

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973  
NATIONAL HEALTH SERVICE ACT 1977  
HEALTH SERVICES ACT 1980  
HEALTH AND SOCIAL SERVICES AND SOCIAL SECURITY ADJUDICATIONS ACT 1983  
HEALTH AND SOCIAL SECURITY ACT 1984  
NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990  
HEALTH AUTHORITIES ACT 1995  
NATIONAL HEALTH SERVICE ACT 1999  
NATIONAL HEALTH SERVICE REFORM AND HEALTH CARE PROFESSIONS ACT 2002

Summarised Accounts of Health Authorities, Primary Care Trusts and NHS Trusts in England, of the Dental Practice Board and Special Health Authorities providing central services in England, and of Funds Held on Trust by Health Authorities, Primary Care Trusts, NHS Trusts, Special Health Authorities and Special Trustees in England, for the year ended 31 March 2003 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 493 of 2002-2003)

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

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# NHS (England) Summarised Accounts 2002-2003

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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 summarised accounts have been prepared from the accounts, for the year ended 31 March 2003, of
  - the 28 Strategic Health Authorities (SHAs);
  - the 275 NHS Trusts in England;
  - the 304 Primary Care Trusts in England (PCTs); and
  - the 320 funds held on trust by the Strategic Health Authorities, NHS Trusts, Primary Care Trusts, Special Health Authorities (SpHAs), Section 11 Trustees and Special Trustees.
- 4 In addition this Foreword covers the summarised accounts of the Dental Practice Board and the SpHAs, which are summarised individually
  - the Counter Fraud and Security Management Service;
  - the Dental Vocational Training Authority;
  - the Family Health Services Appeal Authority (Special Health Authority);
  - the Health Development Agency;
  - the Mental Health Act Commission;
  - the Microbiological Research Authority;
  - the National Blood Authority;
  - the National Clinical Assessment Authority;
  - the National Institute for Clinical Excellence;
  - the National Patient Safety Agency;
  - the National Treatment Agency;
  - the NHS Appointments Commission;
  - the NHS Information Authority;
  - the NHS Litigation Authority;
  - the NHS Logistics Authority;
  - the Prescription Pricing Authority;
  - the Retained Organs Commission; and
  - UK Transplant.

- 5 The audit of the annual accounts of all health organisations in England has been completed and these summarised accounts are therefore based on audited figures, except for Camden PCT Funds held on Trust.
- 6 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 (Hospital, community health, family health and related services, England) and Request for Resources 2 (Departmental administration, Miscellaneous Health and Personal Social Services, England). Accordingly I have signed the summarised accounts listed above. The following sections provide background information on each of the accounts.

### Format of the annual accounts

- 7 The Operating Cost Statement format is used for public sector bodies which receive the majority of their income direct from government, like SHAs, PCTs and most SpHAs.
- 8 NHS Trusts, the Microbiological Research Authority, National Blood Authority and NHS Logistics Authority, receive their funding from 'trading' activities so produce income and expenditure accounts.
- 9 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.

### Overall NHS Performance

- 10 In aggregate, Primary Care Trusts, NHS Trusts and Strategic Health Authorities achieved a revenue resource underspend of £96m and a capital resource underspend of £60m in 2002-2003.

### Strategic Health Authorities

- 11 Strategic Health Authorities were established in 2002-2003 to become the local headquarters of the NHS. They took on responsibility for performance managing the NHS locally on behalf of the Department of Health. This includes the performance management of NHS trusts and Primary Care Trusts.

### Financial duties of Strategic Health Authorities

- 12 Strategic Health Authorities 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 2002-2003

- 13 In 2002-2003 all 28 Strategic Health Authorities achieved their statutory financial duties to remain within approved revenue resource and cash limits. The Strategic Health Authorities reported a £96m underspend against the resource limit in 2002-2003.

- 14 On capital, Strategic Health Authorities reported a net £7m underspend against the capital resource limit in 2002-2003. 24 Strategic Health Authorities reported an aggregate under-spend of £8m against their approved resource limit and four Strategic Health Authorities reported an aggregate over-spend of £1m.

### Better Payment Practice Code Strategic Health Authorities

- 15 The percentage of bills paid in compliance with the better payment practice code in 2002-2003 is as follows

Compliance level	Number of Strategic Health Authorities	
	By number of bills	By value of bills
Between 95% and 100%	3	9
Between 85% and 94.9%	5	7
Between 75% and 84.9%	8	5
Between 65% and 74.9%	8	5
Between 55% and 64.9%	2	0
Between 50% and 54.9%	0	0
Less than 50%	2	2
<b>Total</b>	<b>28</b>	<b>28</b>
Overall Performance 2002-2003	80%	87%

- 16 In 2002-2003 Strategic Health Authorities paid 80% of their bills (87% when measured by value) within 30 days/contracted terms. This in the context of Strategic Health Authorities processing and paying 165,000 invoices per annum.
- 17 The Department of Health works with poor performing Strategic Health Authorities to achieve and maintain a level of payment performance consistent with Government Accounting regulations and the Better Payment Practice Code.

### Primary Care Trusts

- 18 Primary Care Trusts first came into existence in April 2000. They are responsible for the commissioning of health care on behalf of their resident population. Some Primary Care Trusts are also responsible for providing community services to their population.
- 19 In 2002-2003 Primary Care Trusts 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 Primary Care Trusts.

### Financial Duties of Primary Care Trusts

- 20 Primary Care Trusts 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).
  - Primary Care Trusts 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 2002-2003

- 21 In 2002-2003 Primary Care Trusts reported a revenue resource limit under spend of £93m, compared to a £11m under spend in 2001-2002.
- 22 Primary Care Trusts reported an aggregate under-spend of £29m on the capital resource limit, compared to £10m (restated) in 2001-2002.
- 23 The 2002-2003 revenue position is made up of 283 Primary Care Trusts reporting an aggregate under spend of £123m (£15m in 2001-2002) and 21 Primary Care Trusts reporting an aggregate overspend of £30m (£4m in 2001-2002).
- 24 On capital 292 Primary Care Trusts reported an aggregate underspend of £36m with 12 Primary Care Trusts reporting an aggregate overspend of £7m (the overspend was less than £10,000 in 2001-2002). The 12 Primary Care Trusts reporting a capital overspend failed this statutory duty (two in 2001-2002).
- 25 In 2002-2003 there were 39 Primary Care Trusts 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

- 26 The percentage of bills paid in compliance with the better payment practice code in 2002-2003 is as follows

Compliance level	Number of Primary Care Trusts	
	By number of bills	By value of bills
Between 95% and 100%	49	91
Between 85% and 94.9%	98	103
Between 75% and 84.9%	78	65
Between 65% and 74.9%	46	30
Between 55% and 64.9%	24	8
Between 50% and 54.9%	6	6
Less than 50%	2	0
<b>Total</b>	<b>303</b>	<b>303</b>
Overall Performance 2002-2003	83%	91%

Note: There were 304 PCTs in 2002-2003. The table above reports on 303. Auditors would not allow one PCT to include figures in its annual accounts as they were not considered sufficiently robust.

- 27 In 2002-2003 Primary Care Trusts paid 83% of their bills (91% when measured by value) within 30 days/contracted terms. This is in the context of Primary Care Trusts processing and paying around 3.3 million invoices per annum. A significant increase from the circa 900 thousand paid in 2001-2002.
- 28 Strategic Health Authorities monitor the performance of individual Primary Care Trusts and work with poor performing Primary Care Trusts to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.

## NHS Trusts

- 29 NHS Trusts are responsible for the provision of health care. They receive most of their income from commissioners of health care (mainly Primary Care Trusts).

## Financial Duties of NHS Trusts

30 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 income.

Exceptionally, and with the express agreement of the relevant Strategic Health Authority, 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 break even each and every year.
- c NHS Trusts are required to absorb the cost of capital at a rate of 6% of average relevant net assets.
- 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 2002-2003

- 31 In 2002-2003 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £93m compared to a £40m deficit in 2001-2002.
- 32 The 2002-2003 position is made up of 50<sup>1</sup> NHS Trusts reporting an aggregate deficit of £176m, offset by 225 NHS Trusts reporting an aggregate surplus of £83m.
- 33 While 50 NHS Trusts did report a deficit in 2002-2003, none breached their statutory financial duty to break-even "taking one financial year with another". However, at 31 March 2003 some eight NHS Trusts had agreed extended periods of recovery (beyond the normal two financial years) with their managing Directorates of Health and Social Care. Since the 31st March, two of these trusts have merged with other NHS organisations.
- 34 53 NHS Trusts out of the 275 were identified by the Department of Health as having significant financial difficulties at the end of 2002-2003 compared to 46 in 2001-2002. Whilst not directly impacting on trusts in the same way as primary care, the 2002-2003 financial position was influenced greatly by very significant increases in prescribing costs.
- 35 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 £1 million or 1% of total annual income.

<sup>1</sup> Of the 50 deficits reported, 10 are not material, i.e. the deficit represents 0.5% or less of total annual income.

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

**Table 1<sup>2</sup>**

	Number	Percentage
Total NHS Trusts	275	100%
<b>NHS Trusts achieving targets</b>		
<i>Capital Absorption Rate</i>		
Total achieving 6% or more	200	73%
After adjusting for immaterial results <sup>3</sup>	254	92%
<i>External Financing Limit</i>		
Total meeting limit	263	96%
After adjusting for de minimus overshoots <sup>4</sup>	265	96%
<i>Capital Resource Limit</i>		
Total meeting limit	263	96%
After adjusting for de minimus overshoots <sup>5</sup>	265	96%

37 Analysis of the 2002-2003 results show that

- a 50 (50 in 2001-2002) had an income and expenditure deficit - 18% of all NHS Trusts (16% in 2001-2002).
- b No statutory breakeven duty failures (none in 2001-2002).
- c 75 (96 in 2001-2002) did not make a 6% return on capital - 27% of all NHS Trusts (30% in 2001-2002).
- d 12 (14 in 2001-2002) overshoot their EFL - 4% of all NHS Trusts (4% in 2001-2002).
- e 12 (11 in 2001-2002) overshoot their CRL - 4% of all NHS Trusts (4% in 2001-2002).

38 When non-material failures are discounted

- a 40 (31 in 2001-2002) had an income and expenditure deficit<sup>6</sup> - 15% of all NHS Trusts (10% in 2001-2002).
- b 21 (17 in 2001-2002) did not make a 6% return on capital - 8% of all NHS Trusts (5% in 2001-2002).
- c 10 (5 in 2001-2002) overshoot their EFL - 4% of all NHS Trusts (2% in 2001-2002).
- d 10 (2 in 2001-2002) overshoot their CRL - 4% of all NHS Trusts (1% in 2001-2002).

<sup>2</sup> Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2002-2003 by Department of Health.

<sup>3</sup> A shortfall on the rate of return duty of less than 0.5% is treated as immaterial.

<sup>4</sup> An EFL overshoot of less than £10,000 is treated as being within de minimus limits.

<sup>5</sup> A CRL overshoot of less than £50,000 is treated as being within de minimus limits.

<sup>6</sup> A deficit of more than 0.5% of total annual income.



## Reasons for NHS Trusts failing Financial Duties

- 39 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;
  - d timing of capital expenditure and income over financial year end.

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

- 40 Where analysis of an NHS Trust's financial performance leads the Strategic Health Authority to believe there is an underlying recurrent financial difficulty, the NHS Trust is required to prepare a recovery plan.
- 41 The appropriate Strategic Health Authority will agree the plan and monitor the results closely. This may involve monthly reporting to the Strategic Health Authority, regular meetings with NHS Trust senior managers and the NHS Trust achieving specific milestones to ensure satisfactory progress is being made.
- 42 Strategic Health Authorities 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

- 43 The percentage of bills paid in compliance with the better payment practice code in 2002-2003 is as follows

Compliance level	Number of Trusts	
	By number of bills	By value of bills
Between 95% and 100%	48	60
Between 85% and 94.9%	113	116
Between 75% and 84.9%	65	55
Between 65% and 74.9%	28	23
Between 55% and 64.9%	9	9
Between 50% and 54.9%	2	2
Less than 50%	10	10
<b>Total</b>	<b>275</b>	<b>275</b>
Overall Performance 2002-2003	82%	83%

- 44 In 2002-2003 NHS Trusts paid 82% of their bills by number (83% when measured by value) within 30 days/contracted terms. This in the context of NHS Trusts processing and paying circa 12.9 million invoices per annum.
- 45 Strategic Health Authorities 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 and Dental Practice Board

### **The Counter Fraud and Security Management Service (CFSMS)**

- 46 The Counter Fraud and Security Management Service was established on 1 January 2003 as a Special Health Authority under section 11 of the National Health Service Act 1977 to continue the work of the NHS CFS in reducing the levels of fraud across the NHS and Department of Health.
- 47 The work of the CFSMS involves
- seeking to develop a real anti-fraud culture;
  - creating a strong deterrent effect;
  - implementing strong preventive systems to stop fraud where it is not deterred;
  - detecting fraud effectively where it is not prevented;
  - undertaking professional, fair and objective investigations where fraud is suspected;
  - seeking to apply a combination of criminal, civil and disciplinary sanctions where fraud is believed to be present; and
  - ensuring redress takes place in respect of the losses incurred.
- 48 The expenses of the Authority were defrayed by the Secretary of State for Health out of monies charged to Request for Resources 1. The net operating cost for the 3 month period to 31 March 2003 was £101,000.

### **Dental Practice Board**

- 49 This body was established as the Dental Estimates Board on 5 July 1948 under section 40 of the National Health Service Act 1946 which was later consolidated in section 37 of the National Health Service Act 1977. The Board's principal functions relate to the provision of general dental services including making payments to dentists, giving prior approval for certain treatments, monitoring the quality of dental treatment prescribed and provided, and preventing and detecting fraud and abuse. The expenses of the Board relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Request for Resources 1. A proportion of these expenses was met by the National Assembly for Wales.
- 50 During this year the number of payment application documents processed to completion was 46,400,000 (2001-2002 46,900,000) at an average unit cost of 57.3 pence (2001-2002 52.6 pence). The increase reflects the cost of staff leaving in the next two years. Without this exceptional cost, the unit cost would have fallen in line with the required 2% reduction in real terms. The Authority's net operating cost was £26,565,000 (2001-2002 £24,661,000), £5,000 within the resource limit agreed by the Department of Health.
- 51 The Board also produces an account for the General Dental Services in England. This reported a net operating cost of £1,198,397,000 and is consolidated into the Primary Care Trust summarised account.
- 52 The Board entered into two seven year off balance sheet contracts on 1 January 2003, one for computing services and one for data capture services. These contracts can be terminated after four years.

### **Dental Vocational Training Authority**

- 53 The Dental Vocational Training Authority was established on 1 October 1993 as a Special Health Authority under section 11 of the National Health Service Act 1977. The main aim of the Authority is to adjudicate applications for vocational training numbers for dentists who wish to join a Primary Care Trust or Welsh Health Board dental list, and to maintain a register of the vocational training numbers allocated to dentists who have satisfied the Authority. In September 2002 the Authority merged with the Committee on Vocational Training and took on responsibility for vocational training schemes in England.

- 54 The Authority issued 1,094 vocational training numbers (2001-2002 1,200) and adjudicated 1,163 applications for inclusion on an authority list through to a final decision. Activity in terms of issuing numbers and adjudicating applications has remained fairly constant over the last three years. There has been an increase in the workload due to increases in presentations to dental bodies and the Authority's duties under the Race Relations (Amendment) Act 2000 to introduce a system to audit the decision making process.
- 55 The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Request for Resources 1. The Authority prepares its accounts on a Receipts and Payments basis and reported a net excess of payments over receipts of £36,000 on total payments of £277,000. The principal contribution to the 'overspend' was redundancy costs on merger with the Committee on Vocational Training. From 2003-2004 the Authority will prepare accounts on a full accruals basis.

### Family Health Services Appeal Authority (Special Health Authority)

- 56 The Family Health Services Appeal Authority was established on 1 April 1995 as a Special Health Authority under section 11 of the National Health Service Act 1977. The name of the Authority was changed by order of the Secretary of State for Health to the Family Health Services Appeal Authority (Special Health Authority) [the 'Authority'] with effect from 24 November 2001. This change was occasioned by the creation of a new body known as the Family Health Services Appeal Authority ["FHSAA"] by Section 27 of the Health and Social Care Act 2001.
- 57 The purpose of the Authority is to improve the provision of health care by efficiently ensuring the prompt, fair and reasoned resolution of disputes within the National Health Service. The FHSAA is an independent tribunal responsible for hearing appeals against decisions regarding removal and inclusion of a practitioner from a Primary Care Trust list. This new work is administered by the Authority and has resulted in recruitment to deal with the projected increase in the number of appeals.
- 58 The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Request for Resources 1. The Authority's resource allocation is based on the projected number of appeals, both to itself and the Family Health Services Appeal Authority. Resources are varied during the year in the light of actual expenditure. In 2002-2003 the net operating cost was £725,000 (2001-2002 £683,000) against a target of £744,000.

### The Health Development Agency

- 59 The Health Development Agency was established in January 2000 by Statutory Instrument 1999 No.3431. The Agency's core resources were formed from the resources of the Health Education Authority (HEA) that was itself abolished on 1 April 2000 by Statutory Instrument 2000 No.604.
- 60 The Agency is a Special Health Authority with a remit to support and enhance efforts to improve the health of people in England - in particular, to reduce inequalities in health between those who are well off and those in more disadvantaged circumstances.
- 61 The Agency has continued to make good progress in achieving its objectives and has supported improvements in the evidence-based working of public health professionals. Work performed this year include
- Evidence briefings have been published on alcohol, health impact assessment, teenage pregnancy and parenthood, and HIV/AIDS.
  - The following have been subsequently published or are in press: depression in later life, breastfeeding, low birth weight, and accidental injury in children and older people.
  - Evidence briefings on smoking and physical activity are awaiting sign-off by the Department.
  - Evidence briefings on drug misuse, social support in pregnancy and sexually transmitted infections are in the final stages of revision before submission to the Department.

62 The Agency reported net operating costs of £11,024,000 (2001-2002 £11,960,000), £36,000 over the cash limit plus non-cash item total budget. The expenses of the Authority were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Request for Resources 2.

### Mental Health Act Commission

63 This body was constituted as a Special Health Authority on 1 September 1983 under section 11 of the National Health Service Act 1977 to set standards and monitor the treatment of patients detained under the Mental Health Act 1983. The Commission

- routinely visits all hospitals and registered nursing homes with detained patients to monitor the operation of the Mental Health Act and interview detained patients in private;
- meets with representatives of Social Services Departments;
- monitors complaints made by detained patients through the NHS Complaints procedures and may investigate those that fall within the Commission's complaints remit;
- monitors the operation of Consent to Treatment safeguards set out in Part IV of the Act and appoints doctors to give Second Opinions;
- publishes a biennial report that is laid before Parliament; and
- monitors the operation of the Mental Health Code of Practice.

64 The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1. The Authority's net operating cost was £3,415,000 (2001-2002 £3,339,000). A proportion of the expenses of the Authority was met by the National Assembly for Wales.

### The Microbiological Research Authority

65 The Microbiological Research Authority was established as a Special Health Authority on 1 April 1994 under section 11 of the NHS Act 1977 to manage the Centre for Applied Microbiology and Research (CAMR) which previously formed part of the Public Health Laboratory Service. It is required to contribute to the health of the UK population by conducting research on specified microbiological hazards with a view to the development and production of effective diagnostic, prophylactic and therapeutic products. The principal scientific activities were

- Research and Development;
- Process Development;
- Production of Therapeutic Drugs and Vaccines; and
- Culture Collection.

66 The Authority's funding is mainly derived through income from contracts for research, production and other services with separate funding for particular research and other purposes being defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 2.

67 Total income generated by the Authority was £31,260,000 (2001-2002 £28,229,000) which included £2,712,000 (2001-2002 £4,773,000) funding from the Department of Health for key research projects. The Authority reported a retained deficit of £2,759,000 (2001-2002 restated surplus of £459,000).

68 The Authority ceased to exist on 31 March 2003 when SI 2003 No505 (Section 9) transferred all rights against the Authority and its property and liabilities to the Health Protection Agency (HPA). The new body's remit will include 'to protect the UK population from the threat, and if necessary the actuality of, infectious disease outbreaks'.

## National Blood Authority

- 69 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.
- 70 The Authority issued 2,186,000 units of red cells (2001-2002 2,206,000 units) and 216,000 units of platelets (2001-2002 215,000 units). The Authority charges customers for the costs of collection, processing and distribution (£99.77 in 2002-03 and £84.56 in 2001-2002). There is no charge for the blood itself which is donated on a voluntary basis.
- 71 The Authority recorded a £4,134,000 surplus (2001-2002 £12,357,000 surplus) on an income of £360,355,000 (2001-2002 £349,512,000).
- 72 Capital investment included a new Liverpool blood centre started in October 2002. This will include a new world-class tissue services facility.

## National Clinical Assessment Authority

- 73 The National Clinical Assessment Authority (NCAA) became operational as a Special Health Authority on 1 April 2001 under section 11 of the National Health Service Act 1977 to promote clinical performance and to support NHS personnel dealing with under-performing doctors.
- 74 The work of the Authority is covered in a Framework Document prepared by the Department of Health which lists the key responsibilities as
- Developing and refining the Authority's advice and assessment framework. The Authority has now completed its prototype stage and is fully operational from 1 April 2003.
  - Responding to 384 requests for assistance from referring bodies. Of these, the Authority started 35 formal assessments and provided ongoing intensive support to a further 35 referring bodies.
  - Beginning development of the Authority's External Education Strategy.
  - Beginning development of the Authority's Evaluation and Research & Development function.
  - Signing a Service Level Agreement with the Welsh Assembly and establishing an NCAA office in Cardiff to service all Wales.
  - Continuing working with the Northern Ireland Administration, the Prison Health Service and the Defence Medical Services to develop arrangements for working together.
  - Expanding working arrangements with key partner organisations, the General Medical Council, the Commission for Health Improvement, and the National Patient Safety Agency, and
  - Continuing to develop the appropriate management structure and controls to ensure probity and accountability arrangements as a Special Health Authority.
- 75 The Authority reported a net operating cost of £4,121,000 (2001-2002 £1,953,000) against an agreed budget of £4,638,000. The expenses of the Authority relate solely to the cost of administration which are defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

## National Institute for Clinical Excellence

- 76 The National Institute for Clinical Excellence was established on 26 February 1999 as a Special Health Authority, to become operational on 1 April 1999, under section 11 of the National Health Service Act 1977 to produce national guidance on treatments for people using the NHS in England and Wales.
- 77 The focus during the year was
- Contributing to the improvements in the NHS set out by the Government and the Welsh Assembly in their responses to the Bristol Royal Infirmary Report (Kennedy Report).
  - Issuing guidance to the NHS through the technology appraisals programme, the inherited guidelines programme and the first originally commissioned guideline.
  - Establishing the new work programme reviewing the safety and efficacy of interventional procedures.
  - Completing the restructuring of the confidential enquiries, and
  - Establishing the Citizens Council.
- 78 The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1. The Authority recorded a net operating cost of £14,156,000 (2001-2002 £12,058,000), £54,000 within its revenue resource limit. A proportion of the expenses of the Authority was met by the National Assembly for Wales.

## National Patient Safety Agency

- 79 The National Patient Safety Agency became operational as a Special Health Authority on 1 July 2001 under section 11 of the National Health Service Act 1977.
- 80 The Agency
- collects and analyses information on adverse events from local organisations, NHS staff and patients and carers;
  - assimilates other safety related information from a variety of existing reporting systems and other sources in the country and abroad;
  - learns lessons and ensures that they are fed back into practice, service organisations and delivery; and
  - where risks are identified, produces solutions to prevent harm, specifies national goals and establishes mechanisms to track progress.
- 81 The Agency reported net operating cost of £11,629,000 (2001-2002 £1,763,000), £471,000 within the revenue resource limit. The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

## National Treatment Agency for Substance Misuse

- 82 The National Treatment Agency for Substance Misuse (NTA) became operational as a Special Health Authority on 1 April 2001 under section 11 of the National Health Service Act 1977 to increase the availability, capacity and effectiveness of treatment for drug misuse in England.
- 83 The Agency's focus during the year was on
- Implementing a workforce strategy to increase the competency and capacity of the drug treatment workforce.
  - Developing standards and issuing guidance to improve the quality of drug treatment services.

- Reviewing Drug Action Team treatment plans for 2003-2004 and improving the quality of monitoring and reporting.
  - Improving access to drug treatment services through a programme to reduce waiting times.
  - Consultation with the drug treatment field to identify research priorities and needs in order to develop evidence based practice.
  - Establishing mechanisms to support user and carer involvement in the NTA's activities.
  - Reviewing and changing the organisation's structure to enable it to deliver the key objectives, and
  - Developing a race equality scheme and work programme to address inequalities in local treatment systems for groups currently marginalised or under-represented in drug treatment.
- 84 The Agency reported a net operating cost of £5,925,000 (2001-2002 £2,145,000) against a notified revenue resource limit of £5,870,000. The expenses of the Agency relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

### NHS Appointments Commission

- 85 The NHS Appointments Commission became operational as a Special Health Authority on 1 April 2001 under section 11 of the National Health Service Act 1977.
- 86 The Commission is responsible for making all appointments of chair and non-executive directors to NHS Trusts, Primary Care Trusts and Strategic Health Authorities and other duties as directed by the Secretary of State. Regional Commissioners have been appointed to support the non-executive directors. The Commission will also ensure non-executive directors are appraised in a regular and consistent way.
- 87 The Commission reported a net operating cost of £3,617,000 (2001-2002 £1,200,000), £13,000 within the revenue resource limit set by the Department. The increase in operating costs reflects the inclusion of expenditure previously accounted for by the Department for work carried out in Regional Offices.
- 88 The expenses of the Commission relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

### NHS Information Authority

- 89 The NHS Information Authority was established on 9 March 1999 as a Special Health Authority, to become operational on 1 April 1999, under section 11 of the National Health Service Act 1977. Its key operational activities include
- access to information;
  - information for personal health;
  - information for population health and service management;
  - knowledge management;
  - information for organisation and business; and
  - national health informatics development.

- 90 The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.
- 91 The Authority recorded a net operating cost of £177,817,000 (2001-2002 £102,496,000) and remained within the notified revenue and capital resource limits by £61,000 and £1,000 respectively.

### NHS Litigation Authority

- 92 The NHS Litigation Authority is a Special Health Authority set up on 20 November 1995 under Section 11 of the National Health Service Act 1977. Its principal task is to administer schemes set up under section 21 of the National Health Service and Community Care Act 1990 to help NHS organisations pool the costs of any loss or damage to property and liabilities to third parties for loss, damage or injury arising out of the carrying out of their functions. The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Litigation Authority in respect of their schemes.
- 93 During the year the Authority has administered three main clinical negligence schemes - the ex-Regional Health Authorities Scheme, the Clinical Negligence Scheme for Trusts (CNST) and the Existing Liabilities Scheme (ELS) and two Risk Pools, the Property Expenses Scheme (PES) and Liability to Third Parties Scheme (LTPS). The two risk pools effectively replace commercial insurance for most Trusts (except for motor vehicle claims). Contributions to the new schemes represent a significant premium holiday compared to the former commercial insurance premiums for the majority of NHS member organisations.
- 94 The Schemes were either funded by the Department of Health from monies charged to Request for Resources 1 or, in the cases of the CNST, PES and LTPS, funded by contributions from members.
- 95 The Authority has been proactive in trying to influence the way claims are handled and has promoted the use of fair payments made periodically rather than a substantial 'once and for all' capital payment, the use of mediation, and the expedition of claims and reductions in associated legal costs. The Chief Medical Officer published a Report on 30 June 2003 which set out plans for a new NHS Redress Scheme to speed up the process of explanation, compensation and apology for clinical negligence incidents.
96. The Authority recorded a net operating cost of £551,350,000 (2001-2002 £1,366,590,000) which represents a £2,128,000 undershoot against the revenue resource limit.

### NHS Logistics Authority

- 97 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.
- 98 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 7 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.
- 99 The Authority has launched its own e-ordering system and has consolidated its estate for improved efficiency.
- 100 The Authority achieved a deficit of £80,000 (2001-2002 a surplus of £249,000) on turnover of £622,424,000 (2001-2002 £568,335,000). All revenue income was derived from sales or fees, with £2,200,000 received from the Department for capital from Request for Resources 1.



## Prescription Pricing Authority

- 101 This body was established as a Special Health Authority on 1 April 1974 under sections 5(6) and 6(3) of the National Health Service Act 1973, which was later consolidated in section 11 of the National Health Service Act 1977. The functions of the Authority include
- The examination, checking, investigation and pricing of prescriptions for drugs, medicines and listed appliances, supplied as pharmaceutical services under the NHS Act 1977.
  - The calculation of reimbursements due to dispensing contractors in the primary care sector and payments to pharmacy contractors, including notification to health bodies of amounts paid for budgetary purposes.
  - The prompt and regular provision of information, analysing costs and prescribing trends of General Practitioners, together with an analysis of the number of prescriptions.
  - The compilation, publication and distribution on a monthly basis of the Drug Tariff in a manner approved by the Secretary of State for Health.
  - The administration on behalf of the Secretary of State for Health of the NHS Low Income Scheme in accordance with the provisions of the NHS (Travelling Expenses and Remission of Charges) Regulations 1988 (as amended).
  - From 1 October 2002, the issue of NHS prepayment certificates to the public and collection of income deriving from this, and
  - The investigation, within the primary care prescribing sector, of irregularities by patients and contractors, the recovery of unpaid charges and the operation of the Pharmacy Reward Scheme. This function was transferred to the Counter Fraud and Security Management Service Special Health Authority from 1 January 2003.
- 102 The expenses of the Authority were mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.
- 103 The Authority processed over 615 million prescription items, calculated and made monthly payments to more than 10,000 Pharmacy Contractors, and calculated payments due to approximately 4,400 dispensing doctors in England, with a total value of prescriptions paid or authorised for payment of almost £6.9 billion. This represented unprecedented levels of prescription volume growth and this will be managed by the introduction of Electronic Transmission of prescriptions, being piloted in 2002-2003.
- 104 The Authority produces 2 accounts, one dealing with the functions above and the other in relation to those elements of payments made in respect of pharmaceutical services that are not accounted for by Primary Care Trusts or NHS Hospital Trusts. The pharmaceutical services account is consolidated into the summarised account of Primary Care Trusts.
- 105 The Authority acts as an agent of the Department of Health, Primary Care Trusts and NHS Hospital Trusts for the payment of pharmacists, appliance contractors and oxygen concentrator suppliers. The basic cost of drugs and any discretionary local payments are recharged back to the prescribing body and are included in their accounts. Dispensing fees, patient charges and non-discretionary payments are accounted for by the Authority separately within the pharmaceutical accounts. The Authority calculates and authorises the payments for dispensing doctors and personal administration claims, but the actual payments to GPs are made by Primary Care Trusts.
- 106 The Authority Administration Accounts recorded a net operating cost of £64,083,000 (2001-2002 £63,175,000 restated). The Authority reported expenditure within the cash limit and the notified revenue (hitting the revenue resource limit exactly) and capital resource limits (an underspend of £2,230,000). The expenses of the Authority Administration Account relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

## Retained Organs Commission

107 The Retained Organs Commission was established on 1 April 2001 as a Special Health Authority under section 11 of the National Health Service Act 1977. The decision was influenced by the publication of the Redfern Report (Royal Liverpool Children's Inquiry Report) and the advice of the Chief Medical Officer. The Commission has identified 8 principal aims which it is seeking to achieve during the proposed three year lifetime

- The NHS can and does provide accurate and comprehensive information about organs and tissue following post mortem examinations.
- The arrangements for returning organs and tissue, if requested, reflect the needs and wishes of relatives.
- The organs and tissue whose return is requested are returned promptly, sensitively in a single, comprehensive process to avoid the risk of multiple funerals.
- Future Government policy and legislation relating to the removal, storage, retention and return of human organs and tissue take full account of the needs of relatives and partners.
- To identify and promote the introduction of measures designed to respond to the needs of those families involved in organ retention.
- To determine how organs and tissue whose return is not requested should be dealt with and, where appropriate, disposed of respectfully.
- To restore public confidence in the post mortem system and to improve public understanding of the need for retention of organs and tissue, and
- To establish, via consultation, what system of regulation should be introduced to apply to collections and archives of retained organs and tissue.

108 The net operating cost reported by the Commission was £1,071,000 (2001-2002 £1,023,000). The Commission's operating costs were £85,000 within the revenue resource limit set by the Department of Health. The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.

## UK Transplant

109 This body was established as the United Kingdom Transplant Support Service Authority on 1 April 1991 as a Special Health Authority, under section 11 of the National Health Service Act 1977, to co-ordinate, support and advise on organ transplantation and related matters at national level across the whole of the UK. The new body, UK Transplant, was formed in July 2000 with a new, extended remit to increase organ donation rates.

110 The expenditure of the Authority is mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1. As the Authority has a UK-wide remit, it also receives funding from the devolved administrations.

111 UK Transplant's specific responsibilities include

- Managing the National Transplant Database, which includes details of all donors and patients who are waiting for, or have received, a transplant.
- Providing a 24-hour service for the matching and allocation of donor organs and making the transport arrangements to get the organs to patients.
- Maintaining the national NHS Organ Donor Register.
- Improving organ donation rates by funding initiatives in the wider NHS.
- Contributing to the development of performance indicators, standards and protocols, which guide the work of organ donation and transplantation.

- Acting as a central point for information on transplant matters.
- Providing central support to all transplant units in the UK and Republic of Ireland.
- Auditing and analysing the results of all organ transplants in the UK and Republic of Ireland to improve patient care, and
- Raising public awareness of the importance of organ donation.

112 The Authority recorded a net operating cost of £8,055,000 (2001-2002 £6,051,000). It also remained £2,000 within its notified revenue resource limit and £127,000 within its capital resource limit.

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

113 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			
	2002-2003		2001-2002	
	Number	£000	Number	£000
Dental Practice Board	99.1%	99.5%	96.8%	98.8%
Dental Vocational Training Authority	100.0%	100.0%	100.0%	100.0%
Family Health Services Appeal Authority	96.9%	98.1%	98.6%	99.5%
Health Development Agency	84.0%	78.0%	70.0%	68.0%
Mental Health Act Commission	96.6%	90.6%	91.0%	Not stated
Microbiological Research Authority	38.0%	Not stated	22.0%	Not stated
National Blood Authority	83.9%	85.9%	73.3%	77.8%
National Clinical Assessment Authority	79.0%	78.0%	83.0%	86.0%
National Institute for Clinical Excellence	73.2%	72.6%	75.0%	Not stated
National Patient Safety Agency	83.4%	85.3%	81.0%	83.0%
National Treatment Agency	87.5%	96.0%	90.0%	99.0%
NHS Appointments Commission	89.2%	93.0%	95.0%	Not stated
Counter Fraud & Security Management Service	96.0%	98.4%	N/A	N/A
NHS Information Authority	92.2%	96.8%	80.0%	94.0%
NHS Litigation Authority	80.2%	86.6%	52.6%	91.1%
NHS Logistics Authority	65.6%	68.0%	89.0%	Not stated
Prescription Pricing Authority	96.0%	98.4%	95.3%	97.5%
Retained Organs Commission	100.0%	100.0%	96.0%	95.0%
UK Transplant	99.5%	99.4%	99.0%	99.0%

## Future Developments

- 114 25 NHS Trusts have applied to become 'First Wave' NHS Foundation Trusts (FTs) from 1 April 2004 subject to legislation. If the applicants are successful, they will not be subject to direction by the Secretary of State for Health but be 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.
- 115 As a result of SI 2003 No 1324, The Government Resources and Accounts Act 2000 (Audit of Health Service Bodies) Order 2003, the C & AG will become responsible for the audit of all existing Special Health Authorities as from 1 April 2003. The 14 bodies who are consolidated within the Department's resource account will lay their accounts directly before Parliament and the Department will not prepare summarised accounts for them from 2003-2004. New special health authorities formed after 1 April 2003 will need to be included in a new Order before the C & AG can assume audit responsibilities.
- 116 The cost of capital charged to NHS accounts has been reduced from 6% to 3.5% as from 1 April 2003.
- 117 Five new Special Health Authorities are currently planned: the NHSU (to promote learning to improve the provision of health services) to become operational on 1 December 2003; NHS Professionals; the NHS Pensions Agency; and NHS Direct to be operational from 1 April 2004; and a replacement special health authority for the Dental Practice Board following its dissolution under section 181 of the Health and Social Care (Community Health and Standards) Act 2003.
- 118 The Retained Organs Commission is due to dissolve on 31 March 2004 when some functions will, subject to legislation, transfer to a new Executive Non-Departmental Public Body (initially in shadow form) to lead on the subject of human tissue retention, storage and disposal.
- 119 From 2004-2005 the NHS will begin to introduce a system of financial flows based on the principle of payments by results against a standard tariff for treatment in NHS trusts. 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.

*Nigel Crisp*  
Accounting Officer

31 October 2003

# Summarised Account of the 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 2002-2003

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

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that SHAs 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.

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 2002-2003 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

To help me fulfil this responsibility, I appointed the Chief Executive of each of the 28 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 (SICs) signed by Accountable Officers in support of the accounts for each SHA.

I have gained further assurance from a review by my staff to ascertain whether the SHA SICs are consistent with

- the external audit opinions;
- the core controls assurance reports; and
- the head of internal audit opinions on the assurance framework.

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. The SICs identified whether the SHAs have embedded Assurance Frameworks to provide structured evidence in support of their statements about the effectiveness of their system of internal control, or if these are still being developed.

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;
- external reviewers including external audit; and
- Audit Committees, Risk Management Committees, Governance Committees and other Board Committees.

### Developments during 2002-2003

During 2002-2003 the Department introduced a requirement for all SHAs to develop Assurance Frameworks. These provide evidence to support the SIC and provide the link between the organisation's principal objectives, the main risks to achieving them and the key controls in place to manage these risks. The emphasis was placed on Board involvement with regular reporting of significant gaps in key controls and assurance arrangements, actions to address deficiencies and plans for continuous improvement.



The main benefits of the Assurance Frameworks will accrue during 2003-2004. For 2002-2003, the SICs are underpinned by a requirement for NHS bodies to comply with the three core control assurance standards. These provide a framework for organisations to assess themselves against criteria for ensuring they have sound governance, risk management and financial management arrangements to support their system of internal control. The criteria include accountability, processes, capability, monitoring and review, audit and outcomes. Treasury agreed that compliance with the three core standards would be sufficient as an interim measure to support the Statement on Internal Control. Organisations are expected to apply these criteria when making assessments of the controls to manage the principal risks to achieving their principal objectives.

## Summary of the SHA Statements on Internal Control

### Strategic Health Authorities

Provided full statements	0
Provided partial statements	28
Provided statements for organisations that were subject to dissolution on 31 March 2003	0
<b>Total</b>	<b>28</b>

There were no significant inconsistencies identified between the SICs and the other sources of my assurance.

'Full statements' are defined as those where the SHA Accountable Officer was satisfied that an effective system of internal control has been in place throughout the full financial year and is ongoing. This is demonstrated by the Board's Assurance Framework and evidence of compliance with the requirements of the core controls assurance standards. Where this was not the position, the SIC was classified as 'partial'.

SHAs were fully operational by 1 October 2002 and they all signed partial statements and confirmed that they will have Assurance Frameworks fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control. SHAs identified an additional 65 actions that they plan to implement during 2003-2004 to further strengthen their risk management, governance and system of internal control. The implementation of these actions and the embedding of Assurance Frameworks will be subject to review by the Department of Health. Further analysis of the 65 actions is set out in the table below.

The table shows that risk management accounts for over 70% of the specific actions identified by SHAs in addition to implementing the Assurance Framework which reflect the broad nature of the Accountable Officer responsibilities.

### Analysis of actions planned by SHAs during 2003-2004

Action area	Key issues	No.	%
Risk management	Risk training Risk register development Risk management policies and strategies Undertake risk assessments Incident reporting Miscellaneous		
	<b>Total</b>	<b>47</b>	<b>72.4</b>
Performance management/ Benchmarking	Benchmarking Develop performance indicators including risk		
	<b>Total</b>	<b>6</b>	<b>9.2</b>
Communication	Information communication and dissemination, including risk management, internal control, performance reporting, SFIs		
	<b>Total</b>	<b>6</b>	<b>9.2</b>
Other	Financial control, general policy issues, board reporting, accountability and training other than risk		
		<b>6</b>	<b>9.2</b>

## Actions being taken to ensure SHAs have effective systems of internal control

### **Performance management**

The Department of Health will monitor the SHAs' implementation of Assurance Frameworks and the actions they need to take to be able to provide assurances about their systems of internal control. I have provided dedicated training for SHAs that includes their performance management of PCTs and NHS Trusts achievement of the Treasury requirements and more is planned.

### **Risk management and governance training, guidance and monitoring**

Over the past six years, there has been a comprehensive risk-training programme for boards, risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### **Conclusion**

The process of embedding Assurance Frameworks will continue into the financial year 2003-2004, but once in place will provide a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. Although SHAs were not in a position to provide full statements on internal control for the whole of the year ended 31 March 2003, they were able to demonstrate that considerable progress has been made towards meeting the requirements. It is expected all SHAs will be in a position to have full systems of internal control for the whole of the 2004-2005 financial year. Achievement of all processes being in place by 31 March 2004 will be subject to review by the Department of Health during the financial year.

*Sir Nigel Crisp*

27 November 2003

# 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 A8 to A27 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 A11 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 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 A4 to A6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 fraud or other irregularity or error 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. 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 2003 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	Restated 2001-2002 £000
<b>Expenditure</b>			
Healthcare and related services commissioned	2	<b>1,463,257</b>	27,343,714
Authority administration and programme expenditure	3	<b>3,364,063</b>	2,600,231
		<b>4,827,320</b>	29,943,945
Miscellaneous income	4	<b>(176,417)</b>	(2,006,049)
Exceptional gain on write out of clinical negligence provisions		<b>0</b>	(236,779)
<b>Net operating costs</b>		<b>4,650,903</b>	27,701,117

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the revaluation of fixed assets	13	<b>20,653</b>	38,568
Net transfer to NHS bodies and Department of Health	14	<b>958,573</b>	268,000
Fixed asset impairment losses		<b>0</b>	(1,989)
Receipt of donated assets		<b>0</b>	871
<b>Recognised gains for the financial year</b>		<b>979,226</b>	305,450

The notes at pages A11 to A27 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	41	908
Tangible assets	5.2	<u>102,605</u>	<u>481,918</u>
		<b>102,646</b>	<b>482,826</b>
<b>Current assets</b>			
Debtors: amounts falling due within one year	6	263,356	1,115,758
Cash at bank and in hand	16	<u>4,156</u>	<u>63,266</u>
		<b>267,512</b>	<b>1,179,024</b>
<b>Creditors: amounts falling due within one year</b>	7	<u>(216,688)</u>	<u>(2,050,465)</u>
<b>Net current liabilities</b>		<u>50,824</u>	<u>(871,441)</u>
<b>Total assets less current liabilities</b>		<b>153,470</b>	<b>(388,615)</b>
<b>Creditors: amounts falling due after more than one year</b>	8	(1,973)	(26,506)
<b>Provisions for liabilities and charges</b>	9	<u>(62,524)</u>	<u>(368,579)</u>
		<b>88,973</b>	<b>(783,700)</b>
<b>Taxpayers' equity</b>			
General fund	14	70,620	(946,980)
Donated asset reserve	12	0	1,044
Revaluation reserve	13	<u>18,353</u>	<u>162,236</u>
		<b>88,973</b>	<b>(783,700)</b>

The notes at pages A11 to A27 form part of this account.

Nigel Crisp  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	Restated 2001-2002 £000
<b>Net cash outflow from operating activities</b>	17	<b>4,625,033</b>	27,839,722
<b>Capital expenditure and financial investment</b>			
Payments to acquire fixed assets		<b>3,984</b>	9,121
(Receipts) from the sale of fixed assets		<b>(47,745)</b>	(15,266)
<b>Net cash (inflow) from investing activities</b>		<b>(43,761)</b>	(6,145)
<b>Net cash outflow before financing</b>		<b>4,581,272</b>	27,833,577
<b>Analysis of financing</b>			
Net Parliamentary funding	14	<b>4,544,480</b>	27,850,968
Capital element of finance lease rental payment		<b>0</b>	26
Cash transferred to PCTs	16	<b>(20,310)</b>	(6,316)
<b>Decrease/(increase) in cash</b>	16	<b>57,102</b>	(11,101)

*The notes at pages A11 to A27 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 convention

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.

#### *Transfer of Functions to Primary Care Trusts*

During 2002-2003 the Government transferred functions from strategic health authorities to primary care trusts so that they are administered closer to the service level with patients.

Certain staff and assets relating to the delivery of these functions were also transferred to primary care trusts. The results and cash flows related to the transferred services have been brought to account in primary care trusts from the date of their transfer.

### 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

## 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; and
- 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
<i>Transport equipment</i>	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.

### 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 operating cost statement. Similarly, any impairment on donated assets charged to the operating cost statement 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 General Fund.

### 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 strategic health authorities not been bearing their own risks (with insurance premiums then being included as normal relevant expenditure).

### 1.8 Clinical negligence costs

From 1 April 2000, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all 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.

### 1.9 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.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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.nhs.gov.uk](http://www.nhs.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 1994) employer contribution rates for 2002-2003 were set at 7% of pensionable pay. Employer contributions rates have been set at 14% from 1 April 2003. The total employer contribution payable in 2002-2003 was £9,912,000 (£30,766,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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.

Up to 31 March 2002, the additional liabilities arising from early retirements not funded by the scheme, which took place prior to 6 March 1995, were recharged to the health authority and included within operating expenses as they arose. For post 5 March 1995 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.

In 2002-2003 the accounting for pre-6 March 1995 early retirements was brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining pre-payment, where the liability is brought out) is recognised as a prior period adjustment.

### **1.10 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.

### **1.11 Foreign exchange**

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

### **1.12 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 SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. 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.

### **1.13 Provisions**

Strategic health authorities provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 6% in real terms.

### **1.14 Restatement of 2001-2002 figures**

The summarised accounts of health authorities up to 2001-2002 included figures for the Pharmaceutical Services and General Dental Services accounts prepared by the Prescription Pricing Authority and Dental Practice Board respectively. As primary care trusts have taken over responsibility for non-discretionary expenditure in 2002-2003 the 2001-2002 figures have been restated to remove all entries referring to these two accounts.

A further consolidation adjustment has been made to exclude intra health authority balances. This has eliminated £47,402,000 NHS debtors and creditors from 2001-2002 and £8,248,000 in 2002-2003.

## 2 Healthcare and related services commissioned

	£000	Restated 2001-2002 £000
<b>Primary healthcare commissioned by strategic health authorities</b>		
General medical services (discretionary)	989	94,918
General medical services (non discretionary)	1,116,722	2,272,279
Drug costs	29,647	226,697
Pharmaceutical services	54,729	116,561
General dental services	11,987	17,599
General ophthalmic services	153,853	302,383
Department of Health Initiative funding	1,493	90,567
	<u>1,369,420</u>	<u>3,121,004</u>
<b>Commission of healthcare by primary care act pilots</b>		
Personal medical services	35,822	401,069
Personal dental services	7,238	27,588
	<u>43,060</u>	<u>428,657</u>
<b>Secondary healthcare commissioned by strategic health authorities</b>		
Learning difficulties	3,016	768,748
Mental illness	5,320	1,459,263
Maternity	1,344	101,751
General and acute	24,210	3,074,418
Accident and emergency	861	272,464
Community Health Services	50	406,576
Other contractual	15,976	538,276
	<u>50,777</u>	<u>6,621,496</u>
Impairments and depreciation for NHS Trusts	0	146,639
Grants to fund capital projects of other bodies	0	33,101
Total Healthcare commissioned by strategic health authorities	<u>1,463,257</u>	<u>10,350,897</u>
Total Healthcare commissioned by Primary Care Groups	<u>0</u>	<u>16,992,817</u>
<b>Total Healthcare commissioned</b>	<u>1,463,257</u>	<u>27,343,714</u>

**3 Administration and other services**

	£000	2001-2002 £000
<b>The expenses of the authorities were</b>		
Non-executive members' remuneration	<b>1,445</b>	4,265
Other staff costs	<b>161,441</b>	497,716
Pension costs pre 1995 early retirements	<b>32,972</b>	0
Premises and fixed plant	<b>46,643</b>	113,077
Establishment costs	<b>24,169</b>	77,634
Recharges from NHS Trusts	<b>0</b>	57,290
Training costs	<b>2,659,343</b>	1,115,875
Clinical negligence	<b>0</b>	94,928
Agency services	<b>19,429</b>	59,555
Transport and moveable plant	<b>739</b>	4,884
Capital: Depreciation	<b>1,873</b>	14,418
Impairments	<b>1,217</b>	3,733
Capital charge interest	<b>914</b>	(54,388)
(Profit)/loss on disposal of fixed assets	<b>(91)</b>	147
	<b>3,913</b>	(36,090)
Auditors' remuneration - Audit fee <sup>1</sup>	<b>2,670</b>	10,577
Auditors' remuneration - other fees	<b>329</b>	1,689
Interest payable	<b>24</b>	16
Unwinding of discount on provisions	<b>1,043</b>	8,595
Primary care trust preparatory costs	<b>0</b>	19,713
Primary care group non healthcare costs	<b>0</b>	170,529
Supplies and services - clinical	<b>1,309</b>	20,171
Supplies and services - general	<b>3,155</b>	6,718
Student Grants Unit	<b>332,770</b>	0
Miscellaneous	<b>72,669</b>	373,089
	<b>3,364,063</b>	2,600,231

1 The audit fee represents the cost for the audit of the underlying financial statements 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 (2001-2002: £nil). No compensation was paid to cover debt recovery costs under this legislation (2001-2002: £nil).

	£000	2001-2002 £000
<b>Hire and operating rentals included in expenses</b>		
Hire of plant and machinery	<b>303</b>	1,447
Other operating leases	<b>6,698</b>	22,326
	<b>7,001</b>	23,773

**Administration and other services (continued)**

	<b>£000</b>	2001-2002 £000
<b>Executive members and staff costs</b>		
Salaries and wages	<b>130,155</b>	497,716
Social security costs	<b>10,782</b>	39,430
Employer contributions to NHS Pensions Agency	<b>9,912</b>	30,766
Other pension costs	<b>1,904</b>	3,642
Agency staff	<b>8,688</b>	25,778
	<b>161,441</b>	597,332

The average number of employees (excluding agency staff) during the year was 3,839 – 2,938 administration and 901 programme (2001-2002: 21,645).

**Retirements due to ill-health**

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

**4 Miscellaneous income**

	<b>£000</b>	Restated 2001-2002 £000
Fees and charges	<b>3,450</b>	65,757
Prescription charge income	<b>37,874</b>	77,161
Commissioning on behalf of PCTs	<b>0</b>	1,484,999
Other	<b>135,093</b>	378,132
	<b>176,417</b>	2,006,049

## 5 Fixed assets

### 5.1 Intangible fixed assets

	<b>Total</b>	Software	Development
	<b>£000</b>	licences	expenditure
		£000	£000
Gross cost at 31 March 2002	<b>1,854</b>	1,665	189
Transfers to PCTs at 1 April 2002	<b>(1,188)</b>	(1,031)	(157)
Additions - purchased	<b>43</b>	43	0
In-year transfers to NHS bodies	<b>(32)</b>	0	(32)
Disposals	<b>(575)</b>	(575)	0
<b>Gross cost at 31 March 2003</b>	<b>102</b>	102	0
Accumulated amortisation at 31 March 2002	<b>946</b>	883	63
Transfers to PCTs at 1 April 2002	<b>(378)</b>	(315)	(63)
Provided during the year	<b>2</b>	2	0
Disposals	<b>(509)</b>	(509)	0
<b>Accumulated amortisation at 31 March 2003</b>	<b>61</b>	61	0
Net book value			
Purchased at 31 March 2002	<b>908</b>	782	126
<b>Purchased at 31 March 2003</b>	<b>41</b>	41	0

### 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
Cost or valuation 31 March 2002	<b>529,906</b>	245,526	220,532	1,212	15	2,642	422	50,288	9,269
Transfers to PCTs and ret estate at 1 April 2002	<b>(338,071)</b>	(170,882)	(139,633)	(1,085)	(14)	(1,768)	(265)	(16,366)	(8,058)
Additions - purchased	<b>4,220</b>	0	587	0	6	26	0	2,424	1,177
Transfers to NHS bodies in year	<b>(33,434)</b>	(13,161)	(19,566)	0	0	(339)	0	(368)	0
Indexation	<b>19,386</b>	11,701	7,638	18	0	20	5	0	4
Other in-year revaluation	<b>1,304</b>	1,100	204	0	0	0	0	0	0
Disposals	<b>(74,415)</b>	(16,447)	(27,943)	(39)	(1)	(89)	(10)	(28,848)	(1,038)
<b>Gross cost at 31 March 2003</b>	<b>108,896</b>	57,837	41,819	106	6	492	152	7,130	1,354
Accumulated depreciation at 31 March 2002	<b>47,988</b>	0	0	0	0	960	303	40,786	5,939
Transfers to PCTs & Ret Estate at 1 April 2002	<b>(17,031)</b>	0	0	0	0	(397)	(155)	(11,456)	(5,023)
Provided during the year	<b>1,871</b>	0	1,354	4	0	62	0	428	23
Impairments	<b>1,217</b>	0	1,061	0	0	0	0	0	156
Transfers to NHS bodies in year	<b>(271)</b>	0	(22)	0	0	(168)	0	(81)	0
Indexation	<b>37</b>	0	18	0	0	10	5	0	4
Disposals	<b>(27,520)</b>	0	(1,118)	0	0	(38)	(1)	(25,424)	(939)
<b>Accumulated depreciation at 31 March 2003</b>	<b>6,291</b>	0	1,293	4	0	429	152	4,253	160
<b>Net book value</b>									
Purchased at 31 March 2002	<b>481,844</b>	245,526	220,528	1,212	15	1,612	119	9,502	3,330
Donated at 31 March 2002	<b>74</b>	0	4	0	0	70	0	0	0
Total at 31 March 2002	<b>481,918</b>	245,526	220,532	1,212	15	1,682	119	9,502	3,330
<b>Purchased at 31 March 2003</b>	<b>102,605</b>	57,837	40,526	102	6	63	0	2,877	1,194



The net book value of land and buildings at 31 March 2003 comprised

	<b>£000</b>
Freehold	<b>93,710</b>
Long leasehold	<b>4,417</b>
Short leasehold	<b>338</b>
	<b><u>98,465</u></b>

Included in the amounts above are the following net book values relating to leased assets and assets acquired under hire purchase agreements

	<b>£000</b>	2001-2002 £000
Land	<b>0</b>	40
Buildings, installations and fittings	<b>0</b>	3,941
Equipment	<b>0</b>	5
	<b><u>0</u></b>	<u>3,986</u>

The total amount of depreciation charged to the operating cost statement in respect of assets held under finance leases and hire purchase contracts was £nil. (2001-2002: £224,000).

