-2003 when none of the PCTs were able to sign full statements. The Department has now provided further training and guidance for Strategic Health Authorities to promulgate to PCTs in order to make the assessment criteria more stringent for 2004-2005. This will help raise progressively the standard of internal control as evinced by the Assurance Frameworks.

PCTs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. This showed the following

Area	Proportion of gaps in control	Proportion of gaps in assurance
Financial controls	31%	25%
Organisational controls	41%	44%
Clinical controls	28%	31%

Strategic Health Authorities performance managed the ongoing development of the PCTs Assurance Frameworks and the actions taken by the PCTs to address any gaps in control or assurance that are significant.

#### Review of effectiveness

To help me fulfil this responsibility, I appointed the Chief Executive of each of the PCTs as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. I have issued guidance to each Accountable Officer regarding corporate governance, risk management, internal control and on the Assurance Framework.

I draw my major source of assurance on the PCTs systems of internal control from

- Statements on Internal Control, signed by Accountable Officers in support of the accounts for each PCT that have been summarised by the Strategic Health Authorities.

I have gained further assurance from reports from Strategic Health Authority (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;
- the Opinion provided by the PCT head of internal audit.

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 Statements on Internal Control prepared by the Strategic Health Authorities. 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 Commission for Health Improvement and external audit; and
- Audit Committees, Risk Management Committees, Governance Committees and other Board Committees.

The Strategic Health Authority Chief Executives' reports did not reveal any inconsistencies between the PCT SICs and the External Auditor Opinions or their own knowledge gained through performance management arrangements. However, they did record

- a small number of PCTs had not identified that the system of internal control was not in place for the full year; and
- a small number of PCTs had not identified as significant control issues that they did not have an Assurance Framework in place at 31 March 2004.

I have also gained 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. Through these reports I am aware that the appointed External Auditors issued a Report in the Public Interest in respect of the financial situation at Hammersmith & Fulham PCT.

### Significant Control Issues

28 PCTs disclosed significant control issues in their Statements on Internal Control as detailed below. Strategic Health Authorities are monitoring the action that the PCTs have or will be taking to address these issues.

### Significant Control Issues – PCTs

Details of significant control issues disclosed in Statements on Internal Control

#### *Norwich PCT*

Financial risks around ability of controls to achieve financial balance.

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

#### *West Norfolk PCT*

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

#### *Southern Norfolk PCT*

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

#### *Great Yarmouth PCT*

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

#### *Broadland PCT*

Operational risk due to failure to complete work to gain assurance on controls by 31 March.

Financial risks around ability of controls to achieve financial balance.

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

*North Norfolk PCT*

Financial risks around ability of controls to achieve financial balance.

Financial risks around poor controls within the Norfolk Learning Disability Pooled Fund.

*Ipswich PCT*

Financial risks around ability of controls to achieve financial balance.

*Suffolk Coastal PCT*

Financial risk caused by weaknesses in the budgetary control system

Financial risks around ability of controls to achieve financial balance.

*Central Suffolk PCT*

Financial risks around ability of controls to achieve financial balance.

*Suffolk West PCT*

Financial and operational risk arising from requirement to get signed agreements for all services covered by partnership arrangements.

Financial risks around ability of controls to achieve financial balance.

*Luton PCT*

A number of issues have recently been identified relating to the governance and management processes within the Joint Commissioning Agency (JCA). The JCA had delegated authority (up to 31 March 2004), for commissioning services for health and social care..

*Bedford PCT*

A number of issues have recently been identified relating to the governance and management processes within the Joint Commissioning Agency (JCA). These are currently being reviewed by internal auditors. The JCA had delegated authority (up to 31 March).

*Bedfordshire Heartlands PCT*

Overspending on commissioning Service Level Agreement (SLAs). This will be addressed through improved performance management of SLA activity using the new reforming Financial Flows framework and strengthened demand management. Unrelenting increased demand on clinical services.

*Hammersmith and Fulham PCT*

Poor budgetary control.

*Barking and Dagenham PCT*

The Commission for Health Improvement (CHI) review identified the need to develop the PCT's commissioning capacity.

A new Director is being recruited and a review of the capacity within commissioning is underway.

The Board has increased its monitoring of commissioning issues.

Weaknesses in budgetary control in 2002-2003 were identified and an action plan was put in place which strengthened budgetary control during 2003-2004.

#### *Newham PCT*

A significant internal control issue has been activity growth pressures. The PCT has put demand management plans in place and included these issues within the PCT objectives and identified them as high risk in the assurance framework.

#### *South Huddersfield PCT*

Finance: the PCT failed against a statutory duty by incurring a deficit against its Revenue Resource Limit of £1,098,000. As this risk developed it was identified by the PCT's internal control systems. It arose chiefly during the close down of the 2003-2004 LDP process. All available measures were taken to reduce the deficit in year. The risk and the action plans were clearly and consistently highlighted to the Board and Audit Committee and to the West Yorkshire SHA.

The PCT is actively engaged with its partners in the health community in planning to eliminate any possible future deficits. The PCT internal control system continues to effectively measure the risk and identify the effect of action plans. Consequently it can be shown that the system of internal control with regards to financial management is operating effectively despite the deficit being incurred.

#### *South Manchester PCT*

The most serious risk facing the PCT at this time continues to be the achievement of its financial recovery plan. 2003-2004 was the first year in a three year plan. However, planned brokerage has been maintained and the PCT has not had to resort to any unplanned brokerage at this time.

#### *Dartford, Gravesham and Swanley PCT*

A Financial Recovery Plan was instigated by the PCT during 2003-2004 in order to address the significant risk identified in our financial planning arrangements. The risks identified are incorporated within the revised Assurance Framework and will be monitored through the Risk Management processes of the Trust and monitoring arrangements with the Kent and Medway Strategic Health Authority.

#### *South Wiltshire PCT*

The PCT exceeded its revenue resource limit by £1.1m despite receiving planned additional support.

In order to manage the emergent issues as described within the notes to the accounts, the following measures/actions will be implemented

- withdrawal from risk sharing arrangements so that costs fall on an actual basis. Financial decision making in terms of placements and Service Level Agreement (SLA) exclusions is taken by the PCT supported through appropriate panel arrangements:
- need to ensure SLAs with providers seek authorisation for treatment of exceptions and exclusions and high cost treatments and drugs prior to commencement:
- alignment of clinical responsibility and financial accountability by devolving specialist Mental Health placements to the Mental Health provider:
- development and implementation of a robust financial recovery plan to deliver recurrent financial balance by 31 March 2006.

*Kennet and North Wiltshire PCT*

During the preparation of the final accounts an error in the PCT's budgetary control arrangements came to light. The PCT had expected to break even at the year end, but an overspend of £2.067m has now occurred. The Audit Commission's appointed auditor was asked to conduct an investigation into this matter and their report has recently been received. Their main conclusions include the fact that the current arrangements in place within the PCT to ensure accurate and timely financial information are poor. The PCT will ensure that an action plan is developed to respond to the report as quickly as possible and has established a finance committee to monitor progress and ensure that all necessary action is taken.

*North Somerset PCT*

The PCT's most significant control issue in 2003-2004 was the achievement of financial balance. Measures are in hand to control the risk for 2004-2005 to ensure the PCT achieves financial balance. The most extreme risk to this is the ability of the local acute NHS Trusts in Bristol, North Somerset and South Gloucestershire Health Community to deliver the financial plans that will address the financial difficulties that exist. The PCT is developing a robust financial recovery plan to ensure financial balance. This is due to be approved by the Board on 22 July and it will be vigorously monitored by the Management Executive Committee and the Board throughout the year.

*West of Cornwall PCT*

Financial position of the organisation and wider Cornwall health community. LDPs in place.

*North Devon PCT*

Financial Deficit for 2003-2004 reported. Modernisation and Recovery Plan in place.

*Exeter PCT*

Litigation Authority risk management assessment failure. Comprehensive action plan in place to recover position

*Teignbridge PCT*

Litigation Authority risk management assessment failure. Action plan in place to rectify.

*North and East Cornwall PCT*

Financial position of the organisation and wider Cornwall health community. LDPs in place.

*Central Cornwall PCT*

Financial position of the organisation and wider Cornwall health community. LDPs in place.

**Developments during 2003-2004**

During 2003-2004 the Department provided further training for Strategic Health Authorities to assist them with their performance management of the PCTs' development of effective Assurance Frameworks. The Department, as part of its quality review arrangements, monitored the Strategic Health Authorities actions and provided additional help where it was indicated that PCTs may not have all the necessary processes in place by 31 March 2004 to meet the requirements of the Statement.

**Performance Management by Strategic Health Authorities**

Strategic Health Authorities have been given responsibility for ensuring that PCTs address, within agreed deadlines, all outstanding actions they need to take to be able to provide assurances about their systems of internal control. As part of this process, Strategic Health Authorities will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by PCTs to provide the structured evidence to support statements for 2004-2005

## Conclusion

The ongoing development of Assurance Frameworks with 96% being assessed as Category A by Strategic Health Authorities has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. PCTs were able to demonstrate that they had made considerable progress since 31 March 2003 and arrangements are in place to further develop Assurance Frameworks with PCTs being assessed against more stringent criteria through Strategic Health Authority performance management arrangements.

*Sir Nigel Crisp*  
Accounting Officer

13 December 2004

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

I certify that I have audited the financial statements on pages B13 to B35 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages B16 to B22.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page B3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on pages B4 to B10 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Primary Care Trusts, or their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Primary Care Trusts at 31 March 2004 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Operating Cost Statement for the year ended 31 March 2004

### Continuing operations

	Notes	£000	Restated 2002-2003 £000
Programme costs	2.1	<b>55,584,181</b>	50,005,294
Operating income	4	<b>(2,487,238)</b>	(2,278,222)
<b>Net operating cost for the financial year</b>		<b>53,096,943</b>	47,727,072

## Statement of Recognised Gains and Losses for the year ended 31 March 2004

		£000	Restated 2002-2003 £000
Unrealised surplus on the indexation and revaluation of fixed assets	12.2 - 12.4	<b>343,968</b>	551,296
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	12.3, 12.4	<b>11,243</b>	21,393
(Reduction) in the donated asset reserve and Government grant reserve due to depreciation and impairment of donated assets	12.3, 12.4	<b>(4,671)</b>	(3,924)
Increase/(decrease) in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	12.1	<b>35,708</b>	(32,060)
Increase in the donated asset reserve and Government grant reserve due to transfer of assets from NHS bodies	12.3, 12.4	<b>5</b>	30,611
Fixed asset impairment losses	12.2	<b>(569)</b>	(5,818)
(Reductions) to other reserves	12.2 - 12.5	<b>(8,179)</b>	(5,071)
Prior Period Adjustment (Early Retirements)	12.1	<b>0</b>	(246,160)
<b>Recognised gains and (losses) for the financial year</b>		<b>377,505</b>	310,267

*The notes at pages B16 to B35 form part of this account.*

## Balance Sheet as at 31 March 2004

	Notes	£000	Restated 31 March 2003 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>4,342</b>	2,819
Tangible assets	5.2	<b>4,546,322</b>	3,962,039
Investments	5.5	<b>1,866</b>	0
		<b>4,552,530</b>	3,964,858
<b>Current assets</b>			
Stocks	6	<b>16,465</b>	15,495
Debtors	7	<b>1,155,817</b>	1,698,398
Cash at bank and in hand	8	<b>28,785</b>	38,130
		<b>1,201,067</b>	1,752,023
<b>Creditors: amounts falling due within one year</b>	9.1	<b>(3,827,440)</b>	(3,719,737)
<b>Net current (liabilities)</b>		<b>(2,626,373)</b>	(1,967,714)
<b>Total assets less current liabilities</b>		<b>1,926,157</b>	1,997,144
Creditors: amounts falling due after more than one year	9.2	<b>(67,378)</b>	(84,250)
Provisions for liabilities and charges	10	<b>(733,503)</b>	(936,635)
		<b>1,125,276</b>	976,259
<b>Taxpayers' equity</b>			
General Fund	12.1	<b>108,833</b>	275,718
Revaluation reserve	12.2	<b>909,560</b>	609,505
Donated asset reserve	12.3	<b>89,757</b>	83,132
Government grant reserve	12.4	<b>13,300</b>	6,926
Other reserves	12.5	<b>3,826</b>	978
		<b>1,125,276</b>	976,259

*The notes at pages B16 to B35 form part of this account.*

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the year ended 31 March 2004

	Notes	£000	Restated 31 March 2003 £000
Net cash (outflow) from operating activities	13	<b>(52,517,719)</b>	(47,184,949)
<b>Servicing of finance</b>			
Interest paid		<b>(534)</b>	(3,169)
Interest element of finance leases		<b>(1,820)</b>	(1,510)
Net cash (outflow) from servicing of finance		<b>(2,354)</b>	(4,679)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		<b>(1,864)</b>	(2,058)
(Payments) to acquire tangible fixed assets		<b>(410,571)</b>	(778,202)
(Payments) to acquire fixed asset investments		<b>(1,286)</b>	0
Receipts from disposal of intangible fixed assets		<b>0</b>	47
Receipts from disposal of tangible fixed assets		<b>61,487</b>	40,031
Net cash (outflow) from investing activities		<b>(352,234)</b>	(740,182)
Net cash (outflow) before financing		<b>(52,872,307)</b>	(47,929,810)
<b>Financing</b>			
Net Parliamentary funding		<b>52,870,862</b>	47,937,967
Capital grants received		<b>4,702</b>	3,944
Capital element of finance leases		<b>(329)</b>	(236)
Other capital receipts surrendered		<b>0</b>	(1,577)
Cash transfers (to) other NHS bodies		<b>(15,065)</b>	(2,566)
<b>(Decrease)/increase in cash in the period</b>	8	<b>(12,137)</b>	7,722

*The notes at pages B16 to B35 form part of this account.*

# Notes to the Account

## 1 Accounting Policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by primary care trusts are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting Convention

This account 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 2003-2004 was 3.5% (2002-2003 6%) 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, 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 Inland Revenue Government Department at five-yearly intervals. A five-yearly revaluation was carried out as at 1 April 2000.

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 the predecessor organisations to the PCT during 1999 as at the prospective valuation date of 1 April 2000.

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. From 2000-2001, 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.

##### 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 properties

Residual interests in off-balance sheet Private Finance Initiative properties are included in tangible fixed assets at the amount of unitary charge allocated to the balance sheet for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in the fair value of the residual as estimated at the start of the contract and at the balance sheet date.

#### 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 Private Finance Initiative contract assets are not depreciated until the asset is brought into use or reverts to the Primary Care Trust, respectively.

Buildings 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 as follows

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology equipment	5
Transport equipment	7
<i>Plant and machinery</i>	
Moveable engineering plant and long life medical equipment	15
Medium life medical equipment	10
Short life medical and other equipment	5

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

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.

From 2003-2004, the method for accounting for second hand assets on acquisition has been changed from disclosing gross costs and accumulated depreciation to disclosing net acquisition costs. The change will have no effect on the balance sheet figures and comparative figures have not been amended.

#### d Donated assets

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

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

### 1.6 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work in progress comprises goods in intermediate stages of production.

### 1.7 Losses and Special Payments

Losses and special payments are charged to the relevant functional headings, including losses which would have been made good through insurance cover had the PCT 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 Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the PCT to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contribution payable in 2003-2004 was £252,544,000 (2002-2003: £223,104,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due at 31 March 2004.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2003-2004 were set at 14% of pensionable pay (2002-2003: 7%). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central Budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%.

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 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payment of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension, 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.

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

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the PCT commits itself to the retirement, regardless of the method of payment.

### **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 RAM which are adapted from SSAP 13 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. 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.

### **1.11 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 terms of the lease.

### **1.12 Provisions**

The 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 3.5% in real terms. This is a change from the rate of 6% applied to 2002-2003 and earlier. The effect of this change is to increase the carrying value of the provisions and this is shown in Note 10.



### 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 10.

### 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 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.

### 1.15 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 20 to the accounts.

### 1.16 New Primary Care Trusts

At 1 April 2003, 3 PCTs of the existing 304 PCTs were involved in reconfigurations. 2 new PCTs were established. The opening balances as at 31 March 2003 in this account reflect the totals of closing balances of all PCTs as at 31 March 2003 with adjustments to include the effect of PCT dissolutions and asset transfers as at 1 April 2003. The net result is 303 PCTs (including 3 Care Trusts) established as at 31 March 2004.

### 1.17 Inclusion of General Dental Services and Pharmaceutical Services Account Figures

Accounts are prepared for General Dental Services by the Dental Practice Board, and Pharmaceutical Services by the Prescription Pricing Authority and the Counter Fraud and Security Management Service (CFSMS). These 3 accounts are now included within this PCT summarised account. The Pharmaceutical Services account prepared by the CFSMS was included within the CFSMS summarised account in 2002-2003; however it is now included within the PCT summarised account in 2003-2004. The figures for 2002-2003 have been restated to include the accounting entries for this account.

### 1.18 Private Finance Initiative (PFI) Schemes

PFI Schemes deemed to be off balance sheet

In this financial year, 13 PCTs reported off balance sheet PFI schemes over £1 million (2002-2003: 9 PCTs). The estimated capital value of schemes individually over £1 million is £119.1 million (2002-2003: £55.7 million). The amount included within operating expenses for these schemes is £8.2 million (2002-2003: £4.6 million).

PFI schemes deemed to be on balance sheet

In this financial year, 1 PCT reported an on balance sheet PFI scheme (2002-2003: 1 PCT). The value of assets brought on balance sheet in respect of this scheme is £2.7 million (2002-2003: £2.6 million) and the amount included within operating expenses is £262,000 (2002-2003: £248,000).

### 1.19 Pooled budgets

A number of PCTs 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.

### 1.20 Fixed asset investments

PCTs are permitted to hold investments in an NHS LIFT Company. Fixed asset investments are included in Note 5.5 split between equity shareholding and loan stock. Fixed asset investments are held at current market value where this can be ascertained. Where this is not the case, the individual PCT should establish a suitable basis for investment valuation.

### 2.1 Programme costs

	Notes	£000	£000	Restated 2002-2003 £000
Goods and services from NHS bodies			<b>30,740,506</b>	28,702,377
Staff costs			<b>4,687,513</b>	4,089,431
Board members	2.2		<b>164,818</b>	138,429
Capital: Depreciation and amortisation	5.1, 5.2	<b>165,823</b>		126,529
Impairments	5.2	<b>25,386</b>		20,152
Capital charges interest			<b>40,719</b>	65,813
(Profit)/loss on disposal	5.7	<b>(9,609)</b>		(2,671)
			<b>222,319</b>	209,823
Premises and fixed plant			<b>394,233</b>	350,880
Establishment expenses			<b>378,738</b>	324,089
Transport and moveable plant			<b>30,803</b>	31,256
Supplies & services - clinical			<b>358,768</b>	349,106
Supplies & services - general			<b>150,300</b>	166,545
Prescribing costs			<b>6,963,029</b>	6,344,901
GMS infrastructure costs			<b>852,815</b>	912,276
GMS non-discretionary			<b>1,903,113</b>	952,481
PMS and PDS pilots			<b>1,380,481</b>	912,384
Non-GMS services from GPs			<b>77,196</b>	66,913
Pharmaceutical services			<b>961,635</b>	866,703
General dental services			<b>1,766,809</b>	1,696,551
General ophthalmic services			<b>321,611</b>	150,480
Expenditure on drugs action teams			<b>181,882</b>	131,472
Social care from independent providers			<b>271,265</b>	297,552
Purchase of healthcare from non-NHS bodies			<b>2,847,897</b>	1,889,494
Expenditure on NHS trust impairments			<b>86,487</b>	168,516
Interest payable			<b>1,644</b>	1,928
Other finance costs - unwinding of discount			<b>14,718</b>	16,891
Other finance costs - change in the discount rate			<b>29,333</b>	0
Auditor's remuneration: Audit Fees <sup>1</sup>			<b>31,508</b>	28,701
Auditor's remuneration: Other Fees			<b>3,314</b>	3,191
Miscellaneous			<b>761,446</b>	1,202,924
			<b>55,584,181</b>	50,005,294

- 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 Late Payment of Commercial Debts (Interest) Act 1998

	£000	2002-2003 £000
Amounts included within interest payable arising from claims made under this legislation	<b>12</b>	4
Compensation paid to cover debt recovery costs under this legislation	<b>3</b>	4

## 2.2 Board members' remuneration

	£000	2002-2003 £000
PCT Board members' remuneration	<b>131,949</b>	108,141
Non-officer members' remuneration	<b>32,869</b>	30,288
<b>Total remuneration</b>	<b>164,818</b>	138,429

## 2.3 Staff costs

	£000	2002-2003 £000
<i>Executive members' remuneration and staff costs</i>		
Salaries and wages	<b>4,037,775</b>	3,596,076
Social security costs	<b>289,802</b>	233,394
Employer contributions to NHSPA	<b>252,544</b>	223,104
Other pension costs	<b>3,593</b>	67,613
Agency Staff	<b>249,917</b>	210,844
Seconded Staff	<b>22,679</b>	0
	<b>4,856,310</b>	4,331,031

## 2.4 Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £711,000 (2002-2003: £1,179,000).

## 2.5 Retirements due to ill-health

During 2003-2004 there were 536 early retirements from PCTs on the grounds of ill-health (2002-2003: 347 (restated)). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £28,639,000 (2002-2003: £21,256,000 (restated)).

**2.6 Average number of total staff**

	<b>Number</b>	2002-2003 Number
Medical and dental	<b>5,610</b>	4,948
Administration and estates	<b>51,591</b>	44,240
Healthcare assistants and other support staff	<b>17,790</b>	13,482
Nursing, midwifery and health visiting staff	<b>72,872</b>	70,627
Nursing, midwifery and health visiting learners	<b>3,341</b>	2,294
Scientific, therapeutic and technical staff	<b>25,890</b>	22,952
Social care staff	<b>1,286</b>	589
Other	<b>3,710</b>	3,086
	<b>182,090</b>	162,218

**3 Healthcare and related services commissioned****3.1 Primary healthcare commissioned by primary care trusts**

	<b>£000</b>	Restated 2002-2003 £000
General medical services (discretionary)	<b>783,587</b>	852,742
General medical services (non-discretionary)	<b>1,903,113</b>	952,481
Prescribing	<b>6,963,029</b>	6,344,901
Pharmaceutical services	<b>959,180</b>	864,377
General dental services	<b>1,766,809</b>	1,696,551
General ophthalmic services	<b>321,611</b>	150,480
Department of Health initiative funding	<b>22,513</b>	47,574
Personal medical services (PMS) pilots	<b>1,939,525</b>	1,148,183
Personal dental services (PDS) pilots	<b>44,402</b>	30,607
Local pharmaceutical services (PMS) pilots	<b>2,455</b>	700
Non-GMS services from GPs	<b>77,196</b>	66,913
Other	<b>165,686</b>	144,450
<b>Total primary healthcare commissioned</b>	<b>14,949,106</b>	12,299,959

**3.2 Secondary healthcare commissioned by PCTs**

	<b>£000</b>	2002-2003 £000
Learning difficulties	<b>1,593,718</b>	1,429,482
Mental illness	<b>5,179,510</b>	4,568,383
Maternity	<b>1,350,286</b>	1,255,413
General and acute	<b>22,178,133</b>	20,074,838
Accident and emergency	<b>1,230,145</b>	1,068,844
Community Health Services	<b>3,511,452</b>	3,332,539
Other	<b>1,320,749</b>	1,433,535
Total secondary healthcare commissioned	<b>36,363,993</b>	33,163,034
Impairments and depreciation for Trusts	<b>86,487</b>	168,516
Revenue grants to fund capital projects - GMS	<b>18,850</b>	23,745
Revenue grants to fund capital projects - outside bodies	<b>58,882</b>	15,993
Total Healthcare commissioned by primary care trusts	<b>51,477,318</b>	45,671,247
Social Care from independent providers	<b>271,265</b>	198,878

**3.3 Commission of healthcare by strategic health authorities on behalf of primary care trusts included above**

	<b>£000</b>	2002-2003 £000
Learning difficulties	<b>0</b>	55
Mental illness	<b>0</b>	2,052
General and acute	<b>0</b>	16
Community Health Services	<b>0</b>	5
Other	<b>0</b>	18
Total secondary healthcare commissioned	<b>0</b>	2,146

**4 Operating income**

Operating income analysed by activity, is as follows

	<b>£000</b>	Restated 2002-2003 £000
Programme income		
Fees and charges to external customers	<b>121,060</b>	122,643
Prescription charge income	<b>428,257</b>	387,666
General Dental Services income	<b>483,593</b>	486,718
Income from Local Authorities	<b>404,097</b>	295,417
Income for NHS trust impairments	<b>3,133</b>	168,516
Other	<b>1,047,098</b>	817,262
<b>Total</b>	<b>2,487,238</b>	2,278,222

**5.1 Intangible fixed assets**

	<b>Total</b>	Software licences	Licences and trademarks	Development and Expenditure
	<b>£000</b>	£000	£000	£000
Gross cost at 31 March 2003	<b>4,673</b>	4,344	157	172
Transfers (to)/from NHS bodies	<b>44</b>	121	0	(77)
Reclassifications	<b>238</b>	238	0	0
Additions - purchased	<b>2,490</b>	2,391	2	97
Disposals	<b>(76)</b>	(76)	0	0
Gross cost at 31 March 2004	<b>7,369</b>	7,018	159	192
Accumulated amortisation at 31 March 2003	<b>1,854</b>	1,702	70	82
Transfers (to)/from NHS bodies	<b>44</b>	121	0	(77)
Reclassifications	<b>23</b>	23	0	0
Other revaluations	<b>(5)</b>	(5)	0	0
Provided during the year	<b>1,182</b>	1,151	9	22
Disposals	<b>(71)</b>	(71)	0	0
Accumulated amortisation at 31 March 2004	<b>3,027</b>	2,921	79	27
<b>Net book value</b>				
Purchased at 31 March 2003	<b>2,819</b>	2,642	87	90
Donated/Government Granted at 31 March 2003	<b>0</b>	0	0	0
Total at 31 March 2003	<b>2,819</b>	2,642	87	90
<b>Net book value</b>				
Purchased at 31 March 2004	<b>4,342</b>	4,097	80	165
Donated/Government Granted at 31 March 2004	<b>0</b>	0	0	0
<b>Total at 31 March 2004</b>	<b>4,342</b>	4,097	80	165

## 5.2 Tangible Fixed Assets

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2003	1,306,030	2,601,916	19,798	95,672	108,324	14,142	62,014	34,874	<b>4,242,770</b>
Transfers (to)/from NHS bodies	20,613	32,622	354	3,051	1,531	251	9,278	2,336	<b>70,036</b>
Reclassifications	2,786	85,613	(1,512)	(92,167)	2,912	(148)	3,698	(1,757)	<b>(575)</b>
Indexation	76,063	255,060	1,761	8,881	2,405	286	0	803	<b>345,259</b>
Impairments	(201)	(363)	0	(9)	0	0	0	0	<b>(573)</b>
Other in year revaluations	12,996	(2,528)	(641)	(6)	606	(43)	43	1	<b>10,428</b>
Additions - purchased	62,190	153,080	1,477	125,579	22,264	1,111	59,509	7,917	<b>433,127</b>
Additions - donated/Government granted	400	4,592	0	4,477	1,149	85	25	143	<b>10,871</b>
Disposals	(36,018)	(99,553)	(1,192)	(1,594)	(2,943)	(1,451)	(2,327)	(389)	<b>(145,467)</b>
<b>Gross cost at 31 March 2004</b>	<b>1,444,859</b>	<b>3,030,439</b>	<b>20,045</b>	<b>143,884</b>	<b>136,248</b>	<b>14,233</b>	<b>132,240</b>	<b>43,928</b>	<b>4,965,876</b>
Accumulated depreciation at 31 March 2003	1,361	165,048	805	0	56,194	10,031	30,927	16,365	<b>280,731</b>
Transfers (to)/ from NHS bodies	0	0	0	0	0	0	9,006	2,374	<b>11,380</b>
Reclassifications	0	164	(29)	0	1,160	(144)	(40)	(1,471)	<b>(360)</b>
Indexation	0	11,104	70	0	1,206	193	0	353	<b>12,926</b>
Impairments and reversals	0	25,345	0	0	17	0	2	22	<b>25,386</b>
Other in year revaluation	0	(1,807)	(8)	0	612	(43)	43	0	<b>(1,203)</b>
Provided during the year	0	136,976	512	0	11,448	1,127	10,860	3,718	<b>164,641</b>
Disposals	(1,361)	(67,362)	(404)	0	(1,342)	(1,043)	(2,170)	(265)	<b>(73,947)</b>
<b>Accumulated depreciation at 31 March 2004</b>	<b>0</b>	<b>269,468</b>	<b>946</b>	<b>0</b>	<b>69,295</b>	<b>10,121</b>	<b>48,628</b>	<b>21,096</b>	<b>419,554</b>
Net book value Purchased at 1 April 2003	1,292,472	2,365,320	18,881	92,437	45,388	3,830	31,022	17,938	<b>3,867,288</b>
Donated/Government granted at 1 April 2003	12,197	71,548	112	3,235	6,742	281	65	571	<b>94,751</b>
Total at 1 April 2003	<b>1,304,669</b>	<b>2,436,868</b>	<b>18,993</b>	<b>95,672</b>	<b>52,130</b>	<b>4,111</b>	<b>31,087</b>	<b>18,509</b>	<b>3,962,039</b>
<b>Net book value Purchased at 31 March 2004</b>	<b>1,436,300</b>	<b>2,680,206</b>	<b>18,979</b>	<b>139,661</b>	<b>60,383</b>	<b>3,720</b>	<b>83,567</b>	<b>22,139</b>	<b>4,444,955</b>
<b>Donated/Government granted at 31 March 2004</b>	<b>8,559</b>	<b>80,765</b>	<b>120</b>	<b>4,223</b>	<b>6,570</b>	<b>392</b>	<b>45</b>	<b>693</b>	<b>101,367</b>
<b>Total at 31 March 2004</b>	<b>1,444,859</b>	<b>2,760,971</b>	<b>19,099</b>	<b>143,884</b>	<b>66,953</b>	<b>4,112</b>	<b>83,612</b>	<b>22,832</b>	<b>4,546,322</b>

The total amount of depreciation charged in the operating cost statement in respect of assets held under finance leases and hire purchase contracts

0	1,287	16	0	0	0	0	3	<b>1,306</b>
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**5.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2004 comprises**

	£000	31 March 2003 £000
Freehold	<b>4,109,074</b>	3,666,754
Long leasehold	<b>109,303</b>	90,191
Short leasehold	<b>6,552</b>	3,585
	<b>4,224,929</b>	3,760,530

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

	£000	31 March 2003 £000
Land	<b>1,035</b>	797
Buildings and dwellings	<b>28,378</b>	24,809
Other (Furniture & fittings)	<b>26</b>	27
	<b>29,439</b>	25,633

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £1,306,000 (2002-2003: £1,335,000).

**5.5 Fixed asset investments**

	Equity shareholding £000	Loan stock £000	<b>Total £000</b>
Balance at 1 April 2003	0	0	<b>0</b>
Additions	252	1,614	<b>1,866</b>
<b>Balance at 31 March 2004</b>	<b>252</b>	<b>1,614</b>	<b>1,866</b>

**5.6 Summary of fixed assets**

	Purchased £000	Donated/ Government granted £000	<b>Total £000</b>	31 March 2003 £000
<b>Net book value</b>				
Intangible fixed assets	4,342	0	<b>4,342</b>	2,819
Land	1,436,300	8,559	<b>1,444,859</b>	1,304,669
Buildings	2,680,206	80,765	<b>2,760,971</b>	2,436,868
Dwellings	18,979	120	<b>19,099</b>	18,993
Assets under construction	139,661	4,223	<b>143,884</b>	95,672
Plant and machinery	60,383	6,570	<b>66,953</b>	52,130
Transport equipment	3,720	392	<b>4,112</b>	4,111
Information technology	83,567	45	<b>83,612</b>	31,087
Furniture and fittings	22,139	693	<b>22,832</b>	18,509
Fixed asset investments	1,866	0	<b>1,866</b>	0
	<b>4,451,163</b>	<b>101,367</b>	<b>4,552,530</b>	<b>3,964,858</b>



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

	£000	2002-2003 £000
Profit on disposal of land and buildings	<b>14,190</b>	3,249
(Loss) on disposal of land and buildings	<b>(4,300)</b>	(204)
Profit on disposal of plant and equipment	<b>28</b>	20
(Loss) on disposal of plant and equipment	<b>(309)</b>	(394)
	<b>9,609</b>	2,671

**6 Stocks and work in progress**

	£000	31 March 2003 £000
Raw materials and consumables	<b>11,862</b>	10,791
Finished processed goods	<b>4,603</b>	4,704
	<b>16,465</b>	15,495

**7 Debtors****7.1 Amounts falling due within one year**

	£000	Restated 31 March 2003 £000
NHS debtors	<b>493,983</b>	1,035,184
Provision for irrecoverable debts	<b>(10,266)</b>	(10,293)
Prepayments and accrued income	<b>168,821</b>	193,903
Capital debtors	<b>14,317</b>	6,550
Other debtors	<b>424,947</b>	386,974
	<b>1,091,802</b>	1,612,318

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

	£000	Restated 31 March 2003 £000
NHS debtors	<b>48,055</b>	70,262
Prepayments and accrued income	<b>12,846</b>	11,215
Provisions for irrecoverable debts	<b>(11)</b>	(1)
Capital debtors	<b>131</b>	138
Other debtors	<b>2,994</b>	4,466
	<b>64,015</b>	86,080
<b>Total debtors</b>	<b>1,155,817</b>	1,698,398

**8 Analysis of Changes in Debt**

	At 31 March 2003 £000	Transfers from NHS bodies £000	Non-cash changes £000	Change during the year £000	At 31 March 2004 £000
Cash at OPG	29,907	883	0	(4,869)	<b>25,921</b>
Cash at commercial banks and in hand	8,223	0	0	(5,359)	<b>2,864</b>
Overdraft	(4,814)	0	0	(1,909)	<b>(6,723)</b>
	<u>33,316</u>	<u>883</u>		<u>(12,137)</u>	<u><b>22,062</b></u>
Finance leases due within one year	(889)	0	(240)	72	<b>(1,057)</b>
Finance leases due after one year	(14,667)	0	(842)	(254)	<b>(15,763)</b>
	<u>17,760</u>	<u>883</u>	<u>(1,082)</u>	<u>(12,319)</u>	<u><b>5,242</b></u>

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

	£000	Restated 31 March 2003 £000
Overdrafts	<b>6,723</b>	4,814
NHS creditors	<b>948,332</b>	1,084,147
FHS contractors	<b>1,355,978</b>	1,095,814
Non-NHS trade creditors - revenue	<b>620,847</b>	634,768
Non-NHS trade creditors - capital	<b>49,851</b>	25,693
Tax and social security	<b>52,557</b>	39,438
Payments received on account	<b>5,044</b>	5,847
Obligations under finance leases and HP contracts	<b>1,057</b>	889
Other creditors	<b>257,635</b>	312,948
Accruals and deferred income	<b>529,416</b>	515,379
	<u><b>3,827,440</b></u>	<u>3,719,737</u>

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

	£000	Restated 31 March 2003 £000
NHS creditors	<b>47,088</b>	60,343
Obligations under finance leases and HP contracts	<b>15,763</b>	14,667
Other creditors	<b>4,527</b>	9,240
	<u><b>67,378</b></u>	<u>84,250</u>

**9.3 Finance lease obligations**

	<b>£000</b>	31 March 2003 £000
<i>Leases payable</i>		
Within one year	<b>2,370</b>	1,532
Between one and five years	<b>9,236</b>	8,564
After five years	<b>72,914</b>	65,645
Finance charges allocated to future periods	<b>(67,700)</b>	(60,185)
	<b>16,820</b>	15,556

**10 Provisions for liabilities and charges**

	Pensions for former members £000	Pensions for former staff £000	Legal claims £000	Restruct- urings £000	Other £000	<b>Total £000</b>
1 April 2003	19,046	415,153	135,585	32,650	334,201	<b>936,635</b>
Transfers (to)/from other NHS bodies	(101)	4,811	(2,702)	1,012	(275)	<b>2,745</b>
Arising during the year	393	25,375	20,666	1,332	36,195	<b>83,961</b>
Utilised during the year	(3,241)	(53,033)	(17,050)	(15,293)	(36,960)	<b>(125,577)</b>
Reversed unused	(1,290)	(30,064)	(55,470)	(5,383)	(116,105)	<b>(208,312)</b>
Unwinding of discount	360	10,509	692	302	2,855	<b>14,718</b>
Change in the discount rate	666	11,662	3,920	2,791	10,294	<b>29,333</b>
<b>At 31 March 2004</b>	<b>15,833</b>	<b>384,413</b>	<b>85,641</b>	<b>17,411</b>	<b>230,205</b>	<b>733,503</b>
Expected timing of cash flows						
Within 1 year	3,000	44,199	35,537	7,685	94,891	<b>185,312</b>
1-5 years	7,039	158,621	29,663	5,673	93,272	<b>294,268</b>
Over 5 years	5,794	181,593	20,441	4,053	42,042	<b>253,923</b>

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of PCTs is £23,465,000 (2002-2003: £18,037,000).

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

	<b>£000</b>	Restated 2002-2003 £000
(Increase) in stocks	<b>(970)</b>	(8,901)
Decrease/(increase) in debtors	<b>550,341</b>	(1,225,907)
Increase in creditors	<b>64,764</b>	2,712,412
Transfer of balances from NHS bodies	<b>(48,435)</b>	(1,071,744)
	<b>565,700</b>	405,860

**12 Reserves****12.1 The movement on the General Fund in the year comprised**

	£000	Restated 31 March 2003 £000
Balance at 31 March 2003	<b>275,718</b>	270,761
Prior period adjustment (early retirements)	<b>0</b>	(246,160)
Balance at 1 April as restated after prior period adjustment	<b>275,718</b>	24,601
PCT mergers	<b>4,939</b>	0
Net operating costs for the year	<b>(53,096,943)</b>	(47,727,072)
Net Parliamentary funding	<b>52,870,862</b>	47,937,967
Transfer of realised profits	<b>20,956</b>	6,469
<b>Non-cash items</b>		
Capital charge interest	<b>40,719</b>	65,813
Transfers from other NHS bodies	<b>35,708</b>	(32,060)
Other movements	<b>(43,126)</b>	0
<b>Balance at 31 March 2004</b>	<b>108,833</b>	275,718

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

	£000	31 March 2003 £000
Balance at 31 March 2003	<b>609,505</b>	85,632
PCT mergers	<b>(4,939)</b>	0
Impairments	<b>(569)</b>	(5,818)
Revaluation/indexation of fixed assets	<b>335,965</b>	542,535
Other movements	<b>(9,485)</b>	(6,549)
Transfer to General Fund: realised revaluation	<b>(20,917)</b>	(6,295)
<b>Balance at 31 March 2004</b>	<b>909,560</b>	609,505

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

	£000	31 March 2003 £000
Balance at 31 March 2003	<b>83,132</b>	30,592
Impairments	<b>(4)</b>	0
Transfers from NHS bodies	<b>5</b>	28,789
Other revaluation/indexation of fixed assets	<b>6,869</b>	8,344
Receipt of donated assets	<b>6,140</b>	18,842
Depreciation of donated assets	<b>(4,406)</b>	(3,636)
Transfer of realised profits	<b>(39)</b>	(172)
Other movements	<b>(1,940)</b>	373
<b>As at 31 March 2004</b>	<b>89,757</b>	83,132

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

	£000	31 March 2003 £000
Balance at 31 March 2003	<b>6,926</b>	1,320
Transfer from other NHS bodies	<b>0</b>	1,822
Other revaluation/indexation of fixed assets	<b>1,134</b>	417
Transfer of realised profits	<b>0</b>	(2)
Receipt of Government granted assets	<b>5,103</b>	2,551
Depreciation of Government granted assets	<b>(261)</b>	(288)
Other movements	<b>398</b>	1,106
<b>As at 31 March 2004</b>	<b>13,300</b>	6,926

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

	£000	31 March 2003 £000
Balance at 31 March 2003	<b>978</b>	979
Other movements	<b>2,848</b>	(1)
<b>As at 31 March 2004</b>	<b>3,826</b>	978

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

		Restated 2002-2003 £000
Net operating cost for the year	<b>(53,096,943)</b>	(47,727,072)
Adjust for non-cash transactions	2.1 <b>222,319</b>	209,823
Adjust for movements in working capital other than cash	11 <b>565,700</b>	405,860
Use of provisions	10 <b>(205,877)</b>	(77,317)
Transfer from donated asset reserve	<b>(4,410)</b>	3,471
Transfer from Government grant reserve	<b>(261)</b>	286
Other	<b>1,753</b>	0
<b>Net cash (outflow) from operating activities</b>	<b>(52,517,719)</b>	(47,184,949)

**14 Contingent liabilities**

At 31 March 2004, there were net contingent liabilities of £178,545,000 (2002-2003: £454,679,000(restated)). The majority of these liabilities are for continuing care. PCTs have provided for these liabilities in Note 10 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.

**15 Capital commitments**

At 31 March 2004 the value of contracted capital commitments was £89,779,000 (2002-2003: £110,128,000).

**16 Commitments under operating leases**

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

	<b>£000</b>	2002-2003 £000
Hire of plant and machinery	<b>6,115</b>	5,020
Other operating leases	<b>64,869</b>	50,861
	<b><u>70,984</u></b>	<u>55,881</u>

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

	2003-2004 Land and buildings £000	2003-2004 Other £000	2002-2003 Land and buildings £000	2002-2003 Other £000
within one year	4,672	8,883	4,175	6,648
between one and five years	16,793	19,692	37,173	5,399
after five years	30,692	355	21,145	83
	<u>52,157</u>	<u>28,930</u>	<u>62,493</u>	<u>12,130</u>

**17 Losses and special payments**

There were 33,175 (2002-2003: 14,687) cases of losses and special payments totalling £5,248,000 (2002-2003: £22,648,000) approved during 2003-2004. There were 2 cases of compensation (2002-2003: 1 case) of £385,000 (2002-2003: £137,000), 0 clinical negligence cases (2002-2003: 1 case of £417,000), 0 personal injury cases (2002-2003: 1 case of £108,000) and 0 fruitless payments (2002-2003: 1 case of £192,000) which exceeded £100,000.

**18 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 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.

## 19 Financial instruments

The PCT summarised account includes the accounts of 306 underlying NHS bodies. It is within the underlying accounts of these 306 NHS bodies that detailed FRS 13 disclosures have been made. The following paragraphs provide an overview of the major financial risks for PCTs 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 PCT activities and the way in which they are financed, the PCTs 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 the listed companies to which FRS 13 mainly applies. PCTs 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 PCTs in undertaking their activities.

### *Liquidity risk*

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

### *Interest rate risk*

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

### *Foreign currency risk*

PCTs 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 PCTs approximates to their book values.

## 20 Third Party Assets

The balance of patients money held within the PCT bank accounts at the Balance Sheet date was £4,021,000 (31 March 2003: £2,822,000). This has been excluded from the Balance Sheet as they are not assets of the PCTs but are held on trust on behalf of patients.

## 21 Post Balance Sheet Events

There were no known post balance sheet events.

# The National Health Service in England Summarised Accounts Direction given by the Treasury in Accordance with Section 98(4) of the National Health Service Act 1977

## Primary Care Trusts

- 1 The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 2001 and subsequent financial years in respect of the Primary Care Trusts. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

## Basis of preparation

- 2 The summarised account of the Primary Care Trusts shall be prepared from the audited accounts of the individual Primary Care Trusts to which it relates and shall comply with
  - a generally accepted accounting practice in the United Kingdom (UK GAAP);
  - b the accounting and disclosure requirements of the Companies Act;
  - c all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
  - d accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding schedules 1 and 5;
  - e the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

## Form and content

- 3 The summarised account of the Primary Care Trusts for the year ended 31 March 2001 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Primary Care Trusts.
- 4 For the financial year ended 31 March 2001 and subsequent years, the summarised account of the Primary Care Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and the net operating costs, recognised gains and losses and cashflows during the year.
- 5 The foreword and balance sheet shall be signed by the Accounting Officer and dated.

## Miscellaneous

- 6 The direction shall be reproduced as an appendix to the published accounts.
- 7 The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

*David Loweth*  
Head Of Central Accountancy Team  
HM Treasury

6 December 2001



## Schedule 1

### Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

#### Companies Act

- 1 The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
- 2 The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.
- 3 The operating cost statement and cashflow statement shall have regard to the format prescribed in the Resource Accounting Manual.
- 4 The summarised balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
- 5 NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

#### Accounting Standards

- 6 NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.

## Schedule 2

#### Additional Requirements

- 1 The foreword shall include a statement that the summarised accounts have been prepared to comply with a Direction given by the Treasury in accordance with section (98)(4) of the NHS Act 1977.
- 2 The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities and a summary of their performance against targets.



# Summarised Account of NHS Trusts



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

Section 98 (4) of the National Health Service Act 1977 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 Permanent Secretary and 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 'Government Accounting'.