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

	<b>£000</b>	Restated 31 March 2002 £000
NHS debtors	<b>203,070</b>	892,875
Prepayments	<b>17,872</b>	74,393
Accrued income	<b>906</b>	8,122
Provision for irrecoverable debts	<b>(527)</b>	(2,779)
Capital debtors	<b>173</b>	610
Pension prepayments - in respect of staff and former directors	<b>3</b>	26,715
Other debtors	<b>41,859</b>	115,822
	<b><u>263,356</u></b>	<u>1,115,758</u>

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

	<b>£000</b>	Restated 31 March 2002 £000
Bank overdrafts	<b>92</b>	2,100
NHS creditors	<b>130,633</b>	761,667
FHS creditors (contractors)	<b>200</b>	673,578
GPFH savings	<b>548</b>	25,323
Non-NHS trade creditors	<b>37,254</b>	341,153
Payments received on account	<b>611</b>	14,921
Income tax and social security	<b>2,243</b>	9,370
Capital creditors	<b>313</b>	566
Rentals due under operating leases	<b>23</b>	654
Obligations under finance leases and contracts (Note 10)	<b>0</b>	149
Pensions - relating to former directors	<b>36</b>	197
- relating to other staff	<b>4,037</b>	13,671
Other creditors	<b>40,698</b>	207,116
	<b><u>216,688</u></b>	<u>2,050,465</u>

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

		31 March 2002 £000
NHS creditors	<b>0</b>	11,398
Obligations under finance leases and hire purchase contracts (Note 10)	<b>0</b>	2,780
Pensions relating to former directors	<b>0</b>	341
Pensions relating to other staff	<b>1,973</b>	10,353
Other	<b>0</b>	1,634
	<b>1,973</b>	<b>26,506</b>

**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	Restated Other £000	<b>Total £000</b>
At 31 March 2002	15,483	178,060	43,300	41,520	90,216	368,579
Transfers to PCTs at 1 April 2002	(13,069)	(157,394)	(42,791)	(29,699)	(86,172)	<b>(329,125)</b>
Arising during the year (pre 1995 ER)	0	29,593	0	0	792	<b>30,385</b>
Arising during the year (other)	3,426	12,694	195	5,482	3,314	<b>25,111</b>
Utilised during the year	(1,316)	(5,796)	(36)	(5,944)	(2,036)	<b>(15,128)</b>
Reversal unused	(51)	(1,997)	(138)	(1,537)	(961)	<b>(4,684)</b>
Transfers to PCTs in year	(14)	(11,705)	(281)	(351)	(1,306)	<b>(13,657)</b>
Unwinding of discount	3	988	10	42	0	<b>1,043</b>
At 31 March 2003	<u>4,462</u>	<u>44,443</u>	<u>259</u>	<u>9,513</u>	<u>3,847</u>	<b><u>62,524</u></b>

*Expected timing of cashflows*

Within one year	1,089	16,735	94	5,428	1,937	<b>25,283</b>
Within one to five years	1,694	11,494	0	2,858	1,910	<b>17,956</b>
Over five years	1,679	16,214	165	1,227	0	<b>19,285</b>

£575,420,000 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**

	£000	2001-2002 £000
<b>Amounts payable</b>		
Within one year	0	149
Between one and five years	0	576
After five years	0	2,204
	<u>0</u>	<u>2,929</u>
Less: finance charges allocated to future periods	0	0
	<u>0</u>	<u>2,929</u>

This total net obligation under finance leases can be analysed as follows

Creditors: amounts falling due within one year	0	149
amounts falling due after more than one year	0	2,780
	<u>0</u>	<u>2,929</u>

**11 Operating lease commitments**

	£000	£000
<b>Land and buildings</b>		
Commitments under non-cancellable operating leases which expire		
Within one year	23	1,244
Between one and five years	2,951	6,983
After five years	12,235	47,783
	<u>15,209</u>	<u>56,010</u>

**Other leases**

Commitments under non-cancellable operating leases which expire		
Within one year	130	1,167
Between one and five years	818	3,074
After five years	0	75
	<u>948</u>	<u>4,316</u>

**12 Donated asset reserve**

	£000
At 31 March 2002	1,044
Transfers to PCTs on 1 April 2002	<u>(1,044)</u>
<b>At 31 March 2003</b>	<u>0</u>

**13 Revaluation reserve**

	£000
At 31 March 2002	162,236
Revaluations and indexation	20,653
Transfers to General Fund - realised elements	(3,938)
Transfers to General Fund - re transfers to PCTs	<u>(160,598)</u>
<b>At 31 March 2003</b>	<u>18,353</u>

**14 General fund**

	<b>£000</b>
At 31 March 2002 (restated)	(946,980)
Net operating cost for the year	<b>(4,650,903)</b>
Net Parliamentary funding	<b>4,544,480</b>
Transfer to NHS bodies	<b>958,573</b>
Transfers from Revaluation Reserve	<b>164,536</b>
Capital charges interest	<b>914</b>
<b>At 31 March 2003</b>	<b><u>70,620</u></b>

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

	<b>£000</b>	Restated 2001-2002 £000
Decrease in debtors	<b>851,965</b>	359,115
(Decrease) in creditors	<b>(1,858,057)</b>	(510,096)
Transfer of debtors/creditors to NHS bodies	<b>991,322</b>	278,270
	<b><u>(14,770)</u></b>	<b><u>127,289</u></b>

**16 Analysis of changes in net debt**

	Restated as at 31 March 2002 £000	Transfers to PCTs at 1 April 2002 £000	Cash flows £000	<b>As at 31 March 2003 £000</b>
Cash at OPG	23,158	7,052	(26,707)	<b>3,503</b>
Cash at commercial bank and in hand	40,108	(29,436)	(10,019)	<b>653</b>
Bank overdraft	(2,100)	2,074	(66)	<b>(92)</b>
		<u>(20,310)</u>	<u>(36,792)</u>	
Debt due within one year	(149)	149	0	<b>0</b>
Debt due after one year	(2,780)	2,780	0	<b>0</b>
	<u>58,237</u>	<u>(17,381)</u>	<u>(36,792)</u>	<b><u>4,064</u></b>

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

	Notes	<b>£000</b>	Restated 2001-2002 £000
<b>Net operating cost</b>		<b>4,650,903</b>	27,701,117
Adjustment for non-cash transactions	3, 9	<b>(55,768)</b>	54,835
Adjustment for movements in working capital other than cash	15	<b>14,770</b>	(127,289)
Adjust for movement in provisions	9	<b>15,128</b>	210,681
Transfer from donated asset reserve	12	<b>0</b>	378
<b>Net cash outflow from operating activities</b>		<b><u>4,625,033</u></b>	<b><u>27,839,722</u></b>

**18 Contingent liabilities**

	<b>£000</b>	Restated 31 March 2002 £000
<b>Authorities reported contingent liabilities as follows</b>		
Contingent liabilities	<b>(570)</b>	(2,629)
Amounts recoverable	<b>0</b>	1,801
	<b><u>(570)</u></b>	<u>(828)</u>

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

**19 Capital commitments****Strategic health authorities had the following capital commitments as at 31 March 2003**

	<b>£000</b>	31 March 2002 £000
Contracted	<b>0</b>	1,090
Authorised but not contracted	<b>300</b>	2,741
	<b><u>300</u></b>	<u>3,831</u>

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

There were 376 cases of losses and special payments (2001-2002: 1,073 cases) totalling £907,000 (2001-2002: (£1,974,000)) approved during 2002-2003. There were no clinical negligence cases where the net payment exceeded £1,000,000 (2001-2002: one case totalling £2,960,000). There were no fraud cases where the net payment exceeded £100,000 (2001-2002: 0 cases). There were two personal injury cases where the payment exceeded £100,000 totalling £523,000 (2001-2002: three cases totalling £628,000). There were no compensation under legal obligation cases where the payment exceeded £100,000 (2001-2002: 0 cases). There were no fruitless payment cases where the payment exceeded £100,000 (2001-2002: one case totalling £247,000).

**21 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.

Strategic Health Authorities also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the Strategic Health Authority Boards.

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

## 22 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 Strategic Health Authorities are financed, they are 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. Strategic Health Authorities have no 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 Strategic Health Authorities in undertaking their activities. As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### Liquidity risk

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

### Interest-rate risk

All Strategic Health Authorities' financial assets and financial liabilities carry nil or fixed rates of interest. Strategic Health Authorities are not, therefore, exposed to 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.

### Financial assets

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
<b>At 31 March 2003</b>				
Sterling	<u>4,156</u>	<u>251</u>	<u>1,248</u>	<u>2,657</u>
Gross financial assets	<u>4,156</u>	<u>251</u>	<u>1,248</u>	<u>2,657</u>
At 31 March 2002				
Sterling	<u>63,266</u>	<u>15,320</u>	<u>2,233</u>	<u>45,713</u>
Gross financial assets	<u>63,266</u>	<u>15,320</u>	<u>2,233</u>	<u>45,713</u>

### Financial liabilities

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
<b>At 31 March 2003</b>				
Sterling	<u>64,497</u>	<u>0</u>	<u>0</u>	<u>64,497</u>
Gross financial liabilities	<u>64,497</u>	<u>0</u>	<u>0</u>	<u>64,497</u>
At 31 March 2002				
Sterling	<u>395,085</u>	<u>0</u>	<u>0</u>	<u>395,085</u>
Gross financial liabilities	<u>395,085</u>	<u>0</u>	<u>0</u>	<u>395,085</u>

The summarisation procedures are unable to provide reasonable weighted average interest rate disclosures, so these have been excluded.

**Fair values**

A comparison, by category, of book values and fair values of the Authorities' financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b> <b>£000</b>	<b>Fair value</b> <b>£000</b>	
<b>Financial assets</b>			
Cash	4,156	4,156	a
Debtors over one year	<u>0</u>	<u>0</u>	
<b>Total</b>	<b><u>4,156</u></b>	<b><u>4,156</u></b>	
<b>Financial liabilities</b>			
Overdraft	(92)	(92)	a
Creditors over one year	(1,973)	(1,973)	b
Provisions under contract	<u>(62,524)</u>	<u>(62,524)</u>	c
<b>Total</b>	<b><u>(64,589)</u></b>	<b><u>(64,589)</u></b>	

- a For cash and overdraft, fair value is book value;
- b Fair value is not significantly different from book value; and
- c Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

# 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 accounts 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 the 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; 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 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 2002-2003

This statement is given in respect of the Summarised Account of Primary Care Trusts (PCTs) and includes the Pharmaceutical Services Account of the Prescription Pricing Authority (PPA) and the Dental Services Account of the Dental Practice Board (DPB). The PPA and DPB act as agents for PCTs making payments on their behalf and therefore form part of this account.

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that Primary Care Trusts (PCTs), the DPB and PPA 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.

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, the PPA and DPB had these processes in place during the financial year 2002-2003 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

To help me fulfil this responsibility, I appointed the Chief Executive of each of the 304 PCTs and the DPB and PPA 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, DPB and PPA system of internal control from

- Statements on Internal Control (SICs) signed by Accountable Officers in support of the accounts for each PCT, the DPB and the PPA.

I have gained further assurance from reports from Strategic Health Authority (SHA) Chief Executives that identify whether the PCTs SICs are consistent with:

- the external audit opinion;
- the core controls assurance reports;
- evidence from the SHA performance management reviews; and
- the head of internal audit opinion on the assurance framework.

For the DPB and PPA, relevant staff within my Department provided assurances gained from their reviews and monitoring arrangements.

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. The SICs identified whether PCTs have embedded Assurance Frameworks to provide structured evidence in support of their statements about the effectiveness of their system of internal control, or if these are still being developed.

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;
- external reviewers including the Commission for Health Improvement and external audit; and
- Audit Committees, Risk Management Committees, Governance Committees and other Board Committees.

## Developments during 2002-2003

During 2002-2003 the Department issued further practical guidance to assist PCTs (and the DPB and PPA) with the development of Assurance Frameworks which provide structured evidence to support the SIC. They provide the link between the organisation's principal objectives, the main risks to achieving them and the key controls in place to manage these risks. The emphasis of the guidance was placed on Board involvement with regular reporting of significant gaps in key controls and assurance arrangements, actions to address deficiencies and plans for continuous improvement.

The main benefits of the Assurance Frameworks will accrue during 2003-2004. For 2002-2003, the SICs are underpinned by a requirement for NHS bodies to comply with the three core control assurance standards. These provide a framework for organisations to assess themselves against criteria for ensuring they have sound governance, risk management and financial management arrangements to support their system of internal control. The criteria include accountability, processes, capability, monitoring and review, audit and outcomes. Treasury agreed that compliance with the three core standards would be sufficient as an interim measure to support the Statement on Internal Control. Organisations are expected to apply these criteria when making assessments of the controls to manage the principal risks to achieving their principal objectives.

## Summary of the PCT Statements on Internal Control

### Primary Care Trusts

	2001-2002	2002-2003
Provided full statements	5	0
Provided partial statements	153	301
Provided statements for organisations that were subject to dissolution on 31 March 2003	6	3
<b>Total</b>	<b>164</b>	<b>304</b>

The DPB provided a full statement in respect of the General Dental Services Account. The PPA provided a partial statement in respect of the Pharmaceutical Services Account.

A Strategic Health Authority Chief Executive drew attention to the fact that one Primary Care Trust had initially provided a full statement, but following discussions and review by the Strategic Health Authority this had been amended to a partial statement.

'Full statements' are defined as those where the PCT/PPA/DPB Accountable Officer was satisfied that an effective system of internal control has been in place throughout the full financial year and is ongoing. This is demonstrated by the Board's assurance framework and evidence of compliance with the requirements of the core controls assurance standards. Where this was not the position, the SIC was classified as 'partial'.

PCTs all confirmed that they will have Assurance Frameworks fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control. The reduction in the small number of PCTs providing full statements from five in 2001-2002 to none in 2002-2003 reflects the improved understanding of the requirements of the statements rather than deterioration in internal control. Almost half of the PCTs were not established until 1 April 2002.

PCTs identified an additional 1185 actions that they plan to implement during 2003-2004 to further strengthen their risk management, governance and system of internal control. These are set out in the table below with details from the SIC for the Summarised Accounts for PCTs for 2001-2002 included for comparison. The analysis is further sub divided into PCTs that were established before 1 April 2002 and those established in 2002-2003.

The table shows that, overall, PCTs identified slightly more actions per organisation than in 2001-2002. PCTs created on 1 April 2002 identified around 30% more actions per organisation than those established longer. Analysis of the actions is subject to judgement about the number which are significant and it is therefore important to focus on the proportion of comments under the headings as well as the absolute numbers. This shows that risk management remains consistently by far the most important area for PCTs to address.

## Analysis of actions planned by PCTs during 2003-2004

Action area	Key issues	No of actions PCTs formed prior to 1 April 2002	%	No of actions PCTs formed after 31 March 2002	%	No of actions All PCTs 2002-2003 SICs	%	No of actions PCTs 2001-2002 SICs	%
Risk	Risk training Risk register development Risk management policies and strategies	<b>Total 218</b>	<b>41.6</b>	<b>297</b>	<b>44.9</b>	<b>515</b>	<b>43.4</b>	<b>270</b>	<b>44.5</b>
Performance management/ Benchmarking	Benchmarking Develop performance indicators including risk	<b>Total 58</b>	<b>11.0</b>	<b>73</b>	<b>11.1</b>	<b>131</b>	<b>11.0</b>	<b>100</b>	<b>16.5</b>
Broad based assurance policy	Including action plans for controls assurance, Commission for Health Improvement reviews, clinical governance and audit.	<b>Total 71</b>	<b>13.5</b>	<b>65</b>	<b>9.8</b>	<b>136</b>	<b>11.5</b>	<b>46</b>	<b>7.6</b>
General policy	Strategies and procedures, human resources, estates, incident reporting, clinical, complaints, public involvement, shared services	<b>Total 29</b>	<b>5.5</b>	<b>41</b>	<b>6.2</b>	<b>70</b>	<b>5.9</b>	<b>44</b>	<b>7.3</b>
Financial control	Long term, strategy, training and reporting	<b>Total 17</b>	<b>3.2</b>	<b>16</b>	<b>2.4</b>	<b>33</b>	<b>2.8</b>	<b>37</b>	<b>6.1</b>
Training	Review general training and development needs Increase stakeholder participation, staff boards, contractors, public patient	<b>Total 21</b>	<b>4.0</b>	<b>24</b>	<b>3.6</b>	<b>45</b>	<b>3.8</b>	<b>28</b>	<b>4.6</b>
Review and monitoring	Including risks, performance management, management structures	<b>Total 27</b>	<b>5.2</b>	<b>43</b>	<b>6.5</b>	<b>70</b>	<b>5.9</b>	<b>27</b>	<b>4.5</b>
Board reporting	Controls assurance, clinical governance, financial management and risk management	<b>Total 38</b>	<b>7.3</b>	<b>45</b>	<b>6.8</b>	<b>83</b>	<b>7.0</b>	<b>19</b>	<b>3.1</b>
Communication	Information communication and dissemination covering risk management, internal control, performance reporting, standing financial instructions	<b>Total 12</b>	<b>2.4</b>	<b>17</b>	<b>2.6</b>	<b>29</b>	<b>2.4</b>	<b>18</b>	<b>3.0</b>
Accountability	Review and clarify accountability arrangements	<b>Total 24</b>	<b>4.6</b>	<b>30</b>	<b>4.5</b>	<b>54</b>	<b>4.6</b>	<b>13</b>	<b>2.1</b>



Action area	Key issues	No of actions PCTs formed prior to 1 April 2002	%	No of actions PCTs formed after 31 March 2002	%	No of actions All PCTs 2002-2003 SICs	%	No of actions PCTs 2001-2002 SICs	%
Successor body risks	Various	<b>Total 2</b>	<b>0.4</b>	<b>1</b>	<b>0.2</b>	<b>3</b>	<b>0.3</b>	<b>4</b>	<b>0.7</b>
Other	Various	<b>Total 7</b>	<b>1.3</b>	<b>9</b>	<b>1.4</b>	<b>16</b>	<b>1.4</b>		
		<b>Total 524</b>	<b>100</b>	<b>661</b>	<b>100</b>	<b>1185</b>	<b>100</b>	<b>606</b>	<b>100</b>

Actions being taken to ensure PCTs have effective systems of internal control

### 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 monitor and review the implementation of Assurance Frameworks by PCTs to provide the structured evidence to support statements for 2003-2004. During 2002-2003 I issued practical guidance to PCTs Boards to assist with the development and implementation of these frameworks and this has been supplemented by training for Strategic Health Authorities to assist with this responsibility. Strategic Health Authorities will keep me informed of progress so that I may determine if central action is required.

### Risk management and governance training, guidance and monitoring

Over the past six years, there has been a comprehensive risk-training programme for boards, risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Conclusion

The process of embedding Assurance Frameworks will continue into the financial year 2003-2004, but once in place will provide a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. Although PCTs were not in a position to provide full statements on internal control for the whole of the year ended 31 March 2003, they were able to demonstrate that considerable progress has been made towards meeting the requirements. PCTs did not have all procedures in place by 31 March 2003 and therefore will not have full systems of internal control in place for the whole of the 2003-2004 financial year. Strategic Health Authorities will performance manage PCTs to ensure all processes are in place by 31 March 2004.

Sir Nigel Crisp

27 November 2003

## 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 B10 to B31 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 B13 to B18.

### 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 B7 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 2003 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	Restated 2001-2002 £000
Programme costs	2.1	<b>50,005,274</b>	19,629,361
Operating income	4	<b>(2,278,094)</b>	(1,417,032)
<b>Net operating cost</b>		<b><u>47,727,180</u></b>	<b><u>18,212,329</u></b>
Exceptional (gain) on write out of clinical negligence provision		<b>0</b>	(10,534)
Exceptional loss on write out of clinical negligence debtors		<b>0</b>	8,717
<b>Net operating cost for the financial year</b>		<b><u>47,727,180</u></b>	<b><u>18,210,512</u></b>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation and revaluation of fixed assets	12.2-12.4	<b>551,296</b>	63,300
Increase in the donated asset reserve and government grant reserve due to receipt of donated/government granted assets	12.3, 12.4	<b>21,393</b>	9,689
(Reduction) in the donated asset reserve and government grant reserve due to depreciation and impairment of donated assets	12.3, 12.4	<b>(3,924)</b>	(2,133)
(Decrease) in the general fund due to the transfer of liabilities from NHS bodies and the Department of Health	12.1	<b>(31,860)</b>	(210,099)
Increase in the donated asset reserve and government grant reserve due to transfer of assets from NHS bodies	12.3, 12.4	<b>30,611</b>	0
Fixed asset impairment losses	12.2	<b>(5,818)</b>	(7,714)
(Reduction)/additions to other reserves	12.2-12.5	<b>(5,071)</b>	5,231
Prior period adjustment (early retirements)	12.1	<b>(246,160)</b>	0
<b>Recognised gains and (losses) for the financial year</b>		<b><u>310,467</u></b>	<b><u>(141,726)</u></b>

The notes at pages B13 to B31 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>2,819</b>	954
Tangible assets	5.2	<b>3,962,039</b>	1,388,970
		<b>3,964,858</b>	1,389,924
<b>Current assets</b>			
Stocks	6	<b>15,495</b>	6,594
Debtors	7	<b>1,698,254</b>	527,565
Cash at bank and in hand	8	<b>38,130</b>	31,288
		<b>1,751,879</b>	565,447
<b>Creditors: amounts falling due within one year</b>	9.1	<b>(3,719,593)</b>	(1,542,884)
<b>Net current assets/liabilities</b>		<b>(1,967,714)</b>	(977,437)
<b>Total assets less current liabilities</b>		<b>1,997,144</b>	412,487
Creditors: amounts falling due after more than one year	9.2	<b>(84,250)</b>	(8,049)
Provisions for liabilities and charges	10	<b>(936,635)</b>	(261,406)
		<b>976,259</b>	143,032
<b>Taxpayers' equity</b>			
General Fund	12.1	<b>275,718</b>	24,509
Revaluation reserve	12.2	<b>609,505</b>	85,632
Donated asset reserve	12.3	<b>83,132</b>	30,592
Government grant reserve	12.4	<b>6,926</b>	1,320
Other reserves	12.5	<b>978</b>	979
		<b>976,259</b>	143,032

*The notes at pages B13 to B31 form part of this account*

*Nigel Crisp*  
Accounting Officer

24 March 2004

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	Restated 2001-2002 £000
<b>Net cash outflow from operating activities</b>	13	<b>47,185,005</b>	17,861,566
<b>Servicing of finance</b>			
Interest paid		<b>3,169</b>	35
Interest element of finance leases		<b>1,510</b>	233
<b>Net cash outflow from servicing of finance</b>		<b>4,679</b>	268
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		<b>2,058</b>	268
Payments to acquire tangible fixed assets		<b>778,202</b>	486,633
(Receipts) from disposal of intangible fixed assets		<b>(47)</b>	0
(Receipts) from disposal of tangible fixed assets		<b>(40,031)</b>	(2,994)
<b>Net cash outflow from investing activities</b>		<b>740,182</b>	483,907
<b>Net cash outflow before financing</b>		<b>47,929,866</b>	18,345,741
<b>Financing</b>			
Net Parliamentary funding		<b>47,937,967</b>	18,383,036
Capital grants received		<b>3,944</b>	825
Capital element of finance leases		<b>(236)</b>	(82)
Other capital receipts surrendered		<b>(1,577)</b>	(283)
Cash transfers (to) other NHS bodies		<b>(2,510)</b>	(14,464)
<b>(Increase) in cash in the period</b>	8	<b>(7,722)</b>	(23,291)

The notes at pages B13 to B31 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 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 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 depreciated over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

#### *b Valuation*

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

#### **Land and buildings**

Land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office and included in the Manual for Accounts. Valuations are carried out by the District Valuers of the 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, amortisation and impairments*

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
<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

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.

#### *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 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 Pensions 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.

The Scheme is subject to a full valuation every four years (previously every five years). The last valuation took place as at 31 March 1999. 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 (31 March 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £223,104,000 (£80,726,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 the 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 an employee's 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. The member's employer meets these liabilities.

Up to 31 March 2002, the additional liabilities arising from early retirements not funded by the scheme, which took place prior to 6 March 1995, were recharged to the PCT and included within operating expenses as they arose. For post 5 March 1995 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.

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment.

The total charge to the General Fund was £246,160,000.

### **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 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 6% in real terms.

### **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. As the NHSLA had a constructive obligation for these liabilities in 2001-2002, the transfer was recognised by the Primary Care Trusts as an exceptional gain in the OCS at 31 March 2002. The write back of related reimbursements was shown as an exceptional loss. 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.

### **1.16 Transfer of functions from Health Authorities**

During 2002-2003 the Government transferred functions from Health Authorities to Primary Care Trusts so that they are administered closer to the service level with patients.

Certain staff and assets relating to the delivery of these functions were also transferred to the Primary Care Trust. The results and cash flows related to the transferred services have been brought into account from the date of their transfer.

### **1.17 New Primary Care Trusts**

At 1 April 2002, 17 PCTs of the existing 164 PCTs were involved in reconfigurations and a number of new PCTs were established. These involved mergers with other PCTs, NHS trusts and primary care groups to form new primary care trusts. One PCT Care Trust was established on 1 April 2002 and a second one on 1 October 2002. In some cases the closing balances of the former PCTs on 31 March 2002 were different from the opening balances of the new PCTs on 1 April 2002. The opening balances as at 31 March 2002 in this account reflect the totals of closing balances of all PCTs as at 31 March 2002 with adjustments to include the effect of PCT dissolutions and asset transfers as at 1 April 2002. The net result is 304 PCTs (including two Care Trusts) established as at 31 March 2003.

### **1.18 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. These two accounts were previously included within the health authority summarised account, however, with most health commissioning being performed by PCTs in 2002-2003, these accounts have now been included within the PCT summarised account. The figures for 2001-2002 have been restated to include the accounting entries for these two accounts.

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

*PFI Schemes deemed to be off balance sheet*

In this financial year, nine PCTs reported off balance sheet PFI schemes over £1 million. The estimated capital value of schemes individually over £1 million is £55.7 million. The amount included within operating expenses for these schemes is £4.6 million.

*PFI schemes deemed to be on balance sheet*

In this financial year, one PCT reported an on balance sheet PFI scheme. The value of assets brought on balance sheet in respect of this scheme is £2.6 million and the amount included within operating expenses is £248,000.

### **1.20 Third party assets**

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the PCT has no beneficial interest in them. Details of third party assets are given in Note 21 to the accounts.

### **1.21 Consolidation adjustment**

An adjustment has been made to exclude inter PCT balances. This has eliminated £1,032,576,000 NHS debtors and creditors from 2002-2003 and £103,068,000 in 2001-2002.

**2.1 Programme costs**

	Notes	£000	Restated 2001-2002 £000
Goods and services from NHS bodies		<b>28,932,160</b>	11,167,618
Staff costs		<b>4,089,431</b>	1,389,386
Board members	2.2	<b>138,429</b>	54,853
Capital: Depreciation and amortisation	5.1, 5.2	<b>126,529</b>	42,648
Impairments	5.2	<b>20,152</b>	1,278
Capital charges interest		<b>65,813</b>	38,854
(Profit)/loss on disposal	5.6	<b>(2,671)</b>	222
		<b>209,823</b>	83,002
Premises and fixed plant		<b>350,880</b>	101,570
Establishment expenses		<b>324,089</b>	103,352
Transport and moveable plant		<b>31,256</b>	9,536
Supplies and services - clinical		<b>349,106</b>	147,624
Supplies and services - general		<b>166,545</b>	50,292
Prescribing costs		<b>6,344,901</b>	2,647,409
GMS infrastructure costs		<b>912,276</b>	432,475
GMS non-discretionary		<b>952,481</b>	0
PMS and PDS pilots		<b>912,384</b>	315,707
Non-GMS services from GPs		<b>66,913</b>	32,223
Pharmaceutical services		<b>865,077</b>	776,442
General dental services		<b>1,696,551</b>	1,622,398
General ophthalmic services		<b>150,480</b>	0
Expenditure on drugs action teams		<b>131,472</b>	0
Social care from independent providers		<b>304,037</b>	0
Purchase of healthcare from non-NHS bodies		<b>1,199,941</b>	409,936
Expenditure on NHS trust impairments		<b>168,516</b>	0
Interest payable		<b>1,928</b>	531
Other finance costs - unwinding of discount		<b>16,891</b>	0
Auditor's remuneration: Audit Fees <sup>1</sup>		<b>28,701</b>	11,663
Auditor's remuneration: Other Fees		<b>3,191</b>	1,513
Miscellaneous		<b>1,657,815</b>	271,831
		<b>50,005,274</b>	19,629,361

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

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

	£000	2001-2002 £000
Amounts included within interest payable arising from claims made under this legislation	<b>4</b>	0
Compensation paid to cover debt recovery costs under this legislation	<b>4</b>	0

**2.2 Board members' remuneration**

	£000	2001-2002 £000
PCT Board members' remuneration	<b>108,141</b>	39,129
Non-officer members' remuneration	<b>30,288</b>	15,724
<b>Total remuneration</b>	<b>138,429</b>	54,853

## 2.3 Staff costs

	£000	2001-2002 £000
<i>Executive members' remuneration and staff costs</i>		
Salaries and wages	<b>3,596,076</b>	1,248,270
Social security costs	<b>233,394</b>	86,605
Employer contributions to NHSPA	<b>223,104</b>	80,726
Other pension costs	<b>67,613</b>	890
Agency staff	<b>210,844</b>	53,699
	<b><u>4,331,031</u></b>	<u>1,470,190</u>

## 2.4 Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £1,179,000 (2001-2002: £111,000).

## 2.5 Retirements due to ill-health

During 2002-2003 there were 291 early retirements from PCTs 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 £17,377,000.

## 2.6 Average number of total staff

	Number	2001-2002 Number
Medical and dental	<b>4,948</b>	1,311
Administration and estates	<b>44,240</b>	13,051
Healthcare assistants and other support staff	<b>13,482</b>	4,919
Nursing, midwifery and health visiting staff	<b>70,627</b>	29,569
Nursing, midwifery and health visiting learners	<b>2,294</b>	899
Scientific, therapeutic and technical staff	<b>22,952</b>	7,624
Social care staff	<b>589</b>	0
Other	<b>3,086</b>	915
	<b><u>162,218</u></b>	<u>58,288</u>

## 3 Healthcare and related services commissioned

### 3.1 Primary healthcare commissioned by primary care trusts

	£000	Restated 2001-2002 £000
General medical services (discretionary)	<b>852,742</b>	417,658
General medical services (non-discretionary)	<b>952,481</b>	0
Prescribing	<b>6,344,901</b>	2,647,409
Pharmaceutical services	<b>864,377</b>	776,442*
General dental services	<b>1,696,551</b>	1,622,398*
General ophthalmic services	<b>150,480</b>	0
Department of Health initiative funding	<b>47,574</b>	11,205
Personal medical services (PMS) pilots	<b>1,148,183</b>	307,410
Personal dental services (PDS) pilots	<b>30,607</b>	8,297
Local pharmaceutical services (PMS) pilots	<b>700</b>	0
Non-GMS services from GPs	<b>66,913</b>	32,223
Other	<b>144,450</b>	67,215
<b>Total primary healthcare commissioned</b>	<b><u>12,299,959</u></b>	<u>5,890,257</u>

\* Responsibility for pharmaceutical services and general dental services have transferred from health authorities to primary care trusts during 2002-2003. These figures were included within the health authority summarised account in 2001-2002.

### 3.2 Secondary healthcare commissioned by PCTs

	£000	2001-2002 £000
Learning difficulties	1,429,482	437,451
Mental illness	4,568,383	1,315,874
Maternity	1,255,413	565,694
General and acute	20,074,838	7,946,196
Accident and emergency	1,068,844	355,533
Community Health Services	3,332,539	982,621
Other	1,433,535	326,144
<b>Total secondary healthcare commissioned</b>	<b>33,163,034</b>	<b>11,929,513</b>
Impairments and depreciation for Trusts	168,516	0
Revenue grants to fund capital projects - GMS	23,745	4,497
Revenue grants to fund capital projects - outside bodies	15,993	0
<b>Total Healthcare commissioned by primary care trusts</b>	<b>45,671,247</b>	<b>17,824,267</b>
Social Care from independent providers	198,878	0

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

	£000	2001-2002 £000
Learning difficulties	55	63,395
Mental illness	2,052	184,982
Maternity	0	49,954
General and acute	16	783,061
Accident and emergency	0	40,391
Community Health Services	5	65,680
Other	18	44,252
<b>Total secondary healthcare commissioned</b>	<b>2,146</b>	<b>1,231,715</b>

## 4 Operating income

Operating income analysed by activity, is as follows

	£000	Restated 2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	122,643	187,442
Prescription charge income	387,538	335,812
General dental services income	486,718	472,105
Income from Local Authorities	295,417	0
Income for NHS trust impairments	168,516	0
Other	817,262	421,673
<b>Total</b>	<b>2,278,094</b>	<b>1,417,032</b>

**5.1 Intangible fixed assets**

	Total £000	Software licences £000	Licences and trademarks £000	Development expenditure £000
Gross cost at 31 March 2002	1,813	1,813	0	0
Restated 1 April 2002 including dissolved trusts	<b>2,669</b>	2,483	140	46
Transfers from health authorities 1 April 2002	<b>810</b>	716	0	94
In year transfers from strategic health authorities	<b>32</b>	0	0	32
Additions - purchased	<b>1,241</b>	1,224	17	0
Disposals	<b>(79)</b>	(79)	0	0
<b>Gross cost at 31 March 2003</b>	<b>4,673</b>	4,344	157	172
Accumulated amortisation at 31 March 2002	859	859	0	0
Restated 1 April 2002 including dissolved trusts	994	933	61	0
Other revaluations	<b>(8)</b>	(8)	0	0
Provided during the year	<b>910</b>	819	9	82
Disposals	<b>(42)</b>	(42)	0	0
<b>Accumulated amortisation at 31 March 2003</b>	<b>1,854</b>	1,702	70	82
<i>Net book value</i>				
Purchased at 31 March 2002	<b>950</b>	950	0	0
Donated at 31 March 2002	<b>4</b>	4	0	0
Total at 31 March 2002	<b>954</b>	954	0	0
<i>Net book value</i>				
<b>Purchased at 31 March 2003</b>	<b>2,819</b>	2,642	87	90
<b>Donated at 31 March 2003</b>	<b>0</b>	0	0	0
<b>Total at 31 March 2003</b>	<b>2,819</b>	2,642	87	90



## 5.2 Tangible fixed assets

	<b>Total</b>	Land	Buildings exc dwellings	Dwellings	Assets under construction & poa £000	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2002	<b>1,481,238</b>	446,538	933,749	0	22,956	77,995	0	0	0
Transfers from NHS trusts	<b>1,216,374</b>	398,053	688,221	11,922	41,890	(1,057)	12,040	43,845	21,460
Transfers from health authorities	<b>182,425</b>	66,723	102,926	3,866	14	1,312	132	5,798	1,654
Indexation	<b>554,411</b>	230,138	308,884	2,474	8,467	2,856	395	0	1,197
Impairments	<b>(5,818)</b>	(1,166)	(4,643)	0	(9)	0	0	0	0
Other in year revaluations	<b>8,519</b>	7,242	1,388	387	(564)	30	0	19	17
Additions - purchased	<b>839,946</b>	172,263	517,315	1,215	93,561	28,286	2,140	13,438	11,728
Additions - donated/ government granted	<b>23,210</b>	1,455	15,191	0	2,720	3,509	180	24	131
Transfers	<b>0</b>	10,681	56,167	10	(69,897)	1,486	55	1,564	(66)
Disposals	<b>(57,535)</b>	(25,897)	(17,282)	(76)	(3,466)	(6,093)	(800)	(2,674)	(1,247)
<b>Gross cost at 31 March 2003</b>	<b><u>4,242,770</u></b>	<u>1,306,030</u>	<u>2,601,916</u>	<u>19,798</u>	<u>95,672</u>	<u>108,324</u>	<u>14,142</u>	<u>62,014</u>	<u>34,874</u>
Accumulated depreciation at 31 March 2002	<b>92,268</b>	0	51,653	0	0	40,615	0	0	0
Transfers from NHS trusts	<b>30,974</b>	5	(15,330)	127	0	4,518	8,607	22,581	10,466
Indexation	<b>9,799</b>	0	7,720	27	0	1,315	271	0	466
Impairments and reversals	<b>20,152</b>	1,337	18,810	0	0	1	0	4	0
Other in year revaluation	<b>39</b>	0	0	0	0	17	0	5	17
Provided during the year	<b>125,619</b>	19	101,664	612	0	9,159	1,175	9,316	3,674
Additions - purchased	<b>14,818</b>	0	5,060	39	0	5,156	729	1,409	2,425
Additions - donated/ government granted	<b>1,432</b>	0	232	0	0	1,093	17	13	77
Transfers	<b>0</b>	0	11	0	0	0	0	33	(44)
Disposals	<b>(14,370)</b>	0	(4,772)	0	0	(5,680)	(768)	(2,434)	(716)
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>280,731</u></b>	<u>1,361</u>	<u>165,048</u>	<u>805</u>	<u>0</u>	<u>56,194</u>	<u>10,031</u>	<u>30,927</u>	<u>16,365</u>
<i>Net book value</i>									
Purchased at 1 April 2002	<b>1,340,814</b>	441,941	843,417	0	22,339	33,117	0	0	0
Donated/government granted at 1 April 2002	<b>48,156</b>	4,597	38,679	0	617	4,263	0	0	0
Total at 1 April 2002	<b><u>1,388,970</u></b>	<u>446,538</u>	<u>882,096</u>	<u>0</u>	<u>22,956</u>	<u>37,380</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Net book value</i>									
<b>Purchased at 31 March 2003</b>	<b><u>3,867,288</u></b>	<u>1,292,472</u>	<u>2,365,320</u>	<u>18,881</u>	<u>92,437</u>	<u>45,388</u>	<u>3,830</u>	<u>31,022</u>	<u>17,938</u>
<b>Donated/government granted at 31 March 2003</b>	<b><u>94,751</u></b>	<u>12,197</u>	<u>71,548</u>	<u>112</u>	<u>3,235</u>	<u>6,742</u>	<u>281</u>	<u>65</u>	<u>571</u>
<b>Total at 31 March 2003</b>	<b><u>3,962,039</u></b>	<u>1,304,669</u>	<u>2,436,868</u>	<u>18,993</u>	<u>95,672</u>	<u>52,130</u>	<u>4,111</u>	<u>31,087</u>	<u>18,509</u>

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

<b>1,335</b>	<b>0</b>	<b>1,302</b>	<b>28</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>0</b>
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**5.3 Net book value of land, buildings and dwellings as at 31 March 2003 comprises**

	<b>£000</b>	2001-2002 £000
Freehold	<b>3,666,754</b>	1,293,269
Long leasehold	<b>90,191</b>	34,616
Short leasehold	<b>3,585</b>	749
	<b><u>3,760,530</u></b>	<u>1,328,634</u>

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

	<b>£000</b>	2001-2002 £000
Land	<b>797</b>	243
Buildings and dwellings	<b>24,809</b>	6,533
Other (furniture and fittings)	<b>27</b>	0
	<b><u>25,633</u></b>	<u>6,776</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £1,335,000 (2001-2002: £218,000).

**5.5 Summary of fixed assets**

	Purchased £000	Donated/ government granted £000	<b>Total £000</b>	Restated 31 March 2002 £000
<b>Net book value</b>				
Intangible fixed assets	2,819	0	<b>2,819</b>	954
Land	1,292,472	12,197	<b>1,304,669</b>	446,538
Buildings	2,365,320	71,548	<b>2,436,868</b>	882,096
Dwellings	18,881	112	<b>18,993</b>	0
Assets under construction	92,437	3,235	<b>95,672</b>	22,956
Plant and machinery	45,388	6,742	<b>52,130</b>	37,380
Transport equipment	3,830	281	<b>4,111</b>	0
Information technology	31,022	65	<b>31,087</b>	0
Furniture and fittings	17,938	571	<b>18,509</b>	0
	<b><u>3,870,107</u></b>	<u>94,751</u>	<b><u>3,964,858</u></b>	<u>1,389,924</u>

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

	<b>£000</b>	2001-2002 £000
Profit on disposal of land and buildings	<b>3,249</b>	37
(Loss) on disposal of land and buildings	<b>(204)</b>	(121)
Profit on disposal of plant and equipment	<b>20</b>	2
(Loss) on disposal of plant and equipment	<b>(394)</b>	(140)
	<b><u>2,671</u></b>	<u>(222)</u>

**6 Stocks and work in progress**

	<b>£000</b>	31 March 2002 £000
Raw materials and consumables	<b>10,791</b>	4,611
Work in progress	<b>0</b>	8
Finished processed goods	<b>4,704</b>	1,975
	<b>15,495</b>	6,594

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

	<b>£000</b>	Restated 31 March 2002 £000
NHS debtors	<b>1,035,184</b>	334,249
Provision for irrecoverable debts	<b>(10,293)</b>	(2,593)
Prepayments and accrued income	<b>193,903</b>	36,936
Capital debtors	<b>6,550</b>	0
Other debtors	<b>386,830</b>	152,517
	<b>1,612,174</b>	521,109

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

NHS debtors	<b>70,262</b>	2,335
Prepayments and accrued income	<b>11,215</b>	2,233
Provisions for irrecoverable debts	<b>(1)</b>	(4)
Capital debtors	<b>138</b>	0
Other debtors	<b>4,466</b>	1,892
	<b>86,080</b>	6,456
<b>Total debtors</b>	<b>1,698,254</b>	527,565

**8 Analysis of changes in debt**

	Restated at 31 March 2002 £000	Transfers from NHS bodies £000	Non-cash changes £000	Change during the year £000	<b>At 31 March 2003 £000</b>
Cash at OPG	12,988	(4,145)	0	21,064	<b>29,907</b>
Cash at commercial banks and in hand	18,300	1,728	0	(11,805)	<b>8,223</b>
Overdraft	(3,184)	(93)	0	(1,537)	<b>(4,814)</b>
	28,104	(2,510)	0	7,722	<b>33,316</b>
Finance leases due within one year	(183)	(424)	(379)	97	<b>(889)</b>
Finance leases due after one year	(4,722)	(5,108)	(4,756)	(81)	<b>(14,667)</b>
	23,199	(8,042)	(5,135)	7,738	<b>17,760</b>

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

	£000	Restated 31 March 2002 £000
Overdrafts	<b>4,814</b>	3,184
NHS creditors	<b>1,084,003</b>	512,392
FHS contractors	<b>1,095,814</b>	323,167
Non-NHS trade creditors - revenue	<b>634,768</b>	326,631
Non-NHS trade creditors - capital	<b>25,693</b>	8,273
Tax and social security	<b>39,438</b>	16,572
Payments received on account	<b>5,847</b>	1,277
Obligations under finance leases and HP contracts	<b>889</b>	183
Other creditors	<b>312,948</b>	159,864
Accruals and deferred income	<b>515,379</b>	191,341
	<b><u>3,719,593</u></b>	<u>1,542,884</u>

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

	£000	Restated 31 March 2002 £000
NHS creditors	<b>60,343</b>	1,762
Obligations under finance leases and HP contracts	<b>14,667</b>	4,722
Other creditors	<b>9,240</b>	1,565
	<b><u>84,250</u></b>	<u>8,049</u>

**9.3 Finance lease obligations**

	£000	31 March 2002 £000
<i>Leases payable</i>		
Within one year	<b>1,532</b>	446
Between one and five years	<b>8,564</b>	2,150
After five years	<b>65,645</b>	13,965
Finance charges allocated to future periods	<b>(60,185)</b>	(11,656)
	<b><u>15,556</u></b>	<u>4,905</u>

**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>
Restated 1 April 2002	6,211	242,399	3,968	1,350	7,478	261,406
Transfers from HAs 1 April 2002	8,606	142,148	38,500	52,032	78,344	<b>319,630</b>
Transfers from other NHS bodies	6,905	17,362	9,862	(28,586)	13,507	<b>19,050</b>
Arising during the year - other	2,488	41,387	96,877	17,033	259,708	<b>417,493</b>
Utilised during the year	(4,697)	(36,265)	(9,330)	(6,323)	(20,702)	<b>(77,317)</b>
Reversed unused	(1,166)	(12,477)	(4,905)	(3,045)	(6,088)	<b>(27,681)</b>
Unwinding of discount	529	14,098	605	222	1,437	<b>16,891</b>
In year transfers	170	6,501	8	(33)	517	<b>7,163</b>
<b>At 31 March 2003</b>	<u>19,046</u>	<u>415,153</u>	<u>135,585</u>	<u>32,650</u>	<u>334,201</u>	<u><b>936,635</b></u>

**Expected timing of cash flows**

Within one year	3,282	45,583	46,389	16,471	101,570	<b>213,295</b>
One to five years	8,437	165,749	57,886	11,587	157,970	<b>401,629</b>
Over five years	7,327	203,821	31,310	4,592	74,661	<b>321,711</b>

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of PCTs is £18,037,000.

£182,500,000 is included in provisions in respect of long-term care obligations (NHS Ombudsman Report).

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

	<b>£000</b>	Restated 2001-2002 £000
(Increase) in stocks	<b>(8,901)</b>	(3,454)
(Increase) in debtors	<b>(1,225,855)</b>	(212,602)
Increase in creditors and provisions	<b>2,712,412</b>	489,753
Transfer of balances from NHS bodies	<b>(1,071,744)</b>	0
	<u><b>405,912</b></u>	<u>273,697</u>

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

	<b>£000</b>
Balance at 31 March 2002 (restated)	270,669
Prior period adjustment	<b>(246,160)</b>
Restated balance at 1 April 2002 as restated after prior period adjustment	<b>24,509</b>
Net operating costs for the year	<b>(47,727,180)</b>
Net Parliamentary funding	<b>47,937,967</b>
Transfer of realised profits	<b>6,469</b>
Non-cash items: capital charge interest	<b>65,813</b>
Transfers from other NHS bodies	<b>(31,860)</b>
<b>Balance at 31 March 2003</b>	<u><b>275,718</b></u>

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

	<b>£000</b>
Balance at 31 March 2002	85,632
Impairments	<b>(5,818)</b>
Revaluation/indexation of fixed assets	<b>542,535</b>
Other movements	<b>(6,549)</b>
Transfer to General Fund: realised revaluation	<b>(6,295)</b>
<b>Balance at 31 March 2003</b>	<b><u>609,505</u></b>

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

	<b>£000</b>
Balance at 31 March 2002	30,592
Transfers from NHS bodies	<b>28,789</b>
Other revaluation/indexation of fixed assets	<b>8,344</b>
Receipt of donated assets	<b>18,842</b>
Depreciation of donated assets	<b>(3,636)</b>
Transfer of realised profits	<b>(172)</b>
Other movements	<b>373</b>
<b>As at 31 March 2003</b>	<b><u>83,132</u></b>

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

	<b>£000</b>
Balance at 31 March 2002	1,320
Transfer from other NHS bodies	<b>1,822</b>
Other revaluation/indexation of fixed assets	<b>417</b>
Transfer of realised profits	<b>(2)</b>
Receipt of Government granted assets	<b>2,551</b>
Depreciation of Government granted assets	<b>(288)</b>
Other movements	<b>1,106</b>
<b>As at 31 March 2003</b>	<b><u>6,926</u></b>

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

	<b>£000</b>
Balance at 31 March 2002	979
Other movements	<b>(1)</b>
<b>As at 31 March 2003</b>	<b><u>978</u></b>

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

	<b>£000</b>	Restated 2001-2002 £000
Net operating cost for the year	<b>47,727,180</b>	18,210,512
Adjust for non-cash transactions	2.1 <b>(209,823)</b>	(83,002)
Adjust for movements in working capital other than cash	11 <b>(405,912)</b>	(273,697)
Use of provisions	10 <b>77,317</b>	7,295
Adjust for write out of clinical negligence provisions	<b>0</b>	10,534
Adjust for write out of clinical negligence debtors	<b>0</b>	(8,717)
Transfer from donated asset reserve	<b>(3,471)</b>	(1,354)
Transfer from government grant reserve	<b>(286)</b>	(5)
<b>Net cash outflow from operating activities</b>	<b><u>47,185,005</u></b>	<u>17,861,566</u>

**14 Contingent liabilities**

At 31 March 2003, there were net contingent liabilities of £454,679,000 (2001-2002: £3,704,000).

The majority of these liabilities are for continuing care. As disclosed in note 10 PCTs have provided for continuing care obligations 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 2003 the value of contracted capital commitments was £110,128,000 (2001-2002: £15,233,000).

**16 Commitments under operating leases**

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

	<b>£000</b>	2001-2002 £000
Hire of plant and machinery	<b>5,020</b>	21,980
Other operating leases	<b>50,861</b>	13,414
	<b><u>55,881</u></b>	<u>35,394</u>

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

	2002-2003		2001-2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	<b>4,175</b>	<b>6,648</b>	753	1,931
Between one and five years	<b>37,173</b>	<b>5,399</b>	2,970	5,465
After five years	<b>21,145</b>	<b>83</b>	3,882	265
	<b><u>62,493</u></b>	<b><u>12,130</u></b>	<u>7,605</u>	<u>7,661</u>

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

There were 14,687 (2001-2002: 3,334) cases of losses and special payments totalling £22,648,000 (2001-2002: £6,903,000) approved during 2002-2003. There was one case of compensation of £137,000, one clinical negligence case of £417,000, one personal injury case of £108,000 and one abandoned claim of £192,000 which exceeded £100,000 (2001-2002: 0 cases).

## 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 Post balance sheet events

As at 31 March 2003, three PCTs merged to give two newly established PCTs on 1 April 2003.

## 20 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 Primary Care Trusts are financed, they are 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. Primary Care Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Primary Care Trusts in undertaking their activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### Liquidity risk

Primary Care Trusts' net operating costs are financed from resources voted annually by Parliament. Primary Care Trusts largely finance their capital expenditure from funds made available from Government under an agreed borrowing limit. Primary Care Trusts are not, therefore, exposed to significant liquidity risks.

### Interest-rate risk

All Primary Care Trusts' financial assets and financial liabilities carry nil or fixed rates of interest. Primary Care Trusts are not, therefore, exposed to interest-rate risk. The following tables show the interest rate profiles of the Primary Care Trusts' financial assets and liabilities

### Financial assets

Currency	<b>Total</b>	Floating rate	Fixed rate	Non-interest bearing
	<b>£000</b>	£000	£000	£000
<b>At 31 March 2003</b>				
Sterling	<b>38,130</b>	4,978	4,161	28,991
Other	<b>0</b>	0	0	0
Gross financial assets	<b>38,130</b>	4,978	4,161	28,991
<b>At 31 March 2002</b>				
Sterling	31,288	82	3,459	27,747
Other	0	0	0	0
Gross financial assets	31,288	82	3,459	27,747



**Financial liabilities**

Currency	<b>Total</b>	Floating rate	Fixed rate	Non-interest bearing
	<b>£000</b>	£000	£000	£000
<b>At 31 March 2003</b>				
Sterling	<b>4,814</b>	33	3,703	1,078
Other	<b>0</b>	0	0	0
Gross financial liabilities	<b>4,814</b>	33	3,703	1,078
<b>At 31 March 2002</b>				
Sterling	3,184	92	1,644	1,448
Other	0	0	0	0
Gross financial liabilities	3,184	92	1,644	1,448

*Foreign currency risk*

PCTs have negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the PCTs' financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	<b>38,130</b>	<b>38,130</b>	a
Debtors over one year	<b>74,865</b>	<b>74,865</b>	b
<b>Total</b>	<b>112,995</b>	<b>112,995</b>	
<b>Financial liabilities</b>			
Overdraft	<b>(4,814)</b>	<b>(4,814)</b>	a
Creditors over one year	<b>(84,250)</b>	<b>(84,250)</b>	b
Provisions under contract	<b>(936,635)</b>	<b>(936,635)</b>	c
<b>Total</b>	<b>(1,025,699)</b>	<b>(1,025,699)</b>	

a For cash and overdraft, 'Fair value is book value'.

b Fair value is not significantly different from book value.

c Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

**21 Third party assets**

The balance of patients' money held within the PCTs' bank accounts at the Balance Sheet date was £2,822,000 (31 March 2002: £1,231,000). 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.

# 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; and
  - 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 2002-2003

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

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that NHS Trusts 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.

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 2002-2003 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

To help me fulfil this responsibility, I appointed the Chief Executive of each of the 275 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 (SICs) signed by Accountable Officers in support of the accounts for each NHS Trust.

I have gained further assurance from reports from Strategic Health Authority (SHA) Chief Executives that identify whether the SICs are consistent with

- the external audit opinion;
- the core controls assurance reports;
- evidence from the SHA performance management reviews; and
- the head of internal audit opinion on the assurance framework.

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. The SICs identified whether the NHS Trusts have embedded Assurance Frameworks to provide structured evidence in support of their statements about the effectiveness of their system of internal control, or if these are still being developed.

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.

### Developments during 2002-2003

During 2002-2003 the Department issued further practical guidance to assist NHS Trusts with the development of Assurance Frameworks which provide structured evidence to support the SIC. They provide the link between the organisation's principal objectives, the main risks to achieving them and the key controls in place to manage these risks. The emphasis of the guidance was placed on Board involvement with regular reporting of significant gaps in key controls and assurance arrangements, actions to address deficiencies and plans for continuous improvement.



The main benefits of the Assurance Frameworks will accrue during 2003-2004. For 2002-2003, the SICs are underpinned by a requirement for NHS bodies to comply with the three core control assurance standards. These provide a framework for organisations to assess themselves against criteria for ensuring they have sound governance, risk management and financial management arrangements to support their system of internal control. The criteria include accountability, processes, capability, monitoring and review, audit and outcomes. Treasury agreed that compliance with the three core standards would be sufficient as an interim measure to support the Statement on Internal Control. Organisations are expected to apply these criteria when making assessments of the controls to manage the principal risks to achieving their principal objectives.

## Summary of the NHS Trusts Statements on Internal Control

### National Health Service Trusts

	2001-2002	2002-2003
Provided full statements	23	0
Provided partial statements	237	264
Provided statements for organisations that were subject to dissolution on 31 March 2003	58	11
<b>Total</b>	<b>318</b>	<b>275</b>

Strategic Health Authority Chief Executives drew attention to the fact that three NHS Trusts had initially provided full statements, but following discussions and review by the Strategic Health Authorities these were all amended to partial statements.

'Full statements' are defined as those where the NHS Trust Accountable Officer was satisfied that an effective system of internal control has been in place throughout the full financial year and is ongoing. This is demonstrated by the Board's Assurance Framework and evidence of compliance with the requirements of the core controls assurance standards. Where this was not the position, the SIC was classified as 'partial'.

NHS Trusts all confirmed they will have Assurance Frameworks fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control. The reduction in the number of NHS Trusts providing full statements from 23 in 2001-2002 to none in 2002-2003 reflects the improved understanding of the requirements of the statements rather than any deterioration in internal control.

NHS Trusts identified an additional 898 actions that they plan to implement during 2003-04 to further strengthen their risk management, governance and system of internal control. These are set out in the table below with details from the SIC for the Summarised Accounts for NHS Trusts for 2001-2002 included for comparison.

The table shows that, overall, NHS Trusts identified slightly less actions per organisation than in 2001-2002. The analysis is subject to judgement about the number of significant actions that are identified and it is therefore important to focus on the proportion of comments under the headings together with the absolute numbers. This shows that risk management remains consistently by far the most important area for NHS Trusts to address. Good progress with developing and implementing Assurance Frameworks is being made and NHS Trusts were able to confirm these will be in place during 2003-2004 enabling them to meet the requirements.

## Analysis of actions planned by NHS Trusts during 2003-2004

Action area	Key issues	No of actions 2002-2003	%	No of actions 2001-2002	%
Risk management	Risk training Risk register development Risk management policies and strategies Undertake risk assessments Incident reporting	<b>Total 406</b>	<b>45.1</b>	<b>443</b>	<b>45.9</b>
Performance management/ Benchmarking	Benchmarking Develop performance indicators including risk	<b>Total 78</b>	<b>8.7</b>	<b>147</b>	<b>15.2</b>
General policy issues	Action plans including controls assurance, CHI reviews, clinical governance and audit. Strategies and procedures, HR, estates, incident reporting, clinical, complaints, public involvement, shared services	<b>Total 110</b>	<b>12.2</b>	<b>85</b>	<b>8.8</b>
Review and monitor	Including monitoring implementation and introducing systems for independent review of risks, actions, and performance management	<b>Total 78</b>	<b>8.7</b>	<b>70</b>	<b>7.3</b>
Governance and convergence	Holistic approach, integrating clinical governance, joint working internal and clinical audit, board assurances	<b>Total 45</b>	<b>5.0</b>	<b>65</b>	<b>6.7</b>
Financial control	Long term, strategy, training and reporting	<b>Total 21</b>	<b>2.3</b>	<b>56</b>	<b>5.8</b>
Communication	Information communication and dissemination, including risk management, internal control, performance reporting, SFIs	<b>Total 15</b>	<b>1.7</b>	<b>33</b>	<b>3.4</b>
Board reporting	Including controls assurance, clinical governance, financial management and risk management	<b>Total 58</b>	<b>6.5</b>	<b>23</b>	<b>2.4</b>

Action area	Key issues	No of actions 2002-2003	%	No of actions 2001-2002	%
Training other than risk	Review general training and development needs across the organisation, including non executive directors and clinical teams	<b>Total 27</b>	<b>3.0</b>	<b>22</b>	<b>2.3</b>
Accountability	Review and clarify accountability arrangements	<b>Total 26</b>	<b>2.9</b>	<b>13</b>	<b>1.4</b>
Objectives	Review process around setting objectives, board objectives and business plans	<b>Total 27</b>	<b>3.0</b>	<b>8</b>	<b>0.8</b>
Miscellaneous		<b>Total 7</b>	<b>0.9</b>		
		<b>Total 898</b>	<b>100</b>	<b>965</b>	<b>100</b>

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 monitor and review the implementation of Assurance Frameworks by NHS Trusts to provide the structured evidence to support statements for 2003-2004. During 2002-2003 I issued practical guidance to NHS Trust Boards to assist with the development and implementation of these frameworks and this has been supplemented by training for Strategic Health Authorities to assist with this responsibility. Strategic Health Authorities will keep me informed of progress so that I may determine if central action is required.

#### Risk management and governance training, guidance and monitoring.

Over the past six years, there has been a comprehensive risk-training programme for boards, risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

#### Conclusion

The process of embedding Assurance Frameworks will continue into the financial year 2003-2004, but once in place will provide a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. Although NHS Trusts were not in a position to provide full statements on internal control for the whole of the year ended 31 March 2003, they were able to demonstrate that considerable progress has been made towards meeting the requirements. Those NHS Trusts that did not have all procedures in place by 31 March 2003 will not have full systems of internal control in place for the whole of the 2003-2004 financial year. Strategic Health Authorities will performance manage NHS Trusts to ensure all processes are in place by 31 March 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 C9 to C29 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 C12 to C17.

## 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 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. 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 C4 to C7 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 fraud or other irregularity or error. 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 2003 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 505-I

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Income and Expenditure Account for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
<b>Operating activities</b>			
Income from activities	2	<b>29,071,459</b>	28,711,092
Other operating income	3	<b>4,359,340</b>	4,219,145
Operating expenses	4.1	<b>(32,279,362)</b>	(31,784,702)
<b>Operating surplus</b>		<b>1,151,437</b>	1,145,535
<b>Exceptional gain: on write-out of clinical negligence provisions</b>		<b>0</b>	1,421,862
<b>Exceptional loss: on write-out of clinical negligence debtors</b>		<b>0</b>	(1,410,878)
Profit on disposal of fixed assets	6	<b>21,010</b>	14,413
<b>Surplus before interest</b>		<b>1,172,447</b>	1,170,932
Interest receivable		<b>46,079</b>	59,709
Interest payable	7	<b>(18,748)</b>	(13,009)
Other finance costs		<b>(16,330)</b>	(16,085)
<b>Surplus on ordinary activities</b>		<b>1,183,448</b>	1,201,547
Public dividend capital dividends payable		<b>(1,276,977)</b>	(1,241,776)
<b>Retained (deficit) for the year</b>		<b>(93,529)</b>	(40,229)
<b>Capital cost absorption rate</b>	8	<b>6.0%</b>	6.1%

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Surplus on ordinary activities for the financial year</b>			
Fixed asset impairment losses	16.1, 16.2	<b>(181,795)</b>	(62,530)
Unrealised surplus on fixed asset revaluations/indexation	16.1-16.3	<b>3,171,355</b>	768,489
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	<b>158,520</b>	154,522
(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>(94,583)</b>	(83,534)
Addition/(reduction) to other reserves	16.4	<b>72,979</b>	(14,239)
<b>Total recognised gains relating to the year</b>		<b>4,309,924</b>	1,964,255
Prior period adjustment - pre 1995 early retirement		<b>(183,562)</b>	0
<b>Total recognised gains for the financial year</b>		<b>4,126,362</b>	1,964,255

The notes at pages C12 to C29 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	27,270	23,040
Tangible fixed assets	10.1	<b>25,323,849</b>	<u>23,503,960</u>
		<b>25,351,119</b>	<u>23,527,000</u>
<b>Current assets</b>			
Stocks		<b>455,654</b>	424,430
Debtors	11	<b>2,677,954</b>	2,307,919
Cash at bank and in hand	19	<b>134,994</b>	<u>155,344</u>
		<b>3,268,602</b>	<u>2,887,693</u>
<b>Creditors: amounts falling due within one year</b>	13.1	<b>(3,468,998)</b>	(3,205,697)
<b>Net current assets</b>		<b>(200,396)</b>	<u>(318,004)</u>
<b>Total assets less current liabilities</b>		<b>25,150,723</b>	<u>23,208,996</u>
<b>Creditors: amounts falling due after more than one year</b>	13.2	<b>(302,880)</b>	(195,662)
<b>Provisions for liabilities and charges</b>	14	<b>(572,938)</b>	<u>(508,200)</u>
		<b>24,274,905</b>	<u>22,505,134</u>
<b>Financed by</b>			
<b>Capital and reserves</b>			
Public dividend capital	15	<b>17,340,770</b>	17,974,918
Revaluation reserve	16.1	<b>5,670,826</b>	3,596,471
Donated asset reserve	16.2	<b>1,119,425</b>	999,378
Government grant reserve	16.3	<b>12,138</b>	5,540
Other reserves	16.4	<b>184,115</b>	6,708
Income and expenditure reserve	16.5	<b>(52,369)</b>	<u>(77,881)</u>
		<b>24,274,905</b>	<u>22,505,134</u>

The notes at pages C12 to C29 form part of this account.

Nigel Crisp  
Accounting Officer

24 March 2004

# Cash Flow Statement for the year ended 31 March 2003

## Operating activities

	Notes	£000	£000	2001-2002 £000
Net cash inflow from operating activities	17		<b>2,315,576</b>	2,734,850
<b>Returns on investments and servicing of finance</b>				
Interest received		<b>45,602</b>		60,476
Interest paid		<b>(3,740)</b>		(4,452)
Interest element of finance lease rental payments		<b>(17,778)</b>		(10,876)
<b>Net cash inflow from returns on investments and servicing of finance</b>			<b>24,084</b>	45,148
<b>Capital expenditure</b>				
(Payments) to acquire intangible assets		<b>(7,683)</b>		(6,430)*
Receipts from sale of intangible assets		<b>132</b>		0
(Payments) to acquire tangible fixed assets		<b>(2,097,819)</b>		(1,967,352)
Receipts from sale of tangible fixed assets		<b>990,518</b>		748,151
<b>Net cash (outflow) from capital expenditure</b>			<b>(1,114,852)</b>	(1,225,631)
<b>Dividends paid</b>			<b>(1,276,319)</b>	(1,241,739)
<b>Net cash (outflow)/inflow before management of liquid resources and financing</b>			<b>(51,511)</b>	312,628
<b>Management of liquid resources</b>				
(Payments) to acquire investments		<b>(1,140,975)</b>		(1,353,690)
Receipts from sale of investments		<b>1,140,975</b>		1,353,690
<b>Net cash inflow/(outflow) from management of liquid resources</b>			<b>0</b>	0
<b>Net cash (outflow)/inflow before financing</b>			<b>(51,511)</b>	312,628
<b>Financing</b>				
New public dividend capital issued		<b>1,442,719</b>		1,173,021
Repayment of public dividend capital		<b>(1,550,318)</b>		(1,543,562)
Loans received		<b>73,909</b>		2,486
Repayments of amounts borrowed		<b>(21,057)</b>		0
Other capital receipts		<b>117,142</b>		107,621
Capital element of finance lease rental payments		<b>(2,759)</b>		(13,446)
Cash transferred to other NHS bodies		<b>127</b>		0
<b>Net cash inflow/(outflow) from financing</b>			<b>59,763</b>	(273,880)
<b>Increase in cash</b>	19		<b>8,252</b>	38,748

The notes at pages C12 to C29 form part of this account.

\* Information was not disclosed separately in 2001-2002.

# 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 Services and Financial Framework agreements. These are agreements under which income is received from commissioners (Primary Care Trusts and Strategic Health Authorities) 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.

#### *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 at the amount of unitary charge allocated for the acquisition of the residual with an adjustment. The adjustment is the net present value of the change in fair value of the residual as estimated at the start of the contract and at the balance sheet date.

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 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

Where, under FRS11, a fixed asset impairment is charged to the income and expenditure account, offsetting income is paid by the Department of Health via the Trust's main commissioner, to offset the charge. 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 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 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 6% 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**

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 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 may be based on opening, closing, or average balance sheet values provided that a consistent basis is used. NHS Trusts are unable to disclose the amount of research and development expenditure charged in the income and expenditure account (a requirement of SSAP 13) because some research and development activity cannot be separated from patient care activity.

## 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 6% in real terms.

### *Clinical negligence costs*

From 1 April 2002, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all NHS 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 in NHS Trusts. As the NHSLA had a constructive obligation for these liabilities in 2001-2002, the transfer was recognised by NHS Trusts as an exceptional gain in the income and expenditure account at 31 March 2002. The write back of related reimbursements was shown as an exceptional loss. Although the NHSLA is administratively responsible for clinical negligence cases, the legal liability remains with the NHS Trusts. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS Trusts is disclosed at Note 14.

### *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 liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates from 2001-2002 were set at 7% of pensionable pay. Employer contribution rates have been set at 14% from 1 April 2003. The total employer contribution payable in 2002-2003 was £1,006,630,000 (£999,198,000 for 2001-2002).

Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For pre-6 March 1995 early retirements not funded by the scheme, the additional costs are recharged to the NHS trust and are currently included within operating expenses as they arise. For post 5 March 1995 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.

For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities are recharged to the Trust and were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March 1995 early retirements. The forecast remaining liability (or remaining prepayment where the liability has been bought out) has been recognised as a prior period adjustment.

### **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 2002, 81 NHS Trusts were involved in reconfigurations. These involved NHS trust mergers with other NHS Trusts, mergers with Primary Care Trusts and/or Primary Care Groups 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 four NHS Trusts merged to give two new NHS Trusts. In some cases the closing balances of the former NHS Trusts on 31 March 2002 were different from the opening balances of the new NHS Trusts on 1 April 2002. The opening balances as at 31 March 2002 in this account reflect the totals of closing balances of all NHS Trusts as at 31 March 2002. Adjustments have been made to include the effect of trusts dissolutions and asset transfers as at 1 April 2002.

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

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

In this financial year, 68 NHS Trusts reported off balance sheet PFI schemes over £1 million. The estimated capital value of schemes individually over £1 million is £2.656 billion. The amount included within operating expenses for these schemes is £260 million.

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

In this financial year, six NHS Trusts reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £194 million and the amount included within operating expenses is £27 million.

### **1.14 Value Added Tax**

Most of the activities of the trust 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 Consolidation adjustment

An adjustment has been made to exclude inter NHS trust balances. This has eliminated £261,240,000 NHS debtors and creditors from 2002-2003 and £247,679,000 in 2001-2002.

## 2 Income from activities

	£000	2001-2002 £000
Strategic Health Authorities and Primary Care Groups	<b>1,478,176</b>	21,479,784
Primary Care Trusts	<b>26,477,507</b>	6,293,039
Department of Health	<b>260,840</b>	204,398
Local authorities	<b>259,789</b>	0
Non-NHS - private patients	<b>366,671</b>	340,772
- Road Traffic Act	<b>102,186</b>	124,860
- other	<b>126,290</b>	268,239
	<b><u>29,071,459</u></b>	<u>28,711,092</u>
Income recognised to offset impairments and accelerated depreciation	<b>168,516</b>	138,633

## 3 Other operating income

	£000	2001-2002 £000
Education, training and research	<b>2,075,838</b>	1,768,665
Patient transport services	<b>8,348</b>	8,320
Charitable and other contributions to expenditure	<b>90,192</b>	87,139
Transfers from the donated asset reserve in respect of depreciation on donated assets	<b>93,963</b>	83,362
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	<b>620</b>	172
Non-patient care services to other bodies	<b>393,641</b>	*0
Other income from activities	<b><u>1,696,738</u></b>	<u>2,271,487</u>
	<b><u>4,359,340</u></b>	<u>4,219,145</u>

\* This analysis was not available in 2001-2002.

## 4 Operating expenses

### 4.1 Operating expenses include

	Notes	£000	Restated 2001-2002 £000
Directors' costs		<b>148,681</b>	156,887
Staff costs <sup>1</sup>	5.1	<b>21,219,169</b>	20,963,920
Supplies and services - clinical		<b>4,454,694</b>	4,144,664
Supplies and services - general		<b>787,633</b>	815,271
Premises		<b>1,549,459</b>	1,644,692
Depreciation and amortisation	9,10	<b>1,159,657</b>	1,056,835
Fixed asset impairments and reversals		<b>160,078</b>	115,123
Contracts with other NHS bodies		<b>326,400</b>	711,976
Establishment		<b>692,640</b>	766,544
Transport		<b>235,128</b>	230,258
Clinical negligence		<b>209,057</b>	110,293
Provision for irrecoverable debts		<b>14,163</b>	12,042
Auditors' remuneration: Audit fees <sup>2</sup>		<b>31,913</b>	29,721
Auditors' remuneration: Other remuneration		<b>5,862</b>	8,876
Pre-1995 early retirements		<b>392</b>	0
Purchase of healthcare from non-NHS bodies		<b>338,172</b>	246,239
Other		<b>946,264</b>	771,361
		<b><u>32,279,362</u></b>	<u>31,784,702</u>

- 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 carried out by auditors appointed by the Audit Commission.

### 4.2 Hire and operating lease rentals

	£000	2001-2002 £000
Hire of plant and machinery	<b>54,292</b>	54,520
Other operating leases	<b>209,361</b>	196,914
	<b><u>263,653</u></b>	<u>251,434</u>

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

	£000	2001-2002 £000
<b>Land and buildings</b>		
Expiring within one year	<b>6,352</b>	8,302
Expiring between one and five years	<b>16,010</b>	20,488
Expiring after five years	<b>135,051</b>	87,147
	<b><u>157,413</u></b>	<u>115,937</u>
<b>Other leases</b>		
Expiring within one year	<b>35,767</b>	31,250
Expiring between one and five years	<b>105,018</b>	108,820
Expiring after five years	<b>25,971</b>	40,351
	<b><u>166,756</u></b>	<u>180,421</u>

## 5 Staff costs and numbers

### 5.1 Staff costs

	£000	2001-2002 £000
Salaries and wages	<b>17,844,543</b>	17,722,537
Social security costs	<b>1,220,260</b>	1,245,193
Pension costs	<b>1,006,630</b>	999,198
Other pension costs	<b>17,329</b>	42,543
Agency staff	<b>1,272,227</b>	1,102,573
	<b><u>21,360,989</u></b>	<u>21,112,044</u>

### 5.2 Average number of total staff

	Number	Number
Medical and dental	<b>69,369</b>	65,497
Ambulance staff	<b>21,498</b>	20,952
Administration and estates	<b>158,123</b>	156,714
Healthcare assistants and other support staff	<b>88,336</b>	89,760
Nursing, midwifery and health visiting staff	<b>296,201</b>	305,766
Nursing, midwifery and health visiting learners	<b>4,020</b>	4,942
Scientific, therapeutic and technical staff	<b>99,861</b>	104,991
Other	<b>13,635</b>	10,350
	<b><u>751,043</u></b>	<u>758,972</u>

### 5.3 Staff benefits

The amount spent on staff benefits during the year totalled £124,000 (2001-2002: £1,218,000).

### 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 2002-2003, the contribution rate was set at 7%.

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

	£000	2001-2002 £000
Net profit on disposal of land and buildings	<b>28,364</b>	20,630
Net (loss) on disposal of plant and equipment	<b>(7,354)</b>	(6,217)
	<b><u>21,010</u></b>	<u>14,413</u>

## 7 Interest payable

	£000	2001-2002 £000
<i>Interest payable is in respect of the following</i>		
Finance leases	<b>18,321</b>	11,559
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	<b>31</b>	53
Other interest	<b>396</b>	1,397
	<b><u>18,748</u></b>	<u>13,009</u>

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £nil (2001-2002: £nil).

## 8 Capital cost absorption rate

NHS Trusts are required to absorb the cost of capital at a rate of 6% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £1,276 million, bears to the average relevant net assets of £21,268 million, that is 6.0% (2001-2002: 6.1%).

## 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 2002	37,684	67	27	3,954	<b>41,732</b>
Indexation	0	0	0	222	<b>222</b>
Other revaluation	(15)	0	0	0	<b>(15)</b>
Additions - purchased	14,673	17	4	493	<b>15,187</b>
Additions - donated/government granted	189	0	0	0	<b>189</b>
Disposals	(3,650)	0	(10)	(159)	<b>(3,819)</b>
<b>Gross cost at 31 March 2003</b>	<b>48,881</b>	<b>84</b>	<b>21</b>	<b>4,510</b>	<b>53,496</b>
Accumulated amortisation at 1 April 2002	16,891	13	3	1,785	<b>18,692</b>
Indexation	0	0	0	42	<b>42</b>
Impairments	81	0	0	0	<b>81</b>
Other revaluation	16	0	0	0	<b>16</b>
Provided during the year	6,646	21	2	651	<b>7,320</b>
Additions - purchased	1,658	0	0	0	<b>1,658</b>
Disposals	(1,583)	0	0	0	<b>(1,583)</b>
<b>Accumulated amortisation at 31 March 2003</b>	<b>23,709</b>	<b>34</b>	<b>5</b>	<b>2,478</b>	<b>26,226</b>
<b>Net book value</b>					
Purchased at 1 April 2002	20,500	54	24	2,169	22,747
Donated at 1 April 2002	293	0	0	0	293
Total at 1 April 2002	20,793	54	24	2,169	23,040
<b>Purchased at 31 March 2003</b>	<b>24,757</b>	<b>50</b>	<b>16</b>	<b>2,032</b>	<b>26,855</b>
<b>Donated at 31 March 2003</b>	<b>415</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>415</b>
<b>Total at 31 March 2003</b>	<b>25,172</b>	<b>50</b>	<b>16</b>	<b>2,032</b>	<b>27,270</b>



## 10 Tangible fixed assets

### 10.1

	Land	Buildings exc dwellings	Dwellings	Assets under construction & poa	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 2002	4,721,064	17,225,671	0	862,143	5,991,695	0	0	0	28,800,573
Transfers to PCTs	(411,354)	(2,042,677)	448,154	(57,085)	(1,615,065)	303,127	865,851	283,290	<b>(2,225,759)</b>
Additions - purchased	84,634	810,578	9,636	888,188	288,596	22,200	82,995	24,644	<b>2,211,471</b>
Additions - donated/ government granted	64	25,909	552	68,356	57,419	449	2,545	1,251	<b>156,545</b>
Impairments	(14,680)	(158,549)	(4,301)	(3,381)	(666)	(4)	(44)	(170)	<b>(181,795)</b>
Transfers	6,559	675,461	1,433	(803,213)	73,758	7,776	27,636	10,590	<b>0</b>
Indexation	906,495	2,133,946	65,559	95,035	128,153	9,147	0	12,063	<b>3,350,398</b>
Other in-year revaluations	67,718	(53,383)	403	(10,060)	(10,866)	69	527	22	<b>(5,570)</b>
Disposals	(341,639)	(630,426)	(13,095)	(24,777)	(265,817)	(38,302)	(52,048)	(17,579)	<b>(1,383,683)</b>
<b>Cost or valuation at 31 March 2003</b>	<b>5,018,861</b>	<b>17,986,530</b>	<b>508,341</b>	<b>1,015,206</b>	<b>4,647,207</b>	<b>304,462</b>	<b>927,462</b>	<b>314,111</b>	<b>30,722,180</b>
Accumulated depreciation at 31 March 2002	9,244	1,244,373	0	0	4,042,996	0	0	0	5,296,613
Transfers to PCTs	(4,367)	(850,738)	12,069	0	(1,120,903)	208,322	605,316	155,654	<b>(994,647)</b>
Provided during the year	0	692,080	21,826	0	310,600	27,849	76,771	23,211	<b>1,152,337</b>
Additions - purchased	0	7,107	72	0	2,507	2,071	1,916	669	<b>14,342</b>
Additions - donated/ government granted	0	54	0	0	109	18	0	0	<b>181</b>
Impairments	6,195	144,006	4,921	0	2,519	422	1,928	109	<b>160,100</b>
Reversal of impairments	0	(22)	0	0	0	0	0	0	<b>(22)</b>
Transfers	0	143	37	0	(1,329)	0	1,137	12	<b>0</b>
Indexation	1,035	66,304	2,317	0	83,274	6,228	0	5,296	<b>164,454</b>
Other in-year revaluations	0	0	0	0	(10,004)	3	373	0	<b>(9,628)</b>
Disposals	(3,425)	(40,291)	(3,672)	0	(241,892)	(36,012)	(46,859)	(13,262)	<b>(385,413)</b>
<b>Accumulated depreciation at 31 March 2003</b>	<b>8,682</b>	<b>1,263,016</b>	<b>37,570</b>	<b>0</b>	<b>3,067,877</b>	<b>208,901</b>	<b>640,582</b>	<b>171,689</b>	<b>5,398,317</b>

### 10.2 Net book value at 31 March 2002

Purchased	4,664,859	15,345,740	0	806,592	1,678,916	0	0	0	22,496,107
Donated	46,961	631,402	0	55,143	268,741	0	0	0	1,002,247
Government granted	0	4,156	0	408	1,042	0	0	0	5,606
Total at 1 April 2002	<b>4,711,820</b>	<b>15,981,298</b>	<b>0</b>	<b>862,143</b>	<b>1,948,699</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>23,503,960</b>

### Net book value at 31 March 2003

<b>Purchased</b>	<b>4,957,935</b>	<b>16,022,120</b>	<b>465,683</b>	<b>942,927</b>	<b>1,305,768</b>	<b>91,791</b>	<b>278,697</b>	<b>136,069</b>	<b>24,200,990</b>
<b>Donated</b>	<b>52,244</b>	<b>693,696</b>	<b>5,088</b>	<b>72,279</b>	<b>271,967</b>	<b>3,770</b>	<b>7,263</b>	<b>6,218</b>	<b>1,112,525</b>
<b>Government granted</b>	<b>0</b>	<b>7,696</b>	<b>0</b>	<b>0</b>	<b>1,583</b>	<b>0</b>	<b>920</b>	<b>135</b>	<b>10,334</b>
<b>Total at 31 March 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>

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

7,492	259,472	9,586	0	593	10	68	0	<b>277,221</b>
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £7,096,000 (2001-2002: £4,972,000).

**10.4** The net book value of land and buildings comprises

	£000	31 March 2002 £000
Freehold	<b>21,698,739</b>	20,309,951
Long leasehold	<b>502,066</b>	377,181
Short leasehold	<b>3,657</b>	5,986
	<b><u>22,204,462</u></b>	<u>20,693,118</u>

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

	£000	Restated 31 March 2002 £000
National Health Service debtors	<b>1,204,834</b>	1,047,760
Other prepayments and accrued income	<b>316,598</b>	287,143
Provision for irrecoverable debts	<b>(54,356)</b>	(49,321)
Other debtors	<b>734,142</b>	659,658
	<b><u>2,201,218</u></b>	<u>1,945,240</u>

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

National Health Service debtors	<b>201,457</b>	118,783
Provision for irrecoverable debts	<b>(1,220)</b>	(1,444)
Other prepayments and accrued income	<b>181,025</b>	157,527
Other	<b>95,474</b>	87,813
	<b><u>476,736</u></b>	<u>362,679</u>
<b>Total debtors</b>	<b><u>2,677,954</u></b>	<u>2,307,919</u>

**12 Short-term investments**

There were no short term investments held at the balance sheet date (2001-2002: £nil).

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

	£000	Restated 31 March 2002 £000
Overdrafts	<b>54,175</b>	78,238
National Health Service creditors	<b>1,129,074</b>	869,291
Accruals and deferred income	<b>838,719</b>	765,412
Payments received on account	<b>40,121</b>	37,958
Interest payable	<b>1,296</b>	530
Current instalments due on loans	<b>66,945</b>	3,422
Payroll and related creditors	<b>246,434</b>	279,326
Obligations under finance leases and hire purchase contracts	<b>3,593</b>	4,214
Non-NHS trade creditors - revenue	<b>695,622</b>	760,507
- revenue - clinical negligence	<b>16</b>	1,348
- capital	<b>223,968</b>	228,415
Other creditors	<b>169,035</b>	177,036
	<b><u>3,468,998</u></b>	<u>3,205,697</u>

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

	<b>£000</b>	Restated 31 March 2002 £000
National Health Service creditors	<b>24,292</b>	21,732
Obligations under finance leases and hire purchase contracts	<b>244,496</b>	149,293
Non-NHS trade creditors - revenue - clinical negligence	<b>330</b>	1,077
Other	<b>33,762</b>	23,560
	<b>302,880</b>	195,662

**13.3 Finance lease obligations**

	<b>£000</b>	31 March 2002 £000
<i>Leases payable</i>		
Within one year	<b>28,359</b>	13,630
Between one and five years	<b>113,501</b>	51,316
After five years	<b>698,537</b>	382,628
Finance charges allocated to future periods	<b>(592,308)</b>	(294,067)
	<b>248,089</b>	153,507

**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>
Restated 1 April 2002	10,022	337,418	67,806	17,655	75,299	<b>508,200</b>
Transfers to PCTs	(2,167)	(1,042)	(425)	33	(8,163)	<b>(11,764)</b>
Arising during the year (pre 1995 ER)	0	4,565	152	0	202	<b>4,919</b>
Arising during the year (other)	1,828	23,110	63,257	14,812	59,064	<b>162,071</b>
Utilised during the year	(2,407)	(33,517)	(12,734)	(6,340)	(13,490)	<b>(68,488)</b>
Reversed unused	(12)	(5,073)	(18,876)	(2,535)	(13,347)	<b>(39,843)</b>
Unwinding of discount	281	15,097	1,198	203	1,064	<b>17,843</b>
<b>At 31 March 2003</b>	<b>7,545</b>	<b>340,558</b>	<b>100,378</b>	<b>23,828</b>	<b>100,629</b>	<b>572,938</b>
Expected timing of cashflows						
Within one year	2,021	32,608	51,263	14,950	42,307	<b>143,149</b>
One to five years	2,770	122,640	38,276	7,367	25,080	<b>196,133</b>
Over five years	2,754	185,310	10,839	1,511	33,242	<b>233,656</b>

\* £1,262,235,000 is included in the accounts of the NHS Litigation Authority (NHSLA) for clinical negligence liabilities in NHS Trusts.

**15 Public dividend capital**

	£000	31 March 2002 £000
<i>Public dividend capital was issued as follows</i>		
During previous years	<b>17,974,918</b>	18,386,109
At the opening of the year/trust mergers	<b>(853,055)</b>	(736,462)
Other in-year movement in PDC	<b>218,907</b>	325,271
	<b><u>17,340,770</u></b>	<u>17,974,918</u>

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

	£000
At 1 April 2002 as originally stated	3,596,471
Write off on merger of Trusts	<b>(513,541)</b>
Restated as at 1 April 2002	<b>3,082,930</b>
Impairments	<b>(174,154)</b>
Other revaluations/indexation of fixed assets	<b>3,068,218</b>
Transfer of realised profits to I&E reserve	<b>(132,054)</b>
Other transfers between reserves	<b>(112,997)</b>
Reserve eliminated on mid-year dissolution	<b>(61,117)</b>
<b>As at 31 March 2003</b>	<b><u>5,670,826</u></b>

**16.2 Donated asset reserve**

	£000
At 1 April 2002 as originally stated	999,378
Value of merged Trusts at 1 April 2002	<b>(29,457)</b>
Restated as at 1 April 2002	<b>969,921</b>
Impairments	<b>(7,641)</b>
Other revaluations/indexation of fixed assets	<b>102,860</b>
Transfer of realised profits to I&E reserve	<b>(1,709)</b>
Receipt of donated assets	<b>150,373</b>
Depreciation, impairment and disposal of donated assets	<b>(93,963)</b>
Other transfers between reserves	<b>(416)</b>
<b>As at 31 March 2003</b>	<b><u>1,119,425</u></b>

**16.3 Government grant reserve**

	£000
At 1 April 2002 as originally stated	5,540
Value of merged Trusts at 1 April 2002	<b>(1,420)</b>
Restated as at 1 April 2002	<b>4,120</b>
Surplus on other revaluation/indexation of fixed assets	<b>277</b>
Transfer of realised profits to I&E reserve	<b>(25)</b>
Receipt of Government granted assets	<b>8,147</b>
Depreciation, impairment and disposal of Government granted assets	<b>(620)</b>
Other transfers between reserves	<b>239</b>
<b>As at 31 March 2003</b>	<b><u>12,138</u></b>

**16.4 Other reserves**

	£000
At 1 April 2002 as originally stated	6,708
Value of merged Trusts at 1 April 2002	<b>63,068</b>
Restated as at 1 April 2002	<b>69,776</b>
Other movements on reserves	<b>72,979</b>
Transfers between reserves	<b>(482)</b>
Reserves eliminated on mid-year dissolution	<b>41,842</b>
<b>As at 31 March 2003</b>	<b>184,115</b>

**16.5 Income and expenditure reserve**

	£000
At 1 April 2002 as originally stated	<b>105,681</b>
Prior period adjustment - early retirements	<b>(183,562)</b>
Restated as at 1 April 2002	<b>(77,881)</b>
Write off on merger of Trusts	<b>(125,905)</b>
Transfer from income and expenditure account	<b>(93,529)</b>
Transfers of realised profits	<b>133,788</b>
Other transfers between reserves	<b>113,656</b>
Reserve eliminated on dissolution	<b>(2,498)</b>
<b>As at 31 March 2003</b>	<b>(52,369)</b>

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

	£000	2001-2002 £000
Operating surplus	<b>1,151,437</b>	1,145,535
Depreciation and amortisation	<b>1,159,657</b>	1,056,835
Impairments	<b>160,159</b>	115,123
(Increase) in stocks	<b>(38,774)</b>	(33,041)
Decrease/(increase) in debtors	<b>(476,899)</b>	1,067,638
(Decrease)/increase in creditors and provisions for liabilities and charges	<b>424,143</b>	(671,732)
Transfer from donated asset reserve in respect of depreciation on donated assets	<b>(93,963)</b>	(83,362)
Transfer from the Government grant reserve	<b>(620)</b>	(172)
Other non-cash movements	<b>30,436</b>	138,026
<b>Net cash inflow from operating activities</b>	<b>2,315,576</b>	<b>2,734,850</b>

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

	£000	£000
Net debt at 1 April 2002		<b>(79,822)</b>
Increase in cash in year	<b>8,252</b>	
Cash inflow from new debt	<b>(52,852)</b>	
Cash outflow from debt repaid and finance lease capital payments	<b>2,759</b>	
Changes in net debt resulting from cash flows		<b>(41,841)</b>
Non-cash changes in debt		<b>(112,553)</b>
<b>Net debt at 31 March 2003</b>		<b>(234,216)</b>

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

	1 April 2002	Cash changes in year	Non-cash changes in year/ transfers	31 March 2003
	£000	£000	£000	£000
Cash at bank and in hand	155,344	(19,680)	(670)	<b>134,994</b>
Bank overdrafts	(78,238)	27,932	(3,869)	<b>(54,175)</b>
		8,252		
Debt due within one year	(3,422)	(52,852)	(10,671)	<b>(66,945)</b>
Finance leases	(153,506)	2,759	(97,343)	<b>(248,090)</b>
	<u>(79,822)</u>	<u>(41,841)</u>	<u>(112,553)</u>	<b><u>(234,216)</u></b>

**20 Reconciliation of movements in government funds**

	£000	£000
Government funds at 31 March 2002		<b>21,689,025</b>
Trust dissolution 1 April 2002		<b>(1,606,535)</b>
Government funds at 1 April 2002 - restated		<b>20,082,490</b>
Surplus for the financial year	<b>1,183,448</b>	
Less public dividend capital dividends	<b>(1,276,977)</b>	
	<b>(93,529)</b>	
Gains from revaluation/indexation of purchased fixed assets	<b>2,894,341</b>	
New public dividend capital	<b>1,442,719</b>	
New public dividend capital (transfer from dissolved NHS trusts)	<b>176,005</b>	
Public dividend capital repaid	<b>(1,387,626)</b>	
Public dividend capital repayable (accrual)	<b>(29,196)</b>	
Public dividend capital written off in year	<b>(12,191)</b>	
Transfer from the donated asset reserve	<b>1,709</b>	
Transfer from the government grant reserve	<b>7,527</b>	
Additions in other reserves	<b>72,979</b>	
	<b>3,166,267</b>	
Net increase in government funds		<b>3,072,738</b>
<b>Government funds at 31 March 2003</b>		<b><u>23,155,228</u></b>

**21 Capital commitments**

	31 March 2002	31 March 2003
	£000	£000
Contracted at the balance sheet date	<b>803,911</b>	572,789
	<b>803,911</b>	<u>572,789</u>

**22 Contingent liabilities**

Potential net contingent liabilities totalling £27,759,000 (2001-2002: £42,167,000) 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 60,711 (2001-2002: 73,425) cases of losses and special payments totalling £27,398,000 (2001-2002: £140,817,000) approved during 2002-2003. These included 0 personal injury cases (2001-2002: one case totalling £109,000), one payment under legal obligation of £317,000 (2001-2002: eight cases totalling £2,604,000), four clinical negligence cases totalling £(1,449,000) (2001-2002: 334 cases totalling £36,154,000), three fraud cases totalling £661,000 (2001-2002: one case totalling £611,000), and 0 fruitless payment cases (2001-2002: 0 cases) where payments exceeded £100,000.

### 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 2003 there were 275 NHS Trusts (including three Care Trusts). With effect from 1 April 2003, 11 NHS Trusts were involved in reconfigurations. These involved seven NHS trust mergers with other NHS trusts to give four new NHS Trusts, two NHS Trust mergers with Primary Care Trusts to form two new Primary Care Trusts and two NHS Trusts becoming Care Trusts. This resulted in a net decrease of five NHS Trusts as at 1 April 2003 to 270 (265 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 £35,961,000.

### 26 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 continuing service provider relationships that NHS Trusts have with Health Authorities and Primary Care Trusts and the way those Health Authorities and Primary Care Trusts are financed, NHS Trusts are 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. NHS Trusts have 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 NHS Trusts in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

#### *Liquidity risk*

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

*Foreign currency risk*

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

*Interest-rate risk*

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

**Financial assets**

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
<b>At 31 March 2003</b>				
Sterling	<b>134,994</b>	25,430	72,762	36,803
Other	<b>0</b>	0	0	0
Gross financial assets	<b>134,994</b>	25,430	72,762	36,803

At 31 March 2002

Sterling	155,344	38,517	69,174	47,653
Other	0	0	0	0
Gross financial assets	155,344	38,517	69,174	47,653

**Financial liabilities**

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
<b>At 31 March 2003</b>				
Sterling	<b>54,175</b>	1,171	3,936	49,068
Other	<b>0</b>	0	0	0
Gross financial liabilities	<b>54,175</b>	1,171	3,936	49,068

At 31 March 2002

Sterling	78,238	1,915	4,299	72,024
Other	0	0	0	0
Gross financial liabilities	78,238	1,915	4,299	72,024

The summarisation procedures are unable to provide reasonable weighted average interest rate disclosures, so these have been excluded.



**Fair values**

A comparison, by category, of book values and fair values of the NHS Trusts' financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b> £000	<b>Fair value</b> £000	
<b>Financial assets</b>			
Cash	134,994	134,994	a
Debtors over one year	<u>295,711</u>	<u>295,711</u>	b
<b>Total</b>	<u>430,705</u>	<u>430,705</u>	
<b>Financial liabilities</b>			
Overdraft	(54,175)	(54,175)	a
Creditors over one year	(302,880)	(302,880)	b
Provisions under contract	(572,938)	(572,938)	c
Public dividend capital	<u>(17,340,770)</u>	<u>(17,340,770)</u>	a
<b>Total</b>	<u>(18,270,763)</u>	<u>(18,270,763)</u>	

- a For cash, overdraft and PDC, 'Fair value is book value'.
- b Fair value is not significantly different from book value.
- c Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

**27 Third party assets**

The balance of patients' money held within the Trusts' bank accounts at the Balance Sheet date was £12,902,000 (31 March 2002: £32,370,000). 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 the 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 D14 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 D9.

## 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 presents fairly the state of affairs of the Funds Held on Trust by strategic health authorities, 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 strategic health authorities, 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 fraud or other irregularity or error. 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 strategic health authorities, Primary Care Trusts, NHS Trusts, special health authorities and special trustees at 31 March 2003 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Statement of Financial Activities for the year ended 31 March 2003

	Note	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	2001-2002 Total funds
		£000	£000	£000	<b>£000</b>	£000
<b>Incoming resources</b>						
<i>Donations, legacies and similar resources</i>						
Donations		69,387	114,920	76	<b>184,383</b>	146,165
Legacies		32,777	22,183	126	<b>55,086</b>	61,363
<i>Grants receivable</i>						
From NHS bodies		30	6,365	191	<b>6,586</b>	6,261
Other grants receivable		820	3,864	0	<b>4,684</b>	2,673
Total donations, legacies and similar resources		<u>103,014</u>	<u>147,332</u>	<u>393</u>	<b><u>250,739</u></b>	<u>216,462</u>
<i>Operating activities</i>						
Activities for generating funds		5,831	6,879	0	<b>12,710</b>	7,742
Activities in the furtherance of the charities objectives		6,524	1,311	0	<b>7,835</b>	9,932
		<u>12,355</u>	<u>8,190</u>	<u>0</u>	<b><u>20,545</u></b>	<u>17,674</u>
Investment income		45,541	15,352	175	<b>61,068</b>	67,770
Other incoming resources		4,085	4,514	0	<b>8,599</b>	13,415
<b>Total incoming resources</b>		<u>164,995</u>	<u>175,388</u>	<u>568</u>	<b><u>340,951</u></b>	<u>315,321</u>
<b>Resources expended</b>						
Cost of generating funds		7,627	5,481	1,408	<b>14,516</b>	11,145
<b>Charitable expenditure</b>						
Grants payable to other NHS charities	2.1	39,824	8,442	0	<b>48,266</b>	45,914
Other grants payable	2.1	99,945	71,897	49	<b>171,891</b>	195,968
Activities in furtherance of charitable activities	2.2	40,543	48,561	130	<b>89,234</b>	96,875
Support cost		782	521	0	<b>1,303</b>	1,313
Management and administration		8,825	5,675	87	<b>14,587</b>	13,243
<b>Total resources expended</b>		<u>197,546</u>	<u>140,577</u>	<u>1,674</u>	<b><u>339,797</u></b>	<u>364,458</u>
<b>Net (outgoing)/incoming resources before transfers</b>						
		(32,551)	34,811	(1,106)	<b>1,154</b>	(49,137)
Gross transfer between funds		15,688	2,559	(18,247)	<b>0</b>	0
<b>Net (outgoing)/incoming resources</b>		<u>(16,863)</u>	<u>37,370</u>	<u>(19,353)</u>	<b><u>1,154</u></b>	<u>(49,137)</u>
Gains on revaluation of own fixed assets		14,728	83	3,428	<b>18,239</b>	31,814
(Losses) on revaluation and disposal of fixed assets		(97,605)	(73,461)	(71,321)	<b>(242,387)</b>	(38,855)
<b>Net movement in funds</b>		<u>(99,740)</u>	<u>(36,008)</u>	<u>(87,246)</u>	<b><u>(222,994)</u></b>	<u>(56,178)</u>
Fund balances brought forward at 31 March 2002		718,851	416,147	547,159	<b>1,682,157</b>	
<b>Fund balances carried forward at 31 March 2003</b>		<u>619,111</u>	<u>380,139</u>	<u>459,913</u>	<b><u>1,459,163</u></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 D14 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	Unrestricted funds £000	Restricted funds £000	Endowment funds £000	<b>31 March 2003 Total £000</b>	Restated 31 March 2002 Total £000
<b>Fixed assets</b>						
Intangible assets		3	0	3	<b>6</b>	7
Tangible assets	5	123,354	6,449	24,870	<b>154,673</b>	138,715
Inalienable and historic assets		640	0	3,536	<b>4,176</b>	4,176
Investments	6.1	542,778	321,467	421,682	<b>1,285,927</b>	1,530,381
<b>Total fixed assets</b>		<u>666,775</u>	<u>327,916</u>	<u>450,091</u>	<b>1,444,782</b>	1,673,279
<b>Current assets</b>						
Stocks		151	48	0	<b>199</b>	232
Debtors	7	23,205	8,729	1,746	<b>33,680</b>	40,576
Short term investments and deposits		51,878	56,633	22,590	<b>131,101</b>	117,235
Cash at bank and in hand		28,591	40,865	1,492	<b>70,948</b>	76,105
		<u>103,825</u>	<u>106,275</u>	<u>25,828</u>	<b>235,928</b>	234,148
<b>Creditors: amounts falling due within one year</b>	8.1	<u>(122,650)</u>	<u>(39,972)</u>	<u>(9,229)</u>	<b>(171,851)</b>	(148,149)
<b>Net current assets</b>		<u>(18,825)</u>	<u>66,303</u>	<u>16,599</u>	<b>64,077</b>	85,999
<b>Total assets less current liabilities</b>		<u>647,950</u>	<u>394,219</u>	<u>466,690</u>	<b>1,508,859</b>	1,759,278
Creditors: amounts falling due after more than one year	8.2	(19,780)	(7,704)	(24)	<b>(27,508)</b>	(53,401)
Provisions for liabilities and charges		(9,059)	(6,376)	(6,753)	<b>(22,188)</b>	(23,720)
<b>Funds of the Charities</b>		<u>619,111</u>	<u>380,139</u>	<u>459,913</u>	<b>1,459,163</b>	1,682,157
Funds of the Charities at 31 March 2002		<u>718,851</u>	<u>416,147</u>	<u>547,159</u>		

The notes at pages D7 to D14 form part of this account.

Nigel Crisp  
Accounting Officer

24 March 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; and
  - 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; and
  - 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.

## 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 charity's objectives, without receiving goods or services in return.

Cost 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; and
- 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.

##### *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; and
- 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; and

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; and
- iii other investment fixed assets are included at trustees' best estimate of market value.

### 1.6 Pension 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 Strategic Health Authorities, NHS Trusts, Primary Care Trusts, special trustees, Section 11 trustees and Special Health Authorities.

## 2 Details of resources expended - grants

### 2.1 Grants payable

	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	Total 2001-2002 funds
	£000	£000	£000	<b>£000</b>	£000
Patients welfare and amenities	14,693	16,992	14	<b>31,699</b>	36,739
Staff welfare and amenities	10,899	9,499	1	<b>20,399</b>	21,975
Research	28,624	17,988	8	<b>46,620</b>	54,918
Contributions to NHS	74,443	33,285	4	<b>107,732</b>	106,383
Miscellaneous	11,122	2,575	10	<b>13,707</b>	21,867
	<u>139,781</u>	<u>80,339</u>	<u>37</u>	<b><u>220,157</u></b>	<u>241,882</u>

**2.2 Other**

	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	Total 2001-2002 funds
	£000	£000	£000	<b>£000</b>	£000
Patients welfare and amenities	9,292	11,834	29	<b>21,155</b>	21,975
Staff welfare and amenities	9,097	8,726	0	<b>17,823</b>	16,780
Research	4,527	17,013	0	<b>21,540</b>	23,895
Contributions to NHS	2,410	7,460	91	<b>9,961</b>	13,445
Miscellaneous	15,217	3,528	10	<b>18,755</b>	20,780
	<u>40,543</u>	<u>48,561</u>	<u>130</u>	<b><u>89,234</u></b>	<u>96,875</u>
<b>Total direct charitable expenditure</b>				<b><u>309,391</u></b>	<u>338,757</u>

**3 Analysis of total resources expended****3.1**

	Cost of generating funds	Direct charitable expend- iture	Support costs	Manage- ment and adminis- tration	<b>Total</b>	Total 2001-2002
	£000	£000	£000	£000	<b>£000</b>	£000
Staff	1,917	3,347	670	2,827	<b>8,761</b>	8,161
Depreciation	312	1,318	0	304	<b>1,934</b>	1,787
Impairments	0	0	0	0	<b>0</b>	6,558
<i>Auditor's remuneration</i>						
Audit fee <sup>1</sup>	0	0	0	1,265	<b>1,265</b>	1,290
Other fees	245	3,125	0	400	<b>3,770</b>	341
Indemnity insurance	3	0	0	134	<b>137</b>	80
Bought-in services from NHS	1,345	5,981	555	5,301	<b>13,182</b>	12,507
Other	10,694	295,620	78	4,356	<b>310,748</b>	333,734
	<u>14,516</u>	<u>309,391</u>	<u>1,303</u>	<u>14,587</u>	<b><u>339,797</u></b>	<u>364,458</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>	Total 2001-2002
	<b>£000</b>	£000
Salaries and wages	<b>7,736</b>	7,187
Social security costs	<b>636</b>	599
Other pension costs	<b>389</b>	375
	<b><u>8,761</u></b>	<u>8,161</u>
Average monthly number of employees in the year	<b><u>324</u></b>	<u>383</u>

**4 Changes in resources available for charity use**

	Unrestricted funds	Restricted funds	Endowment funds	<b>Total funds</b>	Total 2001-2002 funds
	£000	£000	£000	<b>£000</b>	£000
Net movement in funds for the year	(99,740)	(36,008)	(87,246)	<b>(222,994)</b>	(56,178)
Net movement in tangible fixed assets	12,239	536	3,183	<b>15,958</b>	25,481
Net movement in funds available for future activities	<u>(87,501)</u>	<u>(35,472)</u>	<u>(84,063)</u>	<b><u>(207,036)</u></b>	<u>(30,697)</u>

**5 Fixed assets**

	Freehold land and buildings	Other interests in land and buildings	Plant and machinery	Fixtures, fittings and equipment	Assets under construc- tion	<b>Total</b>
	£000	£000	£000	£000	£000	<b>£000</b>
<b>Gross value</b>						
Balance at 31 March 2002	113,823	5,455	200	9,759	15,968	145,205
Additions and transfers	1,191	87	33	48	0	<b>1,359</b>
Revaluations and indexation	16,813	350	0	(687)	3,061	<b>19,537</b>
Impairments	0	0	0	0	0	<b>0</b>
Disposals	(655)	(396)	(4)	(33)	0	<b>(1,088)</b>
<b>Balance at 31 March 2003</b>	<u>131,172</u>	<u>5,496</u>	<u>229</u>	<u>9,087</u>	<u>19,029</u>	<b><u>165,013</u></b>
<b>Accumulated depreciation</b>						
Balance at 31 March 2002	4,685	944	110	751	0	6,490
Disposals	(27)	(232)	(4)	(33)	0	<b>(296)</b>
Revaluations and indexation	2,221	42	0	(51)	0	<b>2,212</b>
Charge for the year	1,657	82	32	163	0	<b>1,934</b>
<b>Balance at 31 March 2003</b>	<u>8,536</u>	<u>836</u>	<u>138</u>	<u>830</u>	<u>0</u>	<b><u>10,340</u></b>
<b>Net book value at 31 March 2003</b>	<u>122,636</u>	<u>4,660</u>	<u>91</u>	<u>8,257</u>	<u>19,029</u>	<b><u>154,673</u></b>
Net book value at 31 March 2002	<u>109,138</u>	<u>4,511</u>	<u>90</u>	<u>9,008</u>	<u>15,968</u>	<u>138,715</u>
Historic cost at 31 March 2003						<b><u>77,596</u></b>

## 6 Analysis of fixed asset investments

### 6.1 Fixed asset investments

	£000	31 March 2002 £000
Market value at 31 March	<b>1,530,381</b>	1,588,879
Less: Disposals at carrying value	<b>(383,901)</b>	(411,512)
Add: Acquisitions at cost	<b>381,834</b>	378,677
Net loss on revaluation	<b>(242,387)</b>	(25,663)
<b>Closing market value</b>	<b><u>1,285,927</u></b>	<u>1,530,381</u>
<b>Historic cost at 31 March</b>	<b><u>1,222,185</u></b>	<u>1,241,653</u>

### 6.2 Market value at 31 March

	Held in UK £000	Held outside UK £000	Total £000	31 March 2002 £000
Investment properties	254,529	0	<b>254,529</b>	238,324
Investments listed on Stock Exchange	674,804	112,135	<b>786,939</b>	1,028,925
Investments in a Common Deposit Fund or Common Investment Fund	163,177	5,408	<b>168,585</b>	175,945
Unlisted securities	2,735	1,157	<b>3,892</b>	4,810
Cash held as part of the investment portfolio	63,655	0	<b>63,655</b>	74,712
Other investments	8,029	298	<b>8,327</b>	7,665
	<u>1,166,929</u>	<u>118,998</u>	<b><u>1,285,927</u></b>	<u>1,530,381</u>

## 7 Analysis of debtors

### 7.1 Amounts falling due within one year

	£000	31 March 2002 £000
Amounts due from subsidiary and associated undertakings	<b>983</b>	753
Trade debtors	<b>2,896</b>	2,541
Prepayments	<b>533</b>	662
Accrued income	<b>16,887</b>	22,779
Other debtors	<b>10,729</b>	12,295
<b>Total debtors falling due within one year</b>	<b><u>32,028</u></b>	<u>39,030</u>

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

	£000	31 March 2002 £000
Amounts due from subsidiary and associated undertakings	<b>236</b>	264
Accrued income	<b>42</b>	0
Other debtors	<b>1,374</b>	1,282
<b>Total debtors falling due after more than one year</b>	<b><u>1,652</u></b>	<u>1,546</u>
<b>Total debtors</b>	<b><u>33,680</u></b>	<u>40,576</u>

## 8 Analysis of creditors

### 8.1 Amounts falling due within one year

		31 March 2002 £000
Loans and overdrafts	<b>8,588</b>	1,160
Trade creditors	<b>8,436</b>	6,207
Amounts due to subsidiary and associated undertakings	<b>8,609</b>	10,037
Other creditors	<b>92,698</b>	74,113
Accruals	<b>47,249</b>	51,076
Deferred income	<b>6,271</b>	5,556
<b>Total creditors falling due within one year</b>	<b><u>171,851</u></b>	<u>148,149</u>

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

		31 March 2002 £000
Loans and overdrafts	<b>7,120</b>	8,585
Other creditors	<b>17,132</b>	42,566
Accruals and deferred income	<b>3,256</b>	2,250
<b>Total creditors falling due after more than one year</b>	<b><u>27,508</u></b>	<u>53,401</u>
<b>Total creditors</b>	<b><u>199,359</u></b>	<u>201,550</u>

## 9 Contingencies

Contingent liabilities totalling £2,542,000 (2001-2002 £2,581,000) 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 £1,397,000 (2001-2002 £1,249,000) 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

		2001-2002 £000
Charitable projects	<b>58,550</b>	45,213
Capital	<b>51,432</b>	40,866
Other	<b>12,669</b>	20,304
	<b><u>122,651</u></b>	<u>106,383</u>

## 11 Related party transactions

Strategic Health authorities, 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 their associated health authorities, NHS trusts and primary care trusts.

## **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 recognised 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 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 Counter Fraud and Security Management Service



## 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 Counter Fraud and Security Management Service 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 Counter Fraud and Security Management Service. 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 2002-2003

This statement is given in respect of the Summarised Account for the NHS Counter Fraud & Security Management Service (CFSMS).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the CFSMS maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the CFSMS as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

I have issued guidance to the Accountable Officer of the CFSMS regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the CFSMS Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### CFSMS governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the CFSMS, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

### Scope of responsibility

The Board of the CFSMS is accountable for internal control. The Accountable Officer has responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. He also has responsibility for safeguarding the public funds and assets as set out in the Accountable Officer Memorandum.

The accounts for the NHS Counter Fraud & Security Management Service (CFSMS) for the three month period ended 31 March 2003 represent an interim period from the date of constitution of the CFSMS on 1 January 2003 and 1 April 2003, the date that the Authority became fully operational.

The accounts for this interim period effectively comprise the results of the Compliance Unit (CU) based in Newcastle.

Before 1 January 2003 the CU formed part of the Prescription Pricing Authority (PPA) and was included in the PPA accounts to 31 December 2002.

From 1 January 2003, the CU was transferred to the CFSMS by the PPA. The CU finances continued to be administered by the PPA in Newcastle. The CU was also subject to the internal controls historically implemented by the PPA over it.

### The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to

- identify and prioritise the risks to the achievement of the organisation's policies, aims and objectives; and
- evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

A review of the operations and internal controls of the CU was commenced by the CFSMS Accountable Officer in the interim period and continues into 2003-2004. Internal controls will be strengthened for the CU during 2003-2004.

### Capacity to handle risk

The Authority Deputy Chief Executive leads the assessment and mitigation of risks for the CFSMS through a robust business planning process as referred to below.

Now that the Authority is fully operational as from 1 April 2003, training is planned for staff in internal constitution matters including procedures for risk management, the Authority business plan and the provisions of the Authority Standing Financial Instructions, Standing Orders and the Scheme of Delegation.

The CFSMS is a highly specialised organisation, and leads the Counter Fraud profession in defining best practice for risk management in this area. Input is also sought and will be received from internal and external auditors in addition to Department of Health guidance.

### The risk and control framework

Authority risks have been assessed as part of the Authority business planning process under direction of the Authority Deputy Chief Executive. The business plan includes a risk register with delegated responsibilities for stated risks and has been documented in detail and circulated amongst relevant Authority staff. This business planning process provides a strong framework around which risk management and internal control development can be optimised.

The risk and internal control framework is reviewed on an ongoing basis under the leadership of the deputy Chief Executive with input from the Executive Management Team, the Board, the Audit Committee, the internal auditors and external auditors. The business plan and risk register have been copied to the Senior Departmental Sponsor and his representative for their input.

The Authority has a strategy for the implementation of Controls Assurance as approved by the Audit Committee on 28 May 2003 with the achievement of the three Core Standards by 31 March 2004 and other standards by 31 March 2005.

### Review of effectiveness

The Accountable Officer has responsibility for reviewing the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control over the CU in 2002-2003 is referred to above.

Continuing internal control developments will be made during 2003-2004, informed by the work of the internal auditors, by comments made by the external auditors, the Board and guidance received from the Department of Health. The Chief Executive will also place reliance on the executive managers within the organisation, who have responsibility for the development and maintenance of the system of internal control and the Assurance Framework from 1 April 2003.

A plan to address internal control weaknesses and ensure continuous improvement of the system is in place.

### Significant internal control weaknesses

The partial commencement of the CFSMS from 1 January 2003 in the transfer of the CU from the PPA and the historical internal controls operating over this unit for the interim period ended 31 March 2003 resulted in less than optimal internal controls operating over this unit; and

Further to the review of CU internal controls, carried out by the CFSMS during 2002-2003 and into 2003-2004, CU internal control weaknesses will be addressed before 31 March 2004.

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the CFSMS from 2003-2004 onwards.

*Nigel Crisp*

27 November 2003



# 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 E8 to E20 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 E11 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 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 E4 to E6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 Counter Fraud and Security Management Service, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error 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. 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 Counter Fraud and Security Management Service at 31 March 2003 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.
- 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the three month period ended 31 March 2003

### Continuing operations

	Notes	£000
Programme costs	2.1	858
Operating income	4	<u>(757)</u>
<b>Net operating costs</b>		<u>101</u>
<b>Net resource outturn</b>	3.1	<u>101</u>

## Statement of Recognised Gains and Losses for the period ended 31 March 2003

	Notes	£000
Unrealised surplus on the revaluation of fixed assets	5.2	1
Transfer of assets from Prescription Pricing Authority on 1 January 2003	11.1	<u>540</u>
<b>Recognised gains for the financial period</b>		<u>541</u>

*The notes at pages E11 to E20 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	1 January 2003 £000
<b>Fixed assets</b>			
Intangible assets	5.1	54	34
Tangible assets	5.2	<u>606</u>	<u>49</u>
		<b>660</b>	83
<b>Current assets</b>			
Debtors	6	<u>751</u>	<u>549</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>(235)</u>	<u>(92)</u>
<b>Net current assets</b>		<u>516</u>	<u>457</u>
<b>Total assets less current liabilities</b>		<u>1,176</u>	<u>540</u>
<b>Taxpayers' equity</b>			
General fund	11.1	1,175	540
Revaluation reserve	11.2	<u>1</u>	<u>0</u>
		<u>1,176</u>	<u>540</u>

*The notes at pages E11 to E20 form part of this account.*

*Nigel Crisp*  
Accounting Officer

24 March 2004

## Cash Flow Statement for the three month period ended 31 March 2003

	Notes	£000
<b>Net cash outflow from operating activities</b>	12	<b>144</b>
<b>Capital expenditure and financial investment</b>		
Payments to acquire intangible assets		23
Payments to acquire tangible assets		<u>560</u>
<b>Net cash outflow from investing activities</b>		<u>583</u>
<b>Net cash outflow before financing</b>		<u>727</u>
<b>Financing</b>		
Net Parliamentary funding		727
<b>(Increase)/decrease in cash in the period</b>	7	<u>0</u>

*The notes at pages E11 to E20 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 the Counter Fraud and Security Management Service (the Authority) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified 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.