## Statement on Internal Control 2003-2004

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, I acknowledge my personal overall responsibility for ensuring NHS Trusts maintain effective systems of internal control that support the achievement of their policies, aim and objectives and that they review the effectiveness of those systems.

### 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 2003-2004 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 identified a number of ways in which they provided effective leadership and management of risk processes within their organisations. These 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. A number of the NHS Trusts recorded that they had appointed specialist risk managers to support the function.

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

Trusts identified a number of ways in which staff were made aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also set out how they provided training on risk, in some instances mandatory, and the emphasis placed on continuing professional development.

### The risk and control framework

The Department has issued guidance to NHS Trusts over a number of years describing the principles to be applied to the identification, evaluation and control of risk. For 2003-2004 all NHS Trusts were required to embed Assurance Frameworks that set out the strategic and high level directorate risks 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. They also provided a range of comments on the embedding of risk management in planning and across all activities, developing a risk management culture and how they share information across the local health economy.

Strategic Health Authorities made an assessment of the quality and embedding of the Assurance Frameworks against a number of criteria and this showed that

257 (96%) of NHS Trusts achieved a Category A – an acceptable assessment

12 (4%) of NHS Trusts achieved a Category B – an unacceptable assessment

*Note*

Category A. Provides evidence that a system of internal control was in place.

Category B. Insufficient evidence that a system of internal control was in place at 31 March 2004 .

This represents a substantial improvement over 2002-2003 when none of the 269 NHS Trusts were able to sign full statements. The Department has now provided further training and guidance for Strategic Health Authorities to promulgate to NHS Trusts in order to make the assessment criteria more stringent for 2004-2005. This will help raise progressively the standard of internal control as evinced by the Assurance Frameworks.

NHS Trusts were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. This showed the following

Area	Proportion of gaps in control	Proportion of gaps in assurance
Financial controls	29%	29%
Organisational controls	43%	45%
Clinical controls	28%	26%

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

### Review of effectiveness

To help me fulfil this responsibility, I appointed the Chief Executive of each of the NHS Trusts as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. I have issued guidance to each Accountable Officer regarding corporate governance, risk management, internal control and on the Assurance Framework.

I draw my major source of assurance on the NHS Trusts systems of internal control from

- Statements on Internal Control signed by Accountable Officers in support of the accounts for each NHS Trust that have been summarised by the Strategic Health Authorities.

I have gained further assurance from reports from Strategic Health Authority (SHA) Chief Executives that confirm whether the 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 provided by the NHS Trust head of internal audit.

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 NHS Trusts' Assurance Frameworks and Statements on Internal Control prepared by the Strategic Health Authorities. 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 Commission for Health Improvement and external audit; and
- Audit Committees, Risk Management Committees, Governance Committees and other Board Committees.

The Strategic Health Authority Chief Executives' reports did not reveal any inconsistencies between the NHS Trust SICs and the External Auditor Opinions or their own knowledge gained through performance management arrangements. However, they did record:

- a small number of NHS Trusts had not identified that the system of internal control was not in place for the full year;
- a NHS Trust had failed to identify the need for maintaining financial balance as a key objective in its Assurance Framework; and
- comments about the disclosure of significant control issues by three NHS Trusts in their SICs.

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. Through these reports I am aware that the appointed External Auditor issued a Report in the Public Interest in respect of the financial situation at Mid Yorkshire Hospitals NHS Trust.

### Significant control issues

31 NHS Trusts disclosed significant control issues in their Statements on Internal Control as detailed in the table below. Strategic Health Authorities will monitor the actions NHS Trusts have or will be taking to address these issues.

#### **Significant Control Issues – NHS Trusts**

Details of significant control issues disclosed in Statements on Internal Control

##### *Ipswich Hospital NHS Trust*

Clinical risk created by high levels of bed occupancy increasing risk of MRSA and other infection control issues.  
Financial risks around ability of controls to achieve financial balance.

##### *West Suffolk Hospitals NHS Trust*

Financial risks around ability of controls to achieve financial balance.

##### *Addenbrooke's NHS Trust*

Operational and clinical risk created by backlog equipment replacement and equipment training programmes.  
Operational risk caused by weaknesses in systems for developing and distributing policies and procedures.

##### *Suffolk Mental Health Partnership NHS Trust*

Financial risks around ability of controls to achieve financial balance.



*Bedfordshire and Hertfordshire Ambulance and Paramedic Service NHS Trust*

The volume of emergency calls increased significantly above expectation from August 2003 onwards. The Trust identified this risk to a key performance target in its Assurance Framework and activity levels were closely monitored. Additional funding was needed.

*West Hertfordshire Hospitals NHS Trust*

Following a Health and Safety Executive visit and review a number of risk areas were identified for the Trust. The Trust agreed an action plan to address these risk areas. These actions have been implemented during the course of the year.

*East and North Hertfordshire NHS Trust*

The Trust identified significant irregularities in the way its waiting list information was managed in November 2002. During the following twelve months, working with the Strategic Health Authority and local Primary Care Trusts the NHS Trust has taken action and secured resources.

*Hertfordshire Partnership NHS Trust*

Overspending on commissioning service level agreements (SLAs.) This will be addressed through improved performance management of SLA activity using the new reforming Financial Flows framework and strengthened demand management.

*Hammersmith Hospitals NHS Trust*

Non-compliance with fire regulations on one site.

*Royal Free Hampstead NHS Trust*

Risks identified as priorities for action were

- 1 the Trust is facing significant human resources and financial changes during 2004-2005 including 'Agenda for Change' and preparation for payment by results. The Trust will identify appropriate controls in order that these initiatives are implemented in a secure manner;
- 2 to create a more safe and fire resistant environment by progressing the fire scheme development;
- 3 to improve the timeliness and completeness of clinical coding; and
- 4 to establish a medical equipment library in order to more effectively manage the safety of the NHS Trust's equipment.

Action plans have been developed to improve the controls and assurances in relation to these risks and the Trust Board and Trust Executive will monitor progress against the action plans.

*Royal National Orthopaedic Hospital NHS Trust*

During May 2004, the Trust identified two areas of waiting list mismanagement which revealed weaknesses in its administrative systems. The first relates to the inaccurate recording of referral dates for outpatients resulting in a significant number of patients breaching the national waiting times standards. The second relates to the potential inappropriate removal of patients from the in-patient waiting list. The Trust is seeking to ensure that all patients affected by these occurrences are treated by the end of July 2004. As a result of these discoveries the Trust is seeking to expedite the modernisation of the systems within the Trust. It is being underpinned by a robust organisational change programme with an emphasis on staff development ensuring that all staff have the full range of competencies to undertake their role.

In addition the SHA has sanctioned an independent enquiry to establish how the situation arose and to make recommendations to the future management of waiting lists and other systems within the NHS Trust.

*Barnet and Chase Farm Hospitals NHS Trust*

The Trust significantly failed to achieve two of the key objectives identified within the assurance Framework as follows

- 1 Achievement of financial breakeven duty - the Trust ended the year with a £4m income and expenditure deficit; and
- 2 Accident & Emergency (A&E) Waiting Times - 77% of patients attending the Trust A&E Departments waited no longer than four hours compared to a target of 90%.

Urgent action has been instituted to address both of these areas. With the support of the Financial Recovery Board the Trust has developed a financial strategy for 2004-2005 which aims to achieve financial balance. Budgets have been agreed with Trust managers and revised operational financial policies have been developed to improve internal financial performance.

With regard to A&E waiting times revised management arrangements have been instituted designed to clarify accountability and improve performance. The Trust Acting Director of Nursing has responsibility for developing an improvement plan in order to achieve the key A&E waiting time target for 2004-2005 i.e. between April and December 90% of patients will wait no longer than four hours and by January 2005 98% of patients will wait no longer than four hours.

*South Tees Hospitals NHS Trust*

Access – due to the presence of small tertiary teams.

Financial stability – achievement of financial balance and three year recovery plan.

*Tees East and North Yorkshire Ambulance Service NHS Trust*

Clinical Governance Review highlighted significant deficiencies in internal control, resulting in the development of a two-year plan by the Commission for Health Improvement to strengthen the Governance Framework. New systems are now in place and approved by the Trust Board.

*West Yorkshire Metropolitan Ambulance Service NHS Trust (WYMAS)*

Finance: the level of resources available for Accident and Emergency services has been addressed during the 2004-2005 Local Delivery Plans (LDP) negotiations. As a result it has been agreed that additional finance will be made available to WYMAS for 2004-2005 to cover growth in the period to 31 March 2005.

*Pennine Care NHS Trust*

The Assurance Framework has identified the key risks to the organisation as

- an historic under investment in mental health services which weakens the organisation's ability to deal with significant financial problems; and
- a considerable workload and training agenda with a significant shortfall in infrastructure and capacity to manage the process.

The Trust, however, continues to work closely with its key stakeholders, i.e. PCTs, SHA and Local Authorities to try to resolve the problems and to build on the excellent reputation of the services and the dedication of the staff.

*Central Manchester and Manchester Children's University Hospitals NHS Trust*

The Trust has identified the following significant internal control issues which have been or are being addressed

## Financial Outlook 2004-2005 and beyond

- the Trust has a challenging financial outlook and is actively working with stakeholder organisations to improve the position; and
- the Trust is projecting a deficit for 2004-2005 and is agreeing a formal three year recovery plan with the Strategic Health Authority.

## New Hospitals Development (PFI Project)

- the Full Business Case for the New Hospitals Development (PFI Project) is progressing through the approvals process;
- the Trust has recognised that a number of key issues need to be managed including; the transfer of the affordability risk on the introduction of the Payment by Results, maintenance of the site, clinical activity and delivery of access targets through the developments construction phase and the development of integrated service models to match capacity; and
- the Trust has developed a three year financial plan which will substantially reduce our reference costs. This action, when taken in partnership with the National Audit Office review of our cost base and the increasing science around the introduction of Payment by Results will form the foundation for the management of the affordability issue. The Trust has established an internal implementation group to manage the issues arising during the construction phase and is working with commissioners to develop a capacity plan.

## Increased Referrals and Activity

The continued increase in GP and tertiary referrals, admissions and A&E attendances could impact on the Trust's ability to deliver the key access targets and increase the financial pressure on the Trust. The Trust is working with our host Primary Care Trust to identify and implement alternative service models which will address the rise in demand.

*Manchester Mental Health and Social Care Trust*

At the time of reporting, the Board identified four key risks that represent significant control issues for the Care Trust. These are

- failure to meet the adequate safety standards for patients requiring acute admission (safety risk);
- failure to meet financial balance (statutory duty);
- failure to recruit and retain adequate staff to run safe services (organisational risk); and
- failure to deliver adequate mandatory training to meet adequate quality and safety standards (organisational and safety risks).

The Risk management Committee will review these risks and other key areas on the risk register throughout the coming year.

*The Mid Cheshire Hospitals NHS Trust*

Demand for the Trust's services is likely to exhaust physical capacity in the near future. To respond to this, approval has been given to build a Treatment Centre which will open in 2005. Central Cheshire Primary Care Trust has approved a 'Care Closer to Home' Strategy. These two initiatives are in line with the joint Capacity Plan agreed between the two organisations and should provide the additional capacity needed.

The Trust's reference cost index is 84 suggesting that its cost base is 16% below the average for England (adjusted for regional cost variations). This severely limits the Trust's ability to handle a number of agendas whilst achieving its statutory financial duties. The Trust required financial assistance in the year ending 31 March 2004 and further financial support will be needed in the next financial year. The Trust is working with Central Cheshire Primary Care Trust and Cheshire and Merseyside Strategic Health Authority to address this issue. The new NHS funding regime, Payments By Results, will greatly assist the Trust in a progressive way over four years commencing 2005-2006. The Trust and Central Cheshire Primary Care Trust are preparing a five year financial strategy to assist the management of the risk over this period.

*Hampshire Ambulance Service NHS Trust*

Comment about in-year deficit and future funding shortfall.

*Maidstone and Tunbridge Wells NHS Trust*

The Trust failed to break-even on Income and Expenditure for the third consecutive year. The Strategic Health Authority has formally agreed to extend the break-even period to five years following agreement of a financial recovery plan. A financial recovery committee has been established within the Trust and the PCTs to oversee the delivery of the plan.

Significant weaknesses were identified in the management and governance arrangements established under the hosting arrangements. I am agreeing new management arrangements with Chief Executives throughout Kent and Medway with direct accountability to me. I am also fully integrating the service into the Trust's corporate governance arrangement and assurance framework.

*Weston Area Health NHS Trust*

Payroll Issue

Internal Audit were only able to give a limited assurance opinion on the Trust's Payroll System that accounts for significant Trust expenditure and which the Trust is addressing through an agreed action plan to monitor key weaknesses and gaps in assurance.

The external auditor for Weston Area NHS Trust pressed hard for this disclosure as a significant control issue. The background is their payroll service comes from sub-contractor University of Birmingham Hospital NHS Trust. (Torex are the prime contractor). There had been an internal audit report in 2002-2003 but not all of the key action points had been addressed a year later. The main outstanding one is reconciling from the Payroll to Personnel records, and is planned to be completed by the end of September 2004.

*Royal Cornwall Hospitals NHS Trust*

Financial position of the organisation and wider Cornwall health community.

*Plymouth Hospitals NHS Trust*

Financial performance identified as key risk. A recovery plan is in place.

*South Yorkshire Ambulance Service NHS Trust*

South Yorkshire Ambulance Service NHS Trust developed an Assurance Framework during 2003 which was presented to the Board in November 2003. The first objective identified was "to ensure that the organisation achieves its range of performance measures within the given timescales."

The Internal Auditor for this organisation undertook a review of A+E performance data quality during 2003-2004 and found that there were significant issues around this area which undermined the Trust's ability to deliver on this objective.

In the Internal Auditors Opinion on the Statement of internal control it was noted that for the principal risks and associated controls with regard to this objective there could be “no assurance” as weaknesses in control, or consistent non-compliance with key controls, have resulted in failure to achieve the organisation’s objective in the area reviewed.

It should be noted that for other areas covered by the work of the Internal Auditors there was “full assurance” that the system of internal control is designed to meet the organisation’s objectives and controls are consistently applied in all areas reviewed.

*Robert Jones and Agnes Hunt Orthopaedic and District Hospital NHS Trust*

The Assurance Framework was not fully in place by the 31 March 2004.

*Good Hope Hospital NHS Trust*

Waiting list management: the Trust has commissioned an external review of its systems and processes for waiting list management and has condensed these into a single action plan which has been implemented and reviewed by Trust Board.

Agency nursing staff: actions have been undertaken to improve recruitment procedures to increase the levels of permanent nursing staff.

Financial position: a financial plan been agreed with the SHA to manage the Trust’s financial deficit and work.

*The Royal Wolverhampton Hospitals NHS Trust*

Financial position: a financial recovery plan is being developed to manage this risk which will be agreed with and monitored externally by the SHA.

Clinical governance issues within maternity services: a joint Healthcare Commission, SHA and PCT action plan is being developed.

*Sandwell and West Birmingham Hospitals NHS Trust*

Financial position: the Trust Board has produced a Financial Recovery Plan, which has been submitted to the SHA. Performance against this plan will be monitored internally by the Trust Board and the Finance and Performance Monitoring Committee and externally by the SHA. Trust Board has significantly increased its financial and business risk monitoring and assurance reporting for 2004-2005.

*Hereford Hospitals NHS Trust*

Nursing staffing levels (additional resources committed in year to mitigate the identified risk of minimising safe care provision in some areas on some occasions).

Underlying financial deficit (Trust is implementing a range of cost improvements).

Capacity Planning (Trust continues to develop a capacity plan for 2004-2005 and beyond).

IT Investment.

Workforce Modernisation (New Trust CE at Hereford Hospitals appointed 1 January 2004 who undertook a review of the assurance/governance arrangements and a new Director of Finance is currently being recruited. Trust to set up a Governance Unit).

### *Worcestershire Acute Hospitals NHS Trust*

Financial Deficit - with the need to establish wider health economy responsibility and robust Worcestershire Financial Recovery Plan plus strong budgetary control system (New Trust Chief Executive and Director of Finance appointed in year. Trust worked with Worcestershire health economy and SHA to establish a robust Recovery Programme and strong budgetary control system. These were completed by May 2004.)

#### Developments during 2003-2004

During 2003-2004 the Department provided further training for Strategic Health Authorities to assist them with their performance management of the NHS Trusts' development of effective Assurance Frameworks. The Department, as part of its quality review arrangements, monitored the Strategic Health Authorities actions and provided additional help where it was indicated that NHS Trusts may not have all the necessary processes in place by 31 March 2004 to meet the requirements of the Statement.

Actions being taken to ensure NHS Trusts have effective systems of internal control.

#### Performance Management by Strategic Health Authorities

Strategic Health Authorities have been given responsibility for ensuring that NHS Trusts address, within agreed deadlines, all outstanding actions they need to take to be able to provide assurances about their systems of internal control. As part of this process, Strategic Health Authorities will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by NHS Trusts to provide the structured evidence to support statements for 2004-2005.

### Conclusion

The ongoing development of Assurance Frameworks with 96% being assessed as Category A by Strategic Health Authorities has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. Trusts were able to demonstrate that they had made considerable progress since 31 March 2003 and arrangements are in place to further develop Assurance Frameworks, with Trusts being assessed against more stringent criteria through Strategic Health Authority performance management arrangements.

*Sir Nigel Crisp*  
Accounting Officer

13 December 2004

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

I certify that I have audited the financial statements on pages C15 to C37 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages C18 to C24.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page C3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page C4 to C12 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of either the Department or the NHS Trusts, or their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of NHS Trusts at 31 March 2004 and the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Income and Expenditure Account for the year ended 31 March 2004

### Continuing operations

	Notes	£000	2002-2003 £000
<b>Operating activities</b>			
Income from activities	2	<b>31,163,798</b>	29,071,459
Other operating income	3	<b>4,673,678</b>	4,359,340
Operating expenses	4.1	<b>(35,187,310)</b>	(32,279,362)
<b>Operating surplus</b>		<b>650,166</b>	1,151,437
Profit on disposal of fixed assets	6	<b>55,054</b>	21,010
<b>Surplus before interest</b>		<b>705,220</b>	1,172,447
Interest receivable		<b>51,138</b>	46,079
Interest payable	7	<b>(27,675)</b>	(18,748)
Other finance costs - unwinding of discount		<b>(14,274)</b>	(16,330)
Other finance costs - change in discount rate on provisions		<b>(21,243)</b>	0
<b>Surplus on ordinary activities</b>		<b>693,166</b>	1,183,448
Public dividend capital dividends payable		<b>(830,783)</b>	(1,276,977)
<b>Retained (deficit) for the year</b>		<b>(137,617)</b>	(93,529)
Capital cost absorption rate	8	<b>3.6%</b>	6.0%

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	Notes	£000	2002-2003 £000
<b>Surplus on ordinary activities for the financial year</b>		<b>693,166</b>	1,183,448
Fixed asset impairment losses	16.1 - 16.3	<b>(202,268)</b>	(181,795)
Unrealised surplus on fixed asset revaluations/indexation	16.1 - 16.3	<b>2,075,492</b>	3,171,355
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	<b>175,873</b>	158,520
(Reduction) in the donated asset/government grant reserve due to depreciation, impairment and/or disposal of donated/government granted assets	16.2, 16.3	<b>(94,460)</b>	(94,583)
(Reduction)/addition to other reserves	16.4	<b>1,011</b>	72,979
<b>Total recognised gains relating to the year</b>		<b>2,648,814</b>	4,309,924
Prior period adjustment		<b>0</b>	(183,562)
<b>Total recognised gains for the financial year</b>		<b>2,648,814</b>	4,126,362

The notes at pages C18 to C37 form part of this account.

## Balance Sheet as at 31 March 2004

	Notes	£000	31 March 2003 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	<b>40,242</b>	27,270
Tangible fixed assets	10.1	<b>27,805,277</b>	25,323,849
		<b>27,845,519</b>	25,351,119
<b>Current assets</b>			
Stocks		<b>514,841</b>	455,654
Debtors	11	<b>2,820,332</b>	2,677,954
Investments	12	<b>19,513</b>	0
Cash at bank and in hand	19	<b>141,536</b>	134,994
		<b>3,496,222</b>	3,268,602
<b>Creditors: amounts falling due within one year</b>	13.1	<b>(3,449,012)</b>	(3,468,998)
<b>Net current assets</b>		<b>47,210</b>	(200,396)
<b>Total assets less current liabilities</b>		<b>27,892,729</b>	25,150,723
Creditors (amounts falling due after more than one year)	13.2	<b>(302,181)</b>	(302,880)
Provisions for liabilities and charges	14	<b>(726,837)</b>	(572,938)
		<b>26,863,711</b>	24,274,905
<b>Financed by</b>			
<i>Capital and reserves</i>			
Public dividend capital	15	<b>18,415,722</b>	17,340,770
Revaluation reserve	16.1	<b>6,976,011</b>	5,670,826
Donated asset reserve	16.2	<b>1,276,100</b>	1,119,425
Government grant reserve	16.3	<b>16,671</b>	12,138
Other reserves	16.4	<b>156,909</b>	184,115
Income and expenditure reserve	16.5	<b>22,298</b>	(52,369)
		<b>26,863,711</b>	24,274,905

The notes at pages C18 to C37 form part of this account.

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the year ended 31 March 2004

	Notes	£000	£000	2002-2003 £000
<b>Operating activities</b>				
Net cash inflow from operating activities	17		<b>1,826,782</b>	2,315,576
<b>Returns on investments and servicing of finance</b>				
Interest received		<b>50,397</b>		45,602
Interest paid		<b>(6,489)</b>		(3,740)
Interest element of finance lease rental payments		<b>(26,284)</b>		(17,778)
<b>Net cash inflow from returns on investments and servicing of finance</b>			<b>17,624</b>	24,084
<b>Capital expenditure</b>				
(Payments) to acquire intangible fixed assets		<b>(14,314)</b>		(7,683)
Receipts from sale of intangible fixed assets		<b>23</b>		132
(Payments) to acquire tangible fixed assets		<b>(2,302,129)</b>		(2,097,819)
Receipts from sale of tangible fixed assets		<b>334,774</b>		990,518
Net cash (outflow) from capital expenditure			<b>(1,981,646)</b>	(1,114,852)
Dividends paid			<b>(830,683)</b>	(1,276,319)
<b>Net cash (outflow) before management of liquid resources and financing</b>			<b>(967,923)</b>	(51,511)
<b>Management of liquid resources</b>				
(Payments) to acquire investments		<b>(1,486,518)</b>		(1,140,975)
Receipts from sale of investments		<b>1,467,005</b>		1,140,975
Net cash (outflow) from management of liquid resources			<b>(19,513)</b>	0
<b>Net cash (outflow) before financing</b>			<b>(987,436)</b>	(51,511)
<b>Financing</b>				
New Public Dividend Capital issued		<b>1,759,967</b>		1,442,719
Repayment of Public Dividend Capital		<b>(821,787)</b>		(1,550,318)
Loans received		<b>39,915</b>		73,909
Repayments of amounts borrowed		<b>(108,979)</b>		(21,057)
Other capital receipts		<b>127,300</b>		117,142
Capital element of finance lease rental payments		<b>(2,255)</b>		(2,759)
Cash transferred to other NHS bodies		<b>0</b>		127
Net cash inflow from financing			<b>994,161</b>	59,763
<b>Increase in cash</b>	19		<b>6,725</b>	8,252

The notes at pages C18 to C37 form part of this account.

# Notes to the account

## 1 Accounting policies

### 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.

#### *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.

#### *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. These are agreements under which income is received from commissioners (Primary Care Trusts) for the provision of Healthcare Services

### 1.2 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.

From 2003-2004, the method of accounting for second hand assets, on acquisition, has been changed from disclosing gross cost and accumulated depreciation, to disclosing net acquisition cost. This change will have no effect on the balance sheet figures and comparative figures have not been amended.

#### 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 Inland Revenue 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 1999 as at the prospective valuation date of 1 April 2000.

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 equal the expected fair value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance. The District Valuer should provide an estimate of the anticipated fair value of the assets on the same basis as the District Valuer values the NHS Trust estate.

Operational equipment 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 using the following lives

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology equipment	5
<i>Transport equipment</i>	7
<i>Plant and machinery</i>	
Moveable engineering plant and long life medical equipment	15
Medium life medical equipment	10
Short life medical and other equipment	5

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

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

Where, 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 using funding provided by the NHS Bank.

The income is used to repay Public Dividend Capital.

### **1.3 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, except capitalised Research and Development which is revalued using an appropriate index figure. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

### **1.4 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.

### **1.5 Government grants**

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

### **1.6 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.

## 1.7 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% 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 consistent 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.

## 1.8 Research and development

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

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

## 1.9 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 3.5% in real terms.

This is a change from the rate of 6% applied in 2002-2003 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 14.

### *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 in 2003-2004 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.

### **1.10 Pension costs**

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for NHS Trusts to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due at 31 March 2004.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS Trusts are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates from 2003-2004 were set at 14% of pensionable pay (2002-2003: 7%). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%. Employees pay contributions of 6% (manual staff: 5%) of their pensionable pay. The total employer contribution payable in 2003-2004 was £1,078,542,000 (£1,006,630,000 for 2002-2003).

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% 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, 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.



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 can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the NHS Trust commits itself to the retirement, regardless of the method of payment.

FRS17 has been fully adopted from 2003-2004.

### **1.11 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.

### **1.12 Merged Trusts**

At 1 April 2003, 11 NHS Trusts were involved in reconfigurations. These involved NHS Trust mergers with other NHS Trusts, mergers with primary care trusts to form new primary care trusts and the formation of care trusts. In some cases only some of the services of the NHS Trusts were involved. During the year 7 NHS trusts merged to give four new NHS Trusts. In some cases the closing balances of the former NHS Trusts on 31 March 2003 were different from the opening balances of the new NHS Trusts on 1 April 2003. The opening balances as at 31 March 2003 in this account reflect the totals of closing balances of all NHS Trusts as at 31 March 2003. Adjustments have been made to include the effect of trusts dissolutions and asset transfers as at 1 April 2003.

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

#### *PFI Schemes deemed to be off balance sheet*

In this financial year, 62 NHS Trusts reported off balance sheet PFI schemes over £1 million. The estimated capital value of schemes individually over £1 million is £2.412 billion. The amount included within operating expenses for these schemes is £339 million.

#### *PFI schemes deemed to be on balance sheet*

In this financial year, seven NHS Trusts reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £304 million and the amount included within operating expenses is £67 million.

### **1.14 Value Added Tax**

Most of the activities of the 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.

### **1.15 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.

**1.16 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.

**1.17 Dividend**

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

**2 Income from activities**

	£000	2002-2003 £000
Strategic Health Authorities and Primary Care Groups	<b>92,382</b>	1,478,176
Primary Care Trusts	<b>29,734,457</b>	26,477,507
Department of Health	<b>306,864</b>	260,840
Local authorities	<b>394,887</b>	259,789
<i>Non-NHS</i>		
Private patients	<b>374,662</b>	366,671
Overseas patients (non-reciprocal)	<b>9,178</b>	0*
Road Traffic Act	<b>114,602</b>	102,186
Other	<b>136,766</b>	126,290
	<b>31,163,798</b>	29,071,459
Income recognised to offset impairments and accelerated depreciation	<b>145,346</b>	168,516

\* In 2002-2003 'overseas patients (non-reciprocal)' was included in 'other'.

**3 Other operating income**

	£000	2002-2003 £000
Education, training and research	<b>2,285,045</b>	2,075,838
Patient transport services	<b>10,529</b>	8,348
Charitable and other contributions to expenditure	<b>96,437</b>	90,192
Transfers from the donated asset reserve in respect of depreciation on donated assets	<b>93,525</b>	93,963
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	<b>935</b>	620
Non-patient care services to other bodies	<b>423,596</b>	393,641
Other income from activities	<b>1,763,611</b>	1,696,738
	<b>4,673,678</b>	4,359,340

## 4 Operating expenses

### 4.1 Operating expenses include

	Notes	2002-2003 £000	2002-2003 £000
Directors' costs		<b>162,100</b>	148,681
Staff costs <sup>1</sup>	5.1	<b>23,416,469</b>	21,219,169
Supplies and services - clinical		<b>4,966,852</b>	4,454,694
Supplies and services - general		<b>832,767</b>	787,633
Premises		<b>1,553,076</b>	1,549,459
Depreciation and amortisation	9,10	<b>1,310,041</b>	1,159,657
Fixed asset impairments and reversals		<b>69,696</b>	160,078
Contracts with other NHS bodies		<b>335,881</b>	326,400
Establishment		<b>719,870</b>	692,640
Transport		<b>256,619</b>	235,128
Clinical negligence		<b>234,862</b>	209,057
Write off and movement in bad debt provisions		<b>19,023</b>	14,163
Auditors' remuneration: audit fees <sup>2</sup>		<b>35,044</b>	31,913
Auditors' remuneration: other remuneration		<b>5,233</b>	5,862
Pre-1995 early retirements		<b>362</b>	392
Purchase of healthcare from non-NHS bodies		<b>379,614</b>	338,172
Other		<b>889,801</b>	946,264
		<b>35,187,310</b>	32,279,362

- 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.

### 4.2 Hire and operating lease rentals

	2002-2003 £000	2002-2003 £000
Hire of plant and machinery	<b>58,697</b>	54,292
Other operating leases	<b>235,599</b>	209,361
	<b>294,296</b>	263,653

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

	£000	2002-2003 £000
<b>Land and buildings</b>		
Expiring within one year	7,274	6,352
Expiring between one and five years	21,473	16,010
Expiring after five years	189,172	135,051
	<b>217,919</b>	<b>157,413</b>
<b>Other leases</b>		
Expiring within one year	36,710	35,767
Expiring between one and five years	108,374	105,018
Expiring after five years	33,337	25,971
	<b>178,421</b>	<b>166,756</b>

## 5 Staff costs and numbers

### 5.1 Staff costs

	£000	2002-2003 £000
Salaries and wages	19,630,311	17,844,543
Social security costs	1,492,466	1,220,260
Pension costs	1,078,542	1,006,630
Other pension costs	16,561	17,329
Agency and contract staff	1,198,218	1,272,227
Seconded-in staff	146,569	0*
	<b>23,562,667</b>	<b>21,360,989</b>

\* In 2002-2003 'Seconded-in staff' were included in 'Agency staff'.

### 5.2 Average number of total staff

	Senior managers	Others	Staff on inward secondment	Agency, temporary and contract staff	Total	2002-2003
	Number	Number	Number	Number	Number	Number
Medical and dental	249	69,137	1,462	3,992	74,840	69,369
Ambulance staff	180	20,960	1	444	21,585	21,498
Administration and estates	5,768	154,499	331	6,943	167,541	158,123
Healthcare assistants and other support staff	1	87,632	5	4,541	92,179	88,336
Nursing, midwifery and health visiting staff	366	285,430	224	16,643	302,663	296,201
Nursing, midwifery and health visiting learners	2	4,931	22	204	5,159	4,020
Scientific, therapeutic and technical staff	159	100,629	256	3,954	104,998	99,861
Social Care Staff	6	2,018	1,181	86	3,291	0*
Other	1,113	8,432	48	513	10,106	13,635
	<b>7,844</b>	<b>733,668</b>	<b>3,530</b>	<b>37,320</b>	<b>782,362</b>	<b>751,043</b>

\* In 2002-2003 'Social Care Staff' were included in 'Other'.

### 5.3 Staff benefits

The amount spent on staff benefits during the year totalled £1,042,000 (2002-2003: £124,000).

### 5.4 Pensions

NHS Trusts participate in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS Trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of Treasury. For 2003-2004, the contribution rate was increased to 14% from 7% in 2002-2003.

### 5.5 Retirements due to ill health

During 2003-2004 there were 2,250 early retirements from NHS Trusts on the grounds of ill-health (2002-2003: 2,100). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £128,752,000 (2002-2003: £107,604,000).

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

	2002-2003
	£000
(Loss) on disposal of intangible fixed assets	(130)
Net profit on disposal of land and buildings	58,872
Net (loss) on disposal of plant and equipment	(3,688)
	<u>55,054</u>
	<u>21,010</u>

## 7 Interest payable

	2002-2003
	£000
Interest payable is in respect of the following	
Finance leases	27,272
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	64
Other interest	339
	<u>27,675</u>
	<u>18,748</u>

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £7,000 (2002-2003: £NIL).

## 8 Capital cost absorption rate

NHS Trusts are required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £831 million, bears to the average relevant net assets of £23,030 million, that is 3.6% (2002-2003: 6%).

Prior to 2003-2004, the cost of capital rate was 6% of average relevant net assets. However, funding of NHS commissioners was changed at the time of change of the rate in such a way that the ability to meet the target was unaffected.

**9 Intangible fixed assets**

	Software licences £000	Licences and trademarks £000	Patents £000	Development expenditure £000	<b>Total £000</b>
Gross cost at 1 April 2003	48,881	84	21	4,510	<b>53,496</b>
Indexation	0	0	0	61	<b>61</b>
Reclassifications	3,670	(84)	0	(712)	<b>2,874</b>
Additions - purchased	20,491	0	0	333	<b>20,824</b>
Additions - donated/government granted	522	0	0	0	<b>522</b>
Disposals	(1,224)	0	(21)	(11)	<b>(1,256)</b>
<b>Gross cost at 31 March 2004</b>	<b>72,340</b>	<b>0</b>	<b>0</b>	<b>4,181</b>	<b>76,521</b>
Accumulated amortisation at 1 April 2003	23,709	34	5	2,478	<b>26,226</b>
Indexation	0	0	0	39	<b>39</b>
Impairments	460	0	0	0	<b>460</b>
Reclassifications	764	(34)	0	35	<b>765</b>
Provided during the year	9,032	0	0	592	<b>9,624</b>
Disposals	(819)	0	(5)	(11)	<b>(835)</b>
<b>Accumulated amortisation at 31 March 2004</b>	<b>33,146</b>	<b>0</b>	<b>0</b>	<b>3,133</b>	<b>36,279</b>
<b>Net book value</b>					
Purchased at 1 April 2003	24,757	50	16	2,032	<b>26,855</b>
Donated at 1 April 2003	415	0	0	0	<b>415</b>
Total at 1 April 2003	25,172	50	16	2,032	<b>27,270</b>
<b>Purchased at 31 March 2004</b>	<b>38,289</b>	<b>0</b>	<b>0</b>	<b>1,048</b>	<b>39,337</b>
<b>Donated at 31 March 2004</b>	<b>905</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>905</b>
<b>Total at 31 March 2004</b>	<b>39,194</b>	<b>0</b>	<b>0</b>	<b>1,048</b>	<b>40,242</b>

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

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2003	5,018,861	17,986,530	508,341	1,015,206	4,647,207	304,462	927,462	314,111	<b>30,722,180</b>
Transfers to PCTs	(8,133)	(7,744)	0	(3,111)	(104)	(325)	(101)	(107)	<b>(19,625)</b>
Additions - purchased	30,421	611,942	10,670	1,038,688	383,448	21,033	150,523	28,039	<b>2,274,764</b>
Additions - donated/government granted	29	35,851	18	80,999	55,069	1,152	1,334	709	<b>175,161</b>
Impairments	(12,133)	(174,786)	(4,846)	(9,865)	(109)	(12)	(23)	0	<b>(201,774)</b>
Reclassifications	16,197	713,232	5,430	(878,786)	91,198	12,072	45,585	(7,802)	<b>(2,874)</b>
Indexation	282,543	1,681,581	47,959	74,455	105,399	6,690	0	8,422	<b>2,207,049</b>
Other in-year revaluations	31,672	(22,893)	4,687	(3,567)	(950)	44	(1,623)	210	<b>7,580</b>
Disposals	(160,185)	(1,014,371)	(42,182)	(14,163)	(250,501)	(31,939)	(47,636)	(6,988)	<b>(1,567,965)</b>
<b>Cost or valuation at 31 March 2004</b>	<b>5,199,272</b>	<b>19,809,342</b>	<b>530,077</b>	<b>1,299,856</b>	<b>5,030,657</b>	<b>313,177</b>	<b>1,075,521</b>	<b>336,594</b>	<b>33,594,496</b>
Accumulated depreciation at 1 April 2003	8,682	1,263,018	37,570	0	3,067,889	208,901	640,582	171,689	<b>5,398,331</b>
Transfers to PCTs	(592)	(950)	0	0	(71)	(320)	(22)	(9)	<b>(1,964)</b>
Provided during the year	122	799,619	23,240	0	337,817	26,860	88,275	24,484	<b>1,300,417</b>
Impairments	4,441	57,460	3,727	0	2,724	55	872	372	<b>69,651</b>
Reversal of impairments	0	(415)	0	0	0	0	0	0	<b>(415)</b>
Reclassifications	0	233	101	0	6,122	75	6,531	(13,827)	<b>(765)</b>
Indexation	334	66,096	2,259	0	62,884	4,587	0	3,013	<b>139,173</b>
Other in-year revaluations	0	0	0	0	4	(20)	17	(15)	<b>(14)</b>
Disposals	(2,082)	(762,028)	(25,504)	0	(240,437)	(31,105)	(47,431)	(6,608)	<b>(1,115,195)</b>
<b>Accumulated depreciation at 31 March 2004</b>	<b>10,905</b>	<b>1,423,033</b>	<b>41,393</b>	<b>0</b>	<b>3,236,932</b>	<b>209,033</b>	<b>688,824</b>	<b>179,099</b>	<b>5,789,219</b>

**10.2****Net book value at 1 April 2003**

Purchased	4,957,935	16,022,120	465,683	942,927	1,305,768	91,791	278,697	136,069	<b>24,200,990</b>
Donated	52,244	693,696	5,088	72,279	271,967	3,770	7,263	6,218	<b>1,112,525</b>
Government granted	0	7,696	0	0	1,583	0	920	135	<b>10,334</b>
<b>Total at 1 April 2003</b>	<b>5,010,179</b>	<b>16,723,512</b>	<b>470,771</b>	<b>1,015,206</b>	<b>1,579,318</b>	<b>95,561</b>	<b>286,880</b>	<b>142,422</b>	<b>25,323,849</b>

**Net book value at  
31 March 2004**

Purchased	5,131,234	17,599,311	483,085	1,175,398	1,500,382	100,010	379,187	151,393	<b>26,520,000</b>
Donated	57,133	775,922	5,599	124,024	290,020	4,115	7,064	5,947	<b>1,269,824</b>
Government granted	0	11,076	0	434	3,323	19	446	155	<b>15,453</b>
<b>Total at 31 March 2004</b>	<b>5,188,367</b>	<b>18,386,309</b>	<b>488,684</b>	<b>1,299,856</b>	<b>1,793,725</b>	<b>104,144</b>	<b>386,697</b>	<b>157,495</b>	<b>27,805,277</b>

**10.3**

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

	7,926	279,585	10,207	95	745	9	20	45	<b>298,632</b>
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £8,811,000 (2002-2003: £7,096,000).

**10.4**

The net book value of land, buildings and dwellings comprises

		31 March 2003 £000
Freehold	<b>23,505,467</b>	21,698,739
Long leasehold	<b>552,676</b>	502,066
Short leasehold	<b>5,217</b>	3,657
	<b>24,063,360</b>	<u>22,204,462</u>

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

		31 March 2003 £000
National Health Service debtors	<b>1,100,120</b>	1,204,834
Provision for irrecoverable debts	<b>(65,819)</b>	(54,356)
Other prepayments and accrued income	<b>377,447</b>	316,598
Other debtors	<b>797,447</b>	734,142
	<b>2,209,195</b>	<u>2,201,218</u>

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

		31 March 2003 £000
National Health Service debtors	<b>183,289</b>	201,457
Provision for irrecoverable debts	<b>(2,762)</b>	(1,220)
Other prepayments and accrued income	<b>278,002</b>	181,025
Other	<b>152,608</b>	95,474
	<b>611,137</b>	<u>476,736</u>
<b>Total debtors</b>	<b>2,820,332</b>	<u>2,677,954</u>

**12 Short-term investments**

The value of short term investments held at the balance sheet date was £19,513,000 (2002-2003: £Nil). The analysis of these is held within the individual NHS Trust accounts.



## 13 Creditors

### 13.1 Amounts falling due within one year

	£000	31 March 2003 £000
Overdrafts	<b>53,992</b>	54,175
National Health Service creditors	<b>805,006</b>	1,129,074
Accruals and deferred income	<b>977,529</b>	838,719
Payments received on account	<b>40,387</b>	40,121
Interest payable	<b>2,433</b>	1,296
Current instalments due on loans	<b>14,951</b>	66,945
Payroll and related creditors	<b>323,637</b>	246,434
Obligations under finance leases and hire purchase contracts	<b>3,759</b>	3,593
Non-NHS trade creditors - revenue	<b>704,184</b>	695,622
- revenue - clinical negligence	<b>0</b>	16
- capital	<b>314,307</b>	223,968
Other creditors	<b>208,827</b>	169,035
	<b><u>3,449,012</u></b>	<u>3,468,998</u>

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

	£000	31 March 2003 £000
National Health Service creditors	<b>10,382</b>	24,292
Obligations under finance leases and hire purchase contracts	<b>248,338</b>	244,496
Non-NHS trade creditors - revenue - clinical negligence	<b>0</b>	330
Other	<b>43,461</b>	33,762
	<b><u>302,181</u></b>	<u>302,880</u>

### 13.3 Finance lease obligations

	£000	31 March 2003 £000
<i>Leases payable</i>		
Within one year	<b>28,597</b>	28,359
Between one and five years	<b>116,055</b>	113,501
After five years	<b>682,248</b>	698,537
Finance charges allocated to future periods	<b>(574,803)</b>	(592,308)
	<b><u>252,097</u></b>	<u>248,089</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 2003	7,545	340,558	100,378	23,828	100,629	<b>572,938</b>
Transfers to PCTs	319	2,518	(15)	(4,293)	812	<b>(659)</b>
Change in the discount rate	12	9,144	2,227	3,038	6,822	<b>21,243</b>
Arising during the year	235	21,460	23,727	3,138	213,789	<b>262,349</b>
Utilised during the year	(1,902)	(33,529)	(17,119)	(7,652)	(17,029)	<b>(77,231)</b>
Reversed unused	(744)	(11,979)	(30,528)	(4,217)	(18,609)	<b>(66,077)</b>
Unwinding of discount	220	11,472	673	270	1,639	<b>14,274</b>
<b>At 31 March 2004</b>	<b>5,685</b>	<b>339,644</b>	<b>79,343</b>	<b>14,112</b>	<b>288,053</b>	<b>726,837</b>

*Expected timing of cashflows*

Within one year	950	33,784	40,404	8,499	229,664	<b>313,301</b>
One to five years	2,158	116,346	28,899	4,150	18,325	<b>169,878</b>
Over five years	2,577	189,514	10,040	1,463	40,064	<b>243,658</b>

\* £1,412,960,560 is included in the accounts of the NHS Litigation Authority (NHSLA) for clinical negligence liabilities in NHS Trusts.