### 1.2 Operating income

Income is accounted for applying the accruals convention. The main source of funding for the Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as recoveries of prescription charges and related penalty charges and surcharges (see below). 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. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

#### *Prescription charge recovery*

Where patients have erroneously claimed exemption from prescription charge payment, and this has been identified by the CFSMS Compliance Unit, the related amount is requested from the patient. This income is collected on behalf of the Department of Health and is shown in note 4.

Where requested patient payments in respect of prescription charges are not received within set timescales, penalty charges and surcharges are issued. These are included in operating income and are also disclosed in debtors.

Where patients are found to be exempt from prescription charges after they have been requested by the Compliance Unit and penalty charges and surcharges have been issued, operating income and related other debtors are reversed.

Where prescription charges are judged to be irrecoverable, and where penalties and surcharges relating to these charges have been raised these are also deemed to be irrecoverable; they are all shown as irrecoverable in the operating cost statement of the Authority.

### 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

## 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 Tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000; and
- 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.

### 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 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

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 being material.

- ii 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 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.
- ii Land and assets in the course of construction are not depreciated.
- iii 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.
- iv Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5
<i>Transport equipment</i>	7
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7

## 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% of pensionable pay. The total employer contribution payable in 2002-2003 was £14,000. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay. Employer contribution rates have been set at 14% from 1 April 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 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. For post 5 March 1995 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 Board commits itself to the retirement, regardless of the method of payment.

### **1.7 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 SSAP 13. 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.

### **1.8 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.

### **1.9 Operating leases**

Rentals under operating leases are charged on a straight line basis over the term of the lease. Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

### **1.10 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).

### **1.11 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 6% in real terms.



**2.1 Programme costs for the three month period ended 31 March 2003**

	Notes	£000	£000
Staff costs	2.2		224
Depreciation		4	
Amortisation		3	
Capital charges interest		9	
			16
<b>Supplies and services - general</b>			
Professional fees			115
Furniture, equipment and transport			90
Printing and stationery			26
Postage			14
Staff expenses			2
Telephone			1
Training			1
			249
Irrecoverable prescription charges			20
Irrecoverable prescription penalties/surcharges			138
Provision for doubtful prescription penalties/surcharges			204
Audit fees <sup>1</sup>			7
			858

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

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

Hire and operating rentals included in expenses

	£000
Other operating leases	1
	1

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998.

**2.2 Staff costs****Executive members' remuneration and staff costs**

	2002-2003 £000
Salaries and wages	195
Social security costs	15
Employer contributions to NHSPA	14
<b>Total staff costs</b>	<b>224</b>

The average number of whole-time equivalent persons employed (including senior management) during the year was 17.

## 2.3 Senior staff remuneration

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

Name (and position held)	Age  years	Salary (for the 3 months) 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 2003 in £5k bands £000
<b>Executive Team</b>				
Jim Gee	45	20-25	n/a	n/a
Justin Parfitt	36	15-20	n/a	n/a
Steve Phillips	47	10-15	n/a	n/a
<b>Non-Executive Directors</b>				
Bill Darling	69	0-5	n/a	n/a
Steve Winyard	54	0-5	n/a	n/a
John Flook	54	0-5	n/a	n/a
Ian Tipney	46	0-5	n/a	n/a
Gill Galliano	41	0-5	n/a	n/a
Peter Finch	44	0-5	n/a	n/a

The Executive Team and Non Executive Directors were appointed on 22 January 2003 and were formerly employed or engaged under hosting arrangements with the Department of Health and East Surrey Primary Care Trust respectively. These bodies paid remuneration entitlements under this hosting arrangement, which are therefore not disclosed in the accounts.

From 1 April 2003, when the CFSMS became fully functional, all salaries and pension entitlements were taken on by The CFSMS and will be fully disclosed in the 2003-2004 accounts.

### 3.1 Reconciliation of net operating cost to net resource outturn and revenue resource limit

	<b>2002-2003</b> <b>£000</b>
Net operating cost	<u>101</u>
<b>Net resource outturn</b>	<u>101</u>
<b>Revenue resource limit</b>	<u>260</u>
<b>Under spend against limit</b>	<u>159</u>

### 3.2 Reconciliation of gross capital expenditure to capital resource limit

	<b>2002-2003</b> <b>£000</b>
Gross capital expenditure	<u>583</u>
<b>Net capital resource outturn</b>	<u>583</u>
Capital resource limit	<u>610</u>
<b>Underspend against limit</b>	<u>27</u>

**4 Operating income****2002-2003  
£000***Operating income, analysed by activity, is as follows*

Prescription penalties and surcharges

**757****5 Fixed assets****5.1 Intangible fixed assets****IT software  
£000**

Opening balance at 1 January 2003

**0**

Transferred at 1 January 2003

**34**

Additions - purchased

**23****Gross cost at 31 March 2003****57**

Accumulated amortisation at 1 January 2003

**0**

Provided during the year

**3****Accumulated amortisation at 31 March 2003****3**

Net book value as at 1 January 2003

**0****Net book value as at 31 March 2003****54****5.2 Tangible fixed assets**

	IT £000	Fixtures and fittings £000	<b>Total £000</b>
--	------------	----------------------------------	-----------------------

Opening balance at 1 January 2003

0      0      **0**

Additions - purchased

560      0      **560**

Additions - transferred

35      14      **49**

Additions - indexation

1      0      **1****Gross cost at 31 March 2003**596      14      **610**

Accumulated amortisation at 31 March 2002

0      0      0

Provided during the year

3      1      **4****Accumulated amortisation at 31 March 2003**3      1      **4**

Net book value as at 1 January 2003

35      14      49

**Net book value as at 31 March 2003****593**      **13**      **606**

There are no lease assets.

**6 Debtors**

	<b>31 March 2003 £000</b>	<b>1 January 2003 £000</b>
<b>Amounts falling due within one year</b>		
Prepayments	<b>8</b>	<b>0</b>
Prescription charges	<b>743</b>	<b>549</b>
	<b><u>751</u></b>	<b><u>549</u></b>

**7 Analysis of changes in cash**

	At 31 December 2002 £000	Change during the year £000	<b>At 31 March 2003 £000</b>
Cash at OPG	<u>0</u>	<u>0</u>	<u><b>0</b></u>

**8 Creditors**

	<b>31 March 2003 £000</b>	<b>1 January 2003 £000</b>
<b>Amounts falling due within one year</b>		
NHS creditors	<b>144</b>	92
Capital creditors	<b>62</b>	0
Accruals	<b>29</b>	0
	<b><u>235</u></b>	<u>92</u>

**9 Provisions for liabilities and charges**

There were no provisions recognised in the period under review.

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

	<b>2002-2003 £000</b>
Increase in debtors	<b>202</b>
(Increase) in creditors	<b><u>(143)</u></b>
	<u><b>59</b></u>

**11 Reserves****11.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 1 January 2003: transfer from Prescription Pricing Authority	<b>540</b>
Net operating cost for the year	<b>(101)</b>
Net Parliamentary funding	<b>727</b>
<i>Non-cash items</i>	
Capital charges interest	<b>9</b>
<b>Balance at 31 March 2003</b>	<b><u>1,175</u></b>

**11.2** The movement on the Revaluation Fund in the year comprised

	<b>£000</b>
Balance at 1 January 2003	<b>0</b>
Indexation of fixed assets	<b>1</b>
<b>Balance at 31 March 2003</b>	<b><u>1</u></b>

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

	Notes	<b>31 March 2003 £000</b>
Net operating costs for the period		<b>101</b>
Adjust for movements in working capital other than cash	10	<b>59</b>
Adjust for non-cash transactions	2.1	<b>(16)</b>
<b>Net cash outflow from operating activities</b>		<b><u>144</u></b>

**13 Contingent liabilities**

At 31 March 2003, the Counter Fraud and Security Management Service was engaged in civil legal action on a significant operational case. The outcome, and likely concluding date, of this legal action as at the period end was uncertain. No other details of this case are disclosed, as to do so could prejudice the legal position of the Counter Fraud and Security Management Service.

**14 Capital commitments**

At 31 March 2003 there were no contracted capital commitments.

**15 Commitments under operating leases**

The only obligations under operating leases as at 31 March 2003 related to a lease car in the sum of £3,450. These obligations fall due within one year.

	<b>2002-2003 Lease car £000</b>
	<b>3</b>
Within one year	<b><u>3</u></b>

## **16 Other commitments**

The Authority has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2003.

## **17 Losses and special payments**

There were no cases of loss in 2002-2003 other than the irrecoverable debts as shown in note 2 to the accounts in relation to prescription income, prescription penalties and surcharges.

## **18 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, including the Prescription Pricing Authority.

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 parties listed above.

## **19 Post balance sheet events**

There are no post balance sheet events.

## **20 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 the Counter Fraud and Security Management Service is financed it 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 Counter Fraud and Security Management Service has no 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 Counter Fraud and Security Management Service in undertaking its activities.

### *Liquidity risk*

The Authority's net operating costs are financed from resources voted annually by Parliament, just as its capital expenditure is. 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 Counter Fraud and Security Management Service has negligible foreign currency expenditure. It is not therefore exposed to significant foreign currency risk.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, the National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 account 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Dental Practice Board



## 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 Dental Practice Board at the year end and 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 the Dental Practice Board. 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 2002-2003

This statement is given in respect of the Summarised Account for the Dental Practice Board (DPB).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the DPB maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the DPB as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the DPB is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the DPB regarding corporate governance and systems of internal control. For 2002-03, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the DPB Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### DPB governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the DPB, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

### DPB assurance

The Chief Executive of the DPB has provided me with an assurance that an effective system of internal control has been in place throughout the financial year and is ongoing. This is demonstrated by the Board's assurance framework and evidence of compliance with the requirements of the Controls Assurance Standards.

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the DPB from 2003-2004 onwards.

Nigel Crisp

27 November 2003

## 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 F8 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 F11 to F15.

### 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 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 F4 to F5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 Dental Practice Board, 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.

### Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.2 to the account, the Dental Practice Board exceeded its capital resource limit by £2,000. As the Dental Practice Board has no power to exceed its capital resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

## Opinion

### In my opinion

- the financial statements give a true and fair view of the state of affairs of the Dental Practice Board as at 31 March 2003 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
- except for the expenditure incurred in excess of the Dental Practice Board's capital resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>26,827</b>	24,819
Operating income	4	<b>(262)</b>	(158)
<b>Net operating cost</b>		<b><u>26,565</u></b>	<u>24,661</u>
<b>Net resource outturn</b>	3.1	<b><u>26,565</u></b>	<u>24,661</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	11.2	<b>515</b>	167
Prior period adjustment (early retirements)		<b>(3,088)</b>	0
<b>Recognised (losses) and gains for the financial year</b>		<b><u>(2,573)</u></b>	<u>167</u>

*The notes at pages F11 to F23 form part of this account.*



## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>390</b>	256
Tangible assets	5.2	<b>4,470</b>	4,695
		<b>4,860</b>	4,951
<b>Current assets</b>			
Debtors	6	<b>827</b>	1,140
Cash at bank and in hand	7	<b>18</b>	20
		<b>845</b>	1,160
<b>Creditors: amounts falling due within one year</b>	8	<b>(1,038)</b>	(1,445)
<b>Net current (liabilities)</b>		<b>(193)</b>	(285)
<b>Total assets less current liabilities</b>		<b>4,667</b>	4,666
Provisions for liabilities and charges	9	<b>(8,531)</b>	(5,853)
		<b>(3,864)</b>	(1,187)
<b>Taxpayers' equity</b>			
General fund	11.1	<b>(5,049)</b>	(1,921)
Revaluation reserve	11.2	<b>1,185</b>	734
		<b>(3,864)</b>	(1,187)

The summarised balance sheet indicates that the Commission has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority if it ceases to exist.

*The notes at pages F11 to F23 form part of this account.*

Nigel Crisp  
Accounting Officer

31 October 2003

# 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 the Board are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Board is Parliamentary grant from the Department of Health from Request for Resources 1 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 Board. 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 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 Board 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

**Intangible fixed assets**

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

**Tangible fixed assets**

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost 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

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 value of the GDP deflator. Equipment surplus to requirements is valued at the net recoverable amount.

- iii 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 15 to 40 years). Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Transport equipment</i>	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5

## 1.6 Stocks and work in progress

The Board does not normally recognise 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 Board 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 Board to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £630,000 (£627,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 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 members final years 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. For post 5 March 1995 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 Board commits itself to the retirement, regardless of the method of payment.

## **1.9 Research and development**

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

## **1.10 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 leases.

## **1.11 Foreign exchange**

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

## 1.12 Prior period adjustment

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast of the remaining liability has been recognised as a prior period adjustment as at 1 April 2002.

The total charge to the general fund was £3,088,000.

## 1.13 Provisions

The Board 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 6% in real terms.

## 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive members' remuneration			<b>43</b>	37
Other salaries and wages	2.2		<b>11,089</b>	11,420
<i>Early retirement and severance scheme</i>				
New scheme	9	<b>3,352</b>		
Unwinding of discount	9	<b>384</b>		
			<b>3,736</b>	1,561
Computer staff contractors			<b>5,067</b>	4,246
Bureau keying			<b>1,033</b>	1,021
Reference service agency staff			<b>515</b>	481
Postage, stationery and telephone			<b>1,103</b>	1,310
Capital: Depreciation and amortisation	5.1, 5.2	<b>602</b>		594
Impairments	5.2	<b>6</b>		57
Capital charges interest		<b>(151)</b>		148
(Profit)/loss on disposal	5.3	<b>(13)</b>		1
			<b>444</b>	800
Maintenance of equipment and premises			<b>285</b>	284
Transport, travel and subsistence			<b>583</b>	612
Rent and rates			<b>433</b>	347
Furniture and equipment			<b>339</b>	274
Consultants			<b>1,254</b>	679
Heat, light and power			<b>79</b>	81
Hire and leasing			<b>31</b>	34
Auditor's remuneration: Audit Fees <sup>1</sup>			<b>88</b>	88
Auditor's remuneration: Other fees			<b>8</b>	0
Training			<b>104</b>	300
Other administration costs			<b>593</b>	1,244
			<b>26,827</b>	24,819

The 2001-2002 figures have been restated to separately identify the cost of agency staff, which are now included in staff costs but were previously included within consultants.

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

Expenses of the Authority include the following in respect of operating lease rentals (the Board had no liabilities under hire purchase contracts)

	£000	2001-2002 £000
Hire of plant and machinery	31	0
Other operating leases	143	0
	<u>174</u>	<u>0</u>

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	Restated 2001-2002 £000
Salaries and wages	9,692	9,651
Social security costs	742	758
Employer contributions to NHSPA	630	627
Pensions to former employees	0	338
Agency Staff	25	46
	<u>11,089</u>	<u>11,420</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 342 (2001-2002: 367 restated).

#### *Expenditure on staff benefits*

The Board provides Dental Reference Officers with cars for the performance of their duties which involves clinical duties throughout England and Wales. Where an officer elects to have personal use of the car they make a monthly payment for this privilege. Under current Inland Revenue rules this results in a taxable benefit of £85,000.

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

During 2002-2003 there were no early retirements from the Board on the grounds of ill-health. (2001-2002: two early retirements with estimated additional pension liabilities of £243,000 (calculated on an average basis and borne by the NHS Pensions Scheme)).

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands £000
	years	£000	£000	£000
M Wyllie (Chairman)	63	25-30	n/a	n/a
J Taylor (Chief Executive)	63	80-85	0-2.5	20-25
R Austin (Non executive member)	66	0-5	n/a	n/a
N Entwistle (Non executive member)	47	0-5	n/a	n/a
C Ferguson (Non executive member)	56	0-5	n/a	n/a
D Spratt (Non executive member)	60	0-5	n/a	n/a
D Ferns (Non executive member)	43	0-5	n/a	n/a
S Lakhanpaul (Non executive member)	35	0-5	n/a	n/a
C Edmonds (Corporate Secretary)	47	60-65	0-2.5	0-5
R Staines (Chief Dental Adviser)	61	60-65	*	*
D Stirling (Head of Information & Probity)	60	60-65	*	*
D Wright (Head of Transaction Processing)	54	60-65	*	*

#### 2001-2002 disclosures

C Forsyth (Chairman to 30 June 2001)	61	0-5	n/a	n/a
M Wyllie (Chairman from 1 July 2001) (Non- Executive member to 30 June 2001)	62	20-25	n/a	n/a
J Taylor (Chief Executive)	62	75-80	0-2.5	15-20
R Austin (Non executive member)	65	0-5	n/a	n/a
N Entwistle (Non executive member)	46	0-5	n/a	n/a
C Ferguson (Non executive member)	55	0-5	n/a	n/a
D Spratt (Non executive member)	59	0-5	n/a	n/a
D Ferns (Non-executive member from 1 January 2002)	42	0-5	n/a	n/a
S Lakhanpaul (Non-executive member from 1 January 2002)	34	0-5	n/a	n/a
C Edmonds (Corporate Secretary)	46	60-65	0-2.5	0-5
R Staines (Chief Dental Adviser)	60	60-65	*	*
D Stirling (Head of Information & Probity)	59	60-65	*	*
D Wright (Head of Transaction Processing)	53	60-65	*	*

\* Consent to disclose withheld

There were no payments of other remuneration, golden hellos, compensation for loss of office or benefits in kind during 2002-2003.

### 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest or compensation for debt recovery costs was paid under the legislation (2001-2002: £nil).



**3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit**

	£000	2001-2002 £000
Net operating cost	<u>26,565</u>	<u>24,661</u>
<b>Net resource outturn</b>	<b><u>26,565</u></b>	<b><u>24,661</u></b>
<b>Revenue resource limit</b>	<b><u>26,570</u></b>	<b><u>24,661</u></b>
<b>Under/(over) spend against limit</b>	<b><u>5</u></b>	<b><u>0</u></b>

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

	£000	2001-2002 £000
Gross capital expenditure	<u>649</u>	754
NBV of assets disposed	<u>(647)</u>	<u>(31)</u>
<b>Net capital resource outturn</b>	<b><u>2</u></b>	<b><u>723</u></b>
Capital resource limit	<u>0</u>	<u>740</u>
<b>(Over)/underspend against limit</b>	<b><u>(2)</u></b>	<b><u>17</u></b>

**4 Operating income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	<u>262</u>	<u>158</u>
<b>Total</b>	<b><u>262</u></b>	<b><u>158</u></b>

**5 Fixed assets****5.1 Intangible fixed assets**

	Software licences £000
Gross cost at 31 March 2002	260
Additions - purchased	<u>228</u>
<b>Gross cost at 31 March 2003</b>	<b><u>488</u></b>
Accumulated amortisation at 31 March 2002	4
Provided during the year	<u>94</u>
<b>Accumulated amortisation at 31 March 2003</b>	<b><u>98</u></b>
Net book value as at 31 March 2002	<u>256</u>
<b>Net book value as at 31 March 2003</b>	<b><u>390</u></b>

**5.2 Tangible fixed assets**

	<b>Total</b>	Land	Buildings exc dwellings	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2002	<b>7,872</b>	863	2,292	921	2,805	991
Indexation	<b>573</b>	187	328	28	0	30
Additions - purchased	<b>421</b>	0	0	266	136	19
Disposals	<b>(3,103)</b>	0	0	(140)	(2,518)	(445)
<b>Gross cost at 31 March 2003</b>	<b><u>5,763</u></b>	<u>1,050</u>	<u>2,620</u>	<u>1,075</u>	<u>423</u>	<u>595</u>
Accumulated depreciation at 31 March 2002	<b>3,177</b>	0	129	459	1,751	838
Indexation	<b>58</b>	0	19	14	0	25
Impairments	<b>6</b>	0	0	4	0	2
Provided during the year	<b>508</b>	0	74	130	232	72
Disposals	<b>(2,456)</b>	0	0	(120)	(1,891)	(445)
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>1,293</u></b>	<u>0</u>	<u>222</u>	<u>487</u>	<u>92</u>	<u>492</u>
Net book value at 31 March 2002	<b><u>4,695</u></b>	<u>863</u>	<u>2,163</u>	<u>462</u>	<u>1,054</u>	<u>153</u>
<b>Net book value at 31 March 2003</b>	<b><u>4,470</u></b>	<u>1,050</u>	<u>2,398</u>	<u>588</u>	<u>331</u>	<u>103</u>

The net book value of land and buildings as at 31 March 2003 of £3,448,000 is all freehold.

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date was £0.

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

	<b>£000</b>
Profit on disposal of IT equipment	<b>15</b>
(Loss) on disposal of motor vehicles	<b>(2)</b>
	<b><u>13</u></b>

**6 Debtors**

	<b>£000</b>	31 March 2002 £000
<b>Amounts falling due within one year</b>		
Department of Health	<b>0</b>	72
National Assembly for Wales	<b>1</b>	0
NHS Pensions Agency	<b>8</b>	9
Prepayments and accrued income	<b>314</b>	724
Dental Vocational Training Authority	<b>17</b>	0
Other debtors	<b><u>487</u></b>	<u>335</u>
	<b><u>827</u></b>	<u>1,140</u>

The Board makes payments on behalf of the Department of Health and the National Assembly for Wales in respect of Electronic Data Interchange, and the Pensions Agency in respect of Widows'/Widowers' Pension. These payments are subsequently reimbursed. Amounts due to the Board at 31 March 2003 totalled £9,000 (2001-2002: £81,000).

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	<b>At 31 March 2003 £000</b>
Cash at OPG	1	1	<b>2</b>
Cash at commercial banks and in hand	19	(3)	<b>16</b>
	<u>20</u>	<u>(2)</u>	<u><b>18</b></u>

**8 Creditors**

	31 March 2002 £000	31 March 2003 £000
<b>Amounts falling due within one year</b>		
NHS Pensions Agency	<b>256</b>	227
Dental Vocational Training Authority	<b>0</b>	19
Tax and social security	<b>253</b>	253
Other creditors	<b>139</b>	433
Accruals and deferred income	<b>363</b>	513
National Centre for Continuing Professional Education for Dentists	<b>27</b>	0
	<u><b>1,038</b></u>	<u>1,445</u>

**9 Provisions for liabilities and charges**

	<b>Pensions for former staff £000</b>
At 31 March 2002	2,765
Prior Period Adjustment (pre 95 Early Retirements)	<b>3,088</b>
Restated as at 1 April 2002	<b>5,853</b>
Arising during the year (New Scheme)	<b>3,352</b>
Utilised during the year	<b>(1,058)</b>
Unwinding of discount	<b>384</b>
At 31 March 2003	<u><b>8,531</b></u>
<b>Expected timing of cash flow</b>	<b>£000</b>
Within one year	<b>692</b>
One to five years	<b>3,200</b>
Over five years	<b>4,639</b>

The pension provision relates to staff who left the Dental Practice Board under voluntary severance and early retirement schemes. Until 31 March 2002 the provision covered staff who retired in the period to 6 March 1995 where the cost had not been capitalised i.e. a payment made to the NHS Pension Agency in respect of the liability. A prior period adjustment charged to the general fund as at 1 April 2002 in respect of staff who left under voluntary early schemes prior to 5 March 1995 where the cost has not been capitalised means the provision now covers all leavers.

The new scheme provision is in respect of all early retirements where the decision has been made in the year to 31 March 2003 and includes retirements planned for 2003-2004 of £1,191,000 and 2004-2005 of £2,161,000 (2001-2002: retirements planned for 2002-2003 of £1,433,000).

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

	<b>£000</b>	2001-2002 £000
(Decrease) in debtors	<b>(313)</b>	(125)
Decrease/(increase) in creditors	<b>407</b>	(357)
	<b>94</b>	(482)

**11 Reserves****11.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	1,167
Prior period adjustment	<b>(3,088)</b>
	<b>(1,921)</b>
Net operating costs for the year	<b>(26,565)</b>
Net Parliamentary funding	<b>23,524</b>
Transfer of realised profits/losses from revaluation reserve	<b>64</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(151)</b>
<b>Balance at 31 March 2003</b>	<b>(5,049)</b>

**11.2** The movement on the Revaluation Reserve in the year comprised

	<b>£000</b>
Balance at 31 March 2002	734
Indexation of fixed assets	<b>515</b>
Transfer to General Fund: realised revaluation	<b>(64)</b>
<b>Balance at 31 March 2003</b>	<b>1,185</b>

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

	Notes	<b>£000</b>	2001-2002 £000
Net operating cost for the year		<b>26,565</b>	24,661
Adjust for non-cash transactions	2.1	<b>(444)</b>	(800)
Adjust for movements in working capital other than cash	10	<b>94</b>	(482)
(Increase) in provisions	9	<b>(2,678)</b>	(893)
Net cash outflow from operating activities		<b>23,537</b>	22,486

**13 Contingent liabilities**

At 31 March 2003 there were no known contingent liabilities (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

**15 Commitments under operating leases**

Commitments under non-cancellable operating leases are as follows

	£000	2001-2002 £000
Other leases within one year	<b>184</b>	0
between one and five years	<b>337</b>	0
after five years	<b>147</b>	0
	<b>668</b>	0

**16 Other commitments**

On 1 January 2003 the Board entered into two seven year contracts, one with IBM UK Ltd for computing services and one with Hays Commercial Services Ltd for data capture services. The computing services contract involves payments of £31.9 million over the seven years and is subject to increases in line with inflation. The data capture contract involves payments of £7.8 million over seven years and adjustments are dependent on the volumes processed. Both contracts have arrangements within them whereby after four years or more, on giving formal notice, the Dental Practice Board can make termination payments to terminate the contracts.

**17 Losses and special payments**

There were no losses or special payments approved during 2002-2003 (2001-2002: two cases totalling £98,000).

**18 Related parties**

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

The Department of Health and National Assembly for Wales are regarded as controlling related parties. During the year the Board has had a significant number of material transactions with the Department of Health and National Assembly for Wales, and with other entities for which they are regarded as the parent including

- Health authorities and NHS Hospital and Primary Care Trusts for the use of their facilities for dental clinics;
- The NHS Purchasing and Supply Agency;
- The NHS Pensions Agency; and
- The Dental Vocational Training Authority (provision of finance and administration services).

Non-executive members of the Board and employees who are also dental practitioners may receive General Dental Services payments in respect of their professional services. These payments are in accordance with the Dental Statement of remuneration for these services.

During the year none of the Board members or members of the key management staff or other related parties has undertaken any material transactions with the parties listed above.

**19 Post balance sheet events**

Section 181 of the Health and Social Care (Community Health and Standards) Act 2003 provides for the abolition of the Dental Practice Board. The explanatory notes associated with the Act indicate that the assets, liabilities and staff of the Board will be transferred to a new Special Health Authority. This will be a cross border Special Health Authority undertaking functions in relation to both England and Wales.

## 20 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 the Board is financed, the Board 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 Board has no 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 Board in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Liquidity risk*

The Board's net operating costs and capital expenditure are financed from resources voted annually by Parliament and it is not therefore exposed to significant liquidity risks.

### *Interest-rate risk*

All the Board's financial assets and financial liabilities carry nil rates of interest and it is not therefore exposed to interest-rate risk.

### *Foreign currency risk*

The Board has no foreign currency income or expenditure and is not therefore exposed to foreign currency risk.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Dental Vocational Training 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 a cash basis and must properly present the receipts and payments of the Dental Vocational Training Authority at the year end.

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 Dental Vocational Training Authority. 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 Officer's memorandum issued by the Treasury and published in 'Government Accounting'.

## Statement on Internal Control 2002-2003

This statement is given in respect of the Summarised Account for the Dental Vocational Training Authority (DVTA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the DVTA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the DVTA as an Accountable Officer. The Dental Practice Board (DPB) is deemed to be accountable in partnership with the Chief Executive of the DVTA for the maintenance and operation of the system of internal control in the body.

The DVTA is responsible for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the DVTA regarding corporate governance and systems of internal control. For 2002-03, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the DVTA governing committee. This is included in the annual financial statements and is 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 am satisfied that a sound system of internal control has been in place throughout the financial year and is ongoing. This has been demonstrated by meeting the requirements of the Controls Assurance Standards.

### DVTA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the DVTA, who is accountable to me for maintaining an effective system of internal control in partnership with the DPB; and
- the DVTA is governed by a committee appointed by the Secretary of State and comprising the Chief Executive and other appointed members.

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the DVTA from 2003-2004 onwards.

*Nigel Crisp*

27 November 2003

## 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 G11 under the National Health Service Act 1977. These financial statements have been prepared in the form and manner directed by the Treasury and in accordance with the accounting policies set out on page G9.

### 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 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 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 properly present the receipts and payments and balances of the Dental Vocational Training Authority, have been 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 receipts and payments 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 G4 to G5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 Dental Vocational Training 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 receipts and payments 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 properly present the receipts and payments of the Dental Vocational Training Authority for the year ended 31 March 2003 and its balances held at that date and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by the Treasury; and
- in all material respects, the receipts and payments 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 505-I.

*John Bourn*  
Comptroller and Auditor General

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

## Receipts and Payments Account for the year ended 31 March 2003

### Continuing operations

	Note	£000	Restated 2001-2002 £000
<b>Receipts</b>			
Advances from the Department of Health RfR 1	2.1	<b>221</b>	120
Funding for Vocational Training Adviser Conference	2.2	<b>20</b>	0
Total receipts		<b>241</b>	120
<b>Payments</b>			
Staff costs	3	<b>172</b>	82
Administration costs		<b>79</b>	25
Audit fee <sup>1</sup>		<b>0</b>	1
Travel costs		<b>22</b>	11
Appeals body	4	<b>4</b>	4
Total payments		<b>277</b>	123
<b>Excess of payments over receipts</b>		<b>(36)</b>	(3)

Payments for 2001-2002 have been restated to show Travel Costs separately. The total costs and cash position have not changed.

- 1 No payment has been made in the period to the external auditors PricewaterhouseCoopers who are appointed by the Audit Commission.

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

No interest or compensation for debt recovery costs was paid under the legislation (2001-2002: £nil).

*The notes at pages G9 to G11 form part of this account.*



## Statement of Balances as at 31 March 2003

	<b>Balances at 31 March 2003 £000</b>	Balances at 31 March 2002 £000
Amount due from the Dental Practice Board as at 1 April	<b>19</b>	22
Total receipts	<b>241</b>	120
Total payments	<b>(277)</b>	(123)
Amount due (to)/from the Dental Practice Board as at 31 March	<b>(17)</b>	19

*The notes at pages G9 to G11 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

# Notes to the Account

## Accounting policies

**1** This account has been prepared in the form directed by HM Treasury in accordance with Section 98(4) of the National Health Services Act 1977.

**1.1** The DVTA accounts for receipts and payments on a cash basis. Any balance is carried forward to the next year.

### 1.2 Income

The main source of funding for the DVTA is Parliamentary grant from Request for Resources 1 from the Department of Health within an approved cash limit. The Dental Practice Board holds funds and acts as a paying agent.

The Committee on Vocational Training and Dental Vocational Training Authority were merged in the year to 31 March 2003, and the balance of the Committee on Vocational Training funds for the year to 31 March 2003 were transferred to the Dental Vocational Training Authority.

### 1.3 Taxation

The DVTA is not liable to pay Corporation Tax. Payments are shown net of recoverable VAT.

Irrecoverable VAT is shown under the most appropriate payment heading.

### 1.4 Losses and special payments

Losses and special payments are charged as they are incurred, including losses which would have been made good had the Dental Vocational Training Authority not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

## 2.1 Receipts

	£000	2001-2002 £000
<i>Parliamentary Funding comprised</i>		
Dental Vocational Training Authority	125	120
Committee on Vocational Training	96	0
	<u>221</u>	<u>120</u>

**2.2** Full reimbursement of the cost of running the Vocational Training Adviser Conference was received.

The costs are included under the most relevant payment heading.

	£000	2001-2002 £000
Funds received	20	0
	<u>20</u>	<u>0</u>

### 3 Executive members remuneration and staff costs

The Chief Executive, Andrea Goring, is employed by the Department of Health and the costs are paid when recharged. The Chairman, Ralph Davies, is paid on a sessional basis. In 2002-2003 payments were made in respect of 174 sessions totalling £19,000 (2001-2002: 40 sessions totalling £5,000).

Staff payments comprise

	£000	Restated 2001-2002 £000
Recharges in respect of Chief Executive	29	27
Employee salary costs	41	18
Staff Agency costs	7	2
Contribution to redundancy costs on merger with Committee on Vocational Training	30	0
Session costs to Chairman and Members	65	35
	<u>172</u>	<u>82</u>

The average number of whole time equivalent persons employed during the year was five (2001-2002: three).

These figures include senior management, employees and agency staff.

There were no early retirements due to ill health in 2002-2003 (2001-2002: nil).

### 4 Appeals body

The DVTA administers the expenses for the Appeals Body on the authorisation of the Appeals Body Secretariat who is appointed by the Secretary of State for Health. The payments for the Appeals Body totalled £4,000 (2001-2002: £4,000).

### 5 Fixed assets

No asset or group of assets costing over £5,000 were purchased in the year ended 31 March 2003. The Dental Vocational Training Authority currently does not have any assets which would be treated as capital as defined in the NHS Capital Accounting Guidance. There were no capital commitments at 31 March 2003 (2001-2002: £nil).

### 6 Losses and special payments

There were no losses or special payments in the year to 31 March 2003 (2001-2002: £nil).

### 7 Contingent liabilities

There were no contingent liabilities at 31 March 2003 (2001-2002: £nil).

### 8 Post balance sheet events

There were no events after the year end materially affecting any figures in the accounts.

### 9 Related party disclosures

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 of Health, and with the Dental Practice Board for finance and administration services.

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 parties listed above.

## 10 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 Dental Vocational Training 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 the FRS 13 mainly applies.

The Dental Vocational Training 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 Dental Vocational Training Authority in undertaking its activities.

### *Liquidity risk*

The Dental Vocational Training Authority is fully funded from resources voted annually by Parliament.

The Dental Vocational Training Authority is not, therefore, exposed to significant liquidity risks.

### *Interest-rate risk*

All the Dental Vocational Training Authority's financial assets and financial liabilities carry nil rate of interest. It is not therefore exposed to interest-rate risk.

### *Foreign currency risk*

The Dental Vocational Training Authority has no foreign currency income or expenditure. It is not therefore exposed to any foreign currency risk.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 FRS3.

## 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 the Family Health Services Appeal Authority (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 the Family Health Services Appeal Authority (Special Health Authority) at the year end and 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 Family Health Services Appeal Authority (Special Health 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 2002-2003

This statement is given in respect of the Summarised Account for the Family Health Services Appeal Authority (FHSAA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the FHSAA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the FHSAA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the FHSAA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the FHSAA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the FHSAA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### FHSAA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the FHSAA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors;
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

I am satisfied that an effective system of internal control has been in place throughout the full financial year and is ongoing. This is demonstrated by the Board's assurance framework and evidence of compliance with the requirements of the core Controls Assurance Standards.

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the FHSAA from 2003-2004 onwards.

*Nigel Crisp*

27 November 2003

## 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 H8 to H19 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 H11 to H13.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page H3, 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 H4 to H5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 Family Health Services Appeal 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 fraud or other irregularity or error 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. 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 Family Health Services Appeal Authority at 31 March 2003 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.
- 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	912	784
Operating income	4	<u>(187)</u>	<u>(101)</u>
<b>Net operating cost</b>		<b><u>725</u></b>	<b><u>683</u></b>
<b>Net resource outturn</b>	3.1	<b><u>725</u></b>	<b><u>683</u></b>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

There were no recognised gains or losses.

*The notes at pages H11 to H19 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5	0	0
<b>Current assets</b>			
Debtors	6	59	36
Cash at bank and in hand	7	43	37
		<u>102</u>	<u>73</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>(25)</u>	<u>(16)</u>
<b>Net current assets</b>		<u>77</u>	<u>57</u>
<b>Total assets less current liabilities</b>		<u>77</u>	<u>57</u>
<b>Taxpayers' equity</b>			
General Fund	11	<u>77</u>	<u>57</u>
		<u>77</u>	<u>57</u>

*The notes at pages H11 to H19 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003



## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<u>738</u>	<u>746</u>
<b>Capital expenditure and financial investment</b>			
There was no capital expenditure or financial investment			
<b>Net cash outflow before financing</b>		<u>738</u>	<u>746</u>
<b>Financing</b>			
Net Parliamentary funding		<u>744</u>	<u>674</u>
<b>(Increase)/decrease in cash in the period</b>	7	<u>(6)</u>	<u>72</u>

*The notes at pages H11 to H19 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 the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income. It includes both income appropriated-in-aid 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 setting-up cost of a new building, irrespective of their individual or collective cost.

The Authority only holds information technology fixed assets.

*b Valuation*

Tangible fixed assets are stated at the lower of replacement cost and recoverable amount. On initial recognition they are measured at cost 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.

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.

*c Depreciation and amortisation*

Each equipment asset is depreciated evenly over the expected useful life

Information technology	Five years
------------------------	------------

**1.6 Stocks and work in progress**

The Authority does not recognise stocks and work in progress.

**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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £19,805 (£19,957 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 years 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.

## **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation charge may be based on opening, closing, or average balance sheet values provided that a consistent basis is used.

## **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**

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

**2.1 Programme costs**

	Notes	£000	£000	2001-2002 £000
Non-executive members' remuneration			<b>21</b>	22
Other salaries and wages	2.2		<b>332</b>	330
Accommodation and computer			<b>161</b>	207
Establishment expenses			<b>199</b>	96
External contractors			<b>178</b>	114
Capital: Depreciation and amortisation	5	<b>0</b>		0
Capital charges interest		<b>1</b>		(1)
			<b>1</b>	(1)
Auditor's remuneration: Audit fees <sup>1</sup>			<b>9</b>	8
Other operating expenses			<b>11</b>	8
			<b>912</b>	784

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

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

**2.2 Staff costs****Executive members' remuneration and staff costs**

	£000	£000
Salaries and wages	<b>288</b>	287
Social security costs	<b>22</b>	23
Employer contributions to NHSPA	<b>20</b>	20
Agency staff	<b>2</b>	0
	<b>332</b>	330

The average number of whole-time equivalent persons employed (including senior management) during the year was 12 (2001-2002: 10.05).

*Retirements due to ill health*

During 2002-2003 there were no early retirements from the Authority on the grounds of ill-health.

*Expenditure on staff benefits*

There was no expenditure on staff benefits during the year (2001-2002: £nil).

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£000	£000
P Burns (Chief Executive)	43	65-70	0-2.5	5-10
A Crute (Chairman)	70	10-15	n/a	n/a
J Goss (Non Executive member)	58	5-10	n/a	n/a
P Taylor (Non Executive member)	50	5-10	n/a	n/a

#### 2001-2002 disclosures

D Laverick (Chief Executive to 31 August 2001)	57	40-45	0-2.5	30-35
P Burns (Acting Chief Executive 1 September 2001)	42	*	*	*
A Crute (Chairman)	69	10-15	n/a	n/a
J Goss (Non Executive member)	57	5-10	n/a	n/a
P Taylor (Non Executive member)	49	5-10	n/a	n/a

\* Consent to disclose withheld

### 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest was paid under the legislation and no compensation payments were made (2001-2002: £nil).

#### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	<u>725</u>	<u>683</u>
<b>Net resource outturn</b>	<b><u>725</u></b>	<b><u>683</u></b>
<b>Revenue resource limit</b>	<b><u>744</u></b>	<b><u>674</u></b>
<b>Under/(over) spend against limit</b>	<b><u>19</u></b>	<b><u>(9)</u></b>

#### 3.2 Reconciliation of gross capital expenditure to capital resource limit

	£000	2001-2002 £000
Gross capital expenditure	<b>0</b>	0
<b>Net capital resource outturn</b>	<b>0</b>	0
Capital resource limit	<b>0</b>	0
<b>(Over)/underspend against limit</b>	<b><u>0</u></b>	<b><u>0</u></b>

**4 Operating income**

Operating income analysed by classification and activity, is as follows

	<b>£000</b>	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	<b>4</b>	3
Income received from other departments	<b>59</b>	0
Other	<b>124</b>	98
<b>Total</b>	<b><u>187</u></b>	<u>101</u>

**5 Tangible fixed assets**

	<b>Information Technology £000</b>
Cost or valuation at 31 March 2002	<u>14</u>
<b>Gross cost at 31 March 2003</b>	<b><u>14</u></b>
Accumulated depreciation at 31 March 2002	<u>14</u>
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>14</u></b>
Net book value at 31 March 2002	0
<b>Net book value at 31 March 2003</b>	<b>0</b>

No assets were held under finance leases or hire purchase agreements.

**6 Debtors**

	<b>£000</b>	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>14</b>	11
Prepayments	<b>24</b>	25
Other debtors	<b>21</b>	0
	<b><u>59</u></b>	<u>36</u>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> <b>£000</b>
Cash at OPG	<u>37</u>	<u>6</u>	<b><u>43</u></b>

**8 Creditors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS creditors	4	0
Other creditors	11	5
Accruals	<u>10</u>	<u>11</u>
	<u>25</u>	<u>16</u>

**9 Provisions for liabilities and charges**

There were no provisions in the year ending 31 March 2003 (2001-2002: £nil).

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

	£000	2001-2002 £000
Increase in debtors	23	12
(Increase)/decrease in creditors	<u>(9)</u>	<u>50</u>
	<u>14</u>	<u>62</u>

**11 Reserves**

The movement on the General Fund in the year comprised

	£000
Balance at 31 March 2002	57
Net operating costs for the year	<b>(725)</b>
Net Parliamentary funding	<b>744</b>
<i>Non-cash items</i>	
Capital charge interest	<u>1</u>
<b>Balance at 31 March 2003</b>	<u><b>77</b></u>

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

	Notes	£000	2001-2002 £000
Net operating cost for the year		725	683
Adjust for non-cash transactions	2.1	<b>(1)</b>	1
Adjust for movements in working capital other than cash	10	<u>14</u>	<u>62</u>
<b>Net cash outflow from operating activities</b>		<u><b>738</b></u>	<u>746</u>

**13 Contingent liabilities**

At 31 March 2003 there were no known contingent liabilities (2001-2002: £nil).



#### **14 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

#### **15 Commitments under operating leases**

The Authority had no commitments in respect of operating leases (2001-2002: £nil).

#### **16 Other commitments**

The Authority has entered into non-cancellable contracts (which are not operating leases) for the provision of rent totalling £77,000 as at 31 March 2003 (2001-2002: £77,000).

#### **17 Losses and special payments**

There was one compensation under legal obligation case where the payment was £2,000 (2001-2002: £nil).

#### **18 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.

All health authorities in England re training of staff on Disciplinary and Pharmacy Appeals.

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 any health authorities.

#### **19 Post balance sheet events**

There were no post balance sheet events.

#### **20 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 Special Health Authority in undertaking its activities.

The Authority does not hold any financial liabilities.

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.

#### *Liquidity risk*

The Special Health Authorities 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. The Family Health Services Appeal Authority (Special Health Authority) is not, therefore, exposed to significant liquidity risks.

*Interest-rate risk*

All of the Authorities financial assets and financial liabilities carry nil or fixed rates of interest. Family Health Services Appeal Authority (Special Health Authority) is not, therefore, exposed to interest-rate risk.

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	Basis of fair valuation
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	<b>43</b>	<b>43</b>	Book value is fair value
Total	<b>43</b>	<b>43</b>	

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Health Development Agency



## 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 Health Development Agency at the year end and 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 the Health Development Agency. 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 2002-2003

This statement is given in respect of the Summarised Account for the Health Development Agency (HDA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the HDA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Director of Corporate Resources (Acting Chief Executive) of the HDA as the Interim Accountable Officer. The Acting Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the HDA is accountable for internal control. The Interim Accountable Officer of the Board has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Interim Accountable Officer of the HDA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Acting Chief Executive who provided me with the statement on internal control made on behalf of the HDA Board. This is included in the annual financial statements and is 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. The Acting Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### HDA governance arrangements

These included

- an Executive Management Team which meets at least every two weeks and reviews the plans and strategic direction of the agency;
- the Chair of the Audit Committee reports to the board after each committee meeting regarding internal control;
- regular reports by internal audit, to standards defined in the Government Internal Audit manual, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the agency's system of internal control together with recommendations for improvement;
- regular progress reports and the management of risk of the projects; and
- maintenance of an organisation wide risk register.

## HDA actions and plans

The HDA assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- an audited self-assessment exercise against the core Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review;
- risk awareness training for all staff;
- development of a risk strategy and operational risk management policy and procedures; and
- an audited self-assessment exercise against the other twelve relevant controls assurance standards was done and arrangements are in place to monitor and implement the action plans to achieve full compliance as part of the agency's risk identification and management processes.

In addition to the actions outlined above, in the coming year it is planned to

- |  |           |
|--|-----------|
| ■ introduce an assurance framework process.  | quarter 2 |
| ■ set out the arrangements for obtaining assurance on the effectiveness of key controls across all areas of principal risks. | quarter 2 |
| ■ evaluate the assurance across all areas of principal risks.  | quarter 3 |
| ■ identify positive assurances and areas where there are gaps in controls and/ or assurances.                                | quarter 3 |

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the HDA from 2003/04 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

Nigel Crisp

27 November 2003

## 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 I8 to I24 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 I11 to I15.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page I3, 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 I4 to I5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 Health Development Agency, consistently applied and adequately disclosed.

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

### Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.1 to the account, the Health Development Agency exceeded its revenue resource limit by £36,000. As the Health Development Agency has no power to exceed its revenue resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Development Agency at 31 March 2003 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
- except for the expenditure incurred in excess of the Health Development Agency's revenue resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>11,859</b>	13,571
Operating income	4	<b>(835)</b>	(1,611)
<b>Net operating cost</b>		<b><u>11,024</u></b>	<u>11,960</u>
<b>Net resource outturn</b>	3.1	<b><u>11,024</u></b>	<u>11,960</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	11.2	<b>46</b>	0
Fixed asset impairment losses		<b>0</b>	0
<b>Recognised gains/(losses) for the financial year</b>		<b><u>46</u></b>	<u>0</u>

*The notes at pages 111 to 124 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>83</b>	45
Tangible assets	5.2	<b>503</b>	589
		<b>586</b>	634
<b>Current assets</b>			
Debtors	6	<b>626</b>	942
Cash at bank and in hand	7	<b>109</b>	120
		<b>735</b>	1,062
<b>Creditors: amounts falling due within one year</b>	8.1	<b>(1,128)</b>	(1,467)
<b>Net current liabilities</b>		<b>(393)</b>	(405)
<b>Total assets less current liabilities</b>		<b>193</b>	229
Provisions for liabilities and charges	9	<b>(414)</b>	(367)
		<b>(221)</b>	(138)
<b>Taxpayers' equity</b>			
General fund	11.1	<b>(907)</b>	(778)
Revaluation reserve	11.2	<b>46</b>	0
Deferred capital reserve	11.3	<b>640</b>	640
		<b>(221)</b>	(138)

The summarised balance sheet indicates that the Health Development Agency has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist.

*The notes at pages 111 to 124 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>(10,891)</b>	(11,745)
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		(66)	(40)
Payments to acquire tangible fixed assets		(69)	(461)
<b>Net cash outflow from investing activities</b>		<b>(135)</b>	(501)
<b>Net cash outflow before financing</b>		<b>(11,026)</b>	(12,246)
<b>Financing</b>			
Net Parliamentary funding		11,015	12,261
<b>(Decrease)/increase in cash in the period</b>	7	<b>(11)</b>	15

*The notes at pages 111 to 124 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 the Health Development Agency (the Agency) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Agency is Parliamentary grant from the Department of Health from Request for Resources 2 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 Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income. It includes both income appropriated-in-aid of the Request for Resources 2 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 Agency 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 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 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**

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 replacement cost through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii 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 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 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
Short life medical and other equipment	5
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5
<i>Transport equipment</i>	7
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7

### **1.6 Stocks and work in progress**

The Agency does not have material levels of stocks and so writes off the cost of such items in the year of purchase. The Agency has no other stocks or work in progress.

### **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 Agency 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 Agency to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. The total employer contribution payable in 2002-2003 was £243,000 (£220,000 for 2001-2002). Employees pay contributions of 6% of their pensionable pay. Employer contribution rates have been set at 14% from 1 April 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 for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die, 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. For post 5 March 1995 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 Agency commits itself to the retirement, regardless of the method of payment.

## 1.9 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 the amortisation charge will be based on opening balance sheet values on a consistent basis.

### 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 to the operating cost statement on a straight line basis over the lease term.

### 1.12 Provisions

The Agency 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 6% in real terms.

### 1.13 Change of policy

In 2000-2001 the Agency accounted for capital funding by crediting a deferred capital reserve and releasing the amounts to the income and expenditure account over the expected useful lives of the relevant assets. The annual depreciation charge was therefore matched by the release of deferred income.

In 2001-2002, following a new account direction, the Agency adopted a new format for its account. The income and expenditure account was replaced with an operating cost statement. In accordance with this format, depreciation was charged to the operating cost statement. Capital funding released from the capital reserve was not included in 'other operating income'. Deferred income released from the capital grant reserve was, however, included as income as in previous years.

The Agency has now made its policy consistent with the capital accounting policy for all NHS bodies. In 2002-2003 capital funding has been credited to the General Fund.

## 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive board members remuneration			<b>81</b>	65
Staff costs	2.2		<b>5,789</b>	5,369
Capital: Depreciation and amortisation	5.1, 5.2	<b>228</b>		207
Impairments	5.1, 5.2	<b>0</b>		58
Capital charges interest	11	<b>(120)</b>		(131)
Loss on disposal	5.3	<b>2</b>		0
			<b>110</b>	134
Premises, transport and plant			<b>1,708</b>	2,781
External contractors			<b>2,066</b>	3,158
Publications and conferences			<b>1,137</b>	1,040
Establishment expenses			<b>848</b>	933
Auditor's remuneration: Audit Fees <sup>1</sup>			<b>36</b>	41
Supplies and services - general			<b>84</b>	50
			<b>11,859</b>	13,571

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

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

	2001-2002
	£000
<i>Hire and operating lease rentals</i>	
Hire of plant and machinery	20
Other operating leases	13
	<u>41</u>
	<u>33</u>

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

No interest was paid under the legislation or no compensation payments made (2001-2002: £nil).

## **2.2 Staff costs**

### **Executive members' remuneration and staff costs**

	2001-2002	Restated 2001-2002
	£000	£000
Salaries and wages	4,401	4,078
Social security costs	396	359
Employer contributions to NHSPA	243	271
Other pension costs	41	46
Redundancy payments and pension capitalisations	0	54
Agency staff costs	279	377
Secondment costs	429	303
Release of Inland Revenue provision	0	(119)
	<u>5,789</u>	<u>5,369</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 148 including eight wte agency staff (2001-2002: 135 including 12 wte agency staff.)

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £67,000 (2001-2002: £58,000).

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

During 2002-2003 there were no early retirements from the Agency on the grounds of ill-health.

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands 2003 in £5k bands	Total accrued pension at age 60 at 31 March
	years	£000	£00	£000	£000
<b>Executive Directors</b>					
Dr Jeff French - Director of Policy and Communications	47	75-80 <sup>2</sup>	80	0-2.5	20-25
Carolyn Hughes - Director of Corporate Resources	42	75-80 <sup>2</sup>	10	0-2.5	15-20
Prof Mike Kelly - Director of Research and Information	50	75-80 <sup>2</sup>	0	**	**
Dr Viv Speller - Director of Public Health	49	75-80 <sup>2</sup>	20	0-2.5	15-20
Prof Richard Parish - Chief Executive	51	105-110	30	0-2.5	30-35
<b>Non-Executive Directors</b>					
Yve Buckland	46	30-35	0	n/a	n/a
Tahera Aanchawan	47	5-10	0	n/a	n/a
Prof Michael Adler	63	5-10	0	n/a	n/a
Colin Browne	57	5-10	0	n/a	n/a
Denise Campbell	49	5-10	0	n/a	n/a
Ken Crossland	48	5-10	0	n/a	n/a
Prof Christine Godfrey	52	5-10	0	n/a	n/a
Liam Hughes	51	5-10	0	n/a	n/a
Michael Peters	48	5-10	0	n/a	n/a
Dr Michael Varnam	58	5-10	0	n/a	n/a
<b>2001-2002 disclosures</b>					
<b>Executive Directors</b>					
Dr Jeff French - Director of Policy and Planning	46	70-75	0	0-2.5	20-25
Carolyn Hughes - Director of Corporate Resources	41	70-75	0	0-2.5	15-20
Prof Mike Kelly - Director of Research and Information <sup>1</sup>	49	65-70	0	not available	not available
Dr Viv Speller - Director of Public Health	48	65-70	30	0-2.5	0-5
Yve Buckland - Chair	*	20-25	0	n/a	n/a
Dr John Noakes OBE - Deputy Chair (to 30 September 2001)	*	0-5	0	n/a	n/a
Prof Richard Parish - Chief Executive	50	100-105	40	0-2.5	30-35
<b>Non-Executive Directors</b>					
Tahera Aanachawan	*	5-10	0	n/a	n/a
Prof Michael Adler	*	5-10	0	n/a	n/a
Colin Browne	*	5-10	0	n/a	n/a
Denise Campbell	*	5-10	0	n/a	n/a
Ken Crossland	*	5-10	0	n/a	n/a
Prof Christine Godfrey (from 3 September 2001)	*	0-5	0	n/a	n/a
Liam Hughes (from 3 September 2001)	*	0-5	0	n/a	n/a
Michael Peters	*	5-10	0	n/a	n/a
Dr Michael Varnam (from 1 October 2001)	*	0-5	0	n/a	n/a

\* consent to disclose withheld

\*\* Prof Kelly was seconded to the Agency for the period to 30 November 2002. On 1 December 2002 he became a permanent member of the Agency staff. The transfer of his pension entitlements has not yet been completed.

The remuneration of the Chair and other non-executive members of the board is determined by the Secretary of State. The remuneration of executive Board members is determined by the Remuneration Committee.

- 1 Professor M Kelly is seconded from the University of Greenwich and is a member of the Teachers' Pension Scheme. Under this scheme the employer's contribution is 8.35% and the employee's contribution is 6%.
- 2 Includes element of £5,000 for time acting up as Chief Executive from 1 July 2002.

### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	Restated 2001-2002 £000
Net operating cost	<u>11,024</u>	<u>11,960</u>
<b>Net resource outturn</b>	<b><u>11,024</u></b>	<b><u>11,960</u></b>
<b>Revenue resource limit*</b>	<b><u>10,988</u></b>	<b><u>12,071</u></b>
<b>(Over)/under spend against limit</b>	<b><u>(36)</u></b>	<b><u>111</u></b>

### 3.2 Reconciliation of gross capital expenditure to capital resource limit

	£000	31 March 2002 £000
Gross capital expenditure	<u>135</u>	<u>501</u>
NBV of assets disposed	<u>2</u>	<u>0</u>
<b>Net capital resource outturn</b>	<b><u>133</u></b>	<b><u>501</u></b>
Capital resource limit	<u>135</u>	<u>190</u>
<b>Under/(over) spend against limit</b>	<b><u>2</u></b>	<b><u>(311)</u></b>

\* The Revenue Resource Limit comprises Parliamentary Funding of £10,880,000 as notified by the Department of Health plus non-cash items totalling £108,000.

## 4 Operating income

Operating income analysed by activity, is as follows

	£000	Restated 2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	<u>656</u>	<u>1,110</u>
Income received from other Departments, etc	<u>176</u>	<u>447</u>
Other	<u>3</u>	<u>54</u>
<b>Total</b>	<b><u>835</u></b>	<b><u>1,611</u></b>

### 5.1 Intangible fixed assets

The only intangible fixed assets held were software licences

	<b>Total £000</b>
Gross cost at 31 March 2002	53
Additions purchased	<u>66</u>
<b>Gross cost at 31 March 2003</b>	<b>119</b>
Accumulated amortisation at 31 March 2002	7
Provided during the year	<u>29</u>
<b>Accumulated amortisation at 31 March 2003</b>	<b>36</b>
Net book value as at 31 March 2002	<u>45</u>
<b>Net book value as at 31 March 2003</b>	<b>83</b>

### 5.2 Tangible fixed assets

	<b>Total £000</b>	Buildings exc dwellings £000	Plant and machinery £000	Information technology £000	Furniture and fittings £000
Cost or valuation at 31 March 2002	<b>804</b>	304	45	301	154
Indexation	<b>49</b>	43	1	0	5
Additions - purchased	<b>69</b>	0	0	57	12
Disposals	<u>(16)</u>	<u>0</u>	<u>0</u>	<u>(10)</u>	<u>(6)</u>
<b>Gross cost at 31 March 2003</b>	<b>906</b>	<u>347</u>	<u>46</u>	<u>348</u>	<u>165</u>
Accumulated depreciation at 31 March 2002	<b>215</b>	3	2	107	103
Indexation	<b>3</b>	0	0	0	3
Provided during the year	<b>199</b>	39	16	101	43
Additions - purchased	<b>0</b>	0	0	0	0
Additions - donated	<b>0</b>	0	0	0	0
Disposals	<u>(14)</u>	<u>0</u>	<u>0</u>	<u>(10)</u>	<u>(4)</u>
<b>Accumulated depreciation at 31 March 2003</b>	<b>403</b>	<u>42</u>	<u>18</u>	<u>198</u>	<u>145</u>
Net book value as at 31 March 2002	<u>589</u>	<u>301</u>	<u>43</u>	<u>194</u>	<u>51</u>
<b>Net book value as at 31 March 2003</b>	<b>503</b>	<u>305</u>	<u>28</u>	<u>150</u>	<u>20</u>

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date was £nil.