**15 Public dividend capital**

	31 March 2003 £000	£000
<i>Public dividend capital was issued as follows</i>		
During previous years	<b>17,340,770</b>	17,974,918
At the opening of the year/trust mergers	<b>132,693</b>	(853,055)
Other in-year movement in PDC	<b>942,259</b>	218,907
	<b>18,415,722</b>	17,340,770

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

	2002-2003 £000	£000
At 1 April 2003	<b>5,670,826</b>	3,596,471
Transfer to PCTs	<b>(90,706)</b>	0
Write off on merger of Trusts	<b>(126,892)</b>	(513,541)
Impairments	<b>(195,237)</b>	(174,154)
Other revaluations/indexation of fixed assets	<b>1,986,556</b>	3,068,218
Transfer of realised profits to I&E reserve	<b>(95,186)</b>	(132,054)
Other transfers between reserves	<b>(136,779)</b>	(112,997)
Reserve eliminated on mid-year dissolution	<b>(36,571)</b>	(61,117)
<b>As at 31 March 2004</b>	<b>6,976,011</b>	5,670,826

**16.2 Donated asset reserve**

	£000	£000
At 1 April 2003	<b>1,119,425</b>	999,378
Transfer to PCTs	<b>(6)</b>	0
Value of merged Trusts at 1 April 2003	<b>0</b>	(29,457)
Impairments	<b>(6,021)</b>	(7,641)
Other revaluations/indexation of fixed assets	<b>88,348</b>	102,860
Transfer of realised profits to I&E reserve	<b>(2,593)</b>	(1,709)
Receipt of donated assets	<b>169,930</b>	150,373
Depreciation, impairment and disposal of donated assets	<b>(93,525)</b>	(93,963)
Other transfers between reserves	<b>540</b>	(416)
Reserve eliminated on mid-year dissolution	<b>2</b>	0
<b>As at 31 March 2004</b>	<b><u>1,276,100</u></b>	<b><u>1,119,425</u></b>

**16.3 Government grant reserve**

	£000	£000
At 1 April 2003	<b>12,138</b>	5,540
Value of merged Trusts at 1 April 2003	<b>0</b>	(1,420)
Impairments	<b>(1,010)</b>	0
Surplus on other revaluation/indexation of fixed assets	<b>588</b>	277
Transfer of realised profits to I&E reserve	<b>0</b>	(25)
Receipt of Government granted assets	<b>5,943</b>	8,147
Depreciation, impairment and disposal of Government granted assets	<b>(935)</b>	(620)
Other transfers between reserves	<b>(53)</b>	239
<b>As at 31 March 2004</b>	<b><u>16,671</u></b>	<b><u>12,138</u></b>

**16.4 Other reserves**

	£000	£000
At 1 April 2003 as originally stated	<b>184,115</b>	6,708
Transfer to PCTs	<b>9,680</b>	0
Value of merged Trusts at 1 April 2003	<b>1,666</b>	63,068
Other movements on reserves	<b>1,011</b>	72,979
Transfers between reserves	<b>(39,563)</b>	(482)
Reserves eliminated on mid-year dissolution	<b>0</b>	41,842
<b>As at 31 March 2004</b>	<b><u>156,909</u></b>	<b><u>184,115</u></b>

**16.5 Income and Expenditure reserve**

	£000	£000
At 1 April 2003	<b>(52,369)</b>	105,681
Prior period adjustment - early retirements	<b>0</b>	(183,562)
Restated as at 1 April 2003	<b>0</b>	(77,881)
Transfer to PCTs	<b>(12,584)</b>	0
Write off on merger of Trusts	<b>(7,457)</b>	(125,905)
Transfer from income and expenditure account	<b>(137,617)</b>	(93,529)
Transfers of realised profits	<b>97,779</b>	133,788
Other transfers between reserves	<b>135,281</b>	113,656
Reserve eliminated on dissolution	<b>(735)</b>	(2,498)
<b>As at 31 March 2004</b>	<b>22,298</b>	(52,369)

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

	£000	2002-2003 £000
Operating surplus	<b>650,166</b>	1,151,437
Depreciation and amortisation	<b>1,310,041</b>	1,159,657
Impairments	<b>69,696</b>	160,159
(Increase) in stocks	<b>(59,187)</b>	(38,774)
(Increase) in debtors	<b>(74,139)</b>	(476,899)
(Decrease)/increase in creditors	<b>(129,893)</b>	424,143*
Increase in provisions for liabilities and charges	<b>154,558</b>	0*
Transfer from donated asset reserve in respect of depreciation on donated assets	<b>(93,525)</b>	(93,963)
Transfer from the Government grant reserve	<b>(935)</b>	(620)
Other non-cash movements	<b>0</b>	30,436
<b>Net cash inflow from operating activities</b>	<b>1,826,782</b>	2,315,576

\* In 2002-2003 the (decrease)/increase in creditors and provisions for liabilities and charges were included as one total.

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

	£000	£000
Net debt at 1 April 2003		(234,215)
Increase in cash in year	6,725	
Cash inflow from new debt	(39,915)	
Cash outflow from debt repaid and finance lease capital payments	111,234	
Cash outflow from increase in liquid resources	19,513	
Changes in net debt resulting from cash flows		97,557
Non-cash changes in debt		(23,333)
<b>Net debt at 31 March 2004</b>		<b>(159,991)</b>

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

	1 April 2003 restated	Cash changes in year	Non-cash changes in year/ transfers	31 March 2004
	£000	£000	£000	£000
OPG cash at bank	148,461*	(2,959)		<b>145,502</b>
Commercial cash at bank and in hand	(13,467)*	9,501		<b>(3,966)</b>
Bank overdrafts	(54,175)	183		<b>(53,992)</b>
		6,725		
Debt due within one year	(66,945)	69,064	(17,070)	<b>(14,951)</b>
Finance leases	(248,089)	2,255	(6,263)	<b>(252,097)</b>
Current Asset Investments	0	19,513	0	<b>19,513</b>
	<u>(234,215)</u>	<u>97,557</u>	<u>(23,333)</u>	<b><u>(159,991)</u></b>

\* In 2002-2003 the 'OPG cash at bank' and 'Commercial cash at bank and in hand' were included as one total under 'Cash at bank and in hand'.

**20 Reconciliation of movements in government funds**

	£000	£000
Government Funds at 1 April 2003		23,155,228
Trust dissolution 1 April 2003		(229)
Transfers to PCTs		(105,792)
Government funds at 1 April 2003 - restated		<u>23,049,207</u>
Surplus for the financial year	693,166	
Less public dividend capital dividends	(830,783)	
	<u>(137,617)</u>	
Gains from revaluation/indexation of purchased fixed assets	1,622,381	
New public dividend capital (including transfer from dissolved NHS trusts)	2,621,812	
Public dividend capital repaid and repayable	(903,581)	
Public dividend capital written off in year	(625,640)	
Other movements in public dividend capital in year	(17,639)	
Transfer from the Donated Asset Reserve	2,593	
Transfer from the Government grant reserve	5,008	
Additions in other reserves	(39,563)	
	<u>2,665,371</u>	
Net increase in Government Funds		<u>2,527,754</u>
<b>Government funds at 31 March 2004</b>		<b><u>25,576,961</u></b>

**21 Capital commitments**

	£000	31 March 2003 £000
Contracted at the balance sheet date	<b>752,412</b>	803,911
	<b>752,412</b>	803,911

**22 Contingent liabilities**

Potential net contingent liabilities totalling £30,806,000 (2002-2003: £27,759,000) have not been accrued as the outcome of these cases is uncertain. These do not include cases of clinical litigation which are accounted for by the NHS Litigation Authority.

**23 Losses and special payments**

There were 60,333 (2002-2003: 60,711) cases of losses and special payments totalling £33,195,192 (2002-2003: £27,398,000) approved during 2003-2004. These included two personal injury cases totalling £321,323 (2002-2003: 0 cases), six payment under legal obligation of £982,625 (2002-2003: one case of £317,000), 0 clinical negligence cases (2002-2003: four cases totalling £1,449,000), one fraud case of £575,000 (2002-2003: three cases totalling £661,000), and one fruitless payment case of £157,496 (2002-2003: 0 cases) where payments exceeded £100,000. The fraud case of £575,000 at King's College Hospital NHS Trust is being pursued by the Counter Fraud Service national team and the police. It is scheduled for criminal trial in February and the Trust has also instigated civil actions against the defendants for recovery.

**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 2004 there were 269 NHS Trusts (including five Care Trusts). There were no NHS Trusts involved in reconfigurations as at 1 April 2004. With effect from 1 April 2004 10 NHS Trusts became Foundation Trusts on 1 July 2004. Further NHS Trusts are expected to be established as Foundation Trusts later in 2004-2005. This will result in a net decrease of 20 NHS Trusts by 1 July 2004 to 249 (244 NHS Trusts and five NHS Care Trusts).

The value of post balance sheet events disclosed in the individual NHS Trust accounts represented a net increase in income of £43,319,000.

## 26 Financial instruments

The NHS Trust summarised account includes the accounts of 269 underlying NHS bodies. It is within the underlying accounts of these 269 NHS bodies 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 the listed companies to which FRS 13 mainly applies. NHS Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing NHS Trusts in undertaking their activities.

### *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 £14,184,000 (31 March 2003: £12,902,000). 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.





# Summarised Account of Funds Held on Trust



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

Section 98 (4) of the National Health Service Act 1977 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 by the Accounting Officer on behalf of the Secretary of State on an accruals basis and must present fairly the state of affairs of the Funds Held on Trust by strategic health authorities, NHS trusts, primary care trusts, special health authorities, special trustees, and Section 11 Trustees at the year end and their incoming resources and application of resources 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 Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the summarised account of Funds Held on Trust. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for keeping proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

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

I certify that I have audited the financial statements on pages D5 to D15 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages D7 to D10.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page D3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly the state of affairs of the Funds Held on Trust by Primary Care Trusts, NHS Trusts, special health authorities and special trustees and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

## Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Funds Held on Trust by Primary Care Trusts, NHS Trusts, special health authorities and special trustees are consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error or by fraud or other irregularity. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion the financial statements present fairly the state of affairs of the Funds Held on Trust by Primary Care Trusts, NHS Trusts, special health authorities and special trustees at 31 March 2004 and their incoming resources and application of resources for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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

## Statement of Financial Activities for the year ended 31 March 2004

	Note	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	2002-2003 Total funds
		£000	£000	£000	<b>£000</b>	£000
<b>Incoming resources</b>						
<i>Donations, legacies and similar resources</i>						
Donations		59,465	90,673	481	<b>150,619</b>	184,383
Legacies		33,433	26,725	156	<b>60,314</b>	55,086
<i>Grants receivable</i>						
from other NHS charities		742	3,902	67	<b>4,711</b>	6,586
other grants receivable		1,603	5,360	0	<b>6,963</b>	4,684
Total donations, legacies and similar resources		95,243	126,660	704	<b>222,607</b>	250,739
<i>Operating activities</i>						
Activities for generating funds		4,657	6,910	0	<b>11,567</b>	12,710
Activities in the furtherance of the charities objectives		11,540	2,534	0	<b>14,074</b>	7,835
		16,197	9,444	0	<b>25,641</b>	20,545
Investment income		42,781	16,490	230	<b>59,501</b>	61,068
Other incoming resources		6,166	5,625	346	<b>12,137</b>	8,599
<b>Total incoming resources</b>		160,387	158,219	1,280	<b>319,886</b>	340,951
<b>Resources expended</b>						
Cost of generating funds		8,832	5,312	1,614	<b>15,758</b>	14,516
<b>Charitable expenditure</b>						
Grants payable to other NHS charities	2.1	37,489	13,245	10	<b>50,744</b>	48,266
Other grants payable	2.1	111,755	62,453	65	<b>174,273</b>	171,891
Activities in furtherance of charitable activities	2.2	34,923	53,224	216	<b>88,363</b>	89,234
Support cost		687	666	0	<b>1,353</b>	1,303
Management and administration		9,285	6,375	74	<b>15,734</b>	14,587
<b>Total resources expended</b>		202,971	141,275	1,979	<b>346,225</b>	339,797
<b>Net (outgoing)/incoming resources before transfers</b>		(42,584)	16,944	(699)	<b>(26,339)</b>	1,154
Gross transfer between funds		3,457	1,689	(5,146)	<b>0</b>	0
<b>Net (outgoing)/incoming resources</b>		(39,127)	18,633	(5,845)	<b>(26,339)</b>	1,154
Gains on revaluation of own fixed assets		5,373	429	5,213	<b>11,015</b>	18,239
Gains on revaluation and disposal of investment assets		76,813	45,437	76,937	<b>199,187</b>	(242,387)
<b>Net movement in funds</b>		43,059	64,499	76,305	<b>183,863</b>	(222,994)
Fund balances brought forward at 31 March 2003		619,111	380,139	459,913	<b>1,459,163</b>	
<b>Fund balances carried forward at 31 March 2004</b>		662,170	444,638	536,218	<b>1,643,026</b>	

All recognised gains and losses are included in the Statement of Financial Activities, and all activities are continuing.

The notes at pages D7 to D15 form part of this account.

## Balance Sheet as at 31 March 2004

	Notes	Unrestricted funds	Restricted funds	Endowment funds	<b>31 March 2004 Total funds £000</b>	31 March 2003 Total funds £000
		£000	£000	£000		
<b>Fixed assets</b>						
Intangible assets		12	10	3	<b>25</b>	6
Tangible assets	5	110,208	6,801	68,782	<b>185,791</b>	154,673
Inalienable and historic assets		500	0	8,066	<b>8,566</b>	4,176
Investments	6.1	574,399	376,412	463,520	<b>1,414,331</b>	1,285,927
<b>Total fixed assets</b>		<u>685,119</u>	<u>383,223</u>	<u>540,371</u>	<b>1,608,713</b>	<u>1,444,782</u>
<b>Current assets</b>						
Stocks		108	73	0	<b>181</b>	199
Debtors	7	23,024	9,701	1,037	<b>33,762</b>	33,680
Short term investments and deposits		77,933	59,175	17,164	<b>154,272</b>	131,101
Cash at bank and in hand		36,683	44,945	755	<b>82,383</b>	70,948
		<u>137,748</u>	<u>113,894</u>	<u>18,956</u>	<b>270,598</b>	<u>235,928</u>
<b>Creditors: amounts falling due within one year</b>	8.1	<u>(121,968)</u>	<u>(41,703)</u>	<u>(18,677)</u>	<b>(182,348)</b>	<u>(171,851)</u>
<b>Net current assets</b>		15,780	72,191	279	<b>88,250</b>	64,077
<b>Total assets less current liabilities</b>		700,899	455,414	540,650	<b>1,696,963</b>	1,508,859
Creditors: amounts falling due after more than one year	8.2	(33,825)	(7,206)	0	<b>(41,031)</b>	(27,508)
Provisions for liabilities and charges		(4,904)	(3,570)	(4,432)	<b>(12,906)</b>	(22,188)
<b>Funds of the Charities</b>		<u>662,170</u>	<u>444,638</u>	<u>536,218</u>	<b>1,643,026</b>	<u>1,459,163</u>
Funds of the Charities at 31 March 2003		619,111	380,139	459,913		

The notes at pages D7 to D15 form part of this account.

Sir Nigel Crisp  
Accounting Officer

26 November 2004

# Notes to the Account

## 1.1 Accounting policies

### *Accounting convention*

This account has been prepared in accordance with the Statement of Recommended Practice issued in October 2000 - Accounting and Reporting by Charities, and with accounting standards and policies for the NHS. This is in accordance with directions issued by HM Treasury.

## 1.2 Cash flow statement

A cash flow statement is not provided within this account because the Statement of Recommended Practice - Accounting and Reporting for Charities - does not require one except for charities categorised as 'large'. The majority of individual accounts of funds held on trust fall below the relevant size criteria and so do not therefore include a cash flow statement.

## 1.3 Incoming resources

- a All incoming resources are included in full in the Statement of Financial Activities as soon as the following three factors can be met
  - i entitlement - arises when a particular resource is receivable or the charity's right becomes legally enforceable;
  - ii certainty - when there is reasonable certainty that the incoming resource will be received;
  - iii measurement - when the monetary value of the incoming resources can be measured with sufficient reliability.
- b Gifts in Kind
  - i Assets given for distribution by the funds are included in the Statement of Financial Activities only when distributed.
  - ii Assets given for use by the funds (e.g. property for its own occupation) are included in the Statement of Financial Activities as incoming resources when receivable.
  - iii Gifts made in kind but on trust for conversion into cash and subsequent application by the funds are included in the accounting period in which the gift is sold.
 

In all cases the amount at which gifts in kind are brought into account is either a reasonable estimate of their value to the funds or the amount actually realised. The basis of the valuation is disclosed in the annual reports of NHS organisations.
- c Intangible income
 

Intangible income (e.g. the provision of free accommodation) is included in the accounts with an equivalent amount in outgoing resources, if there is a financial cost borne by another party. The value placed on such income is the financial cost of the third party providing the resources.
- d Legacies
 

Legacies are accounted for as incoming resources once the receipt of the legacy becomes reasonably certain. This will be once confirmation has been received from the representatives of the estates that payment of the legacy will be made or property transferred and once all conditions attached to the legacy have been fulfilled.

### *Resources expended*

The Funds Held on Trust account is prepared in accordance with the accruals concept. A liability (and consequently, expenditure) is recognised in the accounts when there is a legal or constructive obligation, capable of reliable measurement, arising from a past event.

Resources expended are split into two main categories being the costs of generating funds and the actual costs of charitable activities. The costs of generating funds are the costs associated with generating income for the Funds Held on Trust. A grant is any payment which is made voluntarily to any institution or to an individual in order to further the charities' objectives, without receiving goods or services in return.

Costs of activities in the furtherance of charitable activities is expenditure incurred on the provision of services or goods. Support costs are an integral and material part of the costs of activities in the furtherance of charitable activities and/or expenditure incurred in paying grants. Management and administrative expenditure includes direct and indirect costs (as distinct from directly pursuing charitable activities). Direct costs include those of external and internal audit and legal advice for trustees, the indirect costs include office and communication costs.

## **1.4 Fixed assets**

### **a Capitalisation**

All assets falling into the following categories are capitalised

- i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii Tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000.
- iii Groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

Inalienable and historic assets are capitalised where reliable cost information/sufficiently reliable conventional valuation figures are available. In circumstances where this information is not available or significant costs are involved which may be onerous compared with the additional benefits derived by users of the accounts then these assets will be excluded from the balance sheet with a disclosure in the notes to the accounts.

### **b Valuation**

Fixed assets are valued as follows

- i Intangible assets held for operational use are valued at historic cost. Surplus intangible assets are valued at the net recoverable amount.
- ii Land, buildings, installations and fittings are stated at open market value for their existing use. Valuations are usually carried out professionally at five yearly intervals, although some accounts have valuations conducted annually. The last valuation was made on the 1 April 2000. Between valuations an appropriate index is applied to revalue the assets.
- iii Equipment is valued at the lower of estimated net replacement cost or recoverable amount.
- iv Assets in the course of construction are valued at current cost.



c Depreciation

Depreciation is charged on each main class of fixed asset as follows

- i Intangible assets are amortised on a straight line basis over their estimated lives up to a maximum of 20 years. The carrying amount of intangible fixed 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.
- ii Land and assets in the course of construction are not depreciated;
- iii Buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the professional valuers.
- iv Equipment is depreciated over the estimated life of the asset using the following standard lives

	Years
<i>Plant and Machinery</i>	
Fittings, other engineering plant and equipment	15
<i>Fixtures, fittings and equipment</i>	
Furniture	10
Mainframe IT installation	8
Vehicles	7
Soft Furnishings	7
Office and IT Equipment	5

d Donated assets

Donated assets are capitalised at their valuation on full replacement cost basis on receipt and are revalued and depreciated as described above.

### 1.5 Investment fixed assets

Investment fixed assets are shown at market value

- i Property assets are not depreciated but are shown at market valuation. Valuations are carried out by a professional valuer at five yearly intervals. The last such valuation was at 1 April 2000. Between valuations trustees make a best estimate of market value. Valuation gains and losses are recorded in the Statement of Financial Activities with the balance sheet reflecting the revalued amounts.
- ii Quoted stocks and shares are included in the balance sheet at mid-market price, ex-dividend.
- iii Other investment fixed assets are included at trustees' best estimate of market value.

### 1.6 Pensions costs

The cost of employer pensions' contributions to the NHS Superannuation and other schemes is charged to the Statement of Financial Activities.

### 1.7 Inclusion of NHS bodies

This account summarises the underlying accounts of the charitable funds held by 310 NHS trusts, primary care trusts, special trustees, Section 11 trustees and special health authorities.

## 1.8 Structure of funds

Where there is a legal restriction on the purposes to which a fund may be put, the fund is classified in the accounts as a restricted fund. Funds where the capital is held to generate income for charitable purposes and cannot itself be spent are accounted for as endowment funds. Other funds are classified as unrestricted funds. Funds which are not legally restricted but which the Trustees have chosen to earmark for set purposes are classified as designated funds.

## 2 Details of resources expended - grants

### 2.1 Grants payable

	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	Total 2002-2003 funds
	£000	£000	£000	<b>£000</b>	£000
Patients welfare and amenities	17,886	18,565	10	<b>36,461</b>	31,699
Staff welfare and amenities	11,095	7,564	5	<b>18,664</b>	20,399
Research	25,521	19,693	12	<b>45,226</b>	46,620
Contributions to NHS	89,576	28,117	46	<b>117,739</b>	107,732
Miscellaneous	5,166	1,759	2	<b>6,927</b>	13,707
	<u>149,244</u>	<u>75,698</u>	<u>75</u>	<b><u>225,017</u></b>	<u>220,157</u>

### 2.2 Other

	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	Total 2002-2003 funds
	£000	£000	£000	<b>£000</b>	£000
Patients welfare and amenities	7,925	11,983	29	<b>19,937</b>	21,155
Staff welfare and amenities	7,431	8,794	33	<b>16,258</b>	17,823
Research	3,214	15,731	0	<b>18,945</b>	21,540
Contributions to NHS	2,340	11,066	105	<b>13,511</b>	9,961
Miscellaneous	14,013	5,650	49	<b>19,712</b>	18,755
	<u>34,923</u>	<u>53,224</u>	<u>216</u>	<b><u>88,363</u></b>	<u>89,234</u>
<b>Total direct charitable expenditure</b>				<b>313,380</b>	309,391

### 3 Analysis of total resources expended

#### 3.1

	Cost of generating funds £000	Direct charitable expenditure £000	Support costs £000	Management and administration £000	<b>Total</b> £000	Total 2002-2003 £000
Staff	2,795	3,956	751	3,035	<b>10,537</b>	8,761
Depreciation	301	1,581	0	317	<b>2,199</b>	1,934
Impairments	0	0	0	0	<b>0</b>	0
<i>Auditors remuneration</i>						
Audit fee <sup>1</sup>	0	0	0	1,308	<b>1,308</b>	1,265
Other fees	315	515	0	466	<b>1,296</b>	3,770
Indemnity insurance	0	8	0	85	<b>93</b>	137
Bought-in services from NHS	1,658	4,245	527	6,028	<b>12,458</b>	13,182
Other	10,689	303,075	75	4,495	<b>318,334</b>	310,748
	<u>15,758</u>	<u>313,380</u>	<u>1,353</u>	<u>15,734</u>	<b><u>346,225</u></b>	<u>339,797</u>

- 1 The audit fee represents the costs for the audit of the underlying financial statements carried out by the auditors appointed by the Audit Commission.