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

### 5.3 Profit and loss on disposal of fixed assets

	<b>£000</b>	2001-2002 £000
Loss on disposal of furniture and fittings	<u>(2)</u>	<u>0</u>
	<b>(2)</b>	<b>0</b>



**6 Debtors****Amounts falling due within one year**

	<b>£000</b>	31 March 2002 £000
NHS debtors	<b>27</b>	62
Provision for irrecoverable debts	<b>(3)</b>	0
Prepayments	<b>287</b>	457
Other debtors	<b>315</b>	423
	<b>626</b>	942

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> £000
Cash at OPG	2,507	(1,383)	<b>1,124</b>
Cash at commercial banks and in hand	(2,387)	1,372	<b>(1,015)</b>
	<u>120</u>	<u>(11)</u>	<u><b>109</b></u>

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

	<b>£000</b>	31 March 2002 £000
NHS creditors	<b>52</b>	27
Tax and social security	<b>126</b>	1
Other creditors	<b>551</b>	688
Accruals and deferred income	<b>399</b>	751
	<b>1,128</b>	1,467

**8.2 Finance lease obligations**

As at 31 March 2003 the Agency had no obligations under finance leases.

**9 Provisions for liabilities and charges**

	Pensions for former staff £000	Other £000	<b>Total £000</b>
At 31 March 2002	352	15	367
Arising during the year	0	64	<b>64</b>
Utilised during the year	(2)	0	<b>(2)</b>
Reversed unused	0	(15)	<b>(15)</b>
<b>At 31 March 2003</b>	<u>350</u>	<u>64</u>	<u><b>414</b></u>

**Expected timing of cash flows**

Within one year	14	64	<b>78</b>
One to five years	51	0	<b>51</b>
Over five years	285	0	<b>285</b>

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

	<b>£000</b>	2001-2002 £000
(Decrease)/increase in debtors	<b>(316)</b>	22
Decrease in creditors	<b>339</b>	248
	<b>23</b>	270

**11 Reserves****11.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	<b>(778)</b>
Net operating costs for the year	<b>(11,024)</b>
Net Parliamentary funding	<b>11,015</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(120)</b>
<b>Balance at 31 March 2003</b>	<b>(907)</b>

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

	<b>£000</b>
Balance at 31 March 2002	<b>0</b>
Indexation of fixed assets	<b>46</b>
<b>Balance at 31 March 2003</b>	<b>46</b>

**11.3** The movement on the deferred capital reserve in the year comprised

	<b>£000</b>
Balance at 31 March 2002	<b>640</b>
<b>Balance at 31 March 2003</b>	<b>640</b>

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

	Notes	<b>£000</b>	2001-2002 £000
Net operating cost for the year		<b>11,024</b>	11,960
Adjust for non-cash transactions	2.1	<b>(110)</b>	(134)
Adjust for movements in working capital other than cash	10	<b>23</b>	(270)
(Increase)/decrease in provisions	9	<b>(46)</b>	189
Net cash outflow from operating activities		<b>10,891</b>	11,745

**13 Contingent liabilities**

There is a contingent liability at 31 March 2003 in respect of a claim for compensation by the outgoing Chief Executive. It was not possible to quantify the final amount of the liability. A provision of £64,000 has been made. (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £nil (2001-2002: £nil).

**15 Commitments under operating leases**

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

	£000	£000
<b>Land and buildings</b>		
Operating leases which expire: within one year	0	34
between one and five years	0	0
after five years	<u>523</u>	<u>522</u>
	<u>523</u>	<u>556</u>
<b>Other leases</b>		
within one year	6	4
between one and five years	20	37
after five years	<u>0</u>	<u>4</u>
	<u>26</u>	<u>45</u>

**16 Other commitments**

The Agency had no other commitments at 31 March 2003. (2001-2002: £nil).

**17 Losses and special payments**

The Agency suffered the theft of four laptops and one camera in 2002-2003 with a total value of approximately £7,000 (2001-2002: £1,980). There were no losses in excess of £100,000.

**18 Related parties**

The Health Development Agency 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 Agency 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.

During the year none of the Agency Members or members of the key management staff or other related parties has undertaken any material transactions with the Health Development Agency. There were no company directorships held by Directors where such companies were likely to do business with the NHS.

**19 Post balance sheet events**

There are no post balance sheet events.

**20 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 Health Development Agency (the Agency) 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 Agency 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 Agency in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

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

**Financial assets**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate Weighted average interest rate	Non interest bearing Weighted average term
					Weighted average period for which fixed years	years
At 31 March 2003	<b>£000</b>	£000	£000	£000	%	
Sterling	<b>108</b>	0	0	108		
Other	<b>1</b>	0	0	1		
Gross financial assets	<b>109</b>	0	0	109		
At 31 March 2002						
Sterling	107	0	0	107		
Other	13	0	0	13		
Gross financial assets	120	0	0	120		

**Financial liabilities**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate Weighted average interest rate	Non interest bearing Weighted average term
					Weighted average period for which fixed years	years
At 31 March 2003	<b>£000</b>	£000	£000	£000	%	
Sterling	<b>350</b>	0	350	0	9.00%	
Other	<b>0</b>	0	0	0		
Gross financial assets	<b>350</b>	0	350	0		
At 31 March 2002						
Sterling	352	0	352	0		
Other	0	0	0	0		
Gross financial assets	352	0	352	0		

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Agency's financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	Basis of fair valuation
	<b>£000</b>	<b>£000</b>	
<i>Financial assets</i>			
Cash	109	109	
Debtors over one year	0	0	
Investments	<u>0</u>	<u>0</u>	
Total	<u>109</u>	<u>109</u>	
<i>Financial liabilities</i>			
Overdraft	0	0	
<i>Creditors over one year</i>			
Early retirements	350	350	a
Finance leases	0	0	
Provisions under contract	<u>0</u>	<u>0</u>	
Total	<u>350</u>	<u>350</u>	

a Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Mental Health Act Commission





## 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 Mental Health Act Commission 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 Mental Health Act Commission. 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 2002-2003

This statement is given in respect of the Summarised Account for the Mental Health Act Commission (MHAC).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the MHAC maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the MHAC as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the MHAC is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the MHAC regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering:

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the MHAC Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### MHAC governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the MHAC, who is accountable to me for maintaining an effective system of internal control;
- the Accountable Officer is responsible to the MHAC Board and is held to account by the key Board committees of Audit and Best Value, and Corporate Governance and Risk Management;
- the Executive management Team is responsible for the development and maintenance of the internal control framework and of the internal auditors;
- the Corporate Governance and Risk management Committee including non-executive members has oversight of the management and maintenance of internal controls.

## MHAC actions and plans

Although much has been achieved in the last twelve months more work is required. The MHAC assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- an assessment of risks to achieving objectives has been part of the annual business planning process and these objectives and risks are regularly reviewed; and
- an intensive programme of work to identify and manage risk using the controls assurance tool.

In addition to the actions outlined above, in the coming year it is planned to

- hold a Director level development workshop to understand and better raise awareness of assurance framework requirements;
- identify and assess principal risks at Board level to be incorporated into the Commissions draft Transition Strategy as part of the Business Continuity Plan and map the systems and controls relied upon to manage these risks;
- developing Board action plans for corrective action where gaps have been identified in relation to principal risks;
- the Board will continue to seek support, advice and services of internal audit to sustain and improve upon its programme of Controls Assurance and risk management;
- ensure that adequate assurances are received regarding the effectiveness of the assurance framework and controls in place; and
- updating and embedding an organisation wide risk register.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the MHAC from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

## 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 J8 to J20 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 J11 to J13.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page J3, 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 J4 to J5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial 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.

### 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 Mental Health Act Commission, consistently applied and adequately disclosed.

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

### Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.1 to the account, the Mental Health Act Commission exceeded its revenue resource limit by £31,000. As the Mental Health Act Commission has no power to exceed its revenue resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

### In my opinion

- the financial statements give a true and fair view of the state of affairs of the Mental Health Act Commission at 31 March 2003 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.
- except for the expenditure incurred in excess of the Mental Health Act Commission's revenue resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>3,648</b>	3,557
Operating income	4	<b>(233)</b>	(218)
<b>Net operating cost</b>		<b><u>3,415</u></b>	<u>3,339</u>
<b>Net resource outturn</b>	3.1	<b><u>3,415</u></b>	<u>3,339</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

There were no recognised gains or losses in the year.

*The notes at pages J11 to J20 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5	<u>147</u>	<u>0</u>
<b>Current assets</b>			
Debtors	6	<u>56</u>	<u>32</u>
Cash at bank and in hand	7	<u>2</u>	<u>2</u>
		<b>58</b>	<b>34</b>
<b>Creditors: amounts falling due within one year</b>	8	<b>(597)</b>	<b>(695)</b>
<b>Net current liabilities</b>		<u><b>(539)</b></u>	<u><b>(661)</b></u>
<b>Total assets less current liabilities</b>		<u><b>(392)</b></u>	<u><b>(661)</b></u>
Provisions for liabilities and charges	9	<u>0</u>	<u>(5)</u>
		<u><b>(392)</b></u>	<u><b>(666)</b></u>
<b>Taxpayers' equity</b>			
General Fund	11	<u><b>(392)</b></u>	<u><b>(666)</b></u>
		<u><b>(392)</b></u>	<u><b>(666)</b></u>

The summarised balance sheet indicates that the Commission has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority if it ceases to exist.

*The notes at pages J11 to J20 form part of this account.*

Nigel Crisp  
Accounting Officer

24 March 2004



## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>(3,585)</b>	(3,204)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<u>(136)</u>	<u>0</u>
<b>Net cash outflow from investing activities</b>		<u>(136)</u>	<u>0</u>
Net cash outflow before financing		<u><b>(3,721)</b></u>	<u>(3,204)</u>
<b>Financing</b>			
Net Parliamentary funding		<u><b>3,721</b></u>	<u>3,204</u>
<b>(Increase)/decrease in cash in the period</b>	7	<u><b>0</b></u>	<u>0</u>

*The notes at pages J11 to J20 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 the Mental Health Act Commission (the Commission) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Commission is Parliamentary grant from the Department of Health from Request for Resources 1 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 authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers. It includes both income appropriated-in-aid 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 Commission 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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. There were no intangible assets recorded in the year.

- ii 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

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

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

**1.6 Stocks and work in progress**

The Commission does not recognise stocks and work in progress.

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

**1.8 Pension costs**

The Commission participates in the Principal Civil Service Pension Scheme (PCSPS), the Civil Service Compensation Scheme (CSCS) and other statutory schemes under the Superannuation Act 1972.

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described at note 2.3. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependents benefits. The Commission recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Schemes (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution elements of the schemes, the Commission recognises the contributions payable for the year.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Mental Health Act Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk) <<http://www.civilservice-pensions.gov.uk>>).

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution.

For 2002-2003, employers' contributions of £86,000 were payable to the PCSPS (2001-2002 £69,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

### **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

The Commission has not incurred any research and development costs.

### **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 Commission 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 6% in real terms.

## 2.1 Programme costs

	Notes	£000	2001-2002 £000
Non-executive members' remuneration		111	99
Other staff costs	2.2	919	671
2000-2001 payroll creditor write on		(146)	0
Capital: Capital charges interest		(32)	(34)
Commissioner fees		971	1,011
Commissioner expenses		236	322
Second opinion appointed doctors' fees		1,085	960
Second opinion appointed doctors' expenses		150	136
Accommodation and office equipment		177	174
Administration expenses		141	188
Car hire		20	18
Auditor's remuneration: Audit Fees <sup>1</sup>		16	12
		<b>3,648</b>	<b>3,557</b>

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

The auditors did not receive remuneration for non-audit (other) work in 2002-2003.

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

No interest was paid under the legislation and no compensation payments made (2001-2002: £nil).

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	745	556
Social security costs	41	33
Other pension costs	86	69
Agency costs	47	13
	<b>919</b>	<b>671</b>
<b>Authority non-executive members remuneration</b>	<b>111</b>	<b>99</b>
Total staff costs	<b>1,030</b>	<b>770</b>

The average number of whole-time equivalent persons employed (including senior management) during the year was 35. (2001-2002: 34)

The amount spent on staff benefits during the year totalled £nil (2001-2002: £nil).

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

During 2002-2003 there were no early retirements from the Commission on the grounds of ill-health.

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Other remuneration in £5k bands	Golden hello/comp for loss of office	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003
	years	£000	£000	£000	£00	£000	£000
Paul Hampshire (Chief Executive to 31 October 2002)	52	40-45	0	85	0-5	2.5-5	5-10
Cheryl Robinson (Acting Chief Executive 1 November 2002 to 21 March 2003) (Director of Operations 1 April 2002 to 31 October 2002)	47	25-30 20-25	0	0	0	2.5-5	10-15
Paul Nowak (Director of Finance 1 November 2002 to 31 March 2003)	52	40-45	0	0	0	2.5-5	10-15
Chris Perring (Director of Policy and Practice Development)	56	35-40	0	0	0	n/a	n/a
Margaret Clayton (Chairman 1 April 2002 to 30 November 2002)	61	0	10-15	0	0	n/a	n/a
Kamlesh Patel (Vice Chairman 1 April 2002 to 31 October 2002) (Chairman 1 November 2002 to 31 March 2003)	42	0	0-5	0	0	n/a	n/a
Deborah Jenkins (Non Executive) (Vice Chairman 1 November 2002 to 31 March 2003)	43	0	0-5	0	0	n/a	n/a
Carey Bamber (Non-Executive 1 April 2002 to 31 January 2003)	34	0	0-5	0	0	n/a	n/a
Ann Curno (Non Executive)	62	0	0-5	0	0	n/a	n/a
Barry Delaney (Non Executive)	54	0	25-30	0	0	n/a	n/a
Margot DosAnjos (Non Executive)	62	0	20-25	0	0	n/a	n/a
Ola Junaid (Non Executive)	42	0	0-5	0	0	n/a	n/a
June Tweedie (Non Executive)	44	0	10-15	0	0	n/a	n/a
<b>2001-2002 disclosures</b>							
Paul Hampshire (Chief Executive)	51	60-65	0	0	0	0-2.5	5-10
Paul Nowak (Director of Finance 1 November 2001 to 31 March 2002)	51	15-20	0	0	0	0-2.5	10-15
Cheryl Robinson (Director of Finance 1 April 2001 to 31 October 2001) (Director of Operations 1 November 2001 to 31 March 2002)	46	40-45	0	0	0	0-2.5	10-15
Margaret Clayton (Chairman)	60	0	15-20	0	0	n/a	n/a
Richard Williams (Vice Chair)	53	0	0-5	0	0	n/a	n/a
Margot DosAnjos (Non Executive)	61	0	5-10	0	0	n/a	n/a
Deborah Jenkins (Non Executive)	42	0	0-5	0	0	n/a	n/a
Kamlesh Patel (Vice Chair)	41	0	0-5	0	0	n/a	n/a
Carey Bamber (Non-Executive)	33	0	0-5	0	0	n/a	n/a
Ann Curno (Non Executive)	61	0	0-5	0	0	n/a	n/a
Barry Delaney (Non Executive)	53	0	0-5	0	0	n/a	n/a
June Tweedie (Non Executive)	43	0	0-5	0	0	n/a	n/a
Gordon Lakes (Non Executive)	73	0	5-10	0	0	n/a	n/a
David Hill (Non Executive)	47	0	0-5	0	0	n/a	n/a
Ola Junaid (Non Executive)	41	0	0-5	0	0	n/a	n/a

The Commission, although a Special Health Authority, is staffed by Civil Servants on secondment from the Department of Health and as such comes under the terms and conditions that apply to civil servants, this includes their pension scheme, PCSPS, which is not the NHS pension scheme.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder based arrangement with a significant employer contribution (partnership pension account).

*a Classic Scheme*

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

*b Premium Scheme*

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

*c Classic Plus Scheme*

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	<u>3,415</u>	<u>3,339</u>
<b>Net resource outturn</b>	<u><b>3,415</b></u>	<u>3,339</u>
<b>Revenue resource limit</b>	<u><b>3,384</b></u>	<u>3,339</u>
<b>(Over) spend against limit</b>	<u><b>(31)</b></u>	<u>0</u>

### 3.2 Reconciliation of gross capital expenditure to capital resource limit

	£000	2001-2002 £000
Gross capital expenditure	<u>147</u>	<u>0</u>
<b>Net capital resource outturn</b>	<u><b>147</b></u>	<u>0</u>
Capital resource limit	<u>147</u>	<u>0</u>
<b>Underspend against limit</b>	<u><b>0</b></u>	<u>0</u>

#### 4 Operating income

Operating income analysed by activity is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Income received from National Assembly for Wales	211	188
Other	22	30
Total	<u>233</u>	<u>218</u>

#### 5 Tangible fixed assets

The only fixed assets held are assets under construction

	Assets under construction and payments on account £000
Cost or valuation at 31 March 2002	0
Additions - purchased	<u>147</u>
<b>Gross cost at 31 March 2003</b>	<b><u>147</u></b>
<b>Net book value</b>	
Purchased at 31 March 2002	<u>0</u>
<b>Purchased at 31 March 2003</b>	<b><u>147</u></b>

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date was £nil.

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

#### 6 Debtors

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
Prepayments	22	8
Other debtors	34	24
	<u>56</u>	<u>32</u>

#### 7 Analysis of changes in cash

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at commercial banks and in hand	<u>2</u>	<u>0</u>	<u>2</u>



**8 Creditors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
Capital creditors	11	0
Tax and social security	0	21
Other creditors	<u>586</u>	674
	<u>597</u>	<u>695</u>

**9 Provisions for liabilities and charges**

	Legal claims £000
At 31 March 2002	5
Utilised during the year	<u>(5)</u>
At 31 March 2003	<u>0</u>

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

	£000	Restated 2001-2002 £000
Increase/(decrease) in debtors	24	(18)
(Increase)/decrease in creditors	<u>(109)</u>	(146)
	<u>(133)</u>	<u>(164)</u>

**11 Reserves**

The movement on the General Fund in the year comprised

	£000
Balance at 31 March 2002	(666)
Net operating costs for the year	<b>(3,415)</b>
Net Parliamentary funding	<b>3,721</b>
<i>Non-cash items</i>	
Capital charge interest	<u>(32)</u>
<b>Balance at 31 March 2003</b>	<u><b>(392)</b></u>

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

	Notes	£000	2001-2002 £000
Net operating cost for the year		<b>3,415</b>	3,339
Adjust for non-cash transactions	2.1	<b>32</b>	34
Adjust for movements in working capital other than cash	10	<b>133</b>	(164)
Decrease/(increase) in provisions	9	<b>5</b>	(5)
<b>Net cash outflow from operating activities</b>		<u><b>3,585</b></u>	<u>3,204</u>

**13 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £132,000 (2001-2002: £nil).

**15 Commitments under operating leases**

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

	£000	2001-2002 £000
Other operating leases	<u>12</u>	<u>15</u>
	<b>12</b>	<b>15</b>

Commitments under non-cancellable operating leases

	£000	2001-2002 £000
<b>Land and buildings</b>		
Operating leases which expire: within one year	0	0
between one and five years	128	86
after five years	<u>0</u>	<u>0</u>
	<b>128</b>	<b>86</b>
<b>Other leases</b>		
Operating leases which expire: within one year	0	15
between one and five years	12	0
after five years	<u>0</u>	<u>0</u>
	<b>12</b>	<b>15</b>

**16 Other commitments**

The Commission has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

**17 Losses and special payments**

The Commission has recorded four cases at a total cost of £86,000 (2001-2002: three cases at £9,000).

**18 Related parties**

The Commission 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 Commission has had a significant number of material transactions with the Department.

In addition the Commission has had a significant number of material transactions with the Treasury Solicitors.

During the year none of the Board members or members of the key management staff or other related parties has undertaken any material transactions with the parties listed above.

**19 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 Commission 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 Commission 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 Commission in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

100% of the Commission's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. The Commission is not, therefore, exposed to significant interest-rate risk.

*Foreign currency risk*

The Commission has no foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets as at 31 March 2003 is as follows (there are no relevant liabilities)

	<b>Book value</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>
<b>Financial assets</b>		
Cash	<u>2</u>	<u>2</u>
Total	<u>2</u>	<u>2</u>

**20 Post balance sheet events**

There were no 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Microbiological Research 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 Microbiological Research 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 Microbiological Research 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 2002-2003

This statement is given in respect of the Summarised Account for the Microbiological Research Authority (MRA).

The MRA has agreed with the Department of Health that it is more appropriate to follow the internal controls guidance given to Non Departmental Public Bodies (NDPBs) rather than the NHS guidance which would normally be appropriate for Special Health Authorities.

As Accounting Officer for the Department of Health, I acknowledge my overall personal responsibility for ensuring that the MRA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the MRA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the MRA is accountable for internal control. The Accountable Officer of the Board has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Accountable Officer has responsibility for maintaining a sound system of internal control that supports the achievement of the MRA's aims and objectives as agreed with Department of Health, whilst safeguarding the public funds and assets for which he is personally responsible.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the MRA's aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This system was fully in place by the year ended 31 March 2003, and substantially in place throughout the year.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the Board of the MRA. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of its internal auditors, the operational directors who have responsibility for the development and maintenance of the internal control framework and comments made by the external auditors in their annual audit letter and other reports.

### MRA governance arrangements

These include

- a Chief Executive, appointed as Accountable Officer for the MRA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors;
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## MRA actions and plans

The actions taken so far include

- monthly Board meetings to consider the plans and strategic direction of the Authority underpinned by four sub-committees;
- regular reports from the Chairman of the Audit Committee to the Board including matters affecting internal control;
- regular reports by the internal auditors to the Audit Committee giving an independent opinion on the adequacy and effectiveness of the Authority's system of internal control, together with recommendations for improvement; internal audit's assurance work in 2002-2003 fell three months behind its planned activities because of operational difficulties at MRA. Between 1 April 2003 and 30 June 2003 all outstanding assurance work was completed;
- weekly and monthly reporting by operational directors highlighting key risk areas under their responsibility and actions being taken to address control issues;
- monthly reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects;
- quarterly meetings of the Risk Management Committee;
- quarterly review of the corporate (organisation wide) risk register;
- a programme of risk awareness involving all the Authority's senior staff, explaining the Authority's Risk Management Strategy;
- expansion of the organisation wide risk register to include a more detailed assessment of risks at the operational level;
- review and revision of the MRA's Business Continuity Plan; and
- assessment and expansion of the MRA's key performance measures and risk indicators.

Further developments were planned for 2003-2004 to improve the risk management procedures. These initiatives, outlined below, will now form part of the Health Protection Agency's internal control system

- the introduction of a testing programme for the Business Continuity Plan, and its revision to accommodate the HPA organisation structure;
- the introduction of a more formal risk prioritisation methodology based on risk ranking and cost-benefit analyses;
- more formal reporting on progress toward the recommendations in the Cabinet Office report "Successful IT: Modernising Government in action"; and
- a further programme of risk awareness training for senior operational staff.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the Health Protection Agency from 2003-2004 onwards.

*Nigel Crisp*

27 November 2003

# 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 K8 to K22 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 K11 to K14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page K3, 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 K4 to K6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 Microbiological Research 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 fraud or other irregularity or error 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. 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 Microbiological Research Authority at 31 March 2003 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; 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Income and Expenditure Account for the year ended 31 March 2003

### Continuing operations

	Notes	£000	Restated 2001-2002 £000
<b>Income</b>			
Income from activities	2	<b>24,639</b>	20,331
Department of Health revenue funding		<b>2,712</b>	4,773
Transfer from deferred government grant		<b>3,909</b>	3,125
		<b>31,260</b>	28,229
<b>Expenditure</b>			
Staff costs	3.2	<b>(12,306)</b>	(10,895)
Expenditure - capital costs	3.1	<b>(8,129)</b>	(6,331)
Other operating costs		<b>(15,005)</b>	(12,825)
		<b>(35,440)</b>	(30,051)
<b>Operating (deficit)</b>		<b>(4,180)</b>	(1,822)
Interest receivable		<b>66</b>	72
Reversal of notional capital charge		<b>2,903</b>	2,581
<b>(Deficit)/surplus for the financial year</b>		<b>(1,211)</b>	831
Transfer (to) deferred grants	10	<b>(1,548)</b>	(372)
<b>Retained (deficit)/surplus for the year</b>		<b>(2,759)</b>	459

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	Restated 2001-2002 £000
<b>(Deficit)/surplus for the financial year</b>		<b>(2,759)</b>	459
Unrealised gain on the revaluation and indexation of fixed assets	11	<b>4,329</b>	542
Unrealised gain on reassessment of revaluation reserve		<b>0</b>	25
Fixed asset impairment losses		<b>0</b>	(120)
Disposal of fixed assets	11	<b>(23)</b>	(1)
<b>Total recognised gains relating to the year</b>		<b>1,547</b>	905
Prior year adjustment		<b>(1,040)</b>	195
<b>Total recognised gains and losses for the financial year</b>		<b>507</b>	1,100

The notes at pages K11 to K22 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	4.1	<b>48,323</b>	41,401
<b>Current assets</b>			
Stocks	5	<b>526</b>	1,031
Debtors	6	<b>7,336</b>	7,142
Cash at bank and in hand	7	<b>510</b>	2,123
		<b>8,372</b>	10,296
<b>Creditors: amounts falling due within one year</b>	8	<b>(5,196)</b>	(6,050)
<b>Net current assets</b>		<b>3,176</b>	4,246
<b>Total assets less current liabilities</b>		<b>51,499</b>	45,647
Provisions for liabilities and charges	9	<b>(750)</b>	(383)
		<b>50,749</b>	45,264
<b>Capital and reserves</b>			
Deferred grants	10	<b>36,711</b>	32,796
Capital account	11	<b>4,518</b>	4,518
Revaluation reserve	11	<b>12,652</b>	9,644
Income and expenditure reserve	11	<b>(3,132)</b>	(1,694)
		<b>50,749</b>	45,264

*The notes at pages K11 to K22 form part of this account.*

*Nigel Crisp*  
Accounting Officer

24 March 2004

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash (outflow)/inflow from operating activities</b>	12	<u>(137)</u>	<u>2,092</u>
<b>Returns on investments and servicing of finance</b>			
Interest received		66	72
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire tangible fixed assets		(7,824)	(6,710)
Proceeds from sale of fixed assets		<u>6</u>	<u>0</u>
<b>Net cash (outflow) from investing activities</b>		<u>(7,818)</u>	<u>(6,710)</u>
<b>Net cash (outflow) before financing</b>		<u>(7,889)</u>	<u>(4,546)</u>
<b>Financing</b>			
Capital grants	10	<u>6,276</u>	<u>6,338</u>
<b>(Decrease)/increase in cash in the period</b>	7	<u>(1,613)</u>	<u>1,792</u>

The notes at pages K11 to K22 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 the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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 Operating 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 external customers. It also includes specific project funding from the Department of Health from Request for Resources 2.

### 1.3 Government grants

Government Grants receivable for capital expenditure are credited to a Deferred Grant account and then released to the Income and Expenditure account over the expected useful lives of the relevant assets. The actual cash grant received in the year is augmented by proceeds from disposals of fixed assets.

Included in Government Grants is an amount which represents the excess value of capital expenditure in the year over the value of specific capital grants received in the year. This treatment is consistent with the status of a Request for Resources 2 funded health authority of the Department of Health. Grants of a revenue nature are credited to income in the year to which they relate.

### 1.4 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.

### 1.5 Capital charges

A charge, reflecting the cost of capital utilised by the authority, 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 1.6 Fixed assets

#### *a Capitalisation*

All assets falling into the following categories are capitalised

- i Intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.
- ii 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.



**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 and buildings  

Valuations are 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 at Existing Use Value.

Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. Between valuations the appropriate indices provided by the Valuation Office Agency and published in the Manual for Accounts are applied to revalue the assets.
- iii Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.
- iv Assets in course of construction are valued at net current replacement cost using an appropriate index.

**c Depreciation**

- 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 are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. At the latest revaluation the assessed lives were in the range 4 to 39 years.
- iv Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Plant and machinery</i>	
Moveable engineering plant and equipment & long life medical equipment	15
Medium life medical equipment	10
Short life medical & other equipment	5
<i>Information technology</i>	
Office information technology	5

**1.7 Stocks and work in progress**

Stocks and work in progress are valued as follows

- a 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; and
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

**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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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.nhs.gov.uk](http://www.nhs.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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £646,000 (£594,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 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.

Additional pension costs 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 Authority commits itself to the retirement, regardless of the method of payment.

## **1.9 Research and development**

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

## **1.10 Foreign currency transactions**

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 Operating leases**

Operating lease rentals are charged to the income and expenditure account in equal amounts over the lease term.

## **1.12 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).

### 1.13 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 6% in real terms.

### 1.14 Prior period adjustment

The 2001-2002 accounts have been restated and no longer reflect the release of the revaluation reserve through the I&E account. The effect has been to reduce the surplus for 2001-2002 to £831,000 from £1,871,000. The release is now shown between reserves in the balance sheet.

## 2 Operating income

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>By category</i>		
Contracts services and grants	<b>8,261</b>	9,262
Fees and charges to external customers	<b>16,378</b>	11,069
	<b>24,639</b>	20,331
<i>By territory</i>		
UK	<b>19,106</b>	16,561
Other Europe	<b>1,337</b>	1,019
USA/Canada	<b>3,468</b>	2,604
Rest of world	<b>728</b>	147
	<b>24,639</b>	20,331

### 3.1 Operating costs

	£000	2001-2002 £000
Capital: Depreciation (including building depreciation)	<b>5,090</b>	3,741
Capital charges interest	<b>2,903</b>	2,581
Loss on disposal of fixed assets	<b>136</b>	9
	<b>8,129</b>	6,331

	£000	2001-2002 £000
<b>Other operating charges include</b>		
Auditor's remuneration - Audit fee <sup>1</sup>	<b>41</b>	32

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

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

### Hire and operating rentals included in expenses

	£000	2001-2002 £000
Other operating leases	<b>12</b>	14
	<b>12</b>	14

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2001-2002: £nil).

**3.2 Staff costs****Executive members' remuneration and staff costs**

	<b>£000</b>	2001-2002 £000
Salaries and wages	<b>10,797</b>	9,525
Social security costs	<b>786</b>	712
Employer contributions to NHSPA	<b>646</b>	594
	<b><u>12,229</u></b>	<u>10,831</u>
 Authority non-executive members remuneration	 <b>77</b>	 64
	<b><u>12,306</u></b>	<u>10,895</u>

The average number of whole-time equivalent persons employed during the period (excluding non-executive directors) was

	<b>Number</b>	2001-2002 Number
Operating divisions	<b>389</b>	352
Service divisions	<b>39</b>	35
Total	<b><u>428</u></b>	<u>387</u>

### 3.3 Senior staff remuneration

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

Name (and position held)	Age  years	Salary in £5k bands  £000	Real increase in pension in £2.5k bands  £000	Total accrued pension at age 60 at 31 March 2003 in £5k bands £000
R Whittenbury (Chair from 8 August 2002)	70	15-20	n/a	n/a
W Stewart (Chair to 8 August 2002)	67	5-10	n/a	n/a
T Cowling (Non-executive director)	54	5-10	n/a	n/a
I Cranston (Non-executive director)	56	5-10	n/a	n/a
N Lightfoot (Non-executive director)	58	5-10	n/a	n/a
A Primrose (Non-executive director)	59	5-10	n/a	n/a
R Wise (Non-executive director)	53	5-10	n/a	n/a
R H Gilmour (Chief Executive)	61	130-135	0-2.5	5-10
I G Bateman (Director of Quality and Safety) (appointed 22 July 2002)	*			
T J G Brooks (Director of Public Health Affairs) (appointed 7 October 2002)	47	40-45	0-2.5	0-5
P Hambleton (Director of Strategic Vaccine Development)	59	75-80	0-2.5	30-35
P M Hammond (Acting Director of Administration)	*			
J M Harker (Director of Administration) (Seconded to DoH during 2002-2003)	*			
T R Harry (Director of Operations)	47	70-75	0-2.5	0-5
C R Penn (Director of Research)	*			
A Stapley (Director of Finance & Human Resources)	*			

#### 2001-2002 disclosures

W Stewart (Chairman)	66	30-35	0-2.5	0-5
M Brown (Non-executive director to 31 May 2001)	70	0-5	n/a	n/a
T Cowling (Non-executive director)	53	5-10	n/a	n/a
I Cranston (Non-executive director)	55	5-10	n/a	n/a
N Lightfoot (Non-executive director)	57	5-10	n/a	n/a
A Primrose (Non-executive director)	58	5-10	n/a	n/a
R Whittenbury (Non-executive director)	69	5-10	n/a	n/a
R Wise (Non-executive director)	52	5-10	n/a	n/a
R H Gilmour (Chief Executive)	60	130-135	0-2.5	5-10
P Hambleton (Director of Strategic Vaccine Development)	58	70-75	0-2.5	30-35
J M Harker (Director of Administration)	54	65-70	0-2.5	25-30
T R Harry (Director of Operations)	46	65-70	0-2.5	0-5
C R Penn (Director of Research)	44	80-85	0-2.5	0-5
A Stapley (Director of Finance and Human Resources)	39	65-70	0-2.5	5-10

\* = Consent to disclose all information withheld

All directorships ceased on 31 March 2003 when MRA ceased to exist.

**4.1 Tangible fixed assets**

	Land £000	Assets in course of construction £000	Buildings £000	Plant and machinery £000	Information technology £000	<b>Total £000</b>
Net book value as at 31 March 2002	2,243	9,190	69,596	12,985	833	94,847
Transfers	0	(8,029)	6,578	1,340	111	<b>0</b>
Additions	0	7,824	0	0	0	<b>7,824</b>
Disposals	0	0	0	(1,402)	(37)	<b>(1,439)</b>
Revaluation	488	0	9,941	422	29	<b>10,880</b>
<b>Net book value as at 31 March 2003</b>	<u>2,731</u>	<u>8,985</u>	<u>86,115</u>	<u>13,345</u>	<u>936</u>	<u><b>112,112</b></u>
Accumulated depreciation as at 31 March 2002	0	0	43,811	8,885	750	53,446
Charge for the year	0	0	4,035	1,001	54	<b>5,090</b>
Disposals	0	0	0	(1,262)	(36)	<b>(1,298)</b>
Revaluation	0	0	6,259	269	23	<b>6,551</b>
<b>As at 31 March 2003</b>	<u>0</u>	<u>0</u>	<u>54,105</u>	<u>8,893</u>	<u>791</u>	<u><b>63,789</b></u>
Net book value as at 31 March 2002	2,243	9,190	25,785	4,100	83	41,401
<b>Net book value as at 31 March 2003</b>	<u>2,731</u>	<u>8,985</u>	<u>32,010</u>	<u>4,452</u>	<u>145</u>	<u><b>48,323</b></u>

**Note**

The MRA had no tangible fixed assets within the following categories: dwellings, transport equipment and furniture and fittings.

The directors arranged for a valuation of the MRA's land and building to be carried out by the Valuation Office Agency at 31 March 2003. This is one year ahead of the normal due date under the five-year revaluation policy stated in the accounting policy.

This valuation showed the depreciated replacement cost of the assets to be £35,289,000 as compared to the current carrying value of £34,741,000 when revalued using suitable indices.

The difference of £548,000 is not considered significant and appropriately no adjustment has been made in the accounts for this alternative valuation.

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

All land and buildings are freehold.

**5 Stocks and work in progress**

	31 March 2002 £000	£000
Raw materials and consumables	253	<b>197</b>
Finished processed goods	778	<b>329</b>
	<u>1,031</u>	<u><b>526</b></u>

**6 Debtors**

		31 March 2002 £000
<b>Amounts falling due within one year</b>	<b>£000</b>	
Prepayments	<b>1,311</b>	1,457
Accrued income	<b>2,205</b>	1,016
Trade debtors	<b>3,358</b>	2,310
Other debtors	<b>462</b>	2,359
	<b>7,336</b>	<u>7,142</u>

**7 Analysis of changes in cash**

	Restated at 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> £000
Total	<u>2,123</u>	<u>(1,613)</u>	<u><b>510</b></u>

**8 Creditors**

		31 March 2002 £000
<b>Amounts falling due within one year</b>	<b>£000</b>	
Trade creditors	<b>6</b>	19
Accruals	<b>1,881</b>	3,252
Deferred income	<b>3,309</b>	2,779
	<b>5,196</b>	<u>6,050</u>

**9 Provisions for liabilities and charges**

	£000
At 31 March 2002 (Pensions for former staff)	383
Arising during the year (Contract settlements)	<b>750</b>
Utilised during the year	<u>(383)</u>
<b>At 31 March 2003</b>	<u><b>750</b></u>

**10 Deferred grants**

		31 March 2002 £000
	<b>£000</b>	
Balance brought forward	32,796	29,211
Received in year	<b>6,276</b>	6,338
Release to I&E account - net book value disposals	<b>(117)</b>	0
Release to I&E account - reclassification of fixed assets	<b>0</b>	(389)
Release to I&E account - depreciation on historic cost of fixed assets	<b>(3,792)</b>	(2,736)
Transfer from I&E account	<b>1,548</b>	372
	<b>36,711</b>	<u>32,796</u>

Transfers to the I&E account are made due to timing differences between capital funding and capital expenditure at the year-end.

**11 Reserves**

	<b>Capital Revaluation Reserve</b>	<b>Reserve</b>	<b>Income and Expenditure Reserve</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
At 31 March 2002	4,518	9,644*	(1,694)*
Transfer from income and expenditure account	0	0	(2,759)
Revaluation and indexation	0	4,329	0
Disposals	0	(23)	23
Depreciation	0	(1,298)	1,298
<b>At 31 March 2003</b>	<b>4,518</b>	<b>12,652</b>	<b>(3,132)</b>

\* Restated

The Capital Reserve represents the fixed asset capital base of the Authority as at 1 April 1994.

**12 Reconciliation of operating surplus to net cash outflow from operating activities**

	<b>£000</b>	Restated 2001-2002 £000
Operating (deficit)	<b>(4,180)</b>	(1,822)
Depreciation charge	<b>5,090</b>	3,741
Capital interest	<b>2,903</b>	2,581
Transferred from revaluation reserve	<b>0</b>	25
Loss on disposal of fixed assets	<b>136</b>	9
Reclassification of fixed assets	<b>0</b>	389
Release of deferred capital grants	<b>(3,910)</b>	(3,125)
Decrease in stocks	<b>505</b>	136
(Increase) in debtors	<b>(194)</b>	(2,025)
(Decrease)/increase in creditors	<b>(854)</b>	2,412
Increase/(decrease) in provisions	<b>367</b>	(229)
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(137)</b>	2,092

**13 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £1,289,000 (2001-2002: £2,630,000).

In addition, the Board has authorised but not contracted for £2,137,000 (2001-2002: £1,965,000).

In arriving at the above amounts, government grants have not been taken into account.

**14 Commitments under operating leases**

The Authority is committed to make the following payments during the next year in respect of operating leases expiring

	<b>Other</b>	2001-2002 Other
	<b>£000</b>	£000
Within one year	<b>5</b>	0
Between one and five years	<b>7</b>	13
After five years	<b>0</b>	0
	<b>12</b>	13



## 15 Losses and special payments

During the year the Authority made one special payment of £500 to an employee in respect of a compensation claim. (2001-2002: £4,000, one special payment to an employee in respect of a compensation claim).

Additionally, provisions for special payments have been set up to cover potential costs of two contract settlements, covering claims for disputed quality of work done between 1998 and 2001 and a product recall in 2003. In aggregate, the combined exposure has been estimated at £750,000.

## 16 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 the following other entities for which the Department is regarded as the parent Department, i.e.

Medicines Control Agency  
NHS Pensions Agency  
Public Health Laboratory Service

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

## 17 Post balance sheet event

The MRA ceased to exist on 31 March 2003 when SI 2003 No 505 (Section 9) transferred all rights against the MRA and its property and liabilities to the Health Protection Agency.

## 18 Contingent liability

Following the outsourcing of non-core activities certain staff have been transferred under TUPE to Facilities Management (FM) companies. It is a requirement under TUPE that the pension benefits remain comparable; liabilities therefore exist towards the FM companies in connection with possible shortfalls on actuarial valuations of the appropriate pension schemes.

The value of any claims is totally unquantifiable in view of the type of claim.

## 19 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 Microbiological Research 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.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Liquidity risk*

The MRA's net operating costs are financed from resources voted annually by Parliament and its trading surplus. The MRA largely financed its capital expenditure from funds made available from Government and its trading surplus. The MRA was not, therefore, exposed to significant liquidity risks.

*Interest-rate risk*

The MRA's financial assets were cash holding arising from normal trading activities and 83% were held on deposit. There were no financial liabilities at the end of the year. The MRA is not, therefore, exposed to significant interest-rate risk. The following two tables show the interest rate profiles of the Authority's financial assets and liabilities

**Financial assets**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	
					Weighted average interest rate	Weighted average period for which fixed years
At 31 March 2003	<b>£000</b>	£000	£000	£000	%	
Sterling	<b>506</b>	422	0	84	Note a	Note a
Cash (Euro)	<b>5</b>	0	0	5	Note b	Note b
Gross financial assets	<b>511</b>	422	0	89		
At 31 March 2002						
Sterling	2,119	1,864	0	255	Note a	Note a
Cash (Euro)	4	0	0	4	Note b	Note b
Gross financial assets	2,123	1,864	0	259		

Note a: The balance on non interest bearing accounts represents moneys held with the OPG and uncleared bankings.

Note b: The Euro balance represents receipts from normal trading that await conversion to sterling.

**Financial liabilities**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate	
					Weighted average interest rate	Weighted average period for which fixed years
At 31 March 2003	<b>£000</b>	£000	£000	£000	%	
Sterling	<b>750</b>	0	0	750	Note a	Note a
Other	<b>0</b>	0	0	0	-	-
Gross financial assets	<b>750</b>	0	0	750		
At 31 March 2002						
Sterling	383	0	0	383	Note b	Note b
Other	0	0	0	0	-	-
Gross financial assets	383	0	0	383		

Note a: The Authority's non-interest bearing financial liability at 31 March 2003 comprises provisions for contracted settlements.

Note b: The Authority's non-interest bearing financial liability at 31 March 2002 comprised a provision for early retirement liabilities.

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the MRA's financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	Basis of fair valuation
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	<b>510</b>	<b>510</b>	Market value
Total	<b>510</b>	<b>510</b>	

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 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 2002-2003

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

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NBA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NBA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NBA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NBA regarding corporate governance and systems of internal control. For 2002-03, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance,
- risk management; and,
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NBA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors, the work of the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors and other review bodies in their reports.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NBA.

### NBA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NBA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NBA actions and plans

The NBA assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- a self assessment exercise undertaken against the Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review;
- arrangements to monitor, as part of risk identification and management processes, compliance with other key standards, including relevant Controls Assurance Standards covering areas of potentially significant organisational risk;
- the adoption and implementation of 'Policies and Procedures for the Management of Risk in the NBS' including wider staff participation in the process of risk management;
- the full integration of Risk Management into the planning process;
- the definition of corporate objectives as outcomes; and
- the introduction of the NBS 'Events management System' to inform decision-making and facilitate evidence based identification of risks.

In addition to the actions outlined above, in the coming year it is planned to

- consider the draft report from Willis & Co (on behalf of NHSLA), received in July 2003, on their assessment of NBS attainment of the risk Management standard; agree a final report with Willis & Co and implement an action plan to meet the requirements of the agreed report;
- complete the development and implementation of the NBA Assurance framework and Performance Scorecard by March 2004; and
- complete the development of an integrated audit system by March 2004.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. On the basis of the Assurances provided by the Accountable Officer, I plan to provide a full statement on internal control in respect of the Summarised Account for the NBA for the year ended 31 March 2005.

*Nigel Crisp*

27 November 2003

# 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 L7 to L22 under 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 L10 to L14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page L3, 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 L4 to L5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 National Blood 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 2003 and 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 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 505-I.

*John Bourn*  
Comptroller and Auditor General

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

30 March 2004

## Income and Expenditure Account for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
<b>Income</b>			
Department of Health funding		<b>30,422</b>	38,188
Operating income	2.2	<b>329,933</b>	311,324
<b>Expenditure</b>			
Operating expenses	3.1	<b>(356,221)</b>	(337,155)
<b>Surplus for the financial year</b>		<b><u>4,134</u></b>	<u>12,357</u>

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
Surplus for the financial year		<b>4,134</b>	12,357
Unrealised gain on the indexation of fixed assets	11	<b>21,087</b>	3,583
Unrealised gain on the indexation of donated fixed assets	11	<b>1</b>	0
Fixed asset impairment losses	11	<b>0</b>	(40)
<b>Total recognised gains relating to the year</b>		<b><u>25,222</u></b>	<u>15,900</u>

*The notes at pages L10 to L22 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	4.1	<b>4,817</b>	4,462
Tangible assets	4.2	<b>199,260</b>	173,086
		<b>204,077</b>	177,548
<b>Current assets</b>			
Stocks	5	<b>73,497</b>	67,904
Debtors	6	<b>19,205</b>	23,243
Cash at bank and in hand	7	<b>66</b>	146
		<b>92,768</b>	91,293
<b>Creditors: amounts falling due within one year</b>	8	<b>(29,828)</b>	(30,961)
<b>Net current assets</b>		<b>62,940</b>	60,332
<b>Total assets less current liabilities</b>		<b>267,017</b>	237,880
Provisions for liabilities and charges	9	<b>(4,385)</b>	(5,911)
		<b>262,632</b>	231,969
<b>Capital and reserves</b>			
Capital account	11	<b>157,718</b>	152,080
Revaluation reserve	11	<b>46,350</b>	25,440
Donated asset reserve	11	<b>9</b>	28
Income and expenditure reserve	11	<b>58,555</b>	54,421
		<b>262,632</b>	231,969

*The notes at pages L10 to L22 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash (outflow) from operating activities</b>	12	<b>(80)</b>	(53)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		<b>(1,330)</b>	(560)
(Payments) to acquire tangible fixed assets		<b>(20,084)</b>	(14,379)
Receipts from disposal of tangible fixed assets		<b>19</b>	90
<b>Net cash (outflow) from investing activities</b>		<b>(21,395)</b>	(14,849)
<b>Net cash (outflow) before financing</b>		<b>(21,475)</b>	(14,902)
<b>Financing</b>			
Net Parliamentary funding		<b>21,395</b>	14,939
Surrender of receipts from sale of fixed assets		<b>0</b>	(90)
<b>(Decrease) in cash in the period</b>	7	<b>(80)</b>	(53)

*The notes at pages L10 to L22 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 the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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 Operating 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.

### 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 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 setting-up cost of a new building, 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**

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 Subsequent revaluations to donated fixed assets are taken to the donated asset reserve; and
- v Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. The assessed remaining lives at the last revaluation were in the range 3 to 92 years. Leaseholds are depreciated over the primary lease term.
- vi 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
Medium life medical equipment	10
Short life medical & other equipment	5
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Transport equipment</i>	
	7
<i>Information technology</i>	
Mainframe installations	8
Office information technology	5

**1.6 Stocks and work in progress**

Stocks and work in progress are valued as follows

- a 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; and
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

## 1.7 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contribution rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £7,224,000 (£6,603,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements.

## 1.8 Operating 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.

## 1.9 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 Operating Cost Statement. Similarly, any impairment on donated assets charged to the Operating Cost Statement 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 General Fund.

### 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 should be revalued on the basis of current cost. The amortisation charge may be based on opening, closing, or average balance sheet values provided that a consistent basis is used.

### 1.11 Treatment of depreciation on assets purchased via government grants

The value of purchased additions is credited to the capital reserve. Each year, an amount equal to the depreciation charge on fixed assets is released from the capital reserve to the capital charges control account. The balance on the capital charges control account is charged to income in the Income and Expenditure Account.

### 1.12 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).

### 1.13 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 6% in real terms.

### 1.13 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.

## 2.1 Reconciliation of cashflow statement to parliamentary funding

	2001-2002
	£000
Net cash (outflow) from operating activities	(80)
Expenditure	356,221
Operating income	(329,933)
Movement in working capital	4,214
Capital expenditure (net)	21,395
Capital charges adjustment	(448)
Hep C litigation funding adjustment	(2,473)
<b>Total Parliamentary funding</b>	<b>48,896</b>

## 2.2 Operating income

Operating income analysed by activity, is as follows

	2001-2002
	£000
Blood Product Income	250,621
BPL Product Sales	56,312
Other income	23,000
<b>Total</b>	<b>329,933</b>

## 2.3 Segmental reporting

	£000	2001-2002 £000
BPL income	<b>81,786</b>	92,917
BPL surplus	<b>2,755</b>	15,642
BPL net assets	<b>132,918</b>	119,679

### 3.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Salaries and wages	3.2		<b>141,492</b>	130,114
Other staff costs			<b>11,181</b>	11,285
Consumable supplies			<b>108,038</b>	113,200
Maintenance of buildings, plant and equipment			<b>8,625</b>	9,328
Rent and rates			<b>8,875</b>	8,011
Transport costs			<b>6,180</b>	6,294
External contractors			<b>9,170</b>	8,113
Purchase and lease of equipment and furniture			<b>5,302</b>	4,499
Utilities and telecommunications			<b>5,830</b>	5,441
Media advertising			<b>2,563</b>	3,444
Capital: Depreciation	4.1, 4.2	<b>16,175</b>		14,957
Impairments		<b>0</b>		76
Capital charges interest		<b>14,833</b>		13,459
			<b>31,008</b>	28,492
Auditor's remuneration - audit fees <sup>1</sup>			<b>222</b>	198
Other finance costs - unwinding of discount	9		<b>16</b>	0
Interest payable - other			<b>2</b>	0
Miscellaneous			<b>17,717</b>	8,736
			<b>356,221</b>	337,155

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

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

The increase in miscellaneous expenditure relates mainly to the costs of legal cases during the year.

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

There was £2,000 of interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2001-2002 £Nil). No compensation payments were made under this legislation (2001-2002: £nil).

### Hire and operating rentals included in expenses

	£000	2001-2002 £000
Hire of plant and machinery	<b>416</b>	289
Other operating leases	<b>1,484</b>	1,253
	<b>1,900</b>	1,542

### 3.2 Staff costs

#### Members' remuneration and staff costs

	£000	Restated 2001-2002 £000
Salaries and wages	<b>121,065</b>	110,004
Social security costs	<b>7,915</b>	7,527
Employer contributions to NHSPA	<b>7,224</b>	6,603
Agency staff	<b>5,288</b>	5,980
<b>Total staff costs</b>	<b>141,492</b>	130,114

The average number of whole-time equivalent persons employed (excluding agency staff but including senior management) during the year was 5,603 (2001-2002: 5,388)

### 3.3 Senior staff remuneration

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

Name (and position held)	Age	Salary in £5k bands	Benefits in kind	Real increase in pension in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 £000
	years	£000	£000	£000	£000
Mr M Fogden CB (Chairman)	66	20-25	-	n/a	n/a
Mr M Bellamy (NED)	58	5-10	-	n/a	n/a
Mrs E Buggins (NED)	47	5-10	-	n/a	n/a
Mrs J Gubbins (NED)	45	5-10	-	n/a	n/a
Mr M Hindle (NED)	59	5-10	-	n/a	n/a
Dr M Sekhar (NED - from 28 February 2003)	43	0-5	-	n/a	n/a
Mr P Sabapathy OBE (NED)	60	5-10	-	n/a	n/a
Mr M Gorham (Chief Executive)	55	105-110	116	2.5-5	45-50
Dr A Robinson (Medical Director)	60	130-135	80	2.5-5	50-55
Mr B Savery (Director of Finance)	59	95-100	68	0-2.5	15-20

#### 2001-2002 Disclosures

Mr M Fogden (Chairman)	65	20-25	-	n/a	n/a
Mr M Bellamy (NED)	57	0-5	-	n/a	n/a
Mrs E Buggins (NED)	46	0-5	-	n/a	n/a
Mrs J Gubbins (NED)	44	0-5	-	n/a	n/a
Mr M Hindle (NED)	58	0-5	-	n/a	n/a
Sir K Peters FRS (NED)	63	0-5	-	n/a	n/a
Mr P Sabapathy OBE (NED)	59	0-5	-	n/a	n/a
Mr M Gorham (Chief Executive)	54	105-110	60	0-2.5	0-5
Dr A Robinson (Medical Director)	59	130-135	40	2.5-5	50-55
Mr B Savery (Director of Finance)	58	95-100	40	0-2.5	15-20

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

**4.1 Intangible fixed assets**

	<b>Software licences £000</b>
Gross cost as at 31 March 2002	7,681
Other revaluations	<b>13</b>
Additions - purchased	<b>1,060</b>
Transfers from tangibles	<b>1,068</b>
<b>Gross cost as at 31 March 2003</b>	<b><u>9,822</u></b>
Accumulated amortisation as at 31 March 2002	3,219
Transfers from tangibles	<b>379</b>
Provided during the year	<b>1,407</b>
<b>At 31 March 2003</b>	<b><u>5,005</u></b>
Net book value at 31 March 2002	<u>4,462</u>
<b>Net book value at 31 March 2003</b>	<b><u>4,817</u></b>

**4.2 Tangible fixed assets**

	<b>Total £000</b>	Land £000	Buildings exc dwellings £000	Dwellings £000	Assets under construction & pay on acc £000	Plant and machinery £000	Transport equipment £000	Information technology £000	Furniture and fittings £000
Cost or valuation									
As at 31 March 2002	217,896	15,037	113,952	979	7,474	50,960	11,777	14,523	3,194
Additions - purchased	<b>21,091</b>	0	785	0	10,635	5,792	381	3,490	8
Transfers	<b>(1,068)</b>	0	536	0	(5,450)	4,258	468	(880)	0
Other in year revaluation	<b>(13)</b>	0	0	0	0	(13)	0	0	0
Indexation	<b>22,194</b>	3,268	16,292	140	430	1,611	356	0	97
Disposals	<b>(4,333)</b>	0	(18)	0	(9)	(3,215)	(950)	(141)	0
<b>Gross cost as at 31 March 2003</b>	<b><u>255,767</u></b>	<u>18,305</u>	<u>131,547</u>	<u>1,119</u>	<u>13,080</u>	<u>59,393</u>	<u>12,032</u>	<u>16,992</u>	<u>3,299</u>
Accumulated depreciation									
As at 31 March 2002	44,810	0	0	0	0	26,049	7,348	8,313	3,100
Transfers	<b>(379)</b>	0	0	0	0	0	0	(379)	0
Indexation	<b>1,106</b>	0	0	0	0	789	223	0	94
Charge for the year	<b>14,768</b>	0	6,101	28	0	5,276	1,298	2,051	14
Disposals	<b>(3,798)</b>	0	0	0	0	(2,789)	(911)	(98)	0
As at 31 March 2003	<b><u>56,507</u></b>	<u>0</u>	<u>6,101</u>	<u>28</u>	<u>0</u>	<u>29,325</u>	<u>7,958</u>	<u>9,887</u>	<u>3,208</u>
Net book value as at 31 March 2002									
- purchased	173,058	15,037	113,952	979	7,474	24,883	4,429	6,210	94
- donated	28	0	0	0	0	28	0	0	0
Total	<u>173,086</u>	<u>15,037</u>	<u>113,952</u>	<u>979</u>	<u>7,474</u>	<u>24,911</u>	<u>4,429</u>	<u>6,210</u>	<u>94</u>
Net book value as at 31 March 2003									
- purchased	<b>199,251</b>	18,305	125,446	1,091	13,080	30,059	4,074	7,105	91
- donated	<b>9</b>	0	0	0	0	9	0	0	0
<b>Total</b>	<b><u>199,260</u></b>	<u>18,305</u>	<u>125,446</u>	<u>1,091</u>	<u>13,080</u>	<u>30,068</u>	<u>4,074</u>	<u>7,105</u>	<u>91</u>

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

The net book value of land, buildings and dwellings as at 31 March 2003 comprises

		31 March 2002 £000
Freehold	<b>137,100</b>	122,998
Long leasehold	<b>7,742</b>	6,970
Short leasehold	<b>0</b>	0
	<b><u>144,842</u></b>	<u>129,968</u>

**4.4** There were no assets held under finance leases and hire purchase contracts.

**4.5 Profit and loss on disposal**

		2001-2002 £000
Notional (loss) on disposal of plant and equipment	<b>(516)</b>	0
Notional (loss) on disposal of buildings and equipment	<b>0</b>	(838)
	<b><u>(516)</u></b>	<u>(838)</u>

**5 Stocks and work in progress**

		31 March 2002 £000
Raw materials and consumables	<b>38,569</b>	36,130
Work in progress	<b>6,933</b>	4,751
Finished processed goods	<b>27,995</b>	27,023
	<b><u>73,497</u></b>	<u>67,904</u>

**6 Debtors****Amounts falling due within one year**

		31 March 2002 £000
NHS debtors	<b>10,615</b>	11,991
Provision for irrecoverable debts	<b>(1,244)</b>	(762)
Prepayments	<b>2,558</b>	1,946
Accrued income	<b>456</b>	599
Capital debtors	<b>429</b>	201
Other debtors	<b>6,391</b>	9,268
	<b><u>19,205</u></b>	<u>23,243</u>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	107	(82)	<b>25</b>
Cash at commercial banks and in hand	39	2	<b>41</b>
	<u>146</u>	<u>(80)</u>	<u><b>66</b></u>

**8 Creditors**

Amounts falling due within one year

	£000	31 March 2002 £000
NHS creditors	<b>7,824</b>	5,435
Non-NHS trade - revenue	<b>0</b>	11,417
Non-NHS trade - capital	<b>1,232</b>	289
Tax and social security	<b>197</b>	255
Payments received on account	<b>0</b>	203
Other creditors	<b>7,463</b>	98
Accruals	<b>12,757</b>	13,137
Deferred income	<b>355</b>	127
	<b><u>29,828</u></b>	<u>30,961</u>

There were no obligations under finance leases.