#### 3.2 Analysis of staff costs

	<b>Total</b> £000	Total 2002-2003 £000
Salaries and wages	<b>9,207</b>	7,736
Social security costs	<b>797</b>	636
Other pension costs	<b>533</b>	389
	<b><u>10,537</u></b>	<u>8,761</u>
Average monthly number of employees in the year	<b>328</b>	324

### 4 Changes in resources available for charity use

	Unrestricted funds £000	Restricted funds £000	Endowment funds £000	<b>Total funds</b> £000	Total 2002-2003 funds £000
Net movement in funds for the year	43,585	62,254	76,305	<b>182,144</b>	(222,994)
Net movement in tangible fixed assets:	(12,950)	145	43,923	<b>31,118</b>	15,958
Net movement in funds available for future activities	<u>30,635</u>	<u>62,399</u>	<u>120,228</u>	<b><u>213,262</u></b>	<u>(207,036)</u>

**5 Fixed assets**

	Freehold land and buildings £000	Other interests in land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Assets under construction £000	<b>Total £000</b>
<b>Gross value</b>						
Balance at 31 March 2003	131,172	5,496	229	9,087	19,029	<b>165,013</b>
Additions and transfers	30,210	33	6	140	0	<b>30,389</b>
Revaluations and indexation	6,353	0	0	(233)	1,343	<b>7,463</b>
Reclassifications	0	0	0	0	0	
Impairments	0	0	0	0	0	<b>0</b>
Disposals	(4,178)	0	(1)	(9)	0	<b>(4,188)</b>
<b>Balance at 31 March 2004</b>	<b>163,557</b>	<b>5,529</b>	<b>234</b>	<b>8,985</b>	<b>20,372</b>	<b>198,677</b>
<b>Accumulated depreciation</b>						
Balance at 31 March 2003	8,536	836	138	830	0	<b>10,340</b>
Revaluations and indexation	1,090	42	0	16	0	<b>1,148</b>
Disposals	(791)	0	(1)	(9)	0	<b>(801)</b>
Charge for the year	1,925	86	32	156	0	<b>2,199</b>
Balance at 31 March 2004	<b>10,760</b>	<b>964</b>	<b>169</b>	<b>993</b>	<b>0</b>	<b>12,886</b>
<b>Net book value at 31 March 2004</b>	<b>152,797</b>	<b>4,565</b>	<b>65</b>	<b>7,992</b>	<b>20,372</b>	<b>185,791</b>
Net book value at 31 March 2003	122,636	4,660	91	8,257	19,029	<b>154,673</b>
<b>Historic cost at 31 March 2004</b>						<b>48,058</b>

**6 Analysis of fixed asset investments***6.1 Fixed asset investments*

	£000	31 March 2003 £000
Market value at 31 March	<b>1,285,927</b>	1,530,381
Less: Disposals at carrying value	<b>(384,370)</b>	(383,901)
Add: Acquisitions at cost	<b>324,331</b>	381,834
Net gain on revaluation	<b>188,443</b>	(242,387)
Closing market value	<b>1,414,331</b>	1,285,927
<b>Historic cost at 31 March</b>	<b>1,023,320</b>	1,222,185

## 6.2 Market value at 31 March

	Held in UK £000	Held outside UK £000	<b>Total</b> <b>£000</b>	31 March 2003 £000
Investment properties	279,390	0	<b>279,390</b>	254,529
Investments listed on stock exchange	728,294	147,028	<b>875,322</b>	786,939
Investments in a common deposit fund or common investment fund	182,473	10,862	<b>193,335</b>	168,585
Unlisted securities	952	13,958	<b>14,910</b>	3,892
Cash held as part of the investment portfolio	42,106	0	<b>42,106</b>	63,655
Other investments	8,387	881	<b>9,268</b>	8,327
	<u>1,241,602</u>	<u>172,729</u>	<u><b>1,414,331</b></u>	<u>1,285,927</u>

## 7 Analysis of debtors

## 7.1 Amounts falling due within one year

	<b>£000</b>	31 March 2003 £000
Amounts due from subsidiary and associated undertakings	<b>805</b>	983
Trade debtors	<b>2,797</b>	2,896
Prepayments	<b>520</b>	533
Accrued income	<b>14,908</b>	16,887
Other debtors	<b>13,212</b>	10,729
Total debtors falling due within one year	<u><b>32,242</b></u>	<u>32,028</u>

## 7.2 Amounts falling due after more than one year

	<b>£000</b>	31 March 2003 £000
Amounts due from subsidiary and associated undertakings	<b>146</b>	236
Accrued income	<b>40</b>	42
Other debtors	<b>1,334</b>	1,374
Total debtors falling due after more than one year	<u><b>1,520</b></u>	<u>1,652</u>
<b>Total debtors</b>	<u><b>33,762</b></u>	<u>33,680</u>

**8 Analysis of creditors***8.1 Amounts falling due within one year*

	<b>£000</b>	31 March 2003 £000
Loans and overdrafts	<b>4,487</b>	8,588
Trade creditors	<b>6,290</b>	8,436
Amounts due to subsidiary and associated undertakings	<b>7,022</b>	8,609
Other creditors	<b>109,443</b>	92,698
Accruals	<b>51,944</b>	47,249
Deferred income	<b>3,162</b>	6,271
Total creditors falling due within one year	<b>182,348</b>	171,851

*8.2 Amounts falling due after more than one year*

	<b>£000</b>	31 March 2003 £000
Loans and overdrafts	<b>6,794</b>	7,120
Other creditors	<b>9,416</b>	17,132
Accruals and deferred income	<b>24,821</b>	3,256
Total creditors falling due after more than one year	<b>41,031</b>	27,508
<b>Total creditors</b>	<b>223,379</b>	199,359

**9 Contingencies**

Contingent liabilities totalling £2,917,000 (2002-2003: £2,542,000) have not been accrued in the accounts. These mostly relate to grants which trustees expect to pay only if the recipient raises additional funds.

Contingent gains amount to £3,468,000 (2002-2003: £1,397,000) and relate to legacies and other potential income where the precise amount and timing of the receipt is unknown.

**10 Commitments**

The trusts have the following commitments

	<b>£000</b>	2002-2003 £000
Charitable projects	<b>82,902</b>	58,550
Capital	<b>24,561</b>	51,432
Other	<b>12,986</b>	12,669
	<b>120,449</b>	122,651

## **11 Related party transactions**

NHS Trusts, Primary Care Trusts, Special Health Authorities, Special Trustees and Section 11 trustees have statutory authority to accept, hold and administer any property on trust for all or any purpose relating to the health service. This property is accounted through the Funds Held on Trust accounts managed by boards and trustees. Most of the trustees are also members of the associated NHS trust boards, health authority boards, and primary care trust boards. During the year, the Funds Held on Trust accounts had a significant number of material transactions with NHS trusts, primary care trusts and Special Health Authorities.

## **12 Financial instruments**

FRS13, Derivatives and Other Financial Instruments, requires disclosure of the role that the financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Financial instruments, as defined by FRS13, play a more limited role in creating or changing risk in the Funds Held on Trust than would be the case of the listed companies to which FRS13 mainly applies. The Funds Held on Trust, receive the majority of income in the form of donations and have a relatively low amount of borrowings. However, significant investments are made and are the source of the main financial risk.

### *Interest rate risk*

The Funds held on Trust are exposed to fluctuations in interest rates on the monies invested in deposits and the stock market.

### *Fair value risk*

All assets and liabilities are shown at their fair values in the financial statements. The Funds Held on Trust are exposed to the risk on the value of funds invested, with gains and losses recognized in the Statement of Financial Activities.

### *Liquidity risk*

The majority of expenditure is financed from donations and legacies and there are limited borrowings. The Funds Held on Trust are not therefore exposed to significant liquidity risk.

# The National Health Service Funds Held on Trust (England) Accounts Direction given by the Treasury

The Treasury, in pursuance of Section 98 (4) of the National Health Service Act 1977 hereby gives the following direction

- 1 In this direction, unless the context otherwise requires  
  
‘the Act’ means the National Health Service Act 1977;  
  
‘the Authorities’ refers to all Strategic Health Authorities, Special Health Authorities, NHS Trusts, Primary Care Trusts, all Special Trustees appointed in pursuance of Section 29(1) of the National Health Service Reorganisation Act 1973 and Section 95(1) of the National Health Service Act 1977 (as amended) and to any trustees for an NHS trust appointed in pursuance of Section 11 of the National Health Service and Community Care Act 1990.
- 2 The summarised account of the Authorities’ funds held on trust required by Section 98(4) of the Act to be prepared by the Secretary of State shall, in respect of the financial year ended 31 March 2001 and subsequent financial years, be as set out in the following paragraphs and Schedule.
- 3 The summarised account shall comprise
  - a a foreword;
  - b a statement of financial activities;
  - c a balance sheet; and
  - d such notes as may be necessary for the purposes referred to in paragraph 4 below.
- 4 The summarised account shall present fairly the financial activities for the year and the state of affairs as at the end of the financial year and separately show the charitable and non charitable funds held on trust. Subject to this requirement the summarised account shall also, without limiting the information given, meet
  - a the accounting and disclosure requirements of the Companies Act;
  - b generally accepted accounting practice in the United Kingdom including accounting standards issued or adopted by the Accounting Standards Board;
  - c all relevant guidance given by the Charity Commission;
  - d any disclosure and accounting requirements which the Treasury may issue from time to time;insofar as these are appropriate to the Authorities’ funds held on trust and are in force for the financial year for which the summarised account is to be prepared.
- 5 This accounts direction shall be reproduced as an appendix to the published summarised account.

*David Loweth*  
Head of Central Accountancy Team  
HM Treasury

19 November 2001



## Schedule

### Foreword

- 1 The foreword shall include a statement that the summarised account has been prepared in accordance with a direction given by the Treasury in accordance with Section 98 (4) of the National Health Service Act 1977.

### Statement of Financial Activities and Balance Sheet

- 2 The statement of financial activities and balance sheet shall follow the prescribed format shown in SORP 2000.

### Notes to the Account

- 3 The notes to the account shall include details of the accounting policies adopted.
- 4 Further explanatory notes to the account shall be provided wherever they are necessary in order to give users a proper understanding of the accounts.

### Application of the Requirements of the Companies Act and Accounting Standards

- 5 The disclosure exemptions permitted by the Companies Act shall not apply unless specifically authorised by the Treasury.
- 6 The summarised account is not required to include an income and expenditure account.
- 7 The summarised account is not required to include a cash flow statement as required by FRS 1.
- 8 The summarised account is not required to include a note showing historical cost profits and losses as described in FRS 3.

### Other

- 9 The foreword and balance sheet shall be signed by the Accounting Officer and dated.



# Summarised Account of the National Blood Authority



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

Section 98 (4) of the National Health Service Act 1977 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 present a true and fair view of the state of affairs of the National Blood Authority at the year end, its 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 Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of the National Blood Authority. 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 'Government Accounting'.

## Statement on Internal Control 2003-2004

This statement is given in respect of the Summarised Account for the National Blood Authority.

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the National Blood Authority maintains effective systems of internal control that support the achievement of their policies, aim and objectives and that they review the effectiveness of those systems.

The Chief Executive of the National Blood Authority has been appointed as Accounting Officer for the work of the Board. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

### 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 risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness.

I draw my major source of assurance from the Chief Executive who provides me with the statement on internal control made on behalf of the National Blood Authority. This is included in the annual financial statements and is subject to scrutiny by the Comptroller and Auditor General. The Chief Executive gains assurances from the work of the internal auditors and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department who are accountable for the oversight of the relationship with the National Blood Authority.

The system of internal control has been in place for the year ended 31 March 2004, however reviews during the year identified areas where controls could be strengthened.

The underlying accounts are laid before Parliament<sup>1</sup> and include detail of specific significant control issues identified.

*Sir Nigel Crisp*  
Accounting Officer

13 December 2004

<sup>1</sup> HC 770

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

I certify that I have audited the financial statements on pages E7 to E24 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages E10 to E14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page E3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the Treasury directions made thereunder and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page E4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Blood Authority at 31 March 2004 and of the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by Treasury; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Income and Expenditure Account for the year ended 31 March 2004

### Continuing operations

	Notes	£000	2002-2003 £000
<b>Income</b>			
Department of Health funding		<b>17,712</b>	30,422
Operating income	2.2	<b>357,807</b>	329,933
<b>Expenditure</b>			
Operating expenses	3.1	<b>(391,908)</b>	(356,221)
<b>(Deficit)/surplus for the financial year</b>		<b>(16,389)</b>	4,134

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

		£000	2002-2003 £000
(Deficit)/surplus for the Financial Year		<b>(16,389)</b>	4,134
Unrealised gain on the indexation of fixed assets	12.2	<b>15,007</b>	21,087
Unrealised gain on the indexation of donated fixed assets	12.3	<b>0</b>	1
<b>Total recognised (losses)/gains for the financial year</b>		<b>(1,382)</b>	25,222

*The notes at pages E10 to E24 form part of this account.*

## Balance Sheet as at 31 March 2004

	Notes	£000	31 March 2003 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>4,084</b>	4,817
Tangible assets	5.2	<b>219,655</b>	199,260
		<b>223,739</b>	204,077
<b>Current assets</b>			
Stocks	6	<b>63,440</b>	73,497
Debtors	7	<b>16,965</b>	19,205
Cash at bank and in hand	8	<b>57</b>	66
		<b>80,462</b>	92,768
<b>Creditors: amounts falling due within one year</b>	9	<b>(35,278)</b>	(29,828)
<b>Net current assets</b>		<b>45,184</b>	62,940
<b>Total assets less current liabilities</b>		<b>268,923</b>	267,017
Provisions for liabilities and charges	10	<b>(3,018)</b>	(4,385)
		<b>265,905</b>	262,632
<b>Capital and reserves</b>			
Capital account	12.1	<b>162,346</b>	157,718
Revaluation reserve	12.2	<b>61,190</b>	46,350
Donated asset reserve	12.3	<b>203</b>	9
Income and expenditure reserve	12.4	<b>42,166</b>	58,555
		<b>265,905</b>	262,632

*The notes at pages E10 to E24 form part of this account.*

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the year ended 31 March 2004

	Notes	£000	2002-2003 £000
<b>Net cash (outflow) from operating activities</b>	13	<b>(9)</b>	(80)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		<b>(1,164)</b>	(1,330)
(Payments) to acquire tangible fixed assets		<b>(21,246)</b>	(20,084)
Receipts from disposal of tangible fixed assets		<b>124</b>	19
Net cash (outflow) from investing activities		<b>(22,286)</b>	(21,395)
<b>Net cash (outflow) before financing</b>		<b>(22,295)</b>	(21,475)
<b>Financing</b>			
Net Parliamentary funding		<b>22,286</b>	21,395
<b>(Decrease) in cash in the period</b>	8	<b>(9)</b>	(80)

*The notes at pages E10 to E24 form part of this account.*

# Notes to the Accounts

## 1 Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied 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 Income

Operating income is income which relates directly to the operating activities of the Authority. It principally comprises fees and charges for services provided on a full-cost basis to the NHS and external customers.

The main sources of funding for the Authority are income from sales to the NHS and Parliamentary funding from Request for Resources 1 (RfR 1). The products and services provided to the NHS include Coagulation Factors, Albumin and Immunoglobins from the Bio Products Laboratory (BPL) and blood components and services from Blood Centres. Other income includes such services as ante-natal screening, tissue typing for transplants and overseas trade by the BPL.

It includes both income appropriated-in-aid of the RfR1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.3 Taxation

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

### 1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2003-2004 was 3.5% (2002-2003: 6%) 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 where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.
- iii Tangible assets which are capable of being used for more than one year, and they
  - individually have a cost equal to or greater than £5,000;

- 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 equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.
- iv Donated fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.

*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 or changes in circumstances indicate the carrying value may not be recoverable.

Tangible fixed assets

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

i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. 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 1999 as at the prospective valuation date of 1 April 2000.

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 Subsequent revaluations to donated fixed assets are taken to the donated asset reserve.
  - v 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 and amortisation

Depreciation is charged on each individual fixed asset as follows

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.
- iv Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer (in the range of 3 to 92 years). Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life which is assessed by individual asset.

From 2003-2004, the method of accounting for second hand assets, on acquisition, has been changed from disclosing gross cost and accumulated depreciation, to disclosing net acquisition cost. This change will have no effect on the balance sheet figures and comparative figures have not been amended.

### **1.6 Donated fixed assets**

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated 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 Asset Reserve to the Income and Expenditure Account. Similarly, any impairment on donated assets charged to the Income and Expenditure Account is matched by a transfer from the Donated Asset Reserve. On sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

### **1.7 Stocks and work in progress**

Stocks and work in progress are valued as follows

- a raw materials, finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they cannot or will not be used;
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

### **1.8 Losses and special payments**

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

## 1.9 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contributions payable in 2003-2004 was £7,861,000 (2002-2003: £7,224,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as at the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2003-2004 were set at 14% of pensionable pay (7% for 2002-2003). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central Budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this funding will be devolved in full to NHS Pension Scheme employers and the employers' contribution rate will rise to 14%.

The Scheme is a 'final salary' scheme. Annual pensions are normally based on 1/80th of the best of the last 3 years pensionable pay for each year of service. A lump sum normally equivalent to 3 years pension is payable on retirement. Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. On death, a pension of 50% of the member's pension is normally payable to the surviving spouse.

Early payments of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and 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.

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 can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. Where early retirements 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 Authority commits itself to the retirement, regardless of the method of payment.

The National Blood Authority has chosen to fully adopt FRS17 from 2003-2004.

### 1.10 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the 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 should be calculated on the same basis as used for depreciation i.e. on a quarterly basis.

### 1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Bio Products Laboratory values its plasma and the plasma element of its goods for resale at the lower of the average price paid, or if significantly different, net replacement cost.

### 1.12 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 terms of the lease.

### 1.13 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5% in real terms. This is a change from the rate of 6% applied in 2002-2003 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown at note 10.

## 2.1 Reconciliation of cashflow statement to parliamentary funding

	Notes	2002-2003 £000	2002-2003 £000
Net cash (outflow) from operating activities	13	(9)	(80)
Expenditure	3.1	<b>391,908</b>	356,221
Operating Income	2.2	<b>(357,807)</b>	(329,933)
Movement in working capital		<b>(16,380)</b>	4,214
Capital expenditure (net)		<b>22,286</b>	21,395
Capital charges adjustment		<b>761</b>	(448)
Hep C litigation funding adjustment		<b>0</b>	(2,473)
<b>Total Parliamentary funding</b>		<b>40,759</b>	48,896

## 2.2 Operating income

Operating income analysed by activity, is as follows

	2002-2003 £000	2002-2003 £000
Blood Product Income	<b>282,455</b>	250,621
BPL Product Sales	<b>50,593</b>	56,312
Other income	<b>24,759</b>	23,000
<b>Total</b>	<b>357,807</b>	329,933



## 2.3 Segmental Reporting

	<b>£000</b>	2002-2003 £000
BPL Income	<b>72,995</b>	81,786
BPL (Deficit)/surplus	<b>(11,605)</b>	2,755
BPL Net Assets	<b>129,259</b>	132,918

## 3.1 Expenditure

	Notes	<b>£000</b>	<b>£000</b>	2002-2003 £000
Salaries and wages	3.2		<b>152,892</b>	141,492
Other staff costs			<b>13,439</b>	11,181
Consumable supplies			<b>127,589</b>	108,038
Maintenance of buildings, plant and equipment			<b>12,019</b>	8,625
Rent and rates			<b>9,655</b>	8,875
Transport costs			<b>6,147</b>	6,180
External contractors			<b>9,453</b>	9,170
Purchase and lease of equipment and furniture			<b>8,333</b>	5,302
Utilities and telecommunications			<b>7,008</b>	5,830
Media advertising			<b>2,989</b>	2,563
Capital: Depreciation	5.1, 5.2	<b>18,392</b>		16,175
Capital charges interest		<b>9,245</b>		14,833
			<b>27,637</b>	31,008
Other finance costs: Unwinding of discount	10		<b>163</b>	16
Other finance costs: Change in Discount Rate	10		<b>36</b>	0
Interest payable - Other			<b>0</b>	2
Auditor's remuneration - Audit fees <sup>1</sup>			<b>162</b>	222
Foreign exchange loss/(gain)			<b>2,491</b>	(252)
Miscellaneous			<b>11,895</b>	17,969
			<b>391,908</b>	356,221

1 The auditors did not receive remuneration for any non-audit work.

## 3.2 Staff numbers and related costs

	<b>£000</b>	2002-2003 £000
Salaries and wages	<b>129,936</b>	121,065
Social security costs	<b>9,780</b>	7,915
Employer contributions to NHSPA	<b>7,861</b>	7,224
Agency staff	<b>5,315</b>	5,288
<b>Total staff costs</b>	<b>152,892</b>	141,492

The average number of employees during the year was

Number	Total
<b>Total</b>	<b>5,916</b>
Senior managers	3
Staff on inward secondment	1
Agency, temporary and contract staff	144
Officials	5,768
2002-2003	5,603

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £742,000 (2002-2003: £574,000).

#### *Retirements due to ill-health*

During 2003-2004 there were 18 early retirements from the Special Health Authority on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £925,000.

### **3.3 Salary and pension entitlement of senior managers**

The salary and pension entitlements of the most senior managers of the Authority were as follows

Name and title	Age years	Salary (in £5k bands) £000	Benefits in Kind £000	Real increase in pension at age 60 in (£2.5k bands) £000	Total accrued pension at age 60 at 31 March 2003 (£5k bands) £000
Mr M Fogden CB (Chairman)	67	20-25	0	N/A	N/A
Mr M Bellamy (NED)	59	5-10	0	N/A	N/A
Mrs E Buggins (NED)	48	5-10	0	N/A	N/A
Mrs J Gubbins (NED)	46	5-10	0	N/A	N/A
Mr M Hindle (NED)	60	5-10	0	N/A	N/A
Dr M Sekhar (NED)	44	5-10	0	N/A	N/A
Mr P Sabapathy OBE (NED)	61	5-10	0	N/A	N/A
Mr M Gorham (Chief Executive)	56	105-110	12	0-2.5	45-50
Dr A Robinson (Medical Director)	61	155-160	10	2.5-5	55-60
Mr B Savery (Director of Finance)	60	95-100	7	0-2.5	20-25

The increase in the Medical Director's salary is due to a one off payment of arrears.

Name and title	Age years	Salary (in £5k bands) £000	Benefits in Kind £000	Real increase in pension at age 60 in (£2.5k bands) £000	Total accrued pension at age 60 at 31 March 2003 (£5k bands) £000
<b>2002-2003 Disclosures</b>					
Mr M Fogden CB (Chairman)	66	20-25	0	N/A	N/A
Mr M Bellamy (NED)	58	5-10	0	N/A	N/A
Mrs E Buggins (NED)	47	5-10	0	N/A	N/A
Mrs J Gubbins (NED)	45	5-10	0	N/A	N/A
Mr M Hindle (NED)	59	5-10	0	N/A	N/A
Dr M Sekhar (NED from 28 February 2003)	43	0-5	0	N/A	N/A
Mr P Sabapathy OBE (NED)	60	5-10	0	N/A	N/A
Mr M Gorham (Chief Executive)	55	105-110	12	2.5-5	45-50
Dr A Robinson (Medical Director)	60	130-135	8	2.5-5	50-55
Mr B Savery (Director of Finance)	59	90-95	7	0-2.5	15-20

NED Non-Executive Director. Benefits in Kind were in relation to the provision of cars.

#### 4 Better Payment Practice Code - measure of compliance

	Number	£000
Total bills paid 2003-2004	127,578	210,820
Total bills paid within target	112,006	188,650
Percentage of bills paid within target	87.8%	89.5%

The Late Payment of Commercial Debts (Interest) Act 1998

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2002-2003: £2,000). No compensation payments were made under this legislation (2002-2003: £nil).