**9 Provisions for liabilities and charges**

	Pensions for former staff £000	Product liability £000	Other £000	<b>Total £000</b>
At 31 March 2002	545	4,238	1,128	5,911
Arising during the year	577	4,936	1,329	<b>6,842</b>
Utilised during the year	(216)	(7,222)	(277)	<b>(7,715)</b>
Reversed unused	(278)	(255)	(136)	<b>(669)</b>
Unwinding of discount	0	16	0	<b>16</b>
<b>At 31 March 2003</b>	<b><u>628</u></b>	<b><u>1,713</u></b>	<b><u>2,044</u></b>	<b><u>4,385</u></b>
<b>Expected timing of cash flows</b>				
Within one year	305	1,030	1,578	<b>2,913</b>
One to five years	323	254	188	<b>765</b>
Over five years	0	429	278	<b>707</b>

Product liability provisions relate to legal actions brought against the Authority through the use of Authority products by individuals, mainly Hepatitis C cases. Included within the 'Other category are provisions relating to legal claims for personal injury and donor claims, and the provision for stock, redundancy payments, supplier and pay award claims and provisions for injury benefits.

Provisions for the settlement of Hepatitis C cases amounting to £1,372,000 have been brought under an action for product liability, and are included in the above Product Liability provision total of £1,713,000.

There is one provision amounting to £1,000 within the NHS Litigation Authority as at 31 March 2003 in respect of the Clinical Negligence Scheme for Trusts. There were no provisions in respect of the Existing Liabilities Scheme.



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

	<b>£000</b>	2001-2002 £000
(Increase) in stocks	<b>(5,593)</b>	(23,395)
Decrease in debtors	<b>4,038</b>	7,246
(Decrease)/increase in creditors	<b>(1,133)</b>	6,756
	<b><u>(2,688)</u></b>	<u>(9,393)</u>

**11 Reserves**

	<b>Capital reserve £000</b>	<b>Revaluation reserve £000</b>	<b>Donated asset reserve £000</b>	<b>Income &amp; expenditure reserve £000</b>
At 31 March 2002	152,080	25,440	28	54,421
Transfer from I&E account	0	0	0	4,134
Additions	22,151	0	0	0
Revaluation & indexation	0	21,087	1	0
Disposals	(347)	(177)	(11)	0
Depreciation	(16,166)	0	(9)	0
<b>At 31 March 2003</b>	<b><u>157,718</u></b>	<b><u>46,350</u></b>	<b><u>9</u></b>	<b><u>58,555</u></b>

**12 Reconciliation of operating surplus to net cash outflow from operating activities**

	Notes	<b>£000</b>	Restated 2001-2002 £000
Surplus for the year		<b>4,134</b>	12,357
Adjust for movements in working capital other than cash	10	<b>(2,688)</b>	(9,393)
(Decrease) in provisions	9	<b>(1,526)</b>	(3,017)
Net cash (outflow) from operating activities		<b><u>(80)</u></b>	<u>(53)</u>

**13 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £10,017,000 (2001-2002: £5,297,000).

**14 Commitments under operating leases**

The Authority is committed to make the following payments during the next year in respect of operating leases expiring

	<b>2002-2003</b>		2001-2002	
	<b>Land and buildings £000</b>	<b>Other £000</b>	Land and buildings £000	Other £000
Within one year	<b>1,351</b>	<b>1,238</b>	1,167	867
Between two and five years	<b>4,517</b>	<b>1,589</b>	3,774	938
After five years	<b>3,653</b>	-	3,135	-
	<b><u>9,521</u></b>	<b><u>2,827</u></b>	<u>8,076</u>	<u>1,805</u>

## 15 Other commitments

The Authority has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002 provision of services totalling £20,000).

## 16 Contingent liabilities

A contingent liability of £752,000 (2001-2002: £659,000) 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 9.

A contingent liability of £2,782,000 (2001-2002: £3,159,000) relates to Hepatitis C cases brought under an action for product liability.

A contingent liability of £16,000 (2001-2002: £Nil) and a contingent debtor of £16,000 (2001-2002: £Nil) relate to a case brought under the liabilities to third parties scheme.

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

## 17 Losses and special payments

There were 339 losses cases in 2002-2003 (2001-2002: 274) amounting to £4,211,000 (2000-2001: £1,981,000). There were four cases individually amounting to £100,000 or more (2000-2001: one case £429,000). Three legal cases, relating to product liability, have been settled during the year for £1,009,000, £510,000 and £152,000.

## 18 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.

## 19 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.

**Fair values**

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

# 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

### Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the National Clinical Assessment 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 Clinical Assessment Authority at the year end and 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 the National Clinical Assessment 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 2002-2003

This statement is given in respect of the Summarised Account for the National Clinical Assessment Authority (NCAA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NCAA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NCAA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NCAA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NCAA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NCAA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NCAA.

### NCAA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NCAA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NCAA actions and plans

The NCAA assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- the organisation has undertaken a self-assessment exercise against the core Controls Assurance standards. An action plan has been developed and implemented to meet any gaps;
- a risk management strategy and policy clarifying Board responsibilities and lines of accountability throughout the organisation leading to the Board has been adopted;
- the organisation has developed its own self-assessment tool for its core work and undertook a mid-year self assessment against this and all other applicable Controls Assurance standards, establishing a risk register and updating its action plan. At the mid-year assessment the organisation demonstrated improvements in standards compliance;
- a briefing and risk awareness raising session was held for all staff;
- a Board workshop on Controls Assurance, local risk management arrangements and "Building the Assurance Framework" was held and a high level risk identification exercise undertaken, which subsequently played a key part in strategic planning and objective setting and culminated in a risk assurance framework; and
- the organisation has in place arrangements to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant Controls Assurance standards covering areas of potentially significant organisational risk, having established a Risk management Committee (RMC) that reports directly to the Board and a Risk Management Working Group reporting to the RMC and the Executive Management Team.

In addition to the actions outlined above, in the coming year it is planned to achieve level II compliance, specifically

- |  |                   |
|--|-------------------|
| ■ monitor and review progress with the Risk Management Action Plan   | quarterly         |
| ■ review significant risks included on the Authority Risk Register or arising out of directorate/team risk registers | quarterly         |
| ■ develop, monitor and review local risk registers and action plans based on common currency                         | quarterly         |
| ■ recruit an officer dedicated to risk management  | by end quarter 2  |
| ■ investigate and acquire suitable risk management software  | by end quarter 3  |
| ■ introduce risk awareness training for key staff  | by end quarter 3  |
| ■ establish key performance and risk indicators  | by end quarter 4  |
| ■ investigate and introduce some use of benchmarking where appropriate   | by end quarter 4  |
| ■ develop further risk management as integral to strategic planning and objective setting                            | by end quarter 4. |

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NCAA from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

# 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 M9 to M24 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 M12 to M15.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page M3, 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 M4 to M6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 National Clinical Assessment 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.

Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.2 to the account, the National Clinical Assessment Authority exceeded its capital resource limit by £43,000. As the National Clinical Assessment Authority has no power to exceed its capital resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

### In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Clinical Assessment Authority as at 31 March 2003 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
- except for the expenditure incurred in excess of the National Clinical Assessment Authority's capital resource limit referred to above, 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 Report at HC 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>4,478</b>	1,954
Operating income	4	<u>(357)</u>	<u>(1)</u>
<b>Net operating cost</b>		<u><b>4,121</b></u>	<u>1,953</u>
<b>Net resource outturn</b>	3.1	<u><b>4,121</b></u>	<u>1,953</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	10.2	<u>102</u>	<u>0</u>
<b>Recognised gains for the financial year</b>		<u><b>102</b></u>	<u>0</u>

*The notes at pages M12 to M24 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5.1	<u>720</u>	<u>711</u>
<b>Current assets</b>			
Debtors	6	<b>192</b>	62
Cash at bank and in hand	7	<u>51</u>	<u>245</u>
		<b>243</b>	<b>307</b>
<b>Creditors: amounts falling due within one year</b>	8	<u>(829)</u>	<u>(256)</u>
<b>Net current (liabilities)/assets</b>		<u>(586)</u>	<u>51</u>
<b>Total assets less current liabilities</b>		<u>134</u>	<u>762</u>
<b>Taxpayers' equity</b>			
General Fund	10.1	<b>32</b>	762
Revaluation reserve	10.2	<u>102</u>	<u>0</u>
		<b>134</b>	<b>762</b>

*The notes at pages M12 to M24 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	11	<u>(3,567)</u>	<u>(1,565)</u>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<u>0</u>	<u>(530)</u>
<b>Net cash outflow from investing activities</b>		<u>0</u>	<u>(530)</u>
<b>Net cash outflow before financing</b>		<u>(3,567)</u>	<u>(2,095)</u>
<b>Financing</b>			
Net Parliamentary funding		<u>3,373</u>	<u>2,340</u>
<b>(Decrease)/increase in cash in the period</b>	7	<u>(194)</u>	<u>245</u>

*The notes at pages M12 to M24 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 the National Clinical Assessment Authority (the Authority) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified 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.

### 1.2 Operating income

Income is accounted for applying the accruals convention. The main source of funding for the Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments and from The Welsh Assembly, The Prison Service, The General Medical Council and other miscellaneous bodies. It includes both income appropriated-in-aid 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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. There were no Intangible Assets recognised in 2002-2003.

- ii 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

The only fixed assets recognised are buildings including installations and fittings and assets under construction. These are valued as follows

**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

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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).

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

- ii 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.
- iii 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 individual fixed asset as follows

- i Land and assets in the course of construction are not depreciated.
- ii Buildings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term which varies between six months and nine years.

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

## 1.7 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. The total employer contribution payable in 2002-2003 was £90,000 (£37,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay. Employer contribution rates have been set at 14% from 1 April 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 for death 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. For post 5 March 1995 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 Authority commits itself to the retirement, regardless of the method of payment. The Authority has nil liability in regard to additional pension costs.

## 1.8 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

## 1.9 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.

## 1.10 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 6% in real terms. There were no provisions recognised by the Authority in 2002-2003.

## 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.

## 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Authority non-executive members remuneration			<b>89</b>	83
Staff costs	2.2		<b>2,232</b>	758
Capital: Depreciation and amortisation	5.1	<b>135</b>		9
Capital charges interest		<b>18</b>		14
			<b>153</b>	<b>23</b>
Furniture and equipment			<b>147</b>	243
Establishment			<b>174</b>	75
Premises			<b>424</b>	257
Legal			<b>42</b>	23
External consultants			<b>247</b>	95
Auditor's remuneration: Audit fees <sup>1</sup>			<b>34</b>	13
Auditor's remuneration: other			<b>0</b>	17
Recruitment and training			<b>528</b>	168
Travel			<b>139</b>	47
Other			<b>269</b>	152
			<b>4,478</b>	<b>1,954</b>

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

The auditors did not receive remuneration for non-audit (other) work in 2002-2003.

The total amount paid under other Operating Leases during 2002-2003 was £189,000 (2001-2002 restated: £68,000).

There was £nil interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2001-2002: £nil).

No interest was paid under the legislation or no compensation payments made.

The categories into which expenditure is analysed have been changed from the 2001-2002 accounts.

The 2001-2002 comparative figures have been restated to fit into these new categories.

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	<b>£000</b>	2001-2002 £000
Salaries and wages	<b>1,840</b>	568
Social security costs	<b>191</b>	57
Employer contributions to NHSPA	<b>90</b>	37
Agency staff	<b>111</b>	96
	<b><u>2,232</u></b>	<u>758</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 52 (2001-2002: 22).

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £nil (2001-2002: £nil).

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

During 2002-2003 there were no early retirements from the Authority on the grounds of ill-health.

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Other remuneration in £5k bands	Golden hello/comp for loss of office	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	[1] £000	[2] £000	£000	£00	[4] £000	[4] £000
<b>Executive directors</b>							
Eaton, JM Director of Human Resources	[3]	[3]	[3]	[3]	[3]	[3]	[3]
Field, R Director of Primary Care	52	70-75	-	-	-	[5]	[5]
Hennessey, JJ Director of Finance and Information	41	80-85	-	-	-	[5]	[5]
Peskett, S Director of Hospital and Community Care	59	70-75	25-30	-	-	[5]	[5]
Samuels, NDJ Director of Communications (until 16 October 2002)	[3]	[3]	[3]	[3]	[3]	[3]	[3]
Gregor, S Director of Communications (from 1 January 2003)	27	10-15	-	-	-	[5]	[5]
Scotland, AD Chief Officer and Medical Director	51	90-95	25-30	-	-	[5]	[5]
<b>Non-Executive Directors</b>							
Atherton, S	57	5-10	-	-	-	n/a	n/a
Dacre, J	47	5-10	-	-	-	n/a	n/a
Funnel, C	55	5-10	-	-	-	n/a	n/a
Ghodse, H	64	5-10	-	-	-	n/a	n/a
Giddings, AE	64	5-10	-	-	-	n/a	n/a
Hamlin, M	52	5-10	-	-	-	n/a	n/a
Jacobs, A Non-Executive Director and Acting Chairman from 1 January 2003	55	5-10	-	-	-	n/a	n/a
Jefferies, R	63	5-10	-	-	-	n/a	n/a
Lambert, L	45	5-10	-	-	-	n/a	n/a
Malik, A	36	5-10	-	-	-	n/a	n/a
Roberts, G	53	5-10	-	-	-	n/a	n/a
Stokes, A	57	5-10	-	-	-	n/a	n/a
Sutters, C	46	5-10	-	-	-	n/a	n/a
Wesson, J Chairman (until 31 December 2002)	51	15-20	-	-	-	n/a	n/a

### 2.3 Senior staff remuneration (continued)

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

Name and title	Age	Salary in £5k bands	Other remuneration in £5k bands	Golden hello/comp for loss of office	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	[1] £000	[2] £000	£000	£00	[4] £000	[4] £000
<b>2001-2002 disclosures</b>							
<b>Executive Directors</b>							
Andrews, P Director of Communications (June - September 2001)	[6]	[6]	-	-	-	[6]	[6]
Cinamon, K Director of Communications (April - June 2001)	[6]	[6]	-	-	-	[6]	[6]
Eaton, JM Director of Human Resources	[3]	[3]	-	-	-	[3]	[3]
Field, R Director of Primary Care	51	40-45	-	-	-	[3]	[3]
Hennessey, JJ Director of Finance and Information (from October 2001)	40	45-50	-	-	-	[3]	[3]
Khan, J Director of Finance and Information (until September 2001)	57	45-50	-	-	-	[3]	[3]
Peskett, S Director of Hospital and Community Care	58	30-35	-	-	-	[3]	[3]
Samuels, NDJ Director of Communications	32	35-40	-	-	-	[3]	[3]
Scotland, AD Chief Officer and Medical Director	50	90-95	-	-	-	[3]	[3]
<b>Non-Executive Directors</b>							
Atherton, S	56	5-10	-	-	-	n/a	n/a
Dacre, J	46	5-10	-	-	-	n/a	n/a
Funnel, C	54	0-5	-	-	-	n/a	n/a
Ghodse, H	63	5-10	-	-	-	n/a	n/a
Giddings, AE	63	0-5	-	-	-	n/a	n/a
Hamlin, M	51	5-10	-	-	-	n/a	n/a
Jacobs, A	54	5-10	-	-	-	n/a	n/a
Jefferies, R	62	0-5	-	-	-	n/a	n/a
Lambert, L	44	0-5	-	-	-	n/a	n/a
Malik, A	35	0-5	-	-	-	n/a	n/a
Roberts, G	52	5-10	-	-	-	n/a	n/a
Stokes, A	56	0-5	-	-	-	n/a	n/a
Sutters, C	45	5-10	-	-	-	n/a	n/a
Wesson, J Chairman	49	20-25	-	-	-	n/a	n/a

[1] These amounts include salary payments, other taxable benefits and the NCAA's contribution to the NHS Pension Scheme. Amounts are for the salary paid during the year and are not necessarily the senior manager's annual salary. All non-executives have the same annual salary of £5,300.

[2] Other Remuneration consists of Distinction and Meritorious Service Awards separately funded by the national Advisory Committee on Distinction Awards, managed by the Department of Health.

[3] The Data Protection Act prohibits the disclosure of this information without the consent of the individual. This consent has been withheld.

[4] As is consistent with other NHS organisations, the NCAA does not make contributions for Non Executive Directors or the Chairman.

- [5] Pension details have been requested from the NHS Pensions Agency, but have not yet been provided.
- [6] These individuals were seconded from non-NHS organisations. The NCAA was charged an amount to cover all costs associated with the secondment. In total, the NCAA paid £24,000 for the services of K Cinamon and P Andrews.

### 3.1 Reconciliation of net operating cost to net outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	<u>4,121</u>	<u>1,953</u>
<b>Net resource outturn</b>	<b><u>4,121</u></b>	<b><u>1,953</u></b>
<b>Revenue resource limit</b>	<b><u>4,638</u></b>	<b><u>2,920</u></b>
<b>Under spend against limit</b>	<b><u>517</u></b>	<b><u>967</u></b>

### 3.2 Reconciliation of gross capital expenditure

	£000	2001-2002 £000
Gross capital expenditure	<u>43</u>	<u>660</u>
<b>Net capital resource outturn</b>	<b><u>43</u></b>	<b><u>660</u></b>
Capital resource limit	<u>0</u>	<u>750</u>
<b>(Over)/underspend against limit</b>	<b><u>(43)</u></b>	<b><u>90</u></b>

## 4 Operating income

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
Income received from National Assembly for Wales	<u>251</u>	<u>0</u>
Other	<u>106</u>	<u>1</u>
<b>Total</b>	<b><u>357</u></b>	<b><u>1</u></b>



## 5.1 Tangible fixed assets

The only fixed assets held are buildings, held under an operating lease, and assets under construction

	<b>Total</b>	Buildings exc dwellings	Assets under construction + poa
	<b>£000</b>	£000	£000
Cost or valuation at 31 March 2002	720	720	0
Indexation	<b>102</b>	102	0
Additions - purchased	<b>43</b>	0	43
<b>Gross cost at 31 March 2003</b>	<b>865</b>	<b>822</b>	<b>43</b>
Accumulated depreciation at 31 March 2002	9	9	0
Indexation	<b>1</b>	1	0
Provided during the year	<b>135</b>	135	0
<b>Accumulated depreciation at 31 March 2003</b>	<b>145</b>	<b>145</b>	<b>0</b>
Net book value of purchased assets at 31 March 2002	711	711	0
Total at 31 March 2002	711	711	0
<b>Net book value</b>			
<b>Purchased at 31 March 2003</b>	<b>720</b>	<b>677</b>	<b>43</b>
<b>Total at 31 March 2003</b>	<b>720</b>	<b>677</b>	<b>43</b>

NCAA will be vacating the 9th floor of their offices at Market Towers in September 2003. This is earlier than originally planned and as a result accelerated depreciation has been charged to write-off the fitting-out costs of this floor over the shortened lease period.

## 5.2 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2003 comprises

	<b>£000</b>
Short leasehold	<b>720</b>
	<b>720</b>

## 6 Debtors

	<b>£000</b>	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>111</b>	0
Prepayments	<b>4</b>	18
Accrued income	<b>12</b>	0
Other debtors	<b>65</b>	44
	<b>192</b>	62

## 7 Analysis of changes in cash

	At 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> <b>£000</b>
Cash at OPG	245	(194)	<b>51</b>
	<b>245</b>	<b>(194)</b>	<b>51</b>

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

	£000	31 March 2002 £000
NHS creditors	175	94
Capital creditors	64	21
Tax and social security	62	30
Other creditors	39	0
Accruals	489	111
	<u>829</u>	<u>256</u>

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

	£000	2001-2002 £000
Increase in debtors	130	62
(Increase) in revenue creditors	(531)	(235)
	<u>(401)</u>	<u>(173)</u>

**10.1 Reserves**

The movement on the General Fund in the year comprised

	£000
Balance at 31 March 2002	762
Net operating costs for the year	(4,121)
Net Parliamentary funding	3,373
<i>Non-cash items</i>	
Capital charge interest	18
<b>Balance at 31 March 2003</b>	<u>32</u>

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

	£000
Balance at 31 March 2002	0
Indexation of fixed assets	102
<b>Balance at 31 March 2003</b>	<u>102</u>

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

	Notes	£000	2001-2002 £000
Net operating cost for the year		4,121	1,953
Adjust for non-cash transactions	2.1	(153)	(23)
Adjust for movements in working capital other than cash	9	(401)	(173)
Department of Health expenditure on behalf of Authority		0	(192)
<b>Net cash outflow from operating activities</b>		<u>3,567</u>	<u>1,565</u>

**12 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**13 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £nil (2001-2002: £nil).

**14 Commitments under operating leases**

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

Commitments under non-cancellable operating leases

	£000	2001-2002 £000
<b>Land and buildings</b>		
Operating leases which expire: within one year	43	0
between one and five years	0	0
after five years	167	189
	<u>210</u>	<u>189</u>

There were no other leases.

**15 Other commitments**

The Authority has no other commitments at the Balance Sheet date (2001-2002: nil).

**16 Losses and special payments**

An ex gratia payment of £49,000 was accrued for in financial year 2002-2003 (2001-2002: fruitless payments £4,400).

**17 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.

*Department of Health*

During the year the Authority received £3,373,000 in funding from Department of Health.

The Authority also made payments totalling £393,000 to the Department of Health for the leasing of office space and the recharge of salaries for staff seconded to the Authority from the Department of Health.

*Barts and The London NHS Trust*

The Authority has arrangements with Barts & The London NHS Trust for the provision of financial services; expenses of £48,500 were incurred during the year for these services. In addition, Barts & The London NHS Trust have recharged £28,500 for salary costs of a seconded member of staff.

*Other organisations*

The Authority has also made payments to the organisations listed below for staff secondments and other support services

<b>Vendor</b>	<b>Amount</b>
West Sussex PCT	£36,418
Trent HA	£35,280
Medicine Controls Agency	£34,716
West Kent NHS Trust	£33,102
South Yorkshire HA	£31,378
Hammersmith Hospital Trust	£20,506
Gloucestershire NHS Trust	£19,847
The Whittington NHS Trust	£18,507
Eastern Leicester PCT	£16,588
Hants & IOW HA	£15,977
West Dorset NHS Trust	£10,057
St Mary's NHS Trust	£7,287
Essex Ambulance NHS Trust	£7,200
Oxon HA	£2,400

**18 Post balance sheet events**

On 2 May 2003, the Authority entered in to a contract worth £411,000 to renovate the first floor in Market Towers, the Authority's headquarters. The total capital cost of this project is estimated to be £652,000. As part of this project, the Authority will vacate a portion of the space in Market Towers currently leased from the Department of Health. Operating leases which expire after five years [Note 14] will increase to £398,000 as a result of signing a new Memorandum of Terms of Occupation with the Department of Health to remove the cost of space vacated and include the additional leased space on the first floor.

**19 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 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 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 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 the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

Nil% of the Authority's financial assets and nil% of its financial liabilities carry nil or fixed rates of interest. The Authority is not, therefore, exposed to significant interest-rate risk.

**Financial assets**

The Authority has nil relevant financial assets other than £51,000 (2001-2002: £245,000) of cash held at the Office of the Paymaster General which is not interest bearing.

**Financial liabilities**

The Authority has nil relevant financial liabilities.

**Foreign currency risk**

The Authority has no foreign currency income or expenditure.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the National Institute for Clinical Excellence





## 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 Institute for Clinical Excellence 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 National Institute for Clinical Excellence. 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 2002-2003

This statement is given in respect of the Summarised Account for the National Institute for Clinical Excellence (NICE).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NICE maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NICE as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NICE is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NICE regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NICE Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors, the work of the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors and other review bodies in their reports.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NICE.

### NICE governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NICE, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NICE actions and plans

The NICE assurance framework has been established and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- an annual self assessment exercise undertaken against the Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review. Progress is reported to the Risk Management Committee;
- arrangements to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant Controls Assurance Standards covering areas of potentially significant organisational risk;
- the establishment of a risk register which is regularly reviewed and updated; and
- receipt by the Board of an annual risk management report from the Risk Management Committee.

In addition to the actions outlined above, in the coming year it is planned to

- |   |                     |
|---|---------------------|
| ■ establish risk management indicators  | quarter 1 2003-2004 |
| ■ Board review of guidance published in March 2003 'Building the Assurance Framework: A Practical Guide for NHS Boards' and confirmation of the Assurance framework | quarter 2 2003-2004 |

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NICE from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

## 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 N7 to N20 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 N10 to N13.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page N3, 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 N4 to N5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 National Institute for Clinical Excellence, 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 Institute for Clinical Excellence at 31 March 2003 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 505-I.

*John Bourn*  
Comptroller and Auditor General

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>15,239</b>	12,703
Operating income	4	<b>(1,083)</b>	(645)
<b>Net operating cost</b>		<b><u>14,156</u></b>	<u>12,058</u>
<b>Net resource outturn</b>	3.1	<b><u>14,156</u></b>	<u>12,058</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	11.2	<u>8</u>	<u>4</u>
Recognised gains for the financial year		<u>8</u>	<u>4</u>

*The notes at pages N10 to N20 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5.1	<u>664</u>	<u>342</u>
<b>Current assets</b>			
Debtors	6	<b>2,224</b>	728
Cash at bank and in hand	7	<u>18</u>	<u>82</u>
		<b>2,242</b>	<b>810</b>
<b>Creditors: amounts falling due within one year</b>	8.1	<b>(2,173)</b>	<b>(808)</b>
<b>Net current assets</b>		<u>69</u>	<u>2</u>
<b>Total assets less current liabilities</b>		<u>733</u>	<u>344</u>
		<b>733</b>	<b>344</b>
<b>Taxpayers' equity</b>			
General Fund	11.1	<b>733</b>	340
Revaluation reserve	11.2	<u>0</u>	<u>4</u>
		<b>733</b>	<b>344</b>

*The notes at pages N10 to N20 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>13,968</b>	12,084
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<u>604</u>	<u>16</u>
<b>Net cash outflow from investing activities</b>		<u>604</u>	<u>16</u>
<b>Net cash outflow before financing</b>		<u>14,572</u>	<u>12,100</u>
<b>Financing</b>			
Net Parliamentary funding		<u>14,508</u>	<u>12,023</u>
<b>Decrease in cash in the period</b>	7	<u>64</u>	<u>77</u>

*The notes at pages N10 to N20 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 the National Institute for Clinical Excellence (The Institute) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Institute is Parliamentary grant from the Department of Health from Request for Resources 1 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 authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers and from the National Assembly for Wales. It includes both income appropriated-in-aid 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 Institute 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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. There were no intangible assets recorded in the year.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. There were no software licences recorded in the year.

- 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

**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*

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 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 Land and assets in the course of construction are not depreciated.
- ii Buildings are depreciated evenly 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.
- iii Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5

**1.6 Stocks and work in progress**

There were no financially recognised stocks. However, publications are subject to inventory control.

**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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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.nhs.gov.uk](http://www.nhs.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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £131,000 (£94,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final years 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment.

### **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

### **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 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 6% in real terms.

**2.1 Programme costs**

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive members' remuneration			<b>63</b>	61
Other salaries and wages	2.2		<b>2,662</b>	1,883
Payments to external bodies			<b>10,405</b>	8,359
Consumable supplies			<b>9</b>	1,072
Establishment expenses			<b>918</b>	656
Premises and fixed plant			<b>778</b>	391
Capital: Depreciation and amortisation	5.1	<b>54</b>		51
Capital charges interest		<b>29</b>		16
Loss on disposal	5.3	<b>236</b>		0
			<b>319</b>	67
Transport costs			<b>0</b>	6
Auditor's remuneration: Audit fees <sup>1</sup>			<b>33</b>	26
Miscellaneous			<b>52</b>	182
			<b>15,239</b>	<b>12,703</b>

\* 2001-2002 figures have been restated to disclose non-executive members' remuneration separately.

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

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

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

No interest was paid under the legislation and no compensation payments made (2001-2002: £nil).

**2.2 Staff costs****Executive members' remuneration and staff costs**

	£000	2001-2002 £000
Salaries and wages	<b>2,256</b>	1,662
Social security costs	<b>172</b>	127
Employer contributions to NHSPA	<b>131</b>	94
Agency staff	<b>103</b>	0
	<b>2,662</b>	<b>1,883</b>

The average number of whole-time equivalent persons employed (including senior management) during the year was 48 (2001-2002: 35).

*Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £nil (2001-2002: £nil).

*Retirements due to ill-health*

During 2002-2003 there were no early retirements from the Authority on the grounds of ill-health (2001-2002: £nil).

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands £000
	years	£000	£000	£000
Prof Sir Michael Rawlins (Chairman)	62	25-30	n/a	n/a
Prof Tony Culyer (Vice Chairman)	60	5-10	n/a	n/a
L G Fine (Non Executive Director - from 31 October 2002)	59	0-5	n/a	n/a
Frederick George (Non Executive Director)	59	5-10	n/a	n/a
Mercy Jeyasingham (Non Executive Director)	42	5-10	n/a	n/a
Dr Susanna Lawrence (Non Executive Director)	45	5-10	n/a	n/a
Roy Luff (Non Executive Director)	62	5-10	n/a	n/a
Mary McClarey (Non Executive Director)	52	5-10	n/a	n/a
Andrew Dillon (Chief Executive)	48	120-125	0-2.5	40-45
Peter Littlejohns (Clinical Director)*	48	120-125	0-2.5	35-40
Anne-Toni Rodgers (Corporate Affairs Director)	39	85-90	0-2.5	0-5
Andrea Sutcliffe (Planning and Resources Director)	39	85-90	0-2.5	0-5

There were no other remuneration, benefits in kind or golden hellos recorded in the year.

#### 2001-2002 disclosures

Prof Sir Michael Rawlins (Chairman)	61	20-25	n/a	n/a
Prof Tony Culyer (Vice Chairman)	59	5-10	n/a	n/a
Frederick George (Non Executive Director)	58	5-10	n/a	n/a
Mercy Jeyasingham (Non Executive Director)	41	0-5	n/a	n/a
Prof Parveen Kumar (Non Executive Director)	59	5-10	n/a	n/a
Dr Susanna Lawrence (Non Executive Director)	44	5-10	n/a	n/a
Roy Luff (Non Executive Director)	61	5-10	n/a	n/a
Mary McClarey (Non Executive Director)	51	5-10	n/a	n/a
Andrew Dillon (Chief Executive)	47	Over 120	0-2.5	35-40
Peter Littlejohns (Clinical Director)	47	Over 120	0-2.5	30-35
Anne-Toni Rodgers (Communications Director)	38	80-85	0-2.5	5-10
Andrea Sutcliffe (Planning and Resources Director)	38	75-80	0-2.5	0-5

\* The salary for Peter Littlejohns includes an NHS Distinction Award

### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	<b>14,156</b>	12,058
<b>Net resource outturn</b>	<b>14,156</b>	<u>12,058</u>
<b>Revenue resource limit</b>	<b>14,210</b>	<u>12,144</u>
<b>Underspend against limit</b>	<b>54</b>	<u>86</u>

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

	£000	2001-2002 £000
Gross capital expenditure	604	16
Less: NBV of assets disposed	<u>(236)</u>	<u>0</u>
<b>Net capital resource outturn</b>	<b>368</b>	<b>16</b>
Capital resource limit	<u>604</u>	<u>16</u>
<b>Under/(over) spend against limit</b>	<b>236</b>	<b>0</b>

**4 Operating income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	216	55
Income received from National Assembly for Wales	<u>867</u>	<u>590</u>
<b>Total</b>	<b>1,083</b>	<b>645</b>

**5.1 Tangible fixed assets**

	Total £000	Information technology £000	Furniture and fittings £000
Gross replacement cost or valuation as at 31 March 2002	410	112	298
Indexation	9	0	9
Additions	604	27	577
Disposals	<u>(307)</u>	<u>0</u>	<u>(307)</u>
<b>As at 31 March 2003</b>	<b>716</b>	<b>139</b>	<b>577</b>
Accumulated depreciation as at 31 March 2002	68	30	38
Indexation	1	0	1
Charge for the year	54	22	32
Disposals	<u>(71)</u>	<u>0</u>	<u>(71)</u>
<b>As at 31 March 2003</b>	<b>52</b>	<b>52</b>	<b>0</b>
Net book value as at 31 March 2002	<u>342</u>	<u>82</u>	<u>260</u>
<b>Net book value as at 31 March 2003</b>	<b>664</b>	<b>87</b>	<b>577</b>

**5.2** The Institute does not hold any assets under finance leases or hire purchase contracts.

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

	<b>£000</b>	2001-2002 £000
Loss on disposal of land and buildings	<b>(236)</b>	<u>0</u>
	<b>(236)</b>	<u>0</u>

The Institute moved from 11 Strand in March 2003 and has transferred the responsibility of the lease to the Secretary of State for Health, incurring a loss to the Institute related to the costs of the original refurbishment of the building.

**6 Debtors**

	<b>£000</b>	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>1,406</b>	173
Prepayments	<b>222</b>	120
Accrued income	<b>38</b>	0
Other debtors	<b>558</b>	435
	<b>2,224</b>	<u>728</u>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	<u>82</u>	(64)	<b>18</b>
	<u>82</u>	<u>(64)</u>	<u>18</u>

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

	<b>£000</b>	31 March 2002 £000
NHS creditors	<b>350</b>	35
Tax and social security	<b>88</b>	48
Other creditors	<b>1,477</b>	19
Accruals	<b>258</b>	706
	<b>2,173</b>	<u>808</u>

**8.2 Finance lease obligations**

There were no finance leases recorded in the year.

**9 Provisions for liabilities and charges**

At 31 March 2003, there were no provisions recognised (31 March 2002: £nil).



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

	£000	2001-2002 £000
Increase/(decrease) in debtors	1,496	(117)
(Increase)/decrease in creditors	<u>(1,365)</u>	<u>210</u>
	<b>131</b>	<b>93</b>

**11 Reserves**

**11.1** The movement on the General Fund in the year comprised

	£000
Balance at 31 March 2002	340
Net operating costs for the year	<b>(14,156)</b>
Net Parliamentary funding	<b>14,508</b>
Transfer of realised profit from revaluation reserve	<b>12</b>
<i>Non-cash items</i>	
Capital charge interest	<u>29</u>
<b>Balance at 31 March 2003</b>	<b><u>733</u></b>

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

	£000
Balance at 31 March 2002	4
Indexation of fixed assets	<b>8</b>
Transfer to general fund - realised profit	<u>(12)</u>
<b>Balance at 31 March 2003</b>	<b><u>0</u></b>

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

		£000	2001-2002 £000
Net operating cost for the year		<b>14,156</b>	12,058
Adjust for non-cash transactions	2.1	<b>(319)</b>	(67)
Adjust for movements in working capital other than cash	10	<u>131</u>	<u>93</u>
<b>Net cash outflow from operating activities</b>		<b><u>13,968</u></b>	<b><u>12,084</u></b>

**13 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

## 15 Commitments under operating leases

Commitments under non-cancellable operating leases

	£000	Restated 2001-2002 £000
<b>Land and buildings</b>		
Operating leases which expire: within one year	0	212
between one and five years	0	583
after five years	<u>787</u>	<u>0</u>
	<u>787</u>	<u>795</u>

## 16 Other commitments

The Authority has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

## 17 Losses and special payments

There were no cases of losses and special payments in 2002-2003 (2001-2002: nil).

## 18 Related parties

The Institute 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 Institute 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 Institute transacts with the Department of Health for parliamentary funding (as reflected in note 11) in order to discharge its duties. Furthermore the Research and Development Directorate commissioned research into the implementation of guidance, for which £143,000 has been charged to the Institute.

The Institute has been charged £165,000 each by the Cheshire & Merseyside Health Authority and the Central Liverpool Primary Care Trust for the provision of national information.

The Institute has its financial services provided by Chelsea and Westminster Healthcare NHS Trust according to a Service Level Agreement. An amount of £47,000 has been charged for these services. The Institute has provided cash brokerage of £1,400,000 to Chelsea and Westminster Healthcare NHS Trust. This is included within NHS debtors and is repayable in 2003-2004.

The Institute has purchased sundry services from University Hospitals Leicester NHS Trust, Royal Devon and Exeter Healthcare NHS Trust, Velindre NHS Trust and West Sussex Shared Services Consortium, which were not individually material.

The Institute has received cash brokerage of £350,000 from Kensington and Chelsea PCT. This was included within NHS Creditors and is to be repaid in 2003-2004.

## 19 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 Institute 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 Institute 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 Institute in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

The Institute does not hold any financial assets and therefore is not exposed to interest rate risk.

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets as at 31 March 2003 is as follows

	<b>Book value</b> <b>£000</b>	<b>Fair value</b> <b>£000</b>	Basis of fair valuation
<b>Financial assets</b>			
Cash	<b>18</b>	<b>18</b>	Book value equals fair value
Total	<b>18</b>	<b>18</b>	

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the National Patient Safety Agency



## 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 Patient Safety Agency 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 National Patient Safety Agency. 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 2002-2003

This statement is given in respect of the Summarised Account for the National Patient Safety Agency (NPSA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NPSA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NPSA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NPSA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NPSA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NPSA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors, the work of the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors and other review bodies in their reports.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NPSA.

### NPSA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NPSA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NPSA actions and plans

The NPSA assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- an annual self assessment exercise undertaken against the Controls Assurance Standards
- development and implementation of an action plan to address any gaps identified in the above review. Progress is reported to the Risk Management Committee;
- arrangements to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant Controls Assurance Standards covering areas of potentially significant organisational risk;
- a management team risk management workshop followed by facilitated sessions in each department to identify objectives and the principal risks to the achievement of those objectives in order to populate a risk register; and
- commissioning project work from external Risk Management consultants to assist with the development of risk management arrangements both within the Agency and as part of its wider remit relating to patient safety. This has included regular risk management workshops that are open to all staff in order to raise awareness.

In addition to the actions outlined above, in the coming year it is planned to

- the identification of key controls in place to manage each of the principal risks and the assurance that the Board receives on each in order to complete the Assurance Framework. (quarter 3 2003-2004);
- development of an action plan to address gaps in control and gaps in assurance (quarter 3 2003-2004);
- formalisation of the reporting process to the Board to ensure that risk and assurance are reviewed on a regular basis and that the action plan is being implemented (quarter 3 2003-2004).

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NPSA from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

## 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 O8 to O21 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 O11 to O13.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page O3, 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 O4 to O5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 National Patient Safety Agency, 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.

### Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.2 to the account, the National Patient Safety Agency exceeded its capital resource limit by £394,000. As the National Patient Safety Agency has no power to exceed its capital resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Patient Safety Agency as at 31 March 2003 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;
- except for the expenditure incurred in excess of the National Patient Safety Agency's capital resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002* £000
Programme costs	2.1	<b>11,649</b>	1,763
Operating income	4	<b>(20)</b>	0
<b>Net operating cost</b>		<b><u>11,629</u></b>	<u>1,763</u>
<b>Net resource outturn</b>	3.1	<b><u>11,629</u></b>	<u>1,763</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

There were no recognised gains or losses in the year.

*The notes at pages O11 to O21 form part of this account.*

\* Note that all the comparative figures for 2001-2002 represent a nine month period as the Agency became operational on 1 July 2001.

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Intangible fixed assets	5.1	<b>64</b>	0
Tangible assets	5.2	<b>314</b>	0
		<b>378</b>	0
<b>Current assets</b>			
Stocks	6	<b>7</b>	0
Debtors	7	<b>973</b>	200
Cash at bank and in hand	8	<b>57</b>	245
		<b>1,037</b>	445
<b>Creditors: amounts falling due within one year</b>	9.1	<b>(1,469)</b>	(493)
<b>Net current (liabilities)</b>		<b>(432)</b>	(48)
<b>Total assets less current liabilities</b>		<b>(54)</b>	(48)
		<b>(54)</b>	(48)
<b>Taxpayers' equity</b>			
General Fund	12	<b>(54)</b>	(48)
		<b>(54)</b>	(48)

The summarised balance sheet indicates that the Commission has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority if it ceases to exist.

*The notes at pages O11 to O21 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	13	<b>11,469</b>	1,470
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		55	0
Payments to acquire tangible fixed assets		299	0
<b>Net cash outflow from investing activities</b>		<b>354</b>	0
<b>Net cash outflow before financing</b>		<b>11,823</b>	1,470
<b>Financing</b>			
Net Parliamentary funding		11,635	1,715
<b>Decrease/(increase) in cash in the period</b>	8	<b>188</b>	(245)

*The notes at pages O11 to O21 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 (RAM) issued by HM Treasury. The particular accounting policies adopted by the Agency are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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 Operating 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 external customers, as well as public repayment work, but it also includes other income. It includes both income appropriated-in-aid of Request for Resources 1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.

The main source of funding for the Agency is Parliamentary grant from the Department of Health (Request for Resources 1) within an approved cash limit which is credited to the general fund.

### 1.3 Taxation

The Agency 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 Agency, 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 2002-2003 was 6% on all assets less liabilities, except for cash balances with the Office of the Paymaster General (OPG), where the charge is nil. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 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.

#### *b Valuation*

- i 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.



- ii 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.

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. Currently this is three years.
- 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. Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5

**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 Agency to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £101,000 (2001-2002: £5,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 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.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. For post 5 March 1995 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 Authority commits itself to the retirement, regardless of the method of payment.

### **1.7 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 SSAP 13. Other development expenditure is capitalised if it meets the criteria specified in the RAM which are adapted from SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. 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.

### **1.8 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.

### **1.9 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.

### **1.10 Operating leases**

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

### **1.11 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 Agency not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### **1.12 Provisions**

The Agency 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 6% in real terms.

**2.1 Programme costs**

	Notes	£000	£000	2001-2002 £000
Staff costs	2.2		<b>3,419</b>	316
Premises and fixed plant			<b>3,676</b>	808
External consultants' fees			<b>2,703</b>	406
Establishment expenses			<b>1,568</b>	194
Services from other NHS bodies			<b>137</b>	0
Supplies and services - general			<b>24</b>	12
Capital: Depreciation	5.1, 5.2	<b>16</b>		0
Capital charges interest		<b>(12)</b>		0
			<b>4</b>	0
Auditor's remuneration - Audit fee <sup>1</sup>			<b>44</b>	27
Other			<b>74</b>	0
			<b>11,649</b>	<b>1,763</b>

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

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

**Hire and operating rentals included in expenses**

	£000	2001-2002 £000
Hire of plant and machinery	<b>12</b>	22
Other operating leases	<b>1,172</b>	0
	<b>1,184</b>	<b>22</b>

**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 (2001-2002: £nil).

**2.2 Staff costs****Executive members' remuneration and staff costs**

	£000	2001-2002 £000
Salaries and wages	<b>1,803</b>	235
Social security costs	<b>136</b>	16
Employer contributions to NHSPA	<b>101</b>	5
Agency staff	<b>1,285</b>	0
	<b>3,325</b>	<b>256</b>
Authority non-executive members remuneration	<b>94</b>	60
<b>Total staff costs</b>	<b>3,419</b>	<b>316</b>

*Retirements due to ill-health*

There were no early retirements from the Agency on the grounds of ill-health.

*Average number of staff*

The average number of whole-time equivalent persons employed (including senior management) during the year was 59 (2001-2002: 5).

*Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £3,000 (2001-2002: £nil).

**2.4 Senior staff remuneration**

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

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
R Shaw (Chairman)	49	<i>c</i>	<i>c</i>	n/a	n/a
A Butler (Non-Executive Director)	58	5-10	–	n/a	n/a
A Simanowitz (Non-Executive Director)	64	5-10	–	n/a	n/a
A J Butler (Non-Executive Director)	65	5-10	1	n/a	n/a
A W Probert (Non-Executive Director)	<i>a</i>	<i>a</i>	<i>a</i>	n/a	n/a
D Hayter (Non-Executive Director)	54	5-10	–	n/a	n/a
D E Miller (Non-Executive Director)	59	5-10	2	n/a	n/a
G Smith (Non-Executive Director)	58	5-10	1	n/a	n/a
L Goldberg (Non-Executive Director)	60	5-10	–	n/a	n/a
P Prabhu (Non-Executive Director)	47	5-10	–	n/a	n/a
S Whalley-Lloyd (Non-Executive Director)	41	5-10	–	n/a	n/a
S R Leggate (Non-Executive Director)	57	5-10	–	n/a	n/a
T Murphy-Black (Non-Executive Director)	57	5-10	–	n/a	n/a
S Osborn (Joint Chief Executive)	51	60-65	10	0-2.5	10-15
S Williams (Joint Chief Executive)	51	60-65	–	0-2.5	10-15
S Burnett (Director of Interagency appointed 10 June 2002)	42	65-70	–	0-2.5	10-15
H Glenister (Director of Modernisation appointed 15 April 2002)	43	75-80	–	12.5-15	10-15
H Hughes (Director of Operations)	43	90-95	–	2.5-5	20-25
S Wedgewood (Director of Communications from 14 January 2002 to 30 June 2002)	39	15-20	4	2.5-5	0-5
S O'Neill (Director of Communications from 1 July 2002 to 28 February 2003)	<i>a</i>	<i>a</i>	<i>a</i>	<i>a</i>	<i>a</i>
J Grey (Director of Communications appointed 10 March 2003)	31	0-5	–	<i>b</i>	<i>b</i>
J Shanks (Director of Clinical Programmes from 1 April 2002 to 31 December 2002)	<i>d</i>	<i>d</i>	<i>d</i>	<i>d</i>	<i>d</i>
P Mansell (Director of Public Experience and Patient Involvement appointed 1 May 2002)	45	80-85	3	0-2.5	0-5

**2.4 Senior staff remuneration (continued)**

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
<b>2001-2002 disclosures</b>					
R Shaw (Chairman)	48	15-20	–	n/a	n/a
H Hughes (Executive Director)	42	10-15	–	a	a
S Osborn (Executive Director)	50	20-25	–	a	a
S Williams (Executive Director)	50	20-25	–	a	a
S Wedgewood (Executive Director)	38	5-10	–	a	a
A Butler (Non-Executive Director)	57	0-5	–	n/a	n/a
A Simanowitz (Non-Executive Director)	63	0-5	–	n/a	n/a
A J Butler (Non-Executive Director)	64	0-5	–	n/a	n/a
A W Probert (Non-Executive Director)	48	0-5	–	n/a	n/a
D Hayter (Non-Executive Director)	53	0-5	–	n/a	n/a
D E Miller (Non-Executive Director)	58	0-5	–	n/a	n/a
G Smith (Non-Executive Director)	57	0-5	–	n/a	n/a
L Goldberg (Non-Executive Director)	59	0-5	–	n/a	n/a
P Prabhu (Non-Executive Director)	46	0-5	–	n/a	n/a
S Whalley-Lloyd (Non-Executive Director)	40	0-5	–	n/a	n/a
S R Leggate (Non-Executive Director)	56	0-5	–	n/a	n/a
T Murphy-Black (Non-Executive Director)	56	0-5	–	n/a	n/a

Benefits in kind are in relation to business mileage rates above Inland Revenue limits.

- a Consent to disclose information not received.
- b Information not available from the NHS Pensions Agency.
- c The Chairman's entitlement is paid directly to Hammersmith Hospitals NHS Trust.
- d Consent to disclose withheld.

**3.1 Reconciliation of net operating cost to net resource outturn and revenue resource limit**

	£000	2001-2002 £000
Net operating cost	<b>11,629</b>	1,763
<b>Net resource outturn</b>	<b>11,629</b>	1,763
<b>Revenue resource limit</b>	<b>12,100</b>	1,763
<b>Under spend against limit</b>	<b>471</b>	0

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

	£000	2001-2002 £000
Gross capital expenditure	<u>394</u>	<u>0</u>
<b>Net capital resource outturn</b>	<b><u>394</u></b>	<b><u>0</u></b>
Capital resource limit	<u>0</u>	<u>0</u>
<b>(Over)/underspend against limit</b>	<b><u>(394)</u></b>	<b><u>0</u></b>

**4 Operating income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Other	<u>20</u>	<u>0</u>
Total	<b><u>20</u></b>	<b><u>0</u></b>

**5 Fixed assets****5.1 Intangible fixed assets**

	Software licences £000
Gross cost at 31 March 2002	0
Additions - purchased	<u>65</u>
<b>Gross cost at 31 March 2003</b>	<b><u>65</u></b>
Accumulated amortisation at 31 March 2002	0
Provided during the year	<u>1</u>
<b>Accumulated amortisation at 31 March 2003</b>	<b><u>1</u></b>
Net book value of purchased intangible fixed assets at 31 March 2002	<u>0</u>
<b>Net book value of purchased intangible fixed assets at 31 March 2003</b>	<b><u>64</u></b>

**5.2 Tangible fixed assets**

	Total £000	Assets under construction £000	Information Technology £000
Cost or valuation at 31 March 2002	0	0	0
Additions - purchased	<u>329</u>	<u>36</u>	<u>293</u>
<b>Gross cost at 31 March 2003</b>	<b><u>329</u></b>	<b><u>36</u></b>	<b><u>293</u></b>
Accumulated depreciation at 31 March 2002	0	0	0
Provided during the year	<u>15</u>	<u>0</u>	<u>15</u>
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>15</u></b>	<b><u>0</u></b>	<b><u>15</u></b>
Net book value of purchased tangible fixed assets at 31 March 2002			<u>0</u>
<b>Net book value of purchased tangible fixed assets at 31 March 2003</b>			<b><u>314</u></b>

**6 Stocks and work in progress**

		31 March 2002 £000
	<b>£000</b>	
Raw materials and consumables	<u>7</u>	<u>0</u>
	<b>7</b>	<b>0</b>

**7 Debtors**

		31 March 2002 £000
	<b>£000</b>	
<b>Amounts falling due within one year</b>		
Prepayments	<b>375</b>	43
Other debtors	<b>578</b>	157
NHS debtors	<u><b>20</b></u>	<u>0</u>
	<b>973</b>	<b>200</b>

**8 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	245	(189)	<b>56</b>
Cash at commercial banks and in hand	<u>0</u>	<u>1</u>	<u><b>1</b></u>
	<b>245</b>	<b>(188)</b>	<b>57</b>

**9.1 Creditors**

		31 March 2002 £000
	<b>£000</b>	
<b>Amounts falling due within one year</b>		
NHS creditors	<b>223</b>	66
Tax and social security	<b>0</b>	16
Other creditors	<b>1,009</b>	4
Accruals	<b>197</b>	407
Capital creditors	<u><b>40</b></u>	<u>0</u>
	<b>1,469</b>	<b>493</b>

**9.2** There were no finance leases held during the period under review (2001-2002: £nil).

**10 Provisions for liabilities and charges**

There were no provisions recognised in the period under review (2001-2002: £nil).

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

		2001-2002 £000
	<b>£000</b>	
Increase in stocks	<b>7</b>	0
Increase in debtors	<b>773</b>	200
(Increase) in revenue creditors	<u><b>(936)</b></u>	<u>(493)</u>
	<b>(156)</b>	<b>(293)</b>

**12 Reserves**

The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	(48)
Net operating costs for the year	<b>(11,629)</b>
Net Parliamentary funding	<b>11,635</b>
<i>Non-cash items</i>	
Capital charges interest	<u>(12)</u>
<b>Balance at 31 March 2003</b>	<u><b>(54)</b></u>

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

	Notes	£000	2001-2002 £000
Net operating cost for the year		<b>11,629</b>	1,763
Adjust for non-cash transactions	2.1	<b>(4)</b>	0
Adjust for movements in working capital other than cash	11	<b>(156)</b>	<u>(293)</u>
<b>Net cash outflow from operating activities</b>		<u><b>11,469</b></u>	<u>1,470</u>

**14 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**15 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

**16 Commitments under operating leases**

The Authority is committed to make the following payments during the next year in respect of operating leases which expire

	£000	2001-2002 £000
<i>Land and buildings</i>		
Within one year	<b>0</b>	259
Between one and five years	<b>0</b>	0
After five years	<b>649</b>	<u>0</u>
	<u><b>649</b></u>	<u>259</u>
<i>Other leases</i>		
Within one year	<b>0</b>	0
Between one and five years	<b>5</b>	0
After five years	<b>0</b>	<u>0</u>
	<u><b>5</b></u>	<u>0</u>

The Authority has entered into a long term lease for accommodation at 4-8 Maple Street, London.

**17 Other commitments**

The Agency has not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).



## 18 Losses and special payments

The Agency has incurred one loss and one special payment during the financial year totalling £33,000 (2001-2002: 0 losses).

## 19 Related party disclosure

The Agency 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 Agency 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.

	Payments £000	Debtor £000	Creditor £000
Department of Health	387	0	0
Newcastle upon Tyne Hospitals	41	0	0
Prescription Pricing Authority	39	0	0
Hammersmith Hospitals	31	0	1
Oxford Radcliffe Hospitals	29	0	0
West London Mental Health	25	0	22
NE London StHA	20	20	39
SW London StHA	0	0	86
Chelsea & Westminster NHS Trust	30	0	0

During the year none of the Agency Members or members of the key management staff or other related parties has undertaken any material transactions with the parties listed above.

## 20 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 the National Patient Safety Agency is financed it 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 National Patient Safety Agency has no 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 National Patient Safety Agency in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Liquidity risk*

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

### *Interest rate risk*

All the Agency'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 National Patient Safety Agency has negligible foreign currency expenditure. It is not therefore exposed to significant foreign currency risk.

*Fair values*

A comparison, by category, of book values and fair values of the Agency's financial assets as at 31 March 2003 is as follows

	<b>Book value</b> £000	<b>Fair value</b> £000
<b>Financial assets</b>		
Cash	<u>57</u>	<u>57</u>
Total	<u>57</u>	<u>57</u>

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the National Treatment Agency



## 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 Treatment Agency 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 National Treatment Agency. 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 2002-2003

This statement is given in respect of the Summarised Account for the National Treatment Agency for Substance Misuse (NTA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NTA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NTA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NTA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NTA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering:

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NTA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors, the work of the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors and other review bodies in their reports.

### NTA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NTA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors;
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

### NTA actions and plans

The NTA has been in existence for less than two years and therefore a number of internal controls are in developmental stage. The NTA assurance framework is still being finalised and will be fully embedded by 31 March 2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- the organisation has undertaken a self assessment exercise undertaken against the Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review;
- the organisation has undergone a complete restructure, with a Finance and Planning Directorate being established to ensure it has adequate resources dedicated to the processes that support and give assurance of internal control at the highest level;
- the organisation has appointed a Finance and Planning Director who will lead on the ongoing development and monitoring of internal controls and risk management;
- the remit of the organisation's Audit Committee has been extended to include risk management with the responsibility of providing the board with a Risk Management Strategy and regular assessments of organisational risk including an overview of the management of identified risks.

In addition to the actions outlined above, in the coming year it is planned to

- Document and issue organisational vision and values statement to all stakeholders. quarter 1 2003-2004
- Complete baseline assessment against other relevant controls assurance standards and implement action plans to ensure compliance as agreed by the Audit Committee. quarter 1 2003-2004
- Review the provision of financial services and further develop reporting structures. quarter 1 2003-2004
- Formalise management and reporting structures across the organisation. quarter 1 2003-2004
- Establish a central training register to ensure staff training needs are met. quarter 2 2003-2004
- Formalise the organisation's risk management strategy to be approved by the Board. quarter 2 2003-2004
- Formalise and review policies and procedures for risk management. quarter 2 2003-2004
- Identify key risk indicators and establish a risk register to be monitored by the Audit Committee. quarter 2 2003-2004
- Review and formalise the complaints policy and procedure. quarter 2 2003-2004
- Staff survey to be introduced to identify risks and evaluate capabilities of employees. quarter 2 2003-2004
- Provide training to key staff on dealing with complaints. quarter 3 2003-2004
- Review staff training programme to incorporate specific modules on the risk management process and associated policies. quarter 3 2003-2004
- The NTA take over responsibility of implementing the National Drug Treatment Monitoring System (NDTMS) from 1 April 2003. Implementation plan will be developed and agreed with the Department of Health (DH) in the first quarter of 2003-2004. New staff to be appointed in the second quarter.

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee Recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NTA from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

# 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 P9 to P19 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 P12 to P14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page P3, 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 P4 to P6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 National Treatment Agency, 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.

## Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.1 to the account, the National Treatment Agency exceeded its revenue resource limit by £55,000. As the National Treatment Agency has no power to exceed its revenue resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Treatment Agency as at 31 March 2003 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;
- except for the expenditure incurred in excess of the National Treatment Agency's revenue resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>6,168</b>	2,145
Operating income	4	<b>(243)</b>	0
<b>Net operating cost</b>		<b><u>5,925</u></b>	<u>2,145</u>
<b>Net resource outturn</b>	3.1	<b><u>5,925</u></b>	<u>2,145</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

There were no recognised gains or losses for the year.

*The notes at pages P12 to P19 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5	0	0
<b>Current assets</b>			
Debtors	6	1,985	1,492
Cash at bank and in hand	7	45	19
		<u>2,030</u>	<u>1,511</u>
<b>Creditors: amounts falling due within one year</b>	8	<u>(582)</u>	<u>(218)</u>
<b>Net current assets</b>		<u>1,448</u>	<u>1,293</u>
<b>Total assets less current liabilities</b>		<u>1,448</u>	<u>1,293</u>
		<u>1,448</u>	<u>1,293</u>
<b>Taxpayers' equity</b>			
General Fund	11	<u>1,448</u>	<u>1,293</u>
		<u>1,448</u>	<u>1,293</u>

*The notes at pages P12 to P19 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>5,974</b>	3,381
<b>Capital expenditure and financial investment</b>		<u>0</u>	<u>0</u>
<b>Net cash (inflow)/outflow from investing activities</b>		<u>0</u>	<u>0</u>
<b>Net cash outflow before financing</b>		<u><b>5,974</b></u>	<u>3,381</u>
<b>Financing</b>			
Net Parliamentary funding		<u>6,000</u>	<u>3,400</u>
<b>(Increase) in cash in the period</b>	7	<u><b>(26)</b></u>	<u>(19)</u>

*The notes at pages P12 to P19 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 the Agency are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers. It includes both income appropriated-in-aid 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 Agency 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 1.5 Fixed assets

#### *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 setting-up cost of a new building, irrespective of their individual or collective cost.

There were no fixed assets held in 2002-2003.

## 1.6 Losses and special payments

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

## 1.7 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 Agency to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £85,000 (£24,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 years 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. For post 5 March 1995 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 Agency commits itself to the retirement, regardless of the method of payment.

### 1.8 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

### 1.9 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.

### 1.10 Provisions

The Agency 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 6% in real terms.

## 2.1 Programme costs

	Notes	£000	2001-2002 £000
Non-executive members' remuneration		47	37
Other salaries and wages	2.2	1,650	547
Supplies and services - general		55	86
Establishment expenses		551	405
Premises and fixed plant		327	137
External contractors		3,428	871
Capital: Capital charges interest		80	38
Auditor's remuneration: Audit fees <sup>1</sup>		30	24
		<b>6,168</b>	<b>2,145</b>

The Agency did not make any payments to Auditors for non audit work.

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

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	1,316	479
Social security costs	117	44
Employer contributions to NHSPA	85	24
Agency staff	132	0
	<u>1,650</u>	<u>547</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 38 (2001-2002: 27).

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £nil (2001-2002: £nil).

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

During 2002-2003 there were no early retirements from the Agency on the grounds of ill-health.

## 2.3 Senior staff remuneration

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

Name and title	Age years	Salary 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 2003 in £5k bands £000
D E Massey (Chairman)	65	20-25	N/A	N/A
B Beaumont (Non Executive Director)	56	5-10	N/A	N/A
K A Davies (Non Executive Director)	40	5-10	N/A	N/A
G M Haynes (Non Executive Director)	44	5-10	N/A	N/A
K K Patel (Non Executive Director)	42	5-10	N/A	N/A
P J Hayes (Chief Executive)	51	95-100	0-2.5	*30-35
A Dale-Perera (Director of Quality)	41	60-65	0-2.5	0-5
M Trace (Director of Performance)	42	45-50	0-2.5	0-5

#### **2001-2002 disclosures**

P J Hayes (Chief Executive)	50	90-95	0-2.5	0-5
M Trace (Director of Performance)	41	60-65	0-2.5	0-5
A Dale-Perera (Director of Quality)	40	55-60	0-2.5	0-5

\* Increase in total accrued pension includes funds rolled over from another pensions agency during 2002-2003.

There were no payments of other remuneration, golden hellos, compensation for loss of office or benefits in kind during 2002-2003.

## 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest was paid under the above legislation and no compensation payments were made.

**3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit**

	£000	2001-2002 £000
Net operating cost	5,925	2,145
<b>Net resource outturn</b>	<b>5,925</b>	<b>2,145</b>
<b>Revenue resource limit</b>	<b>5,870</b>	<b>2,100</b>
<b>(Over) spend against limit</b>	<b>(55)</b>	<b>(45)</b>

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

	£000	2001-2002 £000
Gross capital expenditure	0	0
<b>Net capital resource outturn</b>	<b>0</b>	<b>0</b>
Capital resource limit	0	0
<b>(Over)/underspend against limit</b>	<b>0</b>	<b>0</b>

**4 Operating income**

Operating income analysed by activity is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	243	0
<b>Total</b>	<b>243</b>	<b>0</b>

**5 Fixed assets**

There were no fixed assets in 2002-2003.

**6 Debtors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	1,400	1,409
Prepayments	400	0
Other debtors	185	83
	<b>1,985</b>	<b>1,492</b>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> <b>£000</b>
Cash at OPG	19	26	<b>45</b>
	<u>19</u>	<u>26</u>	<u><b>45</b></u>

**8 Creditors**

		31 March 2002
	<b>£000</b>	£000
<b>Amounts falling due within one year</b>		
NHS creditors	<b>64</b>	65
Tax and social security	<b>14</b>	34
Other creditors	<b>406</b>	10
Accruals	<b>98</b>	109
	<b><u>582</u></b>	<u>218</u>

**9 Provisions for liabilities and charges**

There were no provisions recognised during the period under review.

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

		2001-2002
	<b>£000</b>	£000
Increase in debtors	<b>493</b>	1,492
(Increase) in creditors	<b>(364)</b>	(218)
	<b><u>129</u></b>	<u>1,274</u>

**11 Reserves**

The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	1,293
Net operating costs for the year	<b>(5,925)</b>
Net Parliamentary funding	<b>6,000</b>
Non-cash items: Capital charge interest	<b>80</b>
<b>Balance at 31 March 2003</b>	<b><u>1,448</u></b>

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

	Notes		2001-2002
		<b>£000</b>	£000
Net operating cost for the year		<b>5,925</b>	2,145
Adjust for non-cash transactions	2.1	<b>(80)</b>	(38)
Adjust for movements in working capital other than cash	10	<b>129</b>	1,274
<b>Net cash outflow from operating activities</b>		<b><u>5,974</u></b>	<u>3,381</u>

**13 Contingent liabilities**

At 31 March 2003 there were no known contingent liabilities (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

## 15 Commitments under operating leases

The Agency has not made any payments under hire and operating leases and has no lease commitments (2001-2002: £nil).

## 16 Other commitments

The Agency has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

## 17 Losses and special payments

There were no cases of loss in 2002-2003 (2001-2002: £nil).

## 18 Post balance sheet events

There were no post balance sheet events.

## 19 Related parties

The Agency 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 Agency has had a significant number of material transactions with the Department, including £6,000,000 Parliamentary funding for the running costs of the Agency, and with other entities for which the Department is regarded as the parent Department, i.e.

Financial services provided by Chelsea and Westminster Healthcare NHS Trust according to a Service Level Agreement (£60,000). The Agency has provided £1,400,000 cash brokerage to Chelsea and Westminster Healthcare NHS Trust. This is disclosed under NHS debtors and is repayable in 2003-2004.

The Agency has had a small number of material transactions with

Cambridgeshire City Primary Care Trust	Trafford Healthcare NHS Trust
Newark and Sherwood Primary Care Trust	Camden and Islington Mental Health NHS Trust
Bristol South & West Primary Care Trust	The Prescription Pricing Authority
Central Liverpool Primary Care Trust	Northumberland Care Trust
Central and North West London Mental Health NHS Trust	

During the year none of the Agency's Members or members of the key management staff or other related parties has undertaken any material transactions with the National Treatment Agency.

## 20 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 Agency 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 Agency 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 Agency in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

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

*Foreign currency risk*

The Agency has no foreign currency income or expenditure so it is not subject to foreign currency risk.



# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the NHS Appointments Commission



## 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 NHS Appointments Commission 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 NHS Appointments Commission. 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 2002-2003

This statement is given in respect of the Summarised Account for the NHS Appointments Commission (NHSAC).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NHSAC maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NHSAC as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NHSAC is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NHSAC regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NHSAC Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NHSAC.

### NHSAC governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NHSAC, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NHSAC actions and plans

The NHSAC assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- a self assessment exercise undertaken against the Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review;
- the Commission has also carried out self-assessment on compliance with other relevant Controls Assurance standards and prepared an action plan to deal with areas of weakness and risk;
- key processes relating to the Commission's core business of making appointments have been standardised and been subject to independent audit by OCPA, an action plan has been developed to deal with identified weaknesses and risks;
- systems put in place by the Commission in its first full year of operation have been subject to review by the Internal Auditors. A programme of implementing their recommendations is in place;
- progress on all the above action plans is subject to regular review by the audit committee; and
- a risk register has been developed.

In addition to the actions outlined above, in the coming year it is planned to:

- implement improvements in internal control as suggested by internal auditors, external auditors, CAS self-assessment exercise and OCPA;
- continue to develop the Assurance Framework and awareness of risk; and
- improve self-assessment scores on Assurance standards.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NHSAC from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003



## 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 Q8 to Q23 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 Q11 to Q15.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page Q3, 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 Q4 to Q5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 National Health Service Appointments Commission, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error 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. 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 Health Service Appointments Commission at 31 March 2003 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.
- 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>4,224</b>	1,200
Operating income	4	<b>(607)</b>	0
<b>Net operating cost</b>		<b><u>3,617</u></b>	<u>1,200</u>
<b>Net resource outturn</b>	3.1	<b><u>3,617</u></b>	<u>1,200</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	10.2	<b><u>6</u></b>	0
<b>Recognised gains for the financial year</b>		<b><u>6</u></b>	<u>0</u>

*The notes at pages Q11 to Q23 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	15	19
Tangible assets	5.2	<u>477</u>	<u>379</u>
		<b>492</b>	398
<b>Current assets</b>			
Debtors	6	764	186
Cash at bank and in hand	7	<u>11</u>	<u>0</u>
		<b>775</b>	186
<b>Creditors: amounts falling due within one year</b>	8	<u>(778)</u>	<u>(113)</u>
<b>Net current (liabilities)/assets</b>		<u>(3)</u>	<u>73</u>
<b>Total net assets less current liabilities</b>		<u>489</u>	<u>471</u>
		<b>489</b>	471
<b>Taxpayers' equity</b>			
General Fund	10.1	484	471
Revaluation reserve	10.2	<u>5</u>	<u>0</u>
		<b>489</b>	471

*The notes at pages Q11 to Q23 form part of this account.*

Nigel Crisp  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	11	<b>3,589</b>	1,073
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		0	19
Payments to acquire tangible fixed assets		0	379
Payments to acquire tangible fixed assets - prepaid at year end		0	186
<b>Net cash outflow from investing activities</b>		<b>0</b>	584
<b>Net cash outflow before financing</b>		<b>3,589</b>	1,657
<b>Financing</b>			
Net Parliamentary funding		3,600	1,657
<b>(Increase) in cash in the period</b>	7	<b>(11)</b>	0

*The notes at pages Q11 to Q23 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 the NHS Appointments Commission (the Commission) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Commission is Parliamentary grant from the Department of Health from Request for Resources 1 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 Commission. It principally comprises fees and charges for services provided on a full-cost basis to external customers. These include appointment campaigns run for national bodies on behalf of the Department of Health and also charges to NHS organisations to support the Commission's development programme for non-executives. 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 Commission 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 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 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*

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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).

- 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 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 Buildings are depreciated evenly 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.

- iv Each equipment asset is depreciated evenly over the expected useful life

	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

## 1.6 Stocks and work in progress

The Commission does not recognise stocks and work in progress.

## 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 Commission 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 Commission to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £41,000 (£nil for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die, 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. 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 Commission commits itself to the retirement, regardless of the method of payment.

#### *Seconded staff*

Past and present employees seconded from the Department of Health are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Commission recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS.

The PCSPS is an unfunded multi-employer defined benefit scheme but the Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk)).

For 2002-2003, employers' contributions were payable to the PCSPS at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Rates will remain the same for the next year, subject to revalorisation of the salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

The Civil Service Additional Voluntary Contribution Scheme is a money purchase arrangement linked to an approved panel of providers. Members can choose to pay contributions, which can either be used to provide additional life cover, or to be paid into an individual fund where they build up until retirement when the fund is used to purchase a pension.

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based "final salary" defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

#### *a Classic Scheme*

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

#### *b Premium Scheme*

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

## c Classic Plus Scheme

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.

### 1.9 Research and development

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

### 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 Commission 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 6% in real terms. The Commission did not recognise any provisions in the financial year.

## 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive members' remuneration			194	163
Other salaries and wages	2.2		1,130	316
Establishment expenses			339	83
Interview and advertising costs			1,416	499
Premises			497	49
Capital: Depreciation and amortisation	5.1, 5.2	97		0
Capital charges interest	10.1	29		14
			<u>126</u>	<u>14</u>
Auditor's remuneration: Audit fees <sup>1</sup>			18	10
External contractors (including training programmes)			460	54
Miscellaneous			44	12
			<u>4,224</u>	<u>1,200</u>

1 The audit fee represents the cost for the audit of the underlying financial statements carried out by auditors appointed by the Audit Commission. The Authority did not make any payments to Auditors for non audit work.

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	<b>664</b>	0
Social security costs	<b>64</b>	0
Employer contributions to NHSPA	<b>41</b>	0
Staff seconded from Department of Health	<b>306</b>	316
Agency staff	<b>55</b>	0
	<b><u>1,130</u></b>	<u>316</u>

The average number of whole-time equivalent persons employed (including senior management, but excluding non-executive posts) during the year was 41. Eight of these staff were seconded from the Department of Health (2001-2002: - 9 whole time equivalents - all seconded).

The costs shown for seconded staff are the total amounts invoiced by the Department which include salary and employers costs.

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £5,000 for the provision of a car for an employee (2001-2002: £nil).

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

During 2002-2003 there were no early retirements from the Commission on the grounds of ill-health. (2001-2002: none).

## 2.3 Senior staff remuneration

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

Name and title	Notes	Age years	Salary in £5k bands £000	Real increase in pension at age 60 in £2.5k bands £000	Total accrued pension at age 60 in at 31 March 2003 in £5k bands £000
Mrs G Camm (Regional Commissioner)	a	43	10-15	n/a	n/a
Mrs J Isaacs (Regional Commissioner)		48	20-25	n/a	n/a
Dr J Marshall (Regional Commissioner)		72	20-25	n/a	n/a
Sir I Mills (Regional Commissioner)		67	20-25	n/a	n/a
Dr R Moore (Chief Executive)		56	75-80	b	b
Mrs B Sills (Regional Commissioner)		61	20-25	n/a	n/a
Mr M Taylor (Regional Commissioner)		65	20-25	n/a	n/a
Mrs R Varley (Regional Commissioner)		51	20-25	n/a	n/a
Sir W Wells (Chairman)		62	25-30	n/a	n/a
Mr B Williams (Regional Commissioner)		64	20-25	n/a	n/a

### 2001-2002 disclosures

Mrs G Camm (Regional Commissioner)	c	42	15-20	n/a	n/a
Mrs J Isaacs (Regional Commissioner)	c	47	15-20	n/a	n/a
Dr J Marshall (Regional Commissioner)	c	71	15-20	n/a	n/a
Sir I Mills (Regional Commissioner)	c	66	15-20	n/a	n/a
Dr R Moore (Chief Executive from 1 January 2002)		55	15-20	Information not available	
Mrs B Sills (Regional Commissioner)	c	60	15-20	n/a	n/a
Mr M Taylor (Regional Commissioner)	c	64	15-20	n/a	n/a
Mrs R Varley (Regional Commissioner)	c	50	15-20	n/a	n/a
Sir W Wells (Chairman)		61	25-30	n/a	n/a
Mr B Williams (Regional Commissioner)	c	63	15-20	n/a	n/a

a Mrs Camm resigned as commissioner with effect from 31 October 2002.

b Consent to disclose withheld.

c Regional Commissioners were appointed on 1 July 2001.

## 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest was paid under the legislation or no compensation payments made (2001-2002: £nil).

### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	<b>3,617</b>	1,200
<b>Net resource outturn</b>	<b>3,617</b>	1,200
<b>Revenue resource limit</b>	<b>3,630</b>	1,200
<b>Under spend against limit</b>	<b>13</b>	0

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

	<b>£000</b>	2001-2002 £000
Gross capital expenditure	<u>0</u>	<u>584</u>
<b>Net capital resource outturn</b>	<b><u>0</u></b>	<b><u>584</u></b>
Capital resource limit	<u>0</u>	<u>584</u>
<b>Underspend against limit</b>	<b><u>0</u></b>	<b><u>0</u></b>

**4 Operating income**

Operating income analysed by activity, is as follows

	<b>£000</b>	2001-2002 £000
Income received from other Departments	<u>607</u>	<u>-</u>
<b>Total</b>	<b><u>607</u></b>	<b><u>0</u></b>

**5 Fixed assets****5.1 Intangible fixed assets**

	<b>Software licences £000</b>
Gross cost at 31 March 2002	<u>19</u>
<b>Gross cost at 31 March 2003</b>	<b><u>19</u></b>
Accumulated amortisation at 31 March 2002	0
Provided during the year	<u>4</u>
<b>Accumulated amortisation at 31 March 2003</b>	<b><u>4</u></b>
Net book value as at 31 March 2002	<u>19</u>
<b>Net book value as at 31 March 2003</b>	<b><u>15</u></b>

**5.2 Tangible fixed assets**

	<b>Total</b> <b>£000</b>	Information technology £000	Furniture and fittings £000
Cost or valuation at 31 March 2002	379	278	101
Indexation	<b>6</b>	0	6
Additions - purchased	<b>186</b>	91	95
<b>Gross cost at 31 March 2003</b>	<b>571</b>	<b>369</b>	<b>202</b>
Accumulated depreciation at 31 March 2002	0	0	0
Indexation	<b>1</b>	0	1
Provided during the year	<b>93</b>	74	19
<b>Accumulated depreciation at 31 March 2003</b>	<b>94</b>	<b>74</b>	<b>20</b>
Net book value as at 31 March 2002	379	278	101
<b>Net book value as at 31 March 2003</b>	<b>477</b>	<b>295</b>	<b>182</b>

No assets were held under finance leases and hire purchase contracts at the balance sheet date.

No depreciation was charged in the operating cost statement in respect of assets held under finance leases and hire purchase contracts.

**6 Debtors**

	<b>£000</b>	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>466</b>	0
Prepayments	<b>162</b>	186
Accrued income	<b>53</b>	0
Other debtors	<b>83</b>	0
	<b>764</b>	186

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	0	11	11
	0	11	11

**8 Creditors****Amounts falling due within one year**

		31 March 2002 £000
	<b>£000</b>	<b>£000</b>
NHS creditors	<b>215</b>	0
Tax and social security	<b>0</b>	1
Other creditors	<b>109</b>	112
Accruals	<b>74</b>	0
Deferred income	<b>380</b>	0
	<b>778</b>	<b>113</b>

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

		2001-2002 £000
	<b>£000</b>	<b>£000</b>
Increase in revenue debtors	<b>764</b>	0
(Increase) in creditor	<b>(666)</b>	(113)
	<b>98</b>	<b>(113)</b>

At 31 March 2002 the Commission had made a prepayment of £186,000 for office fittings and IT equipment. As this related to capital expenditure rather than revenue this balance has been excluded from this working capital note.

**10 Reserves****10.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	471
Net operating costs for the year	<b>(3,617)</b>
Net Parliamentary funding	<b>3,600</b>
Transfer of realised profits/losses from revaluation reserve	1
<i>Non-cash items</i>	
Capital charge interest	<b>29</b>
<b>Balance at 31 March 2003</b>	<b>484</b>

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

	<b>£000</b>
Balance at 31 March 2002	0
Indexation of fixed assets	<b>6</b>
Transfer to General Fund: realised revaluation	<b>(1)</b>
<b>Balance at 31 March 2003</b>	<b>5</b>

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

		2001-2002 £000
	Notes	<b>£000</b>
Net operating cost for the year		<b>3,617</b>
Adjust for non-cash transactions	2.1	<b>(126)</b>
Adjust for movements in working capital other than cash	9	<b>98</b>
<b>Net cash outflow from operating activities</b>		<b>3,589</b>
		<b>1,073</b>

**12 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**13 Capital commitments**

At 31 March 2003 there were no contracted capital commitments (2001-2002: £nil).

**14 Commitments under operating leases**

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

	£000	2001-2002 £000
Hire of plant and machinery	3	0
Other operating leases	<u>228</u>	<u>31</u>
	<u>231</u>	<u>31</u>

Commitments under non-cancellable operating leases

	£000	2001-2002 £000
<b>Land and buildings</b>		
Operating leases which expire: within one year	0	0
between one and five years	0	0
after five years	<u>229</u>	<u>228</u>
	<u>229</u>	<u>228</u>
<b>Other leases</b>		
within one year	0	0
between one and five years	4	0
after five years	<u>0</u>	<u>0</u>
	<u>4</u>	<u>0</u>

The rent of the Cheapside Office is subject to rent review at the end of May 2003. The amount included in the commitments note above does not reflect any increase as the actual amount is unknown.

In January 2002, when negotiations for the assignment of the lease were underway, the District Valuer suggested that the amount of the increase was likely to be in the range £53,000 to £79,000 per annum for the remainder of the lease term.

**15 Other commitments**

As at March 2003, the Commission has entered into non-cancellable contracts (which are not operating leases) for the provision of IT support services until March 2005 totalling £198,000 over the remaining period of the contract (2001-2002: £nil).

**16 Losses and special payments**

The Commission has no losses or special payments in the year (2001-2002: £nil).



## 17 Related parties

The Commission 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 Commission 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.

Eight of the Commission's staff are seconded from the Department of Health. (Six for the entire year, two for part of the year). The costs of these staff are recharged to the Commission. The costs for 2002-2003 for these staff totalled £306,000.

The Commission has carried out board recruitment campaigns for the Department during the year. The costs associated with these campaigns are recharged to the Department and totalled £358,000 for the year (2001-2002: £nil).

## 18 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 Commission 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 Commission 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 Commission in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Liquidity risk*

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

### *Interest rate risk*

All of the Commission's financial assets and liabilities carry nil interest. The Commission is not, therefore, exposed to significant interest rate risk. The following table shows the interest rate profiles of the Commission's financial assets

### Financial assets

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
At 31 March 2003				
Sterling	<b>11</b>	0	0	11
Other	<b>0</b>	0	0	0
Gross financial assets	<b>11</b>	0	0	11
At 31 March 2002				
Sterling	0	0	0	0
Other	0	0	0	0
Gross financial assets	0	0	0	0

**The Commission has no relevant financial liabilities***Foreign currency risk*

The Commission has no foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Commission's financial assets as at 31 March 2003 is as follows

	<b>Book value £000</b>	<b>Fair value £000</b>	Basis of fair valuation
<b>Financial assets</b>			
Cash	<b>11</b>	<b>11</b>	Book value equals fair value
Debtors over one year	<b>0</b>	<b>0</b>	
Investments	<b>0</b>	<b>0</b>	
Total	<b><u>11</u></b>	<b><u>11</u></b>	

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the NHS Information 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 NHS Information Authority 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 NHS Information 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 2002-2003

This statement is given in respect of the Summarised Account for the NHS Information Authority (NHSIA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NHSIA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NHSIA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NHSIA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NHSIA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NHSIA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors, the work of the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework and comments made by external auditors and other review bodies in their reports.

### NHSIA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NHSIA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

### NHSIA actions and plans

A sound system of internal control has been in place throughout the financial year and is continuing to be deployed throughout the organisation.

The actions taken so far include

- an annual self-assessment against the Core Assurance Standards

The Authority is continuing to review and improve its internal control processes. During 2003-2004 they intend to make the following improvements/refinements to their systems

- |   |                     |
|---|---------------------|
| ■ Ratify the accountability charts for the Core standards clearly showing Executive level responsibility  | quarter 1 2003-2004 |
| ■ Review and update the Risk Management Strategy  | quarter 4 2003-2004 |
| ■ Review the Incident Reporting system and make further improvements as indicated by performance data   | quarter 3 2003-2004 |
| ■ To designate one officer with the responsibility for an overall project for developing suitable indicator compilation and reporting mechanisms across the range of Controls Assurance Standards | quarter 2 2003-2004 |
| ■ A review of the relative significance and risks associated with each standard   | quarter 4 2003-2004 |
| ■ An evaluation of the frequency with which a formal management 'stock take' of the controls system for each standard is required   | quarter 4 2003-2004 |
| ■ Board ratification of the escalation procedure within the Project and Service Reporting System  | quarter 3 2003-2004 |
| ■ Implement the performance management system across all of the projects and services   | quarter 4 2003-2004 |
| ■ Submit an annual report to the Board, on Risk Management across the Authority during 2002-2003  | quarter 3 2003-2004 |
| ■ Implement a revised schedule of training covering key operational issues related to Risk Management, Standing Orders and Financial Instructions   | quarter 4 2003-2004 |

### Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

### Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NHSIA from 2003-2004 onwards.

*Nigel Crisp*

27 November 2003

## 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 R8 to R25 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 R11 to R15.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page R3, 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 R4 to R5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 NHS Information 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 fraud or other irregularity or error 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. 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 Information Authority at 31 March 2003 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.
- 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>181,172</b>	108,331
Operating income	4	<b>(3,355)</b>	(5,835)
<b>Net operating cost</b>		<b><u>177,817</u></b>	<u>102,496</u>
<b>Net resource outturn</b>	3.1	<b><u>177,817</u></b>	<u>102,496</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	11.2	<b>292</b>	121
Prior period adjustment (early retirements)	11.1	<b>(11)</b>	0
<b>Recognised gains and losses for the financial year</b>		<b><u>281</u></b>	<u>121</u>

*The notes at pages R11 to R25 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>83,205</b>	127,848
Tangible assets	5.2	<b>6,351</b>	5,029
		<b>89,556</b>	132,877
<b>Current assets</b>			
Debtors	6	<b>6,759</b>	4,698
Cash at bank and in hand	7	<b>9</b>	157
		<b>6,768</b>	4,855
<b>Creditors: amounts falling due within one year</b>	8.1	<b>(61,540)</b>	(71,538)
<b>Net current liabilities</b>		<b>(54,772)</b>	(66,683)
<b>Total assets less current liabilities</b>		<b>34,784</b>	66,194
Creditors: amounts falling due after more than one year	8.2	<b>0</b>	(50,889)
Provisions for liabilities and charges	9	<b>(212)</b>	(11)
		<b>34,572</b>	15,294
<b>Taxpayers' equity</b>			
General Fund	11.1	<b>34,106</b>	14,958
Revaluation reserve	11.2	<b>466</b>	336
		<b>34,572</b>	15,294

*The notes at pages R11 to R25 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>192,317</b>	84,379
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		<b>1,392</b>	21,195
Payments to acquire tangible fixed assets		<b>2,923</b>	1,319
<b>Net cash outflow from investing activities</b>		<b>4,315</b>	22,514
<b>Net cash outflow before financing</b>		<b>196,632</b>	106,893
<b>Financing</b>			
Net Parliamentary funding		<b>196,484</b>	106,962
<b>Decrease/(increase) in cash in the period</b>	7	<b>148</b>	(69)

*The notes at pages R11 to R25 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 the NHS Information Authority (the Authority) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from the Scottish Parliament, National Assembly for Wales, the Northern Ireland Executive and Office of National Statistics. It includes both income appropriated-in-aid 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 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 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

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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, installations and fittings are depreciated evenly 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>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology equipment	5

## 1.6 Stocks and work in progress

The Authority does not recognise stocks and work in progress.

## 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 employer's 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003. The total employer contribution payable in 2002-2003 was £1,526,000 (£1,218,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 for death less pension already paid, subject to a maximum amount equal to twice the member's final years 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. In 2002-2003 the accounting treatment for pre 6 March 1995 early retirements has now been brought into line with that for post 5 March early retirements. For post 5 March 1995 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 Authority commits itself to the retirement, regardless of the method of payment.

## **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge will be based on opening balance sheet values on a consistent basis.

## **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 Prior period adjustment

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment.

The total charge to the General Fund brought forward was £11,000. Of this provision £1,000 was utilised in 2002-2003.

### 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 6% in real terms.

### 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive members' remuneration			<b>43</b>	43
Staff costs	2.2		<b>28,122</b>	22,743
Capital: Depreciation and amortisation	5.1, 5.2	<b>46,753</b>		11,308
Capital charges interest		<b>1,494</b>		780
			<b>48,247</b>	12,088
Travel and other services			<b>8,902</b>	7,889
Recharges from NHS bodies			<b>9,197</b>	16,725
Transport costs			<b>724</b>	630
Premises and fixed plant			<b>3,424</b>	2,929
External contractors			<b>78,909</b>	43,722
Auditor's remuneration: Audit fees <sup>1</sup>			<b>23</b>	23
Auditor's remuneration: Other fees			<b>65</b>	63
Training			<b>2,829</b>	1,040
Miscellaneous			<b>687</b>	436
			<b>181,172</b>	108,331

Costs heading changes have been made in 2002-2003 and so 2001-2002 has been restated to provide a consistent comparator.

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

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

Interest payable arising from claims made under the legislation was less than £1,000 and no compensation payments made (2001-2002: £206).

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	<b>23,339</b>	18,805
Social security costs	<b>1,823</b>	1,549
Employer contributions to NHSPA	<b>1,526</b>	1,218
Redundancy payments & pension capitalisations	<b>620</b>	541
Agency staff	<b>814</b>	630
	<b><u>28,122</u></b>	<u>22,743</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 840 (2001-2002: 658).

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £4,000 (2001-2002: £3,000).

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

During 2002-2003 there were two early retirements from the 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) has not yet been notified to the Authority by the NHS Pensions Scheme.

## 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 in at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
Dr. L Ijebor (Non Executive Director)	52	5-10	–	–	–
Mrs S Walley (Non Executive Director)	52	5-10	–	–	–
Mrs R Horwood (Non Executive Director)	63	5-10	–	–	–
Dr. J Rashbass (Non Executive Director)	41	5-10	–	–	–
G Folmer (Director of Programme and service delivery to 6 May 2002)	40	5-10	–	0-2.5	5-10
Prof A Bellingham (Chairman)	65	20-25	–	–	–
Miss S Betney (Director of Finance and Procurement, Acting commenced 23 March 2002, Appointed 1 March 2003)	35	45-50	10	0-2.5	5-10.
Mrs E Owen (Director of Financial Management and Performance to 25 March 2003)	43	50-55	–	0-2.5	10-15
Mr J Thorp (Director of Development)	46	55-60	–	0-2.5	0-5
Mr J Smith (Director of Business Strategy and Performance, Acting commenced 1 February 2002, Established 1 February 2003)	47	65-70	–	0-2.5	5-10
Mrs J Bacon (Director of Organisational and Personal Development)	42	65-70	20	2.5-5	20-25
Mr B Curtis (Director of Service Management from 1 June 2003)	51	65-70	30	2.5-5	25-30
Dr A Nowlan (Director of Stakeholder Relations)	47	80-85	–	0-2.5	0-5
Dr R G Thomas (Chief Executive)	53	105-110	20	5-7.5	25-30

### 2001-2002 disclosures

Miss S Betney (Acting Director of Financial Management and Performance from 23 March 2002)	34	0-5	–	0-2.5	20-25
Mr J Smith (Acting Director of Corporate and Portfolio Planning from 1 February 2002)	46	0-5	–	0-2.5	10-15
Mrs J Bacon (Director of Organisational and Personal Development)	41	75-80	40	0-2.5	30-35
Mr A Morrall (Director of Capabilities and Resourcing)	49	85-90	30	0-2.5	10-15
Mrs E Owen (Director of Financial Management and Performance)	42	90-95	50	0-2.5	25-30
Dr A Nowlan (Director of Stakeholder Relations)	46	90-95	–	0-2.5	15-20
Mr G Folmer (Director of Programme and Service Delivery)	39	90-95	–	2.5-5	25-30
Dr R G Thomas (Director of Corporate and Portfolio Planning to 30 September 2001, Acting Chief Executive from 1 October 2001, Established March 2002)	54	105-110	40	0-2.5	25-30
Mr N Bell (Chief Executive to 30 September 2001)	42	125-130	30	2.5-5	25-30

\* Benefits in kind are in respect of lease cars.

**3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit**

	£000	2001-2002 £000
Net operating cost	<b>177,817</b>	102,496
<b>Net resource outturn</b>	<b>177,817</b>	102,496
<b>Revenue resource limit</b>	<b>177,878</b>	102,714
<b>Underspend against limit</b>	<b>61</b>	218

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

	£000	2001-2002 £000
Gross capital expenditure	<b>5,775</b>	139,828
Less: National Software Licence Adjustment	<b>(1,460)</b>	0
<b>Net capital resource outturn</b>	<b>4,315</b>	139,828
Capital resource limit	<b>4,316</b>	139,875
<b>Underspend against limit</b>	<b>1</b>	47

**4 Operating Income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	<b>549</b>	2,401
Income received from Scottish Parliament	<b>69</b>	63
Income received from National Assembly for Wales	<b>470</b>	410
Income received from Northern Ireland Assembly	<b>25</b>	20
Income received from other departments, etc	<b>19</b>	52
Other	<b>2,223</b>	2,889
<b>Total</b>	<b>3,355</b>	5,835

**5 Fixed assets****5.1 Intangible fixed assets**

All intangible fixed assets are for software licences.

	Total £000
Gross cost at 31 March 2002	138,642
Additions - purchased	<b>1,392</b>
Transfers	<b>(32)</b>
<b>Gross cost at 31 March 2003</b>	<b>140,002</b>
Accumulated amortisation at 31 March 2002	10,794
Provided during the year	<b>46,025</b>
Transfers	<b>(22)</b>
<b>Accumulated amortisation at 31 March 2003</b>	<b>56,797</b>
Net book value as at 31 March 2002	127,848
<b>Net book value as at 31 March 2003</b>	<b>83,205</b>

## 5.2 Tangible fixed assets

	<b>Total</b>	Land	Buildings exc dwellings	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000
Cost or valuation at 31 March 2002	5,958	712	3,110	2,136	0
Indexation	<b>316</b>	94	180	0	42
Additions - purchased	<b>2,923</b>	0	0	2,228	695
Transfers	<b>32</b>	0	(1,221)	(131)	1,384
Disposals	<b>(1,246)</b>	(279)	(957)	(7)	(3)
<b>Gross cost at 31 March 2003</b>	<b><u>7,983</u></b>	<u>527</u>	<u>1,112</u>	<u>4,226</u>	<u>2,118</u>
Accumulated depreciation at 31 March 2002	929	0	0	929	0
Indexation	<b>24</b>	0	19	0	5
Provided during the year	<b>728</b>	0	54	552	122
Transfers	<b>22</b>	0	(132)	(12)	166
Disposals	<b>(71)</b>	0	(61)	(7)	(3)
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>1,632</u></b>	<u>0</u>	<u>(120)</u>	<u>1,462</u>	<u>290</u>
Net book value as at 31 March 2002	<u>5,029</u>	<u>712</u>	<u>3,110</u>	<u>1,207</u>	<u>0</u>
<b>Net book value as at 31 March 2003</b>	<b><u>6,351</u></b>	<u>527</u>	<u>1,232</u>	<u>2,764</u>	<u>1,828</u>

Transfers that net to nil, including tangible and intangible assets, have been made to re-categorise following the Department of Health guidance in the Special Health Authority Manual for Accounts 2003.

The disposal of Land and Buildings at Loughborough was transferred to Charnwood and North West Leicestershire PCT for nil consideration.

The net book value of assets held under finance leases and hire purchase contracts was £nil.

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

## 5.3 Net book value of land and buildings

The net book value of land and buildings as at 31 March 2003 comprises

	<b>£000</b>	31 March 2002 £000
Freehold	<b>1,759</b>	2,757
Long leasehold	<b>0</b>	1,065
	<b><u>1,759</u></b>	<u>3,822</u>



**6 Debtors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>612</b>	660
Provision for irrecoverable debts	<b>(29)</b>	(4)
Prepayments	<b>1,522</b>	823
Accrued income	<b>63</b>	10
Other debtors	<b>4,591</b>	3,209
	<b><u>6,759</u></b>	<u>4,698</u>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At <b>31 March 2003</b> <b>£000</b>
Cash at OPG	148	(148)	<b>0</b>
Cash at commercial banks and in hand	9	0	<b>9</b>
	<u>157</u>	<u>(148)</u>	<u><b>9</b></u>

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

	£000	31 March 2002 £000
NHS creditors	<b>40</b>	642
Capital creditors	<b>51,184</b>	66,425
Tax and social security	<b>679</b>	41
Other creditors	<b>9,539</b>	4,430
Accruals	<b>89</b>	0
Deferred income	<b>9</b>	0
	<b><u>61,540</u></b>	<u>71,538</u>

Invoices raised prior to the year end are included in deferred income and were for a conference held on 1 April 2003.

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

	£000	31 March 2002 £000
Capital creditors payable in one to two years	<b>0</b>	50,889
	<b><u>0</u></b>	<u>50,889</u>

**8.3 Finance lease obligations**

As at 31 March 2003, the Authority had no obligations under finance leases.

**9 Provisions for liabilities and charges**

	Pensions for former staff £000	Other £000	<b>Total</b> <b>£000</b>
At 31 March 2002	0	0	0
PPA (pre 95 early retirements)	11	0	<b>11</b>
Arising during the year	0	219	<b>219</b>
Utilised during the year	(1)	(17)	<b>(18)</b>
<b>At 31 March 2003</b>	<b>10</b>	<b>202</b>	<b>212</b>

**Expected timing of cash flows**

Within one year	1	10	<b>0</b>
One to five years	4	37	<b>11</b>
Over five years	5	155	<b>201</b>

Provision included under 'Other' category relates to an injury benefit.

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

	<b>£000</b>	2001-2002 £000
Increase/(decrease) in debtors	<b>2,061</b>	(6,178)
Decrease/(increase) in creditors	<b>60,887</b>	(1,080)
(Increase)/decrease in provisions	<b>(201)</b>	1,229
	<b>62,747</b>	(6,029)

**11 Reserves****11.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	14,969
Prior period adjustment	<b>(11)</b>
Restated as at 1 April 2002	<b>14,958</b>
Net operating costs for the year	<b>(177,817)</b>
Net Parliamentary funding	<b>196,484</b>
Transfer of realised profits from revaluation reserve	<b>24</b>
Transfer of realised profits of Loughborough Office to Charnwood and North West Leicestershire PCT	<b>(1,037)</b>
<i>Non-cash items</i>	
Capital charge interest	<b>1,494</b>
<b>Balance at 31 March 2003</b>	<b>34,106</b>

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

	<b>£000</b>
Balance at 31 March 2002	336
Indexation of fixed assets	<b>292</b>
Transfer of realised profits of Loughborough Office to Charnwood and North West Leicestershire PCT	<b>(138)</b>
Transfer to General Fund: realised revaluation	<b>(24)</b>
<b>Balance at 31 March 2003</b>	<b>466</b>



## 16 Other commitments

The Authority has entered into non-cancellable contracts (which are not operating leases) for the provision of services totalling £163,284,000 as at 31 March 2003 (2001-2002: £93,457,000).

In addition the NHS Information Authority is the contracting organisation for the Shared Service HR/Payroll contract. The agreement commenced on 24 September 2001 and runs until 2011. The total forecast value of the contract is £328 million. The monthly service charges element of this contract is subject to indexation for inflation over the contract period, based on an agreed formula stated in the contract documents.

The Authority does not expect significant involvement until the implementation of the project.

## 17 Losses and special payments

There were 66 cases of losses and special payments in 2002-2003 (2001-2002: 42 cases) amounting to £66,000 (2001-2002: £33,000). There were no individual cases over £100,000.

## 18 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.

All NHS Trusts, PCTs and Strategic Health Authorities and other Departments. Transactions with these organisations include the provision of software enhancements, maintenance and support, training courses and conferences.

During the year none of the Authority members or members of the key management staff have undertaken any material transactions with the NHS Information Authority.

## 19 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 NHS Information 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 NHS Information Authority has no powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Information 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 the currency profile.

### *Liquidity risk*

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

*Interest-rate risk*

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

**Financial assets**

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000
At 31 March 2003				
Sterling	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
Gross financial assets	<u>9</u>	<u>-</u>	<u>-</u>	<u>9</u>
At 31 March 2002				
Sterling	<u>157</u>	<u>-</u>	<u>-</u>	<u>157</u>
Gross financial assets	<u>157</u>	<u>-</u>	<u>-</u>	<u>157</u>

**Financial liabilities**

Currency	<b>Total</b> <b>£000</b>	Floating rate £000	Fixed rate £000	Non-interest bearing £000	Fixed rate Weighted average interest rate %	Weighted average period for which fixed years
At 31 March 2003						
Sterling	<b>10</b>	-	-	10	<b>9.00%</b>	-
Other	<u>202</u>	<u>-</u>	<u>-</u>	<u>202</u>	<b>6.00%</b>	-
Gross financial assets	<u>212</u>	<u>-</u>	<u>-</u>	<u>212</u>		
At 31 March 2002						
Sterling	-	-	-	-	-	-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	-	-
Gross financial assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>		

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b> <b>£000</b>	<b>Fair value</b> <b>£000</b>	Basis of fair valuation
<b>Financial assets</b>			
Cash	<b>9</b>	<b>9</b>	Book value is fair value
Debtors over one year	<b>0</b>	<b>0</b>	
Investments	<b>0</b>	<b>0</b>	
Total	<b>9</b>	<b>9</b>	
<b>Financial liabilities</b>			
Overdraft	<b>0</b>	<b>0</b>	
<i>Creditors over one year</i>			
Early retirements	<b>10</b>	<b>10</b>	a
Finance leases	<b>0</b>	<b>0</b>	
Provisions under contract	<b>0</b>	<b>0</b>	
Injury Benefit	<b>202</b>	<b>202</b>	b
Loans	<b>0</b>	<b>0</b>	
Total	<b>212</b>	<b>212</b>	

- a Fair value is not significantly different from book value since interest at 9% is paid on early retirement creditors.
- b Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the NHS Litigation 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 NHS Litigation Authority 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 NHS Litigation 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 2002-2003

This statement is given in respect of the Summarised Account for the NHS Litigation Authority (NHSLA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NHSLA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NHSLA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NHSLA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NHSLA regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering:

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NHSLA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NHSLA.

### NHSLA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NHSLA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NHSLA actions and plans

The NHSLA assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- a self assessment exercise undertaken against the core Controls Assurance Standards;
- development and implementation of an action plan to address any gaps identified in the above review; and
- arrangements are in place to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant Controls Assurance Standards covering areas of potentially significant organisational risk.

In addition to the actions outlined above, in the coming year it is planned to

- ensure the effective implementation of all policies and procedures for the management of risk within the NHSLA, including wider staff participation in the process of risk management;
- use the risk register to inform the Board and the NHSLA's business planning process;
- improve Health and Safety expertise to assist in the development of appropriate policies and the provision of comprehensive training programmes; and
- monitor key indicators of success for relevant Controls Assurance standards.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the NHSLA from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

## 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 S8 to S25 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 S11 to S16.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page S3, 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 S4 to S5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 National Health Service Litigation 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 fraud or other irregularity or error 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

### Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure.

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.2 to the account, the National Health Service Litigation Authority exceeded its capital resource limit by £68,000. As the National Health Service Litigation Authority has no power to exceed its capital resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Health Service Litigation Authority as at 31 March 2003 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;
- except for the expenditure incurred in excess of the National Health Service Litigation Authority's capital resource limit referred to above, 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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



## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs			
Authority and claims administration	2.5	<b>10,710</b>	7,949
Cost of capital	2.5	<b>(342,568)</b>	(284,039)
Claims and associated costs	2.5	<b>1,114,636</b>	1,695,185
Operating income	4	<b>(231,428)</b>	(52,505)
<b>Net operating cost</b>		<b><u>551,350</u></b>	<u>1,366,590</u>
<b>Net resource outturn</b>	3.1	<b><u>551,350</u></b>	<u>1,366,590</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised (deficit) on the revaluation of fixed assets	11.2	<b>(1)</b>	(3)
Unrealised surplus on the indexation of fixed assets	11.2	<b>2</b>	7
<b>Recognised gains for the financial year</b>		<b><u>1</u></b>	<u>4</u>

*The notes at pages S11 to S25 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>267</b>	269
Tangible assets	5.2	<b>670</b>	517
		<b>937</b>	786
<b>Current assets</b>			
Debtors	6	<b>6,798</b>	25,351
Cash at bank and in hand	7	<b>34,011</b>	66,581
		<b>40,809</b>	91,932
<b>Creditors: amounts falling due within one year</b>	8	<b>(29,301)</b>	(153,506)
<b>Net current assets/(liabilities)</b>		<b>11,508</b>	(61,574)
<b>Total assets less current liabilities</b>		<b>12,445</b>	(60,788)
Provisions for liabilities and charges	9	<b>(5,958,558)</b>	(5,311,452)
		<b>(5,946,113)</b>	(5,372,240)
<b>Taxpayers' equity</b>			
General Fund	11.1	<b>(1,275,639)</b>	(1,531,627)
Revaluation reserve	11.2	<b>20</b>	19
CNST reserve	11.3	<b>(4,614,935)</b>	(3,801,910)
PES reserve	11.4	<b>12,453</b>	16,616
LTPS reserve	11.5	<b>(68,012)</b>	(55,338)
		<b>(5,946,113)</b>	(5,372,240)

The summarised balance sheet indicates that the Authority has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the reported liabilities of this Special Health Authority if it ceases to exist.

*The notes at pages S11 to S25 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>352,249</b>	567,633
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		<b>74</b>	97
Payments to acquire tangible fixed assets		<b>247</b>	153
(Receipts) from disposal of intangible fixed assets		<b>0</b>	(1)
<b>Net cash (inflow)/outflow from investing activities</b>		<b>321</b>	249
<b>Net cash outflow before financing</b>		<b>352,570</b>	567,882
<b>Financing</b>			
Net Parliamentary funding		<b>320,000</b>	537,546
<b>Decrease in cash in the period</b>	7	<b>32,570</b>	30,336

*The notes at pages S11 to S25 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 the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from members of the various schemes. It includes both income appropriated-in-aid 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%. The nature of the NHSLA requires the full recognition of liabilities under the various schemes but does not recognise the relevant future income receivable for these liabilities. Thus the NHSLA carries a substantial liability in the accounts. The application of the principle of capital charging as set out in the Resource Accounting Manual produces a negative capital charge which is represented by a large credit to expenditure in Note 2.1.

## 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 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 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 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 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.
- ii All adjustments arising from indexation 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 Each equipment asset is depreciated evenly over the expected useful life

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5

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

## 1.7 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from the 1 April 2003.

The total employer contribution payable in 2002-2003 was £302,000 (£220,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 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 years 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. For post 5 March 1995 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 Authority commits itself to the retirement, regardless of the method of payment.

### **1.8 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation charge may be based on opening, closing, or average balance sheet values provided that a consistent basis is used.

### **1.9 Leases**

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 6% in real terms.

### **1.11 Allocation of costs**

The apportionment of administration expenditure to the various segments in the operating cost statement (Note 2.5), has been made on the basis of actual costs where known, with the remainder based pro rata to the actual costs allocated under the individual schemes.

### **1.12 Outstanding claims liabilities**

#### *Existing Liabilities Scheme (ELS)*

As at the 1 April 2000 the Authority became responsible for the ELS scheme. The scheme is funded by the Department of Health and the accounts for the scheme are prepared in accordance with FRS 12.

A provision for this scheme is calculated in accordance with FRS12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 1995. This is disclosed in Note 9.

The calculation is made using

- i probability factors. The probability of each claim having to be settled is assessed between 0% and 100%. This probability is applied to the gross value to give the probable cost of each claim; and
- ii a discount factor of 6% per annum applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in Note 13.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Litigation Authority in respect of this scheme.

#### *Clinical Negligence Scheme for Trusts (CNST)*

A provision for this scheme is calculated in accordance with FRS12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 2002 and after 1 April 1995. This is disclosed in Note 9.

The calculation is made using

- i probability factors. The probability of each claim having to be settled is assessed between 0% and 100%. This probability is applied to the gross value to give the probable cost of each claim; and
- ii a discount factor of 6% per annum applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in Note 13.

Claims are included in the provision on the basis that the CNST members have assessed

- a the probable cost and time to settlement in accordance with scheme guidelines;
- b that they are qualifying incidents; and
- c that the Trust remains a member of the scheme.

As at 31 March 2002 all outstanding claims for incidents post 1 April 1995 became the direct responsibility of the NHSLA. This call in of CNST claims effectively means that member trusts are no longer responsible for accounting for claims made against them although they do remain the legal defendant. This treatment is identical to that employed under the ELS scheme and is akin to the treatment followed in a traditional insurance environment.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Authority in respect of this scheme.

#### *Ex-Regional Health Authorities (RHAs) Scheme*

The Authority undertook a review of all outstanding Ex-RHA claims, as at 31 March 2002, to identify those that were likely to result in settlement at some stage in the future. The Authority has assumed full liability for these claims and made a provision at that date of £50,918,000 (Note 9) for their total amount. The value of this provision as at 31 March 2003 is £31,088,000. A contingent liability has been included for the scheme in relation to IBNR. This review also identified claims where no action had been taken by the plaintiff for a number of years and further action was unlikely to be taken by the plaintiff to resurrect the claim.

FRS 12 requires that provisions and contingent liabilities are provided at probable cost and discounted to reflect the time value of money. The provisions made for Ex-RHA are made on the basis of probable outcome in court discounted for the time value of money as required by FRS12.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Litigation Authority in respect of this scheme.



*Property Expenses Scheme (PES) and Liability to Third Parties Scheme (LTPS)*

In April 1999 the Authority introduced the PES and LTPS following the Secretary of State's decision that NHS Trusts should not insure with commercial companies for non-clinical risks, other than motor vehicles and other defined areas (e.g. PFI schemes).

The schemes are managed and funded via the same mechanisms as the CNST and the accounts for these schemes have been prepared in accordance with FRS 12.

**1.13 Incidents Incurred but not reported (IBNR)**

FRS 12 requires the inclusion of liabilities in respect of incidents which have been incurred but not reported to the NHS Litigation Authority as at 31 March 2003 where the following can be reasonably forecast

- a that an adverse incident has occurred;
- b that a transfer of economic benefit will occur; and
- c that a reasonable estimate of the likely value can be made.

The NHSLA uses its actuaries, Lane, Clark & Peacock, to assess the potential value of IBNRs against each of the schemes it operates. The actuaries review existing claims records and, using an appropriate model, calculate values in respect of IBNRs for all schemes. The provisions and contingent liabilities arising are shown in Notes 9 and 13 respectively. The sums concerned are accounting estimates, and although determined on the basis of information currently available, the ultimate liabilities may vary as a result of subsequent developments.

**1.14 Change in discount rate**

These accounts, as with other NHS bodies, are constructed in part by accepting certain preordained criteria which are outside the control of the Authority. If such criteria are adjusted they can have an impact on the values reported in the accounts which are also, by definition, outside the direct control of the Authority.

With effect from the 1 April 2003 the Government has made a decision, informed by the Treasury, to adjust its accepted discount rate from 6% to 3.5%. In regard to these accounts this will affect a number of areas and in some cases the impact will be substantial.

The areas affected by this change include

- 1 The cost of capital calculation included a 6% rate of return and will, therefore, be affected.
- 2 Within the FRS 12 calculations applied to both reported claims and the IBNR's of the Authority there is a discounting calculation which, in these accounts, also uses an assumed 6% discount rate.

To give readers of these accounts a clearer understanding of the impact it is worth noting the potential value of the changes if they had been applied to these accounts. The table below quotes the 'value reported' in these accounts for each of the above areas, the 'notes' refer to the area of these accounts where this data is shown and the 'revised value' shows the value that would have been recorded had the accounts been prepared using the 3.5% rate.

Adjustment	Notes	Values reported £000	Revised values £000
1	2.1	(342,568)	(224,060)
2	9	5,958,558	7,343,054

## 2.1 Programme costs

	Notes	£000	£000	2001-2002 £000
Non-executive members' remuneration	2.2		<b>33</b>	30
Other salaries and wages	2.2		<b>6,043</b>	4,600
Establishment expenses			<b>908</b>	555
Transport and moveable plant			<b>48</b>	39
Premises			<b>1,029</b>	895
<i>External contractors</i>				
Risk management			<b>1,971</b>	1,381
Actuarial advice			<b>179</b>	187
Other			<b>155</b>	21
<i>Capital</i>				
Depreciation and amortisation	5.1, 5.2	<b>212</b>		131
Capital charges interest		<b>(342,568)</b>		(284,039)
Loss on disposal	5.3	<b>3</b>		1
			<b>(342,353)</b>	(283,907)
Auditor's remuneration: Audit fees <sup>1</sup>			<b>78</b>	75
Miscellaneous			<b>51</b>	34
			<b>(331,858)</b>	(276,090)

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

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

## 2.2 Staff costs

### Members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	<b>5,007</b>	3,843
Social security costs	<b>396</b>	318
Employer contributions to NHSPA	<b>302</b>	220
Agency staff	<b>371</b>	249
	<b>6,076</b>	4,630

The average number of whole-time equivalent persons employed (including senior management) during the year was 160 (2001-2002: 119).

#### *Expenditure on staff benefits*

The amount spent on staff benefits during the year totalled £41,207 (2001-2002: £31,485).

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

During 2002-2003 there were no early retirements from the Authority on the grounds of ill-health.

### 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
Ronald Bradshaw (Chairman)	69	15-20	–	n/a	n/a
Stephen Walker (Chief Executive)	57	115-120	56	0-2.5	40-45
Tom Fothergill (Director of Finance)	35	80-85	18	0-2.5	10-15
Carole Kaplan (Non Executive Director)	51	5-10	–	n/a	n/a
Nighat Mian (Non Executive Director)	40	5-10	–	n/a	n/a
John Speedman (Non Executive Director)	70	5-10	–	n/a	n/a
Patricia Steel (Non Executive Director)	61	5-10	–	n/a	n/a

All senior staff withheld salary and pension entitlements in 2001-2002.

### 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest was paid under the legislation and no compensation payments were made (2001-2002: nil).