#### 5.1 Intangible fixed assets

	Software licences £000	Development expenditure £000	Total £000
Gross cost at 31 March 2003	9,822	0	<b>9,822</b>
Other revaluations	4	0	<b>4</b>
Additions - purchased	30	714	<b>744</b>
Reclassification	231	0	<b>231</b>
Disposals	(2)	0	<b>(2)</b>
<b>Gross cost at 31 March 2004</b>	<b>10,085</b>	<b>714</b>	<b>10,799</b>
Accumulated amortisation at 31 March 2003	5,005	0	<b>5,005</b>
Other revaluations	4	0	<b>4</b>
Provided during the year	1,706	0	<b>1,706</b>
<b>Accumulated amortisation at 31 March 2004</b>	<b>6,715</b>	<b>0</b>	<b>6,715</b>
Net book value at 31 March 2003	4,817	0	<b>4,817</b>
<b>Net book value at 31 March 2004</b>	<b>3,370</b>	<b>714</b>	<b>4,084</b>

**5.2 Tangible fixed assets**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	<b>Total</b>
	£000	£000	£000	£000	£000	£000	£000	£000	<b>£000</b>
Cost or valuation at 31 March 2003	18,305	125,446	1,091	13,080	59,393	12,032	16,992	3,299	<b>249,638</b>
Additions - purchased	0	577	0	14,923	5,825	536	520	1	<b>22,382</b>
Additions - donated	0	0	0	201	0	0	0	0	<b>201</b>
Reclassification	0	5,283	0	(9,769)	2,196	0	2,059	0	<b>(231)</b>
Indexation	1,046	13,314	115	795	1,327	265	0	73	<b>16,935</b>
Disposals	0	0	0	(105)	(1,628)	(1,971)	(21)	0	<b>(3,725)</b>
<b>Gross cost at 31 March 2004</b>	<b>19,351</b>	<b>144,620</b>	<b>1,206</b>	<b>19,125</b>	<b>67,113</b>	<b>10,862</b>	<b>19,550</b>	<b>3,373</b>	<b>285,200</b>
Accumulated depreciation at 31 March 2003		0	0		29,325	7,958	9,887	3,208	<b>50,378</b>
Provided during the year		6,689	30		6,018	1,147	2,787	15	<b>16,686</b>
Indexation		1,028	8		646	175	0	71	<b>1,928</b>
Disposals		0	0		(1,467)	(1,960)	(20)	0	<b>(3,447)</b>
<b>Accumulated depreciation at 31 March 2004</b>		<b>7,717</b>	<b>38</b>		<b>34,522</b>	<b>7,320</b>	<b>12,654</b>	<b>3,294</b>	<b>65,545</b>
<b>Net book value</b>									
Purchased at 31 March 2003	18,305	125,446	1,091	13,080	30,059	4,074	7,105	91	<b>199,251</b>
Donated at 31 March 2003	0	0	0	0	9	0	0	0	<b>9</b>
Total at 31 March 2003	18,305	125,446	1,091	13,080	30,068	4,074	7,105	91	<b>199,260</b>
<b>Net book value</b>									
Purchased at 31 March 2004	19,351	136,903	1,168	18,924	32,589	3,542	6,896	79	<b>219,452</b>
Donated at 31 March 2004	0	0	0	201	2	0	0	0	<b>203</b>
<b>Total at 31 March 2004</b>	<b>19,351</b>	<b>136,903</b>	<b>1,168</b>	<b>19,125</b>	<b>32,591</b>	<b>3,542</b>	<b>6,896</b>	<b>79</b>	<b>219,655</b>

There were no assets held under finance lease and hire purchase contracts.

**5.3 Net book value of land and buildings**

The net book value of land, buildings and dwellings as at 31 March 2004 comprises

	31 March 2003	
	£000	£000
Freehold	<b>149,189</b>	137,100
Long leasehold	<b>8,233</b>	7,742
Short leasehold	<b>0</b>	0
	<b>157,422</b>	144,842

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

	2002-2003	
	£000	£000
Notional (loss) on disposal of plant and equipment	<b>(156)</b>	(516)
	<b>(156)</b>	(516)

**6 Stocks and work in progress**

		31 March 2003 £000
	<b>£000</b>	£000
Raw materials and consumables	<b>33,112</b>	38,569
Work in progress	<b>3,732</b>	6,933
Finished processed goods	<b>26,596</b>	27,995
	<b>63,440</b>	73,497

**7 Debtors: amounts falling due within one year**

		31 March 2003 £000
	<b>£000</b>	£000
NHS debtors	<b>6,847</b>	10,615
Provision for irrecoverable debts	<b>(168)</b>	(1,244)
Prepayments	<b>2,874</b>	2,558
Accrued income	<b>350</b>	456
Capital debtors	<b>593</b>	429
Other debtors	<b>6,469</b>	6,391
	<b>16,965</b>	19,205

**8 Analysis of changes in cash**

	At 31 March 2003 £000	Change during the year £000	At 31 March 2004 £000
Cash at OPG	25	(10)	<b>15</b>
Cash at commercial banks and in hand	41	1	<b>42</b>
	66	(9)	<b>57</b>

**9 Creditors: amounts falling due within one year**

		31 March 2003 £000
	<b>£000</b>	£000
NHS creditors	<b>4,995</b>	7,824
Capital creditors	<b>1,773</b>	1,232
Tax and social security	<b>3,186</b>	197
Other creditors	<b>12,772</b>	7,463
Accruals	<b>11,976</b>	12,757
Deferred income	<b>576</b>	355
	<b>35,278</b>	29,828

There were no obligations under finance leases.

**10 Provisions for liabilities and charges**

	Pensions for former staff £000	Product liability £000	Other £000	<b>Total £000</b>
At 31 March 2003	628	1,713	2,044	<b>4,385</b>
Arising during the year	110	1,896	505	<b>2,511</b>
Utilised during the year	(235)	(1,553)	(529)	<b>(2,317)</b>
Reversed unused	(180)	(579)	(1,001)	<b>(1,760)</b>
Change in the discount rate	0	18	18	<b>36</b>
Unwinding of discount	0	56	107	<b>163</b>
At 31 March 2004	323	1,551	1,144	<b>3,018</b>
<i>Expected timing of cash flows</i>				
Within one year	323	1,146	865	<b>2,334</b>
One to five years	0	69	60	<b>129</b>
Over five years	0	336	219	<b>555</b>

Product liability provisions relate to legal actions brought against the Authority through the use of Authority products by individuals, mainly Hepatitis C cases. Provisions for the settlement of Hepatitis C cases amounting to £762,000 (2002-2003: £1,372,000) have been brought under an action for Product Liability, and are included in the above Product Liability provision total of £1,551,000 (2002-2003: £1,713,000).

Included within the 'Other' category are provisions relating to legal claims for personal injury and donor claims, provisions for stock, redundancy payments and provisions for injury benefits.

£242,000 (2002-2003: £1,000) is included in the provisions of the NHS Litigation Authority at 31 March 2004 in respect of clinical negligence liabilities of the National Blood Authority. There were no provisions in respect of the existing liabilities scheme (2002-2003: £nil).

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

	<b>£000</b>	2002-2003 £000
Decrease/(increase) in stocks	<b>10,057</b>	(5,593)
Decrease in debtors	<b>2,240</b>	4,038
Increase/(decrease) in creditors	<b>5,450</b>	(1,133)
	<b>17,747</b>	(2,688)

**12 Movements on reserves****12.1 Capital reserve**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>157,718</b>	152,080
Additions	<b>23,126</b>	22,151
Disposals	<b>(113)</b>	(347)
Depreciation	<b>(18,385)</b>	(16,166)
<b>At 31 March 2004</b>	<b>162,346</b>	157,718

**12.2 Revaluation reserve**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>46,350</b>	25,440
Indexation of fixed assets	<b>15,007</b>	21,087
Disposals	<b>(167)</b>	(177)
<b>At 31 March 2004</b>	<b>61,190</b>	46,350

**12.3 Donated asset reserve**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>9</b>	28
Other indexation of fixed assets	<b>0</b>	1
Receipt of donated assets	<b>201</b>	0
Depreciation of donated assets	<b>(7)</b>	(9)
Disposals	<b>0</b>	(11)
<b>At 31 March 2004</b>	<b>203</b>	9

**12.4 Income and Expenditure reserve**

	<b>£000</b>	2002-2003 £000
At 31 March 2003	<b>58,555</b>	54,421
Transfer from the Income and Expenditure Account	<b>(16,389)</b>	4,134
<b>At 31 March 2004</b>	<b>42,166</b>	58,555

**13 Reconciliation of operating costs to operating cash flows**

	<b>£000</b>	2002-2003 £000
(Deficit)/surplus for year	<b>(16,389)</b>	4,134
Adjust for movements in working capital other than cash	11 <b>17,747</b>	(2,688)
(Decrease) in provisions	10 <b>(1,367)</b>	(1,526)
<b>Net cash (outflow) from operating activities</b>	<b>(9)</b>	<b>(80)</b>

**14 Contingent liabilities**

A contingent liability of £682,000 (2002-2003: £752,000) relates to potential costs associated with donor claims, personal injury claims, and non Hepatitis C product liability claims. The related provisions are included under 'Product liability' and 'Other' in Note 10.

A contingent liability of £1,447,000 (2002-2003: £2,782,000) relates to Hepatitis C cases brought under an action for product liability.

Due to the nature of the contingent liabilities it is difficult to predict with any degree of accuracy the final amounts due and when they will crystallise.

**15 Capital commitments**

At 31 March 2004 the value of contracted capital commitments was £4,872,000 (2002-2003: £10,017,000).

**16 Commitments under operating leases**

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

	<b>£000</b>	2002-2003 £000
Hire of plant and machinery	<b>517</b>	416
Other operating leases	<b>1,687</b>	1,484
	<b>2,204</b>	1,900

Commitments under non-cancellable operating leases

	<b>£000</b>	2002-2003 £000
<b>Land and buildings</b>		
<i>Operating leases which expire</i>		
Within One year	<b>1,520</b>	1,351
Between one and five years	<b>4,292</b>	4,517
After five years	<b>2,947</b>	3,653
	<b>8,759</b>	9,521
<b>Other leases</b>		
<i>Operating leases which expire</i>		
Within one year	<b>1,675</b>	1,238
Between one and five years	<b>2,844</b>	1,589
After five years	<b>46</b>	0
	<b>4,565</b>	2,827



## 17 Other commitments

The Authority has entered into non-cancellable contracts (which are not operating leases) totalling £nil as at 31 March 2004 (2002-2003: £nil).

## 18 Losses and special payments

There were 481 losses cases in 2003-2004 (2002-2003: 339) amounting to £1,943,000 (2002-2003: £4,211,000). There was one case individually amounting to £100,000 or more (2002-2003: four cases).

## 19 Related parties

The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. the majority of NHS acute trusts.

The Authority has also received revenue payments from two charitable funds, the Trustees for which are also members of the Board.

During the year none of the Authority Members or members of the key management staff or other related parties has undertaken any material transactions with the National Blood Authority.

## 20 Post balance sheet events

There were no material post balance sheet events.

## 21 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way that Special Health Authorities are financed, the National Blood Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Authority has no power to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Authority in undertaking its activities.

### *Liquidity risk*

The Authority's net operating costs are mainly recovered through prices under annual service agreements with NHS Trusts and Primary Care Trusts, which are financed from resources voted annually by Parliament. A relatively small amount of income arises from export sales.

Capital expenditure costs are financed from resources voted annually by Parliament. The Authority is not, therefore, exposed to significant liquidity risks.

*Interest-rate risk*

All the Authority's financial assets and financial liabilities carry nil or fixed rates of interest. It is not therefore exposed to interest-rate risk.

*Foreign currency risk*

The Authority has a relatively small amount of foreign currency income or expenditure. It buys forward currency for most of its foreign payments. It is not therefore exposed to significant foreign currency risk. Bio Products Laboratory enters into forward exchange contracts to purchase US dollars to pay for its plasma. It is therefore exposed to foreign currency risk should the US dollar/sterling exchange rate move significantly from the average rate in the contract.

*Fair values*

Fair values are not significantly different from book values and therefore no additional disclosure is required.

# Summarised Account of the NHS Logistics Special Health Authority



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

Section 98 (4) of the National Health Service Act 1977 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 present a true and fair view of the state of affairs of NHS Logistics at the year end, its 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 Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of NHS Logistics. 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 'Government Accounting'.

## Statement on Internal Control

This statement is given in respect of the Summarised Account for the NHS Logistics Authority.

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NHS Logistics Authority maintains effective systems of internal control that support the achievement of their policies, aim and objectives and that they review the effectiveness of those systems.

The Chief Executive of the NHS Logistics Authority has been appointed as Accounting Officer for the work of the Board. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

### 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 risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness.

I draw my major source of assurance from the Chief Executive who provides me with the statement on internal control made on behalf of the NHS Logistics Authority. This is included in the annual financial statements and is subject to scrutiny by the Comptroller and Auditor General. The Chief Executive gains assurances from the work of the internal auditors and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department who are accountable for the oversight of the relationship with the NHS Logistics Authority.

The system of internal control has been in place for the year ended 31 March 2004.

The underlying accounts are laid before Parliament<sup>1</sup> and include detail of specific significant control issues identified.

*Nigel Crisp*  
Accounting Officer

13 December 2004

<sup>1</sup> HC 778

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

I certify that I have audited the financial statements on pages F7 to F23 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages F10 to F13.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page F3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the Treasury directions made thereunder and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page F4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the NHS Logistics Authority at 31 March 2004 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by Treasury; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Income and Expenditure Account for the year ended 31 March 2004

### Continuing operations

	Notes	£000	2002-2003 £000
Operating Income	4	<b>676,956</b>	622,424
Expenditure			
Cost of sales		<b>(605,586)</b>	(557,475)
Staff costs and administration expenses		<b>(68,312)</b>	(64,567)
	2.1	<b>(673,898)</b>	(622,042)
Operating surplus		<b>3,058</b>	382
Cost of fundamental reorganisation or restructuring of continuing operations		<b>(2,205)</b>	(462)
<b>Surplus/(deficit) for the financial year</b>		<b>853</b>	(80)

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2004

	Note	£000	2002-2003 £000
Surplus/(deficit) for the financial year		<b>853</b>	(80)
Unrealised surplus on the indexation of fixed assets	12.3	<b>2,677</b>	4,622
Prior period adjustment - Early retirements		<b>0</b>	(1,154)
<b>Recognised gains and losses for the financial year</b>		<b>3,530</b>	3,388

*The notes at pages F10 to F23 form part of this account.*

## Balance Sheet as at 31 March 2004

	Notes	£000	31 March 2003 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>46</b>	0
Tangible assets	5.2	<b>34,614</b>	32,619
		<b>34,660</b>	32,619
<b>Current assets</b>			
Stocks	6	<b>40,148</b>	42,114
Debtors	7	<b>49,762</b>	54,843
Cash at bank and in hand	8	<b>135</b>	391
		<b>90,045</b>	97,348
<b>Creditors: amounts falling due within one year</b>	9	<b>(21,512)</b>	(30,385)
<b>Net current assets</b>		<b>68,533</b>	66,963
Total assets less current liabilities		<b>103,193</b>	99,582
Provisions for liabilities and charges	10	<b>(8,988)</b>	(8,271)
		<b>94,205</b>	91,311
<b>Taxpayers' equity</b>			
Income and Expenditure reserve	12.1	<b>59,545</b>	58,692
Capital reserve	12.2	<b>26,967</b>	26,761
Revaluation reserve	12.3	<b>7,693</b>	5,858
		<b>94,205</b>	91,311

*The notes at pages F10 to F23 form part of this account.*

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the year ended 31 March 2004

	Notes	£000	2002-2003 £000
Net cash (outflow)/inflow from operating activities	13	<b>(826)</b>	350
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire tangible fixed assets		<b>(2,167)</b>	(2,237)
Receipts from disposal of tangible fixed assets		<b>1,637</b>	1,823
Net cash (outflow) from investing activities		<b>(530)</b>	(414)
<b>Net cash (outflow) before financing</b>		<b>(1,356)</b>	(64)
<b>Financing</b>			
Net Parliamentary funding		<b>2,737</b>	2,200
Surrender of capital receipts		<b>(1,637)</b>	(1,823)
<b>(Decrease)/increase in cash in the period</b>	8	<b>(256)</b>	313

*The notes at pages F10 to F23 form part of this account.*

# Notes to the Accounts

## 1 Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied 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 Income

Operating income is income which relates directly to the operating activities of the Authority.

The main source of funding for the Authority is income from sales to the NHS (£676.1m of the £676.9m operating income comprises of sales to customers). The additional income comprises fees such as those received from the Department of Health for services provided.

### 1.3 Taxation

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

### 1.4 Capital charges

A charge, reflecting the cost of capital utilised by the Authority, is included in operating expenditure 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 2003-2004 was 3.5% (2002-2003: 6%) 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

- i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.
- iii Tangible assets which are capable of being used for more than one year, and they
  - individually have a cost equal to or greater than £5,000;
  - 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 equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

## b Valuation

### Intangible fixed assets

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

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

### Tangible fixed assets

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

#### i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. 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 1999 as at the prospective valuation date of 1 April 2000.

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 and amortisation

Depreciation is charged on each individual fixed asset as follows

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.
- iv Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer (in the range of 34 to 41 years). Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life:

	<b>Years</b>
Plant and machinery	5-15
Information technology	5-8

From 2003-2004, the method of accounting for second hand assets, on acquisition, has been changed from disclosing gross cost and accumulated depreciation, to disclosing net acquisition cost. This change will have no effect on the balance sheet figures and comparative figures have not been amended.

**1.6 Stocks**

Stocks 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.

**1.7 Losses and special payments**

Losses and special payments are charged to the relevant functional headings, including losses which would have been made good through insurance cover had the Authority 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 Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the NHS Logistics Authority to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contributions payable in 2003-2004 was £1,388,000 (2002-2003: £1,309,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as at the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2003-2004 were set at 14% of pensionable pay (7% for 2002-2003). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central Budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this will be paid in full by NHS Logistics Authority with no funding adjustment.

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% of the member's pension is normally payable to the surviving spouse.

Early payments of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and 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.

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 can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. Where early retirements 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 Authority commits itself to the retirement, regardless of the method of payment.

The NHS Logistics Special Health Authority has chosen to fully adopt FRS17 from 2003-2004.

## **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 terms of the lease.

## **1.10 Provisions**

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 3.5% in real terms. This is a change from the rate of 6% applied in 2002-2003 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown at note 10.

**2.1 Cost of sales and administration**

	Notes	£000	£000	£000	2002-2003 £000
Cost of sales			<b>605,586</b>		557,475
Non-executive members' remuneration			<b>49</b>		47
Other salaries and wages	2.2		<b>29,375</b>		27,883
Maintenance			<b>1,390</b>		782
Transport main contract			<b>13,609</b>		13,301
Transport other			<b>266</b>		0
Bridgewater Distribution Centre contract			<b>5,081</b>		4,628
Capital: depreciation and amortisation	5.1, 5.2	<b>915</b>		732	
Impairments	5.1, 5.2	<b>14</b>		0	
Capital charges interest		<b>2,532</b>		4,994	
(Profit)/loss on disposal	5.4	<b>261</b>		29	
			<b>3,722</b>		5,755
<i>Other finance costs</i>					
Unwinding of discount	10		<b>239</b>		446
Change in discount rate	10		<b>257</b>		0
Auditor's remuneration: audit fees			<b>80</b>		127
Miscellaneous			<b>14,244</b>		11,598
			<b>673,898</b>		622,042

The authority did not make any payments to auditors for non-audit work.

For comparison purposes cost of sales for 2002-2003 needs to be reduced by £28.598m due to consortia maintenance/energy transactions being removed from NHS Logistics' accounts for 2003-2004 in order to make the accounting treatment consistent with other workstreams of this type.

**2.2 Staff numbers and related costs**

	£000	2002-2003 £000
Salaries and wages	<b>25,638</b>	24,578
Social security costs	<b>1,877</b>	1,576
Employer contributions to NHSPA	<b>1,388</b>	1,309
Agency staff	<b>472</b>	420
	<b>29,375</b>	27,883

The average number of employees during the year was

	Total number	Senior managers number	Officials number	2002-2003 number
<b>Total</b>	<b>1,377</b>	<b>175</b>	<b>1,202</b>	<b>1,341</b>

*Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £120,000 (2002-2003: £146,000).



## Retirements due to ill-health

During 2003-2004 there were 2 early retirements from the Special Health Authority on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £36,668.

**2.3 Salary and pension entitlement of senior managers**

Name and title	Age years	Salary in £5k bands £000	Other remuneration in £5k bands £000	Real increase in pension at age 60 in £2.5k bands £000	Total accrued pension at age 60 at 31 March 2004 in £5k bands £000	Benefits in Kind (rounded to nearest £00) £
<b>2003-2004</b>						
P Zadora, (NED)	56	N/A	5-10	N/A	N/A	N/A
S Earnshaw, (NED)	44	N/A	5-10	N/A	N/A	N/A
S Reiter, (NED)	67	N/A	5-10	N/A	N/A	N/A
R Cooper, (NED)	61	N/A	5-10	N/A	N/A	N/A
D Hatherall, (NED)	61	N/A	5-10	N/A	N/A	N/A
P Champ, (Chairman)	62	N/A	20-25	N/A	N/A	N/A
L Garnett, (Director of HR)	39	70-75	0	0-2.5	30-35	0-50
B Mellor, (Chief Executive)	53	95-100	0	0-2.5	10-15	0-50
S Horsley, (Director of Logistics)	47	85-90	0	0-2.5	15-20	50-100
G Harris, (Director of Finance and Performance and IT)	34	85-90	0	0-2.5	35-40	0-50
T Watts, (Director of Customer Service and IT) (left 30 June 2003)	55	20-25	0	Member retired	Member retired	0-50
M Hall, (Director of Customer Services) (from 1 June 2003)	38	50-55	0	2.5-5.0	30-35	0-50
M Wood (Director of Supply Chain and Corporate Services)	47	65-70	0	2.5-5.0	30-35	0-50
<b>2002-2003</b>						
P Zadora (NED)	55	N/A	5-10	N/A	N/A	N/A
S Earnshaw (NED)	43	N/A	5-10	N/A	N/A	N/A
S Reiter (NED)	66	N/A	5-10	N/A	N/A	N/A
R Cooper (NED)	60	N/A	5-10	N/A	N/A	N/A
D Hatherall (NED)	60	N/A	5-10	N/A	N/A	N/A
P Champ (Chairman)	61	N/A	20-25	N/A	N/A	N/A
L Garnett (Director of HR)	38	65-70	0	0-2.5	35-40	0-50
B Mellor (Chief Executive)	52	95-100	0	0-2.5	10-15	0-50
S Horsley (Director of Logistics)	46	80-85	0	0-2.5	10-15	0-50
G Harris (Director of Finance and Performance)	33	80-85	0	0-2.5	35-40	50-100
T Watts (Director of Customer Services and IT)	54	80-85	0	0-2.5	35-40	50-100

NED Non Executive Director

Benefits in Kind are monetary benefits for the provision of lease cars.

Accrued pension figures exclude Lump Sum.

There were no 'Golden Hello' or compensation payments for loss of office.

**2.4 Better Payment Practice Code - measure of compliance**

	2002-2003	
Total number of bills paid	<b>464,299</b>	384,599
Total number of bills paid within target	<b>358,340</b>	252,486
Percentage of bills paid within target	<b>77.2%</b>	65.6%

No interest or compensation payments were made under the Late Payment of Commercial Debt (Interest Act 1998).

**3 Reconciliation of gross capital expenditure to capital resource limit**

	2002-2003	
	£000	£000
Gross capital expenditure	<b>2,191</b>	2,348
NBV of assets disposed	<b>(1,898)</b>	(1,852)
Less (loss) on disposal	<b>261</b>	29
Net capital resource outturn	<b>554</b>	525
Capital resource limit	<b>2,200</b>	2,200
Transfer from Revenue to Capital	<b>0</b>	148
Surrender of receipts	<b>(1,637)</b>	(1,823)
Underspend against limit	<b>9</b>	0

**4 Operating income**

Operating income analysed by classification and activity, is as follows

	2002-2003	
	£000	£000
Sales to NHS Customers	<b>660,301</b>	607,207
Fees	<b>836</b>	186
Sales to Non-NHS Customers	<b>15,819</b>	15,031
<b>Total</b>	<b>676,956</b>	622,424

For comparison purposes sales to NHS customers for 2002-2003 need to be reduced by £28.861m and fee income increased by 263,000 due to consortia maintenance/energy transactions being removed from NHS Logistics' accounts for 2003-2004 in order to make the accounting treatment consistent with other workstreams of this type.

## 5.1 Intangible fixed assets

The only intangible fixed assets held by the Authority are software licences

	Software licences £000
Gross cost at 31 March 2003	0
Additions - purchased	46
<b>Gross cost at 31 March 2004</b>	<b>46</b>
Accumulated amortisation at 31 March 2003	0
Provided during the year	0
<b>Accumulated amortisation at 31 March 2004</b>	<b>0</b>
Net book value: Purchased at 31 March 2003	0
<b>Net book value: Purchased at 31 March 2004</b>	<b>46</b>

## 5.2 Tangible fixed assets

	Land	Buildings excluding dwellings	Assets under construction plus payments on accounts	Plant and machinery	Information technology	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2003	10,242	22,288	750	960	718	<b>34,958</b>
Additions - purchased	0	1,175	182	387	401	<b>2,145</b>
Impairments	0	0	0	0	(14)	<b>(14)</b>
Reclassification	0	750	(750)	0	0	<b>0</b>
Indexation	585	2,252	0	21	0	<b>2,858</b>
Other in year revaluations	0	0	0	0	0	<b>0</b>
Disposals	(718)	(1,247)	0	(164)	0	<b>(2,129)</b>
<b>Gross cost at 31 March 2004</b>	<b>10,109</b>	<b>25,218</b>	<b>182</b>	<b>1,204</b>	<b>1,105</b>	<b>37,818</b>
Accumulated depreciation at 31 March 2003	0	1,767	0	328	244	<b>2,339</b>
Provided during the year	0	647	0	125	143	<b>915</b>
Impairments	0	0	0	0	0	<b>0</b>
Reclassification	0	0	0	0	0	<b>0</b>
Indexation	0	174	0	7	0	<b>181</b>
Other in year revaluation	0	0	0	0	0	<b>0</b>
Disposals	0	(102)	0	(129)	0	<b>(231)</b>
Accumulated depreciation at 31 March 2004	0	2,486	0	331	387	<b>3,204</b>
<b>Net book value</b>						
Purchased at 31 March 2003	10,242	20,521	750	632	474	<b>32,619</b>
<b>Net book value</b>						
Purchased at 31 March 2004	10,109	22,732	182	873	718	<b>34,614</b>

**5.3 Net book value of land and buildings**

The net book value of land, buildings and dwellings as at 31 March 2004 comprises

	£000	31 March 2003 £000
Freehold	<b>30,650</b>	30,084
Long leasehold	<b>2,191</b>	679
Short leasehold	<b>0</b>	0
	<b>32,841</b>	30,763

**5.4 Profit/loss on disposal of fixed assets**

	£000	2002-2003 £000
(Loss) on disposal of intangible IT	<b>0</b>	(6)
(Loss) on disposal of land and buildings	<b>(226)</b>	0
(Loss) on disposal of plant and equipment	<b>(35)</b>	(23)
	<b>(261)</b>	(29)

**6 Stocks and work in progress**

	£000	31 March 2003 £000
Fuel stocks	<b>95</b>	134
Finished processed goods	<b>40,053</b>	41,980
	<b>40,148</b>	42,114

**7 Debtors**

Amounts falling due within one year

	£000	31 March 2003 £000
NHS debtors	<b>41,211</b>	41,470
Non-NHS debtors	<b>3,787</b>	2,816
Provision for irrecoverable debts	<b>(11)</b>	(4)
Prepayments	<b>3,148</b>	8,819
Accrued income	<b>18</b>	0
Capital debtors	<b>0</b>	0
Other debtors	<b>1,609</b>	1,742
	<b>49,762</b>	54,843

For comparison purposes the following balances for 2002-2003 need to be adjusted due to consortia maintenance/energy transactions being removed from NHS Logistics' accounts for 2003-2004 in order to make the accounting treatment consistent with other workstreams of this type.

NHS debtors	(366)
Prepayments	(7,894)
<b>Total</b>	<b>(8,260)</b>

## 8 Analysis of changes in cash

	At 31 March 2003 £000	Change during the year £000	At 31 March 2004 £000
Cash at OPG	391	(256)	<b>135</b>
Cash at commercial banks and in hand	0	0	<b>0</b>
	<u>391</u>	<u>(256)</u>	<u><b>135</b></u>

For comparison purposes the opening balance at 31 March 2003 needs to be reduced by £399,000 due to Consortia maintenance/energy transactions being removed from NHS Logistics' accounts for 2003-2004 in order to make the accounting treatment consistent with other workstreams of this type.

## 9 Creditors: amounts falling due within one year

	£000	31 March 2003 £000
Overdrafts	<b>0</b>	0
NHS creditors	<b>193</b>	34
Non NHS creditors	<b>6,082</b>	4,088
Capital creditors	<b>144</b>	111
Tax and social security	<b>41</b>	24
Other creditors	<b>324</b>	754
Non stock accruals	<b>1,879</b>	2,668
Stock accruals	<b>12,634</b>	14,826
Deferred income	<b>215</b>	7,880
	<u><b>21,512</b></u>	<u>30,385</u>

For comparison purposes the following balances need to be adjusted due to consortia maintenance/energy transactions being removed from NHS Logistics' accounts for 2003-2004 in order to make the accounting treatment consistent with other workstreams of this type.

Non NHS creditors	(779)
Deferred income	(7,880)
<b>Total</b>	<b>(8,659)</b>

**10 Provisions for liabilities and charges**

	Pensions for former staff £000	Legal claims £000	Other £000	<b>Total £000</b>
At 31 March 2003	4,992	495	2,784	<b>8,271</b>
Arising during the year	86	229	2,154	<b>2,469</b>
Utilised during the year	(432)	(491)	(1,620)	<b>(2,543)</b>
Reversed unused	(27)	(61)	(8)	<b>(96)</b>
Change in the discount rate	0	0	257	<b>257</b>
Unwinding of discount	159	0	80	<b>239</b>
Kings Norton Onerous Rent Increase	0	0	391	<b>391</b>
At 31 March 2004	<u>4,778</u>	<u>172</u>	<u>4,038</u>	<b><u>8,988</u></b>
Expected timing of cash flows				
Within one year	379	172	1,625	<b>2,176</b>
One to five years	1,468	0	1,194	<b>2,662</b>
Over five years	2,931	0	1,219	<b>4,150</b>

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

	2002-2003 £000	2002-2003 £000
Decrease/(increase) in stocks	<b>1,966</b>	(2,012)
Decrease/(increase) in debtors	<b>5,081</b>	(3,646)
(Decrease)/increase in creditors	<b>(8,906)</b>	6,088
	<b><u>(1,859)</u></b>	<u>430</u>

**12 Movements on reserves****12.1 Income and Expenditure Reserve**

	Restated 2002-2003 £000	Restated 2002-2003 £000
Balance at 31 March 2003	<b>58,692</b>	60,074
Prior period adjustment	<b>0</b>	(1,154)
Surplus/(deficit) for the financial year	<b>853</b>	(80)
Transfer from revenue to capital	<b>0</b>	(148)
<b>Balance at 31 March 2004</b>	<b><u>59,545</u></b>	<u>58,692</u>

**12.2 Capital reserve**

	<b>£000</b>	Restated 2002-2003 £000
Balance at 31 March 2003	<b>26,761</b>	26,724
Net Parliamentary funding	<b>2,191</b>	2,200
Depreciation	<b>(915)</b>	(732)
Disposals	<b>(1,898)</b>	(1,852)
Impairments	<b>(14)</b>	0
Transfer from Revenue	<b>0</b>	148
Transfer ex Revaluation reserve current year	<b>842</b>	273
<b>Balance at 31 March 2004</b>	<b>26,967</b>	26,761

**12.3 Revaluation reserve**

	<b>£000</b>	2002-2003 £000
Balance at 31 March 2003	<b>5,858</b>	1,509
Indexation of fixed assets	<b>2,677</b>	4,622
Transfer to Capital Reserve: realised revaluation	<b>(842)</b>	(273)
<b>As at 31 March 2004</b>	<b>7,693</b>	5,858

**13 Reconciliation of operating costs to operating cash flows**

	Notes	<b>£000</b>	2002-2003 £000
Surplus for the year		<b>853</b>	(80)
Brushing for life funding		<b>(537)</b>	0
Adjust for movements in working capital other than cash	11	<b>(1,859)</b>	430
Increase/(decrease) in provisions	10	<b>717</b>	0
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(826)</b>	350

**14 Contingent liabilities**

As at 31 March 2004, outstanding legal claims totalling approximately £303,000 have been made against the Authority (2002-2003: £641,000). These claims are disputed and until they are resolved it is not possible to determine the Authority's liability in this regard, if any. £172,000 (2002-2003: £495,000) has been provided in the accounts for these items. The balance of £131,000 (2002-2003: £146,000) has not been provided.

**15 Capital commitments**

At 31 March 2004 the value of contracted capital commitments was £0 (2002-2003: £0).

**16 Commitments under operating leases**

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

	£000	2002-2003 £000
Hire of plant and machinery	1,050	1,061
Other operating leases	982	969
	<u>2,032</u>	<u>2,030</u>

Commitments under non-cancellable operating leases

	£000	2002-2003 £000
<b>Land and buildings</b>		
Operating leases which expire		
Between one and five years	27	27
After five years	341	403
	<u>368</u>	<u>430</u>
<b>Other leases</b>		
Operating leases which expire		
Within one year	62	35
Between one and five years	1,046	1,051
	<u>1,108</u>	<u>1,086</u>

**17 Other commitments**

The Authority has no other non-cancellable contracts as at 31 March 2004 (2002-2003: £0).

The Authority has two major service contracts:

Bridgewater Distribution Centre contract - seven year contract commencing 17 December 2001 - value 2003-2004 £5,080,521.

Transport main contract - five year contract commencing 1 July 2003 - annualised value 2003-2004 £13,609,000.

**18 Losses and special payments**

Bad debts written off (10 Non NHS debtor balances)	£2,275
Personal injury with advice (34 cases)	£82,505
Write off past sell by date	£184,465
Damaged in Warehouse	£261,313
Obsolete stock written off	£339,405
Stock losses	<u>£785,183</u>

There are no individual payments over £100,000.



## 19 Related parties

The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Authority Board has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department i.e. sales and services to other Strategic Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £660m which represented trading with 651 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £0.08m, which represented trading with 17 individual organisations.

During the year, none of the Authority's members or members of the key management staff or other related parties has undertaken any material transactions with the Authority.

NHS Logistics made payments of £93.341m on behalf of the Department of Health for the Childhood Immunisation Programme and £10.376m for Civil Contingency stocks. NHS Logistics acts as an Agent in these respects and the transactions do not form part of the NHS Logistics' accounts.

## 20 Post balance sheet events

There were no post balance sheet events.

## 21 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Special Health Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Special Health Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Strategic Health Authority in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures other than from the currency profile.

### *Liquidity risk*

The Special Health Authority's net operating costs are financed from charges made to the NHS for goods plus an amount to cover the operating costs of the Authority. The Special Health Authority largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. NHS Logistics Special Health Authority is, therefore, exposed to some liquidity risk, as it needs to collect cash in order to pay its suppliers. Slow payment by trusts can result in loss of discounts and puts the achievement of paying suppliers within 30 days at risk.

### *Interest-rate risk*

100% of the Authority's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. NHS Logistics Special Health Authority is not, therefore, exposed to significant interest-rate risk.

### *Foreign currency risk*

The Authority has no foreign currency income or expenditure.

### *Fair Values*

Fair Values are not significantly different from book values and therefore no additional disclosure is required.



# Summarised Account of NHS Professionals



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

Section 98 (4) of the National Health Service Act 1977 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 present a true and fair view of the state of affairs of NHS Professionals at the year end, its 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 Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of NHS Professionals. 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 'Government Accounting'.

## Statement on Internal Control 2003-2004

This statement is given in respect of the Summarised Account for NHS Professionals.

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that NHS Professionals maintains effective systems of internal control that support the achievement of their policies, aims and objectives and that they review the effectiveness of those systems.

The Chief Executive of NHS Professionals has been appointed as Accounting Officer for the work of the Board. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

### 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 risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness.

I draw my major source of assurance from the Chief Executive who provides me with the statement on internal control made on behalf of NHS Professionals. This is included in the annual financial statements and is subject to scrutiny by the Comptroller and Auditor General. I rely also on assurance from senior managers in the Department who are accountable for the oversight of the relationship with NHS Professionals.

The NHS Professionals Special Health Authority has only been in existence for three months, and therefore a number of the internal controls are in the developmental stage. In the coming year these controls will be developed and embedded.

The underlying accounts are laid before Parliament<sup>1</sup> and include detail of specific significant control issues identified.

*Nigel Crisp*  
Accounting Officer

13 December 2004

<sup>1</sup> HC 142

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

I certify that I have audited the financial statements on pages G7 to G16 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages G10 to G12.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page G3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the Treasury directions made thereunder and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page G4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

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

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by error, or by fraud or other irregularity, and that, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of NHS Professionals at 31 March 2004 and of the net operating costs, recognised gains and losses and cash flows for the period then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by Treasury; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my Report at HC 60-I.

*John Bourn*  
Comptroller and Auditor General

17 December 2004

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



## Operating Cost Statement for the three month period ended 31 March 2004

### Continuing operations

	Notes	£000
Programme costs	2.1	<b>498</b>
Operating income		<b>0</b>
<b>Net operating cost</b>		<b>498</b>
<b>Net resource outturn</b>	3	<b>498</b>

There are no recognised gains or losses for the 3 month period ending 31 March 2004

*The notes at pages G10 to G16 form part of this account.*

## Balance Sheet as at 31 March 2004

	Notes	<b>31 March 2004 £000</b>
<b>Current assets</b>		
Debtors	4	<u>138</u>
<b>Total current assets</b>		<b>138</b>
<b>Creditors: amounts falling due within one year</b>	6	<u>(222)</u>
<b>Net current (liabilities)</b>		<b>(84)</b>
		<hr/>
Total assets less current liabilities		<u>(84)</u>
		<hr/>
<b>Taxpayers' equity</b>		
General fund	9	<u>(84)</u>
		<u>(84)</u>

*The notes at pages G10 to G16 form part of this account.*

Sir Nigel Crisp  
Accounting Officer

26 November 2004

## Cash Flow Statement for the three month period ended 31 March 2004

	Notes	<b>£000</b>
Net cash (outflow) from operating activities	10	<b>(414)</b>
There were no cashflows associated with servicing of finance or capital expenditure and financial investment		
<b>Net cash (outflow) before financing</b>		<b>(414)</b>
<b>Financing</b>		
Net Parliamentary funding	9	<b>414</b>
<b>Increase/(decrease) in cash in the period</b>		<b>0</b>

*The notes at pages G10 to G16 form part of this account.*

# Notes to the Accounts

## 1 Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied 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 Income

Operating income is income which relates directly to the operating activities of the Authority. It principally comprises fees and charges for services provided to customers, as well as public repayment work. It includes both income appropriated in aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as miscellaneous income.

The main source of funding for the Authority is Parliamentary grant from the Department of Health Request for Resources 2 within an approved cash limit, which is credited to the general fund. Parliamentary funding is recognised in the financial period in which the cash is received.

### 1.3 Taxation

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

### 1.4 Fixed assets

The Authority did not recognise any fixed assets in 2003-2004.

### 1.5 Losses and special payments

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

### 1.6 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the NHS Professionals Authority to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme and the cost of the scheme is equal to the contributions payable to the scheme for the accounting period. The total employer contributions payable in 2003-2004 was £5,000. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as at the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions will need to be reviewed at the next investigation date, due 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates for 2003-2004 were set at 14% of pensionable pay (7% for 2002-2003). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding has been retained as a Central Budget by the Department of Health and has been paid direct to the NHS Pensions Agency and the employers' contribution has remained at 7%. From 2004-2005 this will be paid in full by NHS Professionals Authority with no funding adjustment.

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% of the member's pension is normally payable to the surviving spouse.

Early payments of a pension, with enhancement, is available to members of the Scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and 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.

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 can make contributions to enhance their pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. Where early retirements are not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement at the time the Authority commits itself to the retirement, regardless of the method of payment.

The NHS Professionals Special Health Authority has chosen to fully adopt FRS17 from 2003-2004.

### **1.7 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 terms of the lease.

### **1.8 Provisions**

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

**1.9 Commitments**

The NHS Professionals Authority has chosen to account for rented accommodation in London as an operating lease.

**2.1 Authority programme expenditure**

	Note	£000
Non-executive members' remuneration		25
Other salaries and wages	2.2	177
Establishment expenses		42
Leased premises		61
Premises and fixed plant		3
External contractors		180
Auditor's remuneration: Audit Fees <sup>1</sup>		10
		<u>498</u>

1 The authority did not make any payments to auditors for non-audit work.

**2.2 Staff numbers and related costs**

	£000
Salaries and wages	88
Seconded staff	45
Social security costs	12
Employer contributions to NHSPA	5
Agency Staff	27
	<u>177</u>

The average number of whole time equivalent persons employed (including senior management) during the three months to 31 March 2004 was 3.23.

### 2.3 Salary and pension entitlement of senior managers

2003-2004

Name and title	Age years	Salary in £5k bands £000	Other remuneration in £5k bands £000	Real increase in pension at age 60 in £2.5k £000	Total accrued pension at age 60 at 31 March 2004 in £5k bands £000
<b>Executives</b>					
Carmel Flatley (Chief Executive)	47	35-40	n/a	0	0-5
Ian Millar (Director of Finance)	44	15-20	n/a	0	0-5
<b>Non Executives</b>					
Richard Martin (Chairman)	*	n/a	10-15	n/a	n/a
Carol Verlaam	*	n/a	0-5	n/a	n/a
Fiona Eldridge	*	n/a	0-5	n/a	n/a
John King	*	n/a	0-5	n/a	n/a
John Flook	*	n/a	0-5	n/a	n/a
Richard Bromberg	*	n/a	0-5	n/a	n/a
Anthony McKeever	*	n/a	0-5	n/a	n/a
Susan Hobbs	*	n/a	0-5	n/a	n/a

The Chief Executive and the non-executives were appointed in September 2003 and up to 1 January 2004 were employed under hosting arrangements with the Department of Health and Hammersmith and Fulham PCT.

There were no benefits in Kind.

Accrued pension figures exclude Lump Sum.

There were no 'Golden Hello' or compensation payments for loss of office.

\* Approval to disclose ages was not sought.

From 1 April 2004, when NHS Professionals Special Health Authority became fully functional, all salaries and pension entitlements were taken on by the Special Health Authority and will be fully disclosed in the 2004-2005 accounts.

The Chairman's correct remuneration was £15,000, but due to an administrative error, he was overpaid by £906. It has been agreed that this will be recovered during 2004-2005.

### 2.4 Better Payment Practice Code - measure of compliance

Percentage of bills paid within target = 94.55%.

(Data from Department of Health for HRD programme expenditure)

No interest or compensation payments were made under the Late Payment of Commercial Debt (Interest Act 1998).

**3 Reconciliation of net operating cost to net resource outturn**

	£000
Net operating cost for the financial year	498
Net resource outturn	<u>498</u>
Revenue resource limit	<u>498</u>
(Over)/underspend against limit	<u>0</u>

**4 Debtors: amounts falling due within one year**

	£000
NHS debtors	138
	<u>138</u>

**5 Analysis of changes in cash**

NHS Professionals operated through the Department of Health and as such did not have an OPG account until 1 April 2004.

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

	£000
Accruals	222
	<u>222</u>

**7 Movements in Working Capital other than cash**

	£000
(Increase in debtors)	(138)
Increase in creditors	<u>222</u>
	<u>84</u>

**8 Provisions for liabilities and charges**

There were no provisions recognised by the Authority.

**9 General fund**

	£000
Balance at 1 January 2004	0
Net operating cost for the period	(498)
Net Parliamentary funding	<u>414</u>
<b>Balance at 31 March 2004</b>	<u><b>(84)</b></u>



**10 Reconciliation of operating costs to operating cash flows**

	Note	£000
Net operating cost		(498)
Adjust for movements in working capital other than cash	7	84
<b>Net cash (outflow) from operating activities</b>		<b>(414)</b>

**11 Commitments under operating leases**

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

	£000
Hire of plant and machinery	0
Other operating leases	61
	<u>61</u>

Commitments under non-cancellable operating leases

	£000
Land and buildings	
Operating leases which expire within one year	73
	<u>73</u>

*Other leases*

No 'other leases' are held

**12 Losses and special payments**

There were no cases of losses and special payments.

**13 Related parties**

The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. Hammersmith and Fulham PCT (£119,000)

**14 Post balance sheet events**

There were no post balance sheet events.

**15 Financial instruments**

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Special Health Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Special Health Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Strategic Health Authority in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from all disclosures.

*Liquidity risk*

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

*Interest-rate risk*

All of the Authority's financial assets and financial liabilities carry nil rates of interest. NHS Professionals Special Health Authority is not, therefore, exposed to significant interest-rate risk.

*Foreign currency risk*

The Authority has no foreign currency income or expenditure.

*Fair Values*

Fair Values are not significantly different from book values and therefore no additional disclosure is required.

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