**2.5 Allocation of income and expenditure to the schemes**

	CNST	ex-RHAs	ELS	PES	LTPS	Total	Total 2001-2002
	£000	£000	£000	£000	£000	£000	£000
<b>Expenditure</b>							
Authority and claims administration	5,530	93	2,190	145	2,752	<b>10,710</b>	7,949
Cost of capital	(176,712)	(2,978)	(70,102)	(4,644)	(88,132)	<b>(342,568)</b>	(284,039)
Claims and associated costs	1,028,689	(18,268)	80,041	8,680	15,494	<b>1,114,636</b>	1,695,185
	<u>857,507</u>	<u>(21,153)</u>	<u>12,129</u>	<u>4,181</u>	<u>(69,886)</u>	<b><u>782,778</u></b>	<u>1,419,095</u>
<b>Income</b>							
Scheme income	<u>221,194</u>	<u>0</u>	<u>0</u>	<u>4,662</u>	<u>5,572</u>	<b><u>231,428</u></b>	<u>52,505</u>
Net operating cost	<u>636,313</u>	<u>(21,153)</u>	<u>12,129</u>	<u>(481)</u>	<u>(75,458)</u>	<b><u>551,350</u></b>	<u>1,366,590</u>

Expenses of the Authority include the following in respect of claims and associated costs

Settlements not previously accrued	<b>72,233</b>	977,281
In year provision for future settlements	<b>1,042,403</b>	717,904
	<b><u>1,114,636</u></b>	<u>1,695,185</u>

**3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit**

	£000	2001-2002 £000
Net operating cost	<b>551,350</b>	1,366,590
<b>Net resource outturn</b>	<b>551,350</b>	1,366,590
<b>Revenue resource limit</b>	<b>553,478</b>	1,366,590
<b>Under spend against limit</b>	<b><u>2,128</u></b>	<u>0</u>

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

	£000	2001-2002 £000
Gross capital expenditure	<b>321</b>	250
NBV of assets disposed	<b>(3)</b>	(2)
Net capital resource outturn	<b>318</b>	248
Capital resource limit	<b>250</b>	250
(Over)/underspend against limit	<b><u>(68)</u></b>	<u>2</u>

**4 Operating income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
<i>Programme income</i>		
CNST contributions	<b>221,194</b>	41,177
PES contributions	<b>4,662</b>	7,166
LTPS contributions	<b>5,572</b>	4,162
<b>Total</b>	<b><u>231,428</u></b>	<u>52,505</u>

## 5 Fixed assets

### 5.1 Intangible fixed assets

	<b>Total</b>	Software licences	Develop- ment Expenditure
	<b>£000</b>	£000	£000
Gross cost at 31 March 2002	349	349	0
Additions - purchased	<b>74</b>	<b>40</b>	<b>34</b>
<b>Gross cost at 31 March 2003</b>	<b>423</b>	<b>389</b>	<b>34</b>
Accumulated amortisation at 31 March 2002	80	80	0
Provided during the year	<b>76</b>	<b>76</b>	0
<b>Accumulated amortisation at 31 March 2003</b>	<b>156</b>	<b>156</b>	<b>0</b>
Net book value at 31 March 2002	269	269	0
<b>Net book value at 31 March 2003</b>	<b>267</b>	<b>233</b>	<b>34</b>

### 5.2 Tangible fixed assets

	<b>Total</b>	Information Technology	Furniture and fittings
	<b>£000</b>	£000	£000
Cost or valuation at 31 March 2002	844	755	89
Indexation	<b>3</b>	<b>0</b>	<b>3</b>
Additions - purchased	<b>247</b>	<b>65</b>	<b>182</b>
Transfers	<b>64</b>	<b>64</b>	<b>0</b>
Disposals	<b>(7)</b>	<b>(7)</b>	<b>0</b>
<b>Gross cost at 31 March 2003</b>	<b>1,151</b>	<b>877</b>	<b>274</b>
Accumulated depreciation at 31 March 2002	327	287	40
Indexation	<b>1</b>	<b>0</b>	<b>1</b>
Provided during the year	<b>136</b>	<b>116</b>	<b>20</b>
Transfers	<b>21</b>	<b>21</b>	<b>0</b>
Disposals	<b>(4)</b>	<b>(4)</b>	<b>0</b>
<b>Accumulated depreciation at 31 March 2003</b>	<b>481</b>	420	61
Total at 31 March 2002	517	468	49
<b>Total at 31 March 2003</b>	<b>670</b>	<b>457</b>	<b>213</b>

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date is zero.

### 5.3 Profit and loss on disposal of fixed assets

	<b>£000</b>
(Loss) on disposal of information technology assets	<b>(3)</b>
	<b>(3)</b>

**6 Debtors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>5,856</b>	23,249
Prepayments	<b>345</b>	139
Other debtors	<b>597</b>	1,963
	<b><u>6,798</u></b>	<u>25,351</u>

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	<u>66,581</u>	<u>(32,570)</u>	<u>34,011</u>
	<u>66,581</u>	<u>(32,570)</u>	<u>34,011</u>

**8 Creditors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS creditors	<b>670</b>	133,803
Tax and social security	<b>196</b>	341
Other creditors	<b>0</b>	2,188
Accruals	<b>17,783</b>	17,174
NHS receipts in advance	<b>10,652</b>	0
	<b><u>29,301</u></b>	<u>153,506</u>

**9 Provisions for liabilities and charges**

	ex-RHA scheme £000	ELS scheme £000	CNST scheme £000	PES scheme £000	LTPS scheme £000	Total £000
At 31 March 2002	50,918	1,471,236	3,720,463	3,446	65,389	5,311,452
Discounting	<b>889</b>	<b>(29,020)</b>	<b>(43,479)</b>	<b>0</b>	<b>(68)</b>	<b>(71,678)</b>
Arising during the year	<b>4,066</b>	<b>370,531</b>	<b>638,189</b>	<b>6,640</b>	<b>22,977</b>	<b>1,042,403</b>
Utilised during the year	<b>(3,161)</b>	<b>(274,067)</b>	<b>(178,795)</b>	<b>(5,027)</b>	<b>(11,225)</b>	<b>(472,275)</b>
Reversed unused	<b>(17,803)</b>	<b>(186,154)</b>	<b>(212,061)</b>	<b>(113)</b>	<b>(7,430)</b>	<b>(423,561)</b>
Unwinding of discount	<b>1,666</b>	<b>41,829</b>	<b>29,143</b>	<b>12</b>	<b>167</b>	<b>72,817</b>
IBNRs Arising	<b>(5,487)</b>	<b>(112,423)</b>	<b>620,415</b>	<b>302</b>	<b>(3,407)</b>	<b>499,400</b>
<b>At 31 March 2003</b>	<b><u>31,088</u></b>	<b><u>1,281,932</u></b>	<b><u>4,573,875</u></b>	<b><u>5,260</u></b>	<b><u>66,403</u></b>	<b><u>5,958,558</u></b>

**Expected timing of cash flows**

Within one year	3,337	218,296	450,384	4,260	21,933	<b>698,210</b>
One to five years	11,452	516,231	1,016,008	0	16,293	<b>1,559,984</b>
Over five years	16,299	547,405	3,107,483	1,000	28,177	<b>3,700,364</b>

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

	<b>£000</b>	2001-2002 £000
Decrease in debtors	<b>18,553</b>	962
(Decrease) in creditors	<b>(124,205)</b>	(59,297)
	<b><u>(105,652)</u></b>	<u>(58,335)</u>

**11 Reserves****11.1** The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	(1,531,627)
Net Parliamentary funding	<b>320,000</b>
Transfer from operating cost statement	<b>9,025</b>
Non-cash items: capital charge interest	<b>(73,080)</b>
Asset transfer	<b>43</b>
<b>Balance at 31 March 2003</b>	<b><u>(1,275,639)</u></b>

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

	<b>£000</b>
Balance at 31 March 2002	19
Indexation of fixed assets	<b>2</b>
Revaluation of fixed assets	<b>(1)</b>
<b>Balance at 31 March 2003</b>	<b><u>20</u></b>

**11.3** The movement on the CNST reserve in the year comprised

	<b>£000</b>
Balance at 31 March 2002	(3,801,910)
Transfer from operating cost statement	<b>(636,313)</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(176,712)</b>
<b>Balance at 31 March 2003</b>	<b><u>(4,614,935)</u></b>

**11.4** The movement on the PES reserve in the year comprised

	<b>£000</b>
Balance at 31 March 2002	16,616
Transfer from operating cost statement	<b>481</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(4,644)</b>
<b>Balance at 31 March 2003</b>	<b><u>12,453</u></b>

**11.5** The movement on the LTPS reserve in the year comprised

	<b>£000</b>
Balance at 31 March 2002	(55,338)
Transfer from operating cost statement	<b>75,458</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(88,132)</b>
<b>Balance at 31 March 2003</b>	<b><u>(68,012)</u></b>

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

	<b>£000</b>	2001-2002 £000
Net operating cost for the year	<b>551,350</b>	1,366,590
Adjust for non-cash transactions	2.1 <b>342,353</b>	283,907
Adjust for movements in working capital other than cash	10 <b>105,652</b>	58,335
(Increase) in provisions	9 <b>(647,106)</b>	(1,141,199)
<b>Net cash outflow from operating activities</b>	<b><u>352,249</u></b>	<u>567,633</u>

**13 Contingent liabilities**

Contingent liabilities, as at 31 March 2003, in respect of the various schemes represents the difference between the gross value of claims and the amount of the provision, Note 9, adjusted for the time value of money, are set out below (2001-2002: £3,163,862,000).

	<b>ex-RHA scheme £000</b>	<b>ELS scheme £000</b>	<b>CNST scheme £000</b>	<b>PES scheme £000</b>	<b>LTPS scheme £000</b>	<b>Total £000</b>
Contingent liability for claims notified	<u>16,213</u>	<u>685,425</u>	<u>2,459,458</u>	<u>3,795</u>	<u>48,269</u>	<u>3,213,160</u>

**14 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £nil (2001-2002: £nil).

**15 Commitments under operating leases**

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

	<b>£000</b>	2001-2002 £000
Other operating leases	<u>723</u>	561
	<b>723</b>	<u>561</u>
Commitments under non-cancellable operating leases		
	<b>£000</b>	2001-2002 £000
Land and buildings		
Operating leases which expire: within one year	<b>0</b>	0
between one and five years	<b>0</b>	0
after five years	<b>682</b>	715
	<u>682</u>	<u>715</u>
Other leases:		
within one year	<b>23</b>	13
between one and five years	<b>20</b>	11
after five years	<b>0</b>	0
	<u>43</u>	<u>24</u>



## **16 Other commitments**

The Authority has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

## **17 Losses and special payments**

The Authority suffered six losses in 2002-2003 totalling £8,316 (2001-2002: two cases totalling £20,750).

## **18 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.

All English Strategic Health Authorities, all English NHS Trusts, all English Primary Care Trusts, the National Blood Authority and the National Patient Safety Agency.

During the year none of the Board members or members of the key management staff or other related parties has undertaken any material transactions with the NHS Litigation Authority.

## **19 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 the currency profile.

The legal responsibility of the financial liabilities disclosed in this note lies not with the NHS Litigation Authority, but with other NHS bodies.

### *Liquidity risk*

The Special Health Authorities 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. The NHS Litigation Authority Special Health Authority is not, therefore, exposed to significant liquidity risks.

*Interest-rate risk*

All of the Authorities financial assets and financial liabilities carry nil or fixed rates of interest. The NHS Litigation Authority Special Health Authority is not, therefore, exposed to significant interest-rate risk. The following tables show the interest rate profiles of the Authority's financial assets and liabilities

**Financial assets**

Currency	Non-interest bearing £000
----------	------------------------------

At 31 March 2003

Sterling	<u>34,011</u>
----------	---------------

Gross financial assets	<u>34,011</u>
------------------------	---------------

At 31 March 2002

Sterling	<u>66,581</u>
----------	---------------

Gross financial assets	<u>66,581</u>
------------------------	---------------

**Financial liabilities**

Currency	Non-interest bearing £000
----------	------------------------------

At 31 March 2003

Sterling	<u>5,958,558</u>
----------	------------------

Gross financial liabilities	<u>5,958,558</u>
-----------------------------	------------------

At 31 March 2002

Sterling	<u>5,311,452</u>
----------	------------------

Gross financial liabilities	<u>5,311,452</u>
-----------------------------	------------------

*Foreign currency risk*

The Authority has no foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	Basis of fair valuation
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	34,011	34,011	Book value is fair value
Total	<u>34,011</u>	<u>34,011</u>	
<b>Financial liabilities</b>			
Provisions under contract	5,958,558	5,958,558	a
Total	<u>5,958,558</u>	<u>5,958,558</u>	

- a Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 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 2002-2003

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

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the NHS Logistics Authority maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the NHS Logistics Authority as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the NHS Logistics Authority is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the NHS Logistics Authority regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the NHS Logistics Authority Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the NHS Logistics Authority.

### NHS Logistics Authority governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the NHS Logistics Authority, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## NHS Logistics Authority assurance

The NHS Logistics Authority has followed the Controls Assurance Programme applying to all NHS bodies. A self-assessment exercise was undertaken against the Controls Assurance Standards and an associated action plan produced. They have a well embedded culture of risk awareness and management, borne out by their ability to provide a full statement.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. On the basis of the assurances provided by the Accountable Officer, I am providing a full statement on internal control in respect of the Summarised Account for the NHS Logistics Authority for the year ended 31 March 2003.

*Nigel Crisp*

27 November 2003

# 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 T7 to T22 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 T10 to T13.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page T3, 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 T4 to T5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 NHS Logistics 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 fraud or other irregularity or error 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. 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 2003 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; 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 505-I.

*John Bourn*  
Comptroller and Auditor General

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

## Income and Expenditure Account for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
<b>Operating income</b>	2.2	<b>622,424</b>	568,335
		<b>622,424</b>	568,335
<b>Expenditure</b>			
Cost of sales	3.1	<b>(557,475)</b>	(504,037)
Staff costs and administration expenses	3.1	<b>(64,567)</b>	(63,444)
		<b>(622,042)</b>	(567,481)
<b>Operating surplus</b>		<b>382</b>	854
Cost of fundamental reorganisation or restructuring of continuing operations		<b>(462)</b>	(605)
<b>(Deficit)/surplus for the financial year</b>		<b>(80)</b>	249

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>(Deficit)/surplus for the financial year</b>		<b>(80)</b>	249
Unrealised gain on the revaluation and indexation of fixed assets	11.3	<b>4,622</b>	1,282
Fixed asset impairment losses		<b>0</b>	(83)
<b>Total recognised gains relating to the year</b>		<b>4,542</b>	1,448
Prior period adjustment (Early retirements)		<b>(1,154)</b>	0
<b>Total recognised gains for the financial year</b>		<b>3,388</b>	1,448

The notes at pages T10 to T22 form part of this account.

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5.1	<u>32,619</u>	<u>28,233</u>
<b>Current assets</b>			
Stocks	6	42,114	40,102
Debtors	7	54,843	51,197
Cash at bank and in hand	8	<u>391</u>	<u>78</u>
		<b><u>97,348</u></b>	<b><u>91,377</u></b>
<b>Creditors: amounts falling due within one year</b>	9	<b><u>(30,385)</u></b>	<b><u>(23,938)</u></b>
<b>Net current assets</b>		<b><u>66,963</u></b>	<b><u>67,439</u></b>
<b>Total assets less current liabilities</b>		<b><u>99,582</u></b>	<b><u>95,672</u></b>
Provisions for liabilities and charges	10	<u>(8,271)</u>	<u>(8,271)</u>
		<b><u>91,311</u></b>	<b><u>88,307</u></b>
<b>Financed by</b>			
Income and expenditure reserve	11.1	58,840	60,074
Capital reserve	11.2	26,613	26,724
Revaluation reserve	11.3	<u>5,858</u>	<u>1,509</u>
		<b><u>91,311</u></b>	<b><u>88,307</u></b>

The notes at pages T10 to T22 form part of this account.

Nigel Crisp  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash inflow from operating activities</b>	12	<b>350</b>	319
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire tangible fixed assets		<b>(2,237)</b>	(330)
Receipts from disposal of tangible fixed assets		<b>1,823</b>	7
<b>Net cash (outflow) from investing activities</b>		<b>(414)</b>	(323)
<b>Net cash (outflow) before financing</b>		<b>(64)</b>	(4)
<b>Financing</b>			
Net Parliamentary funding (capital)		<b>2,200</b>	0
Surrender of capital receipts		<b>(1,823)</b>	0
<b>Increase/(decrease) in cash in the period</b>	8	<b>313</b>	(4)

*The notes at pages T10 to T22 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 NHS Logistics Special Health Authority (the Authority) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

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 other NHS bodies and external customers, but it also includes other income such as that from the Department of Health for services provided.

The main sources of funding for the Authority are income from sales to the NHS and Parliamentary funding from Request for Resources 1 (RfR1).

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.

### 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 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

- i 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

- ii Land and buildings

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.
- iii 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.
  - iv 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.
  - v Subsequent revaluations to donated fixed assets are taken to the donated asset reserve.
  - vi 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. At the last revaluation, the lives were assessed in the range 28 to 35 years. Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life

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

## 1.6 Stocks and work in progress

Stocks and work in progress are valued as follows

- a 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; and
- b work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

## 1.7 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years (formerly every five years). The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contribution rates have been set at 14% from 1 April 2003. The total employer contribution payable in 2002-2003 was £1,309,000 (£1,292,000 for 2001-2002).

Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

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 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.

Additional pension costs 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 Authority commits itself to the retirement, regardless of the method of payment.

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. The adjustment was £1,154.

### **1.8 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 SSAP 13. 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.

### **1.9 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.

### **1.10 Operating leases**

Operating lease rentals are charged to the income and expenditure account in equal amounts over the lease term.

### **1.11 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).

### **1.12 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 6% in real terms.

**2.1 Reconciliation of Cash Flow Statement to Parliamentary funding**

	£000	2001-2002 £000
Net cash inflow from operating activities	<b>350</b>	319
Expenditure	<b>622,504</b>	568,086
Operating Income	<b>(622,424)</b>	(568,335)
Movement in working capital	<b>(430)</b>	(70)
Capital funding	<b>2,200</b>	0
Revenue funding	<b>0</b>	1,677
<b>Total Parliamentary funding</b>	<b><u>2,200</u></b>	<b><u>1,677</u></b>

**2.2 Operating income**

Operating income analysed by activity, is as follows

	£000	2001-2002 £000
Sales to NHS customers	<b>607,207</b>	554,350
Fees	<b>186</b>	194
Sales to non-NHS customers	<b>15,031</b>	13,791
<b>Total</b>	<b><u>622,424</u></b>	<b><u>568,335</u></b>

**3.1 Cost of sales and administration**

	Notes	£000	£000	Restated* 2001-2002 £000
Cost of sales			<b>557,475</b>	504,037
Non-executive members' remuneration			<b>47</b>	47
Other salaries and wages	3.4		<b>27,883</b>	28,925
Transport costs			<b>13,301</b>	12,163
Capital: Depreciation	5.1	<b>732</b>		727
Impairments		<b>0</b>		83
Capital charges interest		<b>4,994</b>		5,349
Loss on disposal	5.3	<b>29</b>		0
			<b>5,755</b>	6,159
Other finance costs - unwinding of discount			<b>446</b>	399
Auditor's remuneration - audit services <sup>1</sup>			<b>127</b>	100
Maintenance			<b>782</b>	634
Bridgewater DC contract			<b>4,628</b>	1,383
Miscellaneous			<b>11,598</b>	13,634
			<b><u>622,042</u></b>	<b><u>567,481</u></b>

\* Restated to separately identify non-executive members' remuneration and the Bridgewater contract.

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

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

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2001-2002: £nil).

**3.2 Hire and operating rentals**

Hire and operating rentals included in expenses

	<b>£000</b>	2001-2002 £000
Hire of plant and machinery	<b>1,061</b>	96
Other operating leases	<b>969</b>	1,638
	<b><u>2,030</u></b>	<u>1,734</u>

**3.3 Other staff costs**

	<b>£000</b>	2001-2002 £000
Expenditure on staff benefits	<b>146</b>	129
Retirements due to ill health	<b>37</b>	0
	<b><u>183</u></b>	<u>129</u>

**3.4 Staff costs****Executive members' remuneration and staff costs**

	<b>£000</b>	2001-2002 £000
Salaries and wages	<b>24,578</b>	24,895
Social security costs	<b>1,576</b>	1,679
Employer contributions to NHSPA	<b>1,309</b>	1,291
Agency staff	<b>420</b>	1,060
<b>Total staff costs</b>	<b><u>27,883</u></b>	<u>28,925</u>

The average number of whole-time equivalent persons employed (excluding agency staff but including senior management) during the year was 1,341 (2001-2002: 1,445).

### 3.5 Senior staff remuneration

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

Name (and position held)	Age	Salary in £5k bands	Benefits in kind	Real increase in pension in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
P Zadora (NED)	55	5-10	0	n/a	n/a
S Earnshaw (NED)	43	5-10	0	n/a	n/a
S Reiter (NED)	66	5-10	0	n/a	n/a
R Cooper (NED)	60	5-10	0	n/a	n/a
D Hatherall (NED)	60	5-10	0	n/a	n/a
P Champ (Chairman)	61	20-25	0	n/a	n/a
L Garnett (Director of HR)	38	65-70	0-50	0-2.5	35-40
B Mellor (Chief Executive)	52	95-100	0-50	0-2.5	10-15
S Horsley (Director of Logistics)	46	80-85	0-50	0-2.5	10-15
G Harris (Director of Finance & Performance)	33	80-85	50-100	0-2.5	35-40
T Watts (Director of Customer Services and IT)	54	80-85	50-100	0-2.5	35-40

#### 2001-2002 Disclosures

P Zadora (NED)	54	0-5	0	n/a	n/a
S Earnshaw (NED)	42	0-5	0	n/a	n/a
B Atkinson (NED)	59	0-5	0	n/a	n/a
D Kleeman (NED)	59	0-5	0	n/a	n/a
S Reiter (NED)	65	5-10	0	n/a	n/a
R Cooper (NED)	59	5-10	0	n/a	n/a
D Hatherall (NED)	59	5-10	0	n/a	n/a
P Champ (Chairman)	60	20-25	0	n/a	n/a
L Garnett (Director of HR)	37	75-80	0	15-17.5	30-35
B Mellor (Chief Executive)	51	75-80	0	2.5-5	10-15
I Bradshaw (Former Chief Executive)	60	75-80	0	5-7.5	Member retired
G Harris (Director of Finance & Performance)	32	90-95	0	5-7.5	35-40
T Watts (Director of Customer Services and IT)	53	90-95	0	*	*
S Horsley (Director of Logistics)	45	*	0	*	*

\* Consent to disclose withheld

NED = Non-Executive Director

Benefits in kind are monetary benefits for the provision of lease cars (included in salaries in 2001-2002 in the range of £0-£10,000).

Accrued pension figures exclude Lump Sum.

#### 4 Reconciliation of gross capital expenditure to capital resource limit

	£000	2001-2002 £000
Gross capital expenditure	<b>2,348</b>	80
Creditors brought forward	<b>0</b>	250
NBV of assets disposed	<b>(1,852)</b>	(13)
Less (loss) on disposal of donated assets	<b>29</b>	6
<b>Net capital resource outturn</b>	<b>525</b>	323
Capital resource limit	<b>2,200</b>	0
Capital carried forward 2000-2001	<b>0</b>	258
Transfer from revenue to capital	<b>148</b>	65
Surrender of receipts	<b>(1,823)</b>	0
<b>Underspend against limit</b>	<b>0</b>	0

#### 5.1 Tangible fixed assets

	Land £000	Buildings excluding dwellings £000	Assets in course of construction £000	Plant and machinery £000	Information technology £000	<b>Total £000</b>
Net book value as at 31 March 2002	8,775	18,881	0	615	400	28,671
Indexation	1,908	2,858	0	30	0	<b>4,796</b>
Additions	0	895	750	353	350	<b>2,348</b>
Disposals	(441)	(1,467)	0	(38)	(32)	<b>(1,978)</b>
<b>Net book value as at 31 March 2003</b>	<b>10,242</b>	<b>21,167</b>	<b>750</b>	<b>960</b>	<b>718</b>	<b>33,837</b>
Accumulated depreciation as at 31 March 2002	0	0	0	259	179	438
Revaluation and indexation	0	160	0	14	0	<b>174</b>
Charge for the year	0	571	0	71	90	<b>732</b>
Disposals	0	(85)	0	(16)	(25)	<b>(126)</b>
<b>As at 31 March 2003</b>	<b>0</b>	<b>646</b>	<b>0</b>	<b>328</b>	<b>244</b>	<b>1,218</b>
Net book value as at 31 March 2002	8,775	18,881	0	356	221	28,233
<b>Net book value as at 31 March 2003</b>	<b>10,242</b>	<b>20,521</b>	<b>750</b>	<b>632</b>	<b>474</b>	<b>32,619</b>

#### 5.2 Net book value of land and buildings

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

	£000	31 March 2002 £000
Freehold	<b>30,084</b>	27,098
Long leasehold	<b>679</b>	558
	<b>30,763</b>	27,656

**5.3 Profit/(loss) on disposal**

	£000	2001-2002 £000
(Loss) on disposal of IT	(6)	0
(Loss) on disposal of plant and equipment	(23)	(6)
	<u>(29)</u>	<u>(6)</u>

**6 Stocks and work in progress**

	£000	31 March 2002 £000
Raw materials and consumables		
Fuel stocks	134	134
Finished processed goods	41,980	39,968
	<u>42,114</u>	<u>40,102</u>

**7 Debtors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	41,470	41,329
Non-NHS trade debtors	2,816	3,032
Provision for irrecoverable debts	(4)	(27)
Prepayments	8,819	5,618
Other debtors	1,742	1,245
	<u>54,843</u>	<u>51,197</u>

**8 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	76	315	391
Cash at commercial banks and in hand	2	(2)	0
	<u>78</u>	<u>313</u>	<u>391</u>

**9 Creditors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS creditors	34	1,252
Non-NHS trade creditors	20,486	16,291
Tax and social security	24	11
Other creditors	754	53
Accruals	1,096	2,507
Deferred income	7,880	3,824
Capital creditors	111	0
	<u>30,385</u>	<u>23,938</u>

**10 Provisions for liabilities and charges**

	Pensions for former staff	Legal claims	Reorganis- ation and restruc- turing	<b>Total</b>
	£000	£000	£000	<b>£000</b>
At 31 March 2002	3,769	243	3,353	7,365
Prior period adjustment (early retirements)	1,154	0	0	<b>1,154</b>
Arising during the year	283	396	812	<b>1,491</b>
Utilised during the year	(497)	(104)	(1,193)	<b>(1,794)</b>
Reversed unused	0	(40)	(351)	<b>(391)</b>
Unwinding of discount	283	0	163	<b>446</b>
<b>At 31 March 2003</b>	<b>4,992</b>	<b>495</b>	<b>2,784</b>	<b>8,271</b>
<b>Expected timing of cash flows</b>				
Within one year	417	495	762	<b>1,674</b>
One to five years	1,446	0	970	<b>2,416</b>
Over five years	3,129	0	1,052	<b>4,181</b>

**11 Reserves****11.1 The movement on the Income and Expenditure reserve in the year comprised**

	<b>£000</b>
At 31 March 2002	60,074
Prior period adjustment (early retirements)	<b>(1,154)</b>
Transfer from income and expenditure account	<b>(80)</b>
<b>At 31 March 2003</b>	<b>58,840</b>

**11.2 The movement on the capital reserve in year comprised**

	<b>£000</b>
At 31 March 2002	26,724
Net Parliamentary Funding	<b>2,200</b>
Transfer of realised gains from revaluation reserve	<b>273</b>
Disposals	<b>(1,852)</b>
Depreciation	<b>(732)</b>
<b>At 31 March 2003</b>	<b>26,613</b>

**11.3 The movement on the Revaluation Reserve in the year comprised**

	<b>£000</b>
At 31 March 2002	1,509
Transfer to General Fund: realised revaluation	<b>(273)</b>
Revaluation and indexation	<b>4,622</b>
<b>At 31 March 2003</b>	<b>5,858</b>



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

	£000	2001-2002 £000
<b>(Deficit)/surplus for the financial year</b>	<b>(80)</b>	249
Depreciation	<b>732</b>	727
Other capital charges	<b>5,023</b>	5,432
Capital charges allocation	<b>(5,755)</b>	(6,159)
(Increase) in stocks	<b>(2,012)</b>	(1,682)
(Increase)/decrease in debtors	<b>(3,505)</b>	3,176
(Increase) in NHS balances in debtors	<b>(141)</b>	(7,968)
Increase in revenue creditors and provisions	<b>6,088</b>	6,544
<b>Net cash inflow from operating activities</b>	<b>350</b>	319

**13 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £Nil (2001-2002: £Nil).

**14 Contingent liabilities**

As at 31 March 2003 outstanding legal claims totalling approximately £641,000 have been made against the Authority (2001-2002 £425,000). These claims are disputed and until they are resolved it is not possible to determine the Authority's liability in this regard, if any. £495,000 (2001-2002 £243,000) has been provided in this account for these items.

The balance of £146,000 (2001-2002 £182,000) has not been provided.

**15 Commitments under operating leases**

The Authority is committed to make the following payments during the next year in respect of operating leases expiring

	2002-2003		Restated 2001-2002	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	0	35	0	0
Between one and five years	27	1,051	0	862
After five years	403	0	442	0
	<b>430</b>	<b>1,086</b>	<b>442</b>	<b>862</b>

**16 Other commitments**

The Authority has no other contracted commitments (2001-2002: £nil).

**17 Losses and special payments**

There were 5,223 cases (2001-2002 8,502 cases) of losses and special payments totalling £427,000 (2001-2002 £837,000) approved during 2002-2003. Not included in the above figures, as provided for in 2001-2002 Tonsillectomy stock - code FGP 100 - £109,000.

**18 Related parties**

The National Health Service Logistics 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.

Sales and services to other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £607 million, which represented trading with 665 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £0.1 million, which represented trading with 35 individual organisations.

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 Authority.

NHS Logistics made payments of £79 million on behalf of the Department of Health in respect of the Childhood Immunisation Programme and £28 million on behalf of the Department of Health for civil contingency stocks. NHS Logistics acts as an Agent in these respects and the transactions do not form part of NHS Logistics accounts.

## **19 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 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 financed from income received for goods sold to NHS Bodies, which includes a service fee element. The risk to the Authority is that its customers do not pay on time which would have a direct impact on cash-flow and put payment to suppliers and staff under threat.

The Authority is not, therefore, exposed to significant liquidity risks as its customers are NHS Bodies. However, slow payment of invoices will lengthen the time taken to pay creditors and puts discounts and the achievement of the Public Sector Payment Policy at risk.

### *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 negligible foreign currency income or expenditure. It is not therefore exposed to significant foreign currency risk.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows

	<b>Book value</b>	<b>Fair value</b>	<b>Basis of fair valuation</b>
	<b>£000</b>	<b>£000</b>	
<b>Financial assets</b>			
Cash	<u>391</u>	<u>391</u>	
Total	<u>391</u>	<u>391</u>	
<b>Financial liabilities</b>			
<i>Creditors over one year</i>			
Early retirements	<u>4,575</u>	<u>4,575</u>	Note a
Provisions under contract	<u>2,022</u>	<u>2,022</u>	Note a
Total	<u>6,597</u>	<u>6,597</u>	

Note a: Fair value is not significantly different from book value since, in the calculation of book value, the expected cash flows have been discounted by the Treasury discount rate of 6% in real terms.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, the National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Prescription Pricing 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 Prescription Pricing Authority 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 Prescription Pricing 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 2002-2003

This statement is given in respect of the Summarised Account for the Prescription Pricing Authority (PPA).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the PPA maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the PPA as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the PPA is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the PPA regarding corporate governance and systems of internal control. For 2002-03, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the PPA Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the PPA.

### PPA governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the PPA, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## PPA assurance

The PPA has taken the necessary steps to ensure compliance with Treasury requirements by the beginning of the financial year 2003-2004 for an effective system of internal control to be fully embedded. This is demonstrated by the Board's assurance framework and evidence of compliance with the requirements of the core Controls Assurance Standards.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the PPA from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2003-2004.

*Nigel Crisp*

27 November 2003

## 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 U8 to U24 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 U11 to U15.

### Respective responsibilities of the Accounting Officer and Auditor

As described on page U3, 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 U4 to U5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

### 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 Prescription Pricing 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 fraud or other irregularity or error 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. 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 Prescription Pricing Authority at 31 March 2003 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.
- 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	Restated 2001-2002 £000
Programme costs	2.1	<b>67,291</b>	65,933
Operating income	4	<b>(3,208)</b>	(2,758)
<b>Net operating cost</b>		<b><u>64,083</u></b>	<u>63,175</u>
<b>Net resource outturn</b>	3.1	<b><u>64,083</u></b>	<u>63,175</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

		£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	12.2	<b>1,181</b>	277
Prior period adjustment (Early retirements)		<b>(79)</b>	0
Prior period adjustment (Debtors)		<b>(1,050)</b>	0
Prior period adjustment (Intangible assets)		<b>37</b>	0
Transfer of assets to CFSMS		<b>(528)</b>	0
<b>Recognised losses and gains for the financial year</b>		<b><u>(439)</u></b>	<u>277</u>

Results for the period include income and expenditure pertaining to functions transferred to the Counter Fraud and Security Management Service (CFSMS) in the year.

*The notes at pages U11 to U24 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Intangible assets	5.1	<b>288</b>	37
Tangible assets	5.2	<b>15,961</b>	13,832
		<b>16,249</b>	13,869
<b>Current assets</b>			
Stocks	6	<b>232</b>	196
Debtors	7	<b>5,520</b>	4,973
Cash at bank and in hand	8	<b>125</b>	66
		<b>5,877</b>	5,235
<b>Creditors: amounts falling due within one year</b>	9	<b>(484)</b>	(1,505)
<b>Net current assets</b>		<b>5,393</b>	3,730
<b>Total assets less current liabilities</b>		<b>21,642</b>	17,599
Provisions for liabilities and charges	10	<b>(576)</b>	(762)
		<b>21,066</b>	16,837
<b>Taxpayers' equity</b>			
General Fund	12.1	<b>20,077</b>	17,029
Revaluation reserve	12.2	<b>989</b>	(192)
		<b>21,066</b>	16,837

*The notes at pages U11 to U24 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	13	<b>61,945</b>	60,260
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		274	0
Payments to acquire tangible fixed assets		<u>4,202</u>	<u>2,507</u>
Net cash outflow from investing activities		<u>4,476</u>	<u>2,507</u>
<b>Net cash outflow before financing</b>		<u><b>66,421</b></u>	<u>62,767</u>
<b>Financing</b>			
Net Parliamentary funding		<u>66,480</u>	<u>62,825</u>
<b>(Increase) in cash in the period</b>	8	<u><b>(59)</b></u>	<u>(58)</u>

*The notes at pages U11 to U24 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 the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, 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

Income is accounted for applying the accruals convention. The main source of funding for the Special Health Authority is Parliamentary grant from the Department of Health from Request for Resources 1 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 Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income. It includes both income appropriated-in-aid 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

**Intangible fixed assets**

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

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

A prior period adjustment was made to reflect the net book value of intangible assets that had previously been charged to the general fund. Under revised accounting principles these are now shown in the balance sheet.

**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*

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 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. At the latest revaluation the assessed lives were in the range 40 to 47 years. 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
Medium life medical equipment	10
Short life medical and other equipment	5
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Transport equipment</i>	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5

**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 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. Employer contributions rates have been set at 14% from 1 April 2003. The total employer contribution payable in 2002-2003 was £2,004,000 (£2,338,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pay.

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 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 years 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. For pre-6 March 1995 early retirements not funded by the scheme, the additional liabilities were previously included within operating expenses as they arose. In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. For post 5 March 1995 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 Authority commits itself to the retirement, regardless of the method of payment.

## **1.9 Research and development**

There is no expenditure on research and development.

## **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 Operating leases

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

### 1.12 Prior period adjustment

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment. The total charge to the general fund was £78,562.

There has been a prior period adjustment of £1,050,000 to reflect the revised assumption that not all of the debtors raised at 31 March 2002 were valid. Further evidence has suggested that only £542,000 of the £1,592,000 would be deemed to be valid debt. This overstated the income in 2001-2002 by £1,050,000.

There has been a prior period adjustment of £37,000 in respect of intangible assets - see Note 1.5b.

### 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 6% in real terms.

## 2.1 Programme costs

	Notes	£000	£000	2001-2002 £000
Non-executive members' remuneration		<b>42</b>		42
Other salaries and wages	2.2	<b>43,383</b>	<b>43,425</b>	47,671
Establishment expenses			<b>3,505</b>	3,278
Transport			<b>646</b>	587
Premises and fixed plant			<b>14,164</b>	9,055
Capital: Depreciation and amortisation	5.1, 5.2	<b>3,086</b>		3,082
Capital charges interest		<b>1,179</b>		1,011
			<b>4,265</b>	4,093
Auditor's remuneration: Audit Fees <sup>1</sup>			<b>154</b>	171
Other operating expenses			<b>1,132</b>	1,036
			<b>67,291</b>	65,933

The Authority did not make any payments to Auditors for non audit work.

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

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	<b>38,023</b>	40,680
Social security costs	<b>2,074</b>	2,455
Employer contributions to NHSPA	<b>2,004</b>	2,338
Redundancy payments and pension capitalisations	<b>342</b>	1,587
Agency staff	<b>940</b>	611
	<b>43,383</b>	47,671

The average number of whole-time equivalent persons employed (including senior management) during the year was 2,260 (2001-2002: 2,080 (restated to exclude temporary and agency staff)). Temporary and agency staff are not included.

### Retirements due to ill-health

During 2002-2003 there were four early retirements from the 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 £164,000.

### Expenditure on staff benefits

There was no expenditure on staff benefits in 2002-2003 (2001-2002: £nil).

## 2.3 Senior staff remuneration

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 £00	Real increase in pension at age 60 in £2.5k bands £000	Total accrued pension at age 60 at 31 March 2003 in £5k bands £000
A Galbraith (Chairman)	62	15-20	0	n/a	n/a
M Ali (Authority Member)	46	5-10	0	n/a	n/a
M Bennett (Authority Member)	55	5-10	0	n/a	n/a
J C Norman (Authority Member)	59	5-10	0	n/a	n/a
S Purdy (Authority Member)	40	5-10	0	n/a	n/a
J A Stockwell (Authority Member)	53	5-10	0	n/a	n/a
D G Ball (Director of IT)	*	65-70	30	2.5-5.0	25-30
C Dalton (Director of Pharmaceutical Services)	45	65-70	0	2.0-2.5	10-15
M King (Director of Planning)	37	50-55	0	0-2.5	10-15
A McDonald (Director of Operations)	41	60-65	30	0-2.5	15-20
N Scholte (Chief Executive)	43	90-95	20	0-2.5	0-5
M Siswick (Director of Human Resources)	*	55-60	30	0-2.5	5-10
W J Smith (Director of Finance and Administration)	50	65-70	30	2.5-5.0	20-25

### 2001-2002 disclosures

D G Ball (Director of IT)	50	65-70	0	0-2.5	20-25
C Dalton (Director of Pharm Services)	*	*	0	*	*
J Ferguson (Medical Director)	*	*	0	*	*
M King (Director of Planning)	36	50-55	0	0-2.5	5-10
A McDonald (Director of Operations)	40	20-25	0	0-2.5	15-20
N Scholte (Chief Executive)	42	85-90	0	0-2.5	0-5
M Siswick (Director of HR and Fraud)	*	50-55	0	*	*
W J Smith (Director of Finance & Administration)	49	65-70	0	0-2.5	20-25
E Stobbart (Director of Operations)	60	40-45	0	0-2.5	25-30

\* Consent to disclose withheld

The Chief Executive and the Directors received no other additional remuneration, golden hello payments or compensation for loss of office. All benefits in kind relate to the provision of a leased car (any BIK in 2001-2002 were included within directors' salaries).

## 2.4 The Late Payment of Commercial Debts (Interest) Act 1998

No interest was paid under the legislation or no compensation payments made.

### 3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit

	£000	2001-2002 £000
Net operating cost	64,083	62,125
Prior period adjustment	<u>0</u>	<u>1,050</u>
<b>Net resource outturn</b>	<b><u>64,083</u></b>	<b><u>63,175</u></b>
<b>Revenue resource limit</b>	<b><u>64,083</u></b>	<b><u>64,782</u></b>
<b>Under spend against limit</b>	<b><u>0</u></b>	<b><u>1,607</u></b>

### 3.2 Reconciliation of gross capital expenditure to capital resource limit

	£000	2001-2002 £000
Gross capital expenditure	<u>4,367</u>	<u>2,507</u>
<b>Net capital resource outturn</b>	<b><u>4,367</u></b>	<b><u>2,507</u></b>
Capital resource limit	<u>6,597</u>	<u>3,070</u>
<b>Underspend against limit</b>	<b><u>2,230</u></b>	<b><u>563</u></b>

## 4 Operating income

Operating income analysed by activity is as follows

	£000	Restated 2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	471	342
Income received from Scottish Parliament	920	880
Income received from National Assembly for Wales	435	420
Income from patients' exemptions penalty charges	618	897
Other	<u>764</u>	<u>219</u>
<b>Total</b>	<b><u>3,208</u></b>	<b><u>2,758</u></b>

## 5 Fixed assets

### 5.1 Intangible fixed assets

	Software licences £000
Gross cost at 31 March 2002	0
Prior period adjustment	57
Restated gross cost at 31 March 2002	57
Additions - purchased	274
<b>Gross cost at 31 March 2003</b>	<b>331</b>
Accumulated amortisation at 31 March 2002	0
Prior period adjustment	20
Restated gross cost at 31 March 2002	20
Provided during the year	23
<b>Accumulated amortisation at 31 March 2003</b>	<b>43</b>
Net book value at 31 March 2002 (restated)	37
<b>Net book value at 31 March 2003</b>	<b>288</b>

### 5.2 Tangible fixed assets

	Total	Land	Buildings exc dwellings	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2002	36,706	880	6,695	3,903	42	25,166	20
Indexation	1,265	191	954	118	1	0	1
Additions - purchased	4,093	0	479	0	0	3,614	0
Transfers to CFSMS	(167)	0	0	0	0	(167)	0
<b>Gross cost at 31 March 2003</b>	<b>41,897</b>	1,071	8,128	4,021	43	28,613	21
Accumulated depreciation at 31 March 2002	22,874	0	0	2,738	42	20,092	2
Indexation	84	0	0	83	1	0	0
Provided during the year	3,063	0	215	260	0	2,586	2
Transfers to CFSMS	(85)	0	0	0	0	(85)	0
<b>Accumulated depreciation at 31 March 2003</b>	<b>25,936</b>	0	215	3,081	43	22,593	4
Net book value at 31 March 2002	13,832	880	6,695	1,165	0	5,074	18
<b>Net book value at 31 March 2003</b>	<b>15,961</b>	1,071	7,913	940	0	6,020	17

There were no assets held under finance leases 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 2003 comprises

	<b>£000</b>
Freehold	<b>8,984</b>
	<b><u>8,984</u></b>

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

There were no assets disposals made in the year. There was a transfer of fixed assets on 1 January 2003 to the CFSMS of £82,000.

**6 Stocks and work in progress**

	<b>£000</b>	2001-2002 £000
IT consumables	<b>183</b>	163
Print room	<b>9</b>	2
Health Benefits Division - stationery	<b>37</b>	18
Administration - cleaning supplies	<b>3</b>	13
	<b><u>232</u></b>	<u>196</u>

**7 Debtors**

	<b>£000</b>	Restated 31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS debtors	<b>148</b>	593
Prepayments	<b>2,323</b>	2,324
Accrued income	<b>0</b>	27
Prescription exemption penalty charges	<b>0</b>	542
Other debtors	<b>3,049</b>	1,487
	<b><u>5,520</u></b>	<u>4,973</u>

**8 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	<b>At 31 March 2003 £000</b>
Cash at OPG	39	(18)	<b>21</b>
Cash at commercial banks and in hand	<u>27</u>	<u>77</u>	<b><u>104</u></b>
	<u>66</u>	<u>59</u>	<b><u>125</u></b>



**9 Creditors**

	£000	31 March 2002 £000
<b>Amounts falling due within one year</b>		
NHS creditors	<b>6</b>	0
Capital creditors	<b>0</b>	109
Tax and social security	<b>7</b>	4
Other creditors	<b>312</b>	1,076
Accruals	<b>159</b>	316
	<b>484</b>	1,505

**10 Provisions for liabilities and charges**

	Early retirement costs - staff £000
At 31 March 2002	683
Prior period adjustment (pre 95 Early Retirements)	<u>79</u>
Restated balance at 31 March 2002	<b>762</b>
Utilised during the year	<u>(186)</u>
<b>At 31 March 2003</b>	<b><u>576</u></b>

**Expected timing of cash flows**

Within one year	<b>170</b>
One to five years	<b>396</b>
Over five years	<b>10</b>

The above liability consists of full retirement costs to employees up to the age of 60. At age 60, the liability relates only to the enhanced element of retirement costs. In cases of death, the liability would relate only to continuing but reduced payments to a legal spouse. For these reasons, uncertainties exist as to the cash flow timings and amounts. No other assumptions have been made concerning events.

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

	£000	2001-2002 £000
Increase/(decrease) in stocks	<b>36</b>	(12)
Increase in debtors	<b>547</b>	1,406
Decrease/(increase) in revenue creditors	<b>912</b>	(488)
	<b>1,495</b>	906

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

	<b>£000</b>
Balance at 31 March 2002	18,121
Prior period adjustment CFSMS debtors	<b>(1,050)</b>
Prior period adjustment pre-1995 early retirements	<b>(79)</b>
Prior period adjustment intangible assets	<b>37</b>
Restated balance at 31 March 2002	<b>17,029</b>
Net operating costs for the year	<b>(64,083)</b>
Net Parliamentary funding	<b>66,480</b>
Transfer of assets to CFSMS	<b>(528)</b>
<i>Non-cash items</i>	
Capital charge interest	<b>1,179</b>
<b>Balance at 31 March 2003</b>	<b><u>20,077</u></b>

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

	<b>£000</b>
Balance at 31 March 2002	(192)
Indexation of fixed assets	<b>1,181</b>
<b>Balance at 31 March 2003</b>	<b><u>989</u></b>

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

	Notes	<b>£000</b>	2001-2002 £000
Net operating cost for the year		<b>64,083</b>	63,175
Adjust for non-cash transactions	2.1	<b>(4,265)</b>	(4,093)
Adjust for movements in working capital other than cash	11	<b>1,495</b>	906
Decrease in provisions		<b>186</b>	272
Transfer debtors to CFSMS		<b>446</b>	0
<b>Net cash outflow from operating activities</b>		<b><u>61,945</u></b>	<b><u>60,260</u></b>

**14 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**15 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £88,678 (2001-2002: £603,129).

## 16 Commitments under operating leases

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

	£000	2001-2002 £000
Land and buildings	<u>1,353</u>	<u>1,067</u>
	<b>1,353</b>	<b>1,067</b>

The Authority is committed to make the following payments during the next year in respect of operating leases

	2001-2002 £000
<b>Land and buildings</b>	
<i>Operating leases which expire</i>	
Within one year	0
Between one and five years	66
After five years	<u>1,287</u>
	<u>1,353</u>

## 17 Other commitments

The Authority has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

## 18 Losses and special payments

The Authority reported 11,281 losses and special payments amounting to £798,000 in total. No individual case was above £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 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, such as The Modernisation Agency, Health and Social Care Change Agents Team, NHSU, Expert Patient Programme, NHS Clinical Assessment System Joint Development Team and CFSMS.

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

## 20 Agencies

The Authority continues to provide financial and human resource services to an increasing range of external bodies. Cash limits in excess of £93 million were given to cover expenditure of the organisations detailed in note 19. This expenditure is not included in the Authority accounts as it is recharged back to the originating organisation. However, the Authority's costs incurred in providing these services has been included along with the total contribution from the organisations of £745,000 towards these costs. As payment for the organisations' expenditure was made by the Authority, recoverable VAT was charged to the Authority's debtor account, with the relevant organisation being charged the net cost. The Authority will continue to provide these services into 2003-2004 as well as similar services for the NHS Graduate Training Scheme and the National Primary Care Development Team.

## 21 Penalty charges

Penalty charges are accounted for in the financial year in which the compliance unit establishes that a charge is due rather than accounting for them in the financial year in which the prescription to which the charge relates were dispensed. The compliance unit transferred to the CFSMS on 1 January 2003 and any income and expenditure accruing after that date has not been included in these accounts. The assets relating to the unit have been transferred to the new Authority and the General Fund adjusted. In line with advice from the Department of Health the Prescription Fraud Team expenditure of £555,000 has been included for the full year as the total resource limit was given to the Prescription Pricing Authority for this purpose. This will transfer, for accounting purposes, to the CFSMS on 1 April 2003.

## 22 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 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 the currency profile.

### *Liquidity risk*

The Special Health Authorities 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. The Prescription Pricing Authority Special Health Authority is not, therefore, exposed to significant liquidity risks.

### *Interest-rate risk*

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

### Financial assets

Currency	Total	Fixed rate	Non-interest bearing	Fixed rate Weighted average interest rate	Non interest bearing Weighted average term
	£000	£000	£000	%	years
At 31 March 2003					
Sterling	<u>125</u>	<u>0</u>	<u>125</u>	n/a	5
Gross financial assets	<u>125</u>	<u>0</u>	<u>125</u>		
At 31 March 2002					
Sterling	<u>66</u>	<u>0</u>	<u>66</u>	n/a	5
Gross financial assets	<u>66</u>	<u>0</u>	<u>66</u>		

**Financial liabilities**

Currency	<b>Total</b>	Fixed rate	Non-interest bearing	Fixed rate Weighted average interest rate	Weighted average period for which fixed	Non interest bearing Weighted average term
	<b>£000</b>	£000	£000	%	years	years
At 31 March 2003						
Sterling	<u>576</u>	<u>576</u>	<u>0</u>	6.00%	5	n/a
Gross financial liabilities	<u>576</u>	<u>576</u>	<u>0</u>			
At 31 March 2002						
Sterling	<u>762</u>	<u>762</u>	<u>0</u>	6.00%	5	n/a
Gross financial liabilities	<u>762</u>	<u>762</u>	<u>0</u>			

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows

	Book value £000	Fair value £000	Basis of fair valuation
<b>Financial assets</b>			
Cash	<u>125</u>	<u>125</u>	Book value is fair value
Total	<u>125</u>	<u>125</u>	
<b>Financial liabilities</b>			
<i>Creditors over one year</i>			
Early retirements	<u>576</u>	<u>576</u>	Book value is fair value
Total	<u>576</u>	<u>576</u>	

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 the Retained Organs Commission





## 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 Retained Organs Commission at the year end and 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 the Retained Organs Commission. 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 2002-2003

This statement is given in respect of the Summarised Account for the Retained Organs Commission (ROC).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the ROC maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the ROC as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the ROC is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the ROC regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the ROC Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

In gaining my assurance, I have taken into account assurances from my Senior Departmental Sponsor who is responsible for oversight and performance management of the ROC.

### ROC governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the ROC, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors;
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## ROC actions and plans

The ROC will be dissolved on 31 March 2004, having been fully commissioned in April 2001. In this final year of the organisation's operations, they have been working to ensure that appropriate legacy systems are in place so that any identified risks are taken forward by either a new organisation or by the Department of Health. They are also working to ensure that examples of good practice, and developed controls and procedures relevant to retained organs, are taken forward by the relevant body. The actions they are taking to achieve full compliance are based on the Core Assurance Standards.

The assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- the organisation has undertaken a risk assessment workshop exercise that involved all Secretariat staff. A risk register was developed from this workshop as well as providing staff with an insight into risk management. The risk register identified risks by operational area and established review dates for the on-going assessment of the actions taken to mitigate risks;
- the organisation established a streamlined complaints procedure that enables stakeholders to raise issues pertaining to the effective achievement of the organisation's objectives; and
- the organisation provides regular financial updates on its position. These are provided to the Board at meetings open to the public.

In addition to the actions outlined above, in the coming year it is planned to

- |   |                      |
|---|----------------------|
| ■ identify a member of senior management as the lead on co-ordinating risk management in ROC  | quarter 1 2003-2004; |
| ■ continue to embed financial risk management processes throughout the year to ensure that any financial risks that may arise are identified at an early stage. The financial aspects of risk will be discussed at senior management meetings as part of the regular agenda items | quarter 1 2003-2004; |
| ■ ensure the Audit Committee makes regular reports to the Board on issues relating to risk management within ROC  | quarter 1 2003-2004; |
| ■ expand the risk register to make it clear who has ownership of identified risks   | quarter 1 2003-2004; |
| ■ minute senior management meetings to ensure that Action Points arising from such meetings are followed up and implemented, and provide documented evidence of risk management processes and outcomes  | quarter 1 2003-2004; |
| ■ identify critical success factors to aid in assessing and monitoring the successful achievement of organisation objectives  | quarter 3 2003-2004; |
| ■ review key objectives with the aim of establishing a prioritised listing. This would feed into any risk analysis of the effects of the failure to achieve identified goals  | quarter 2 2003-2004; |
| ■ implement a risk management strategy in line with Internal Audit function's workplan for 2003-2004  | quarter 2 2003-2004. |

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for the ROC for its final year.

*Nigel Crisp*

27 November 2003

# 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 V9 to V21 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 V12 to V14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page V3, 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 V4 to V6 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 Retained Organs Commission, 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.

## Unqualified opinion on the truth and fairness of the account and qualified opinion on the regularity of expenditure

Section 97AA of the National Health Service Act 1977 (as amended by Section 12 of the Government Resources and Accounts Act 2000) requires every Special Health Authority to ensure that the use of its resources in a financial year does not exceed the amount specified for it in relation to that year by the Secretary of State.

As outlined in note 3.2 to the account, the Retained Organs Commission exceeded its capital resource limit by £7,000. As the Retained Organs Commission has no power to exceed its capital resource limit for the period, I therefore conclude that this excess expenditure has not been applied to the purposes intended by Parliament and is not in conformity with the authorities that govern it.

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Retained Organs Commission as at 31 March 2003 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
- except for the expenditure incurred in excess of the Retained Organs Commission's capital resource limit referred to above, 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 Report at HC 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>1,199</b>	1,023
Operating income	4	<u>(128)</u>	<u>0</u>
<b>Net operating cost</b>		<u><b>1,071</b></u>	<u>1,023</u>
<b>Net resource outturn</b>	3.1	<u><b>1,071</b></u>	<u>1,023</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

There were no recognised gains and losses for the financial year.

*The notes at pages V12 to V21 form part of this account.*



## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5	<u>19</u>	<u>22</u>
<b>Current assets</b>			
Debtors	6	<u>2</u>	<u>24</u>
		<u>2</u>	<u>24</u>
<b>Creditors: amounts falling due within one year</b>	7	<u>(89)</u>	<u>(89)</u>
<b>Net current (liabilities)</b>		<u>(87)</u>	<u>(65)</u>
<b>Total assets less current liabilities</b>		<u>(68)</u>	<u>(43)</u>
<b>Taxpayers' equity</b>			
General Fund	9	<u>(68)</u>	<u>(43)</u>
		<u>(68)</u>	<u>(43)</u>

The summarised balance sheet indicates that the Retained Organs Commission has net liabilities. This is not an indication of potential going concern difficulties as the funding of NHS bodies by the Secretary of State will cover appropriate liabilities. The NHS (Residual Liabilities) Act 1996 also requires the Secretary of State to exercise his statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist.

*The notes at pages V12 to V21 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	10	<b>1,040</b>	953
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<u>9</u>	<u>28</u>
<b>Net cash outflow from investing activities</b>		<u>9</u>	<u>28</u>
<b>Net cash outflow before financing</b>		<u><b>1,049</b></u>	<u>981</u>
<b>Financing</b>			
Net Parliamentary funding		<u><b>1,049</b></u>	<u>981</u>
<b>(Increase)/decrease in cash in the period</b>		<u><b>0</b></u>	<u>0</u>

*The notes at pages V12 to V21 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 the Retained Organs Commission (the Commission) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified 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.

### 1.2 Operating income

Income is accounted for applying the accruals convention. The main source of funding for the Commission is Parliamentary grant from the Department of Health from Request for Resources 1 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 Commission. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income. 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. 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 Commission 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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. No intangible assets were recognised during the year.

- ii 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

**Tangible fixed assets**

- i IT equipment is the only category of fixed assets held. IT equipment is not indexed. Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.
- ii Adjustments arising from 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.

**c Depreciation and amortisation**

Assets are depreciated evenly over their expected useful life

	Years
<i>Information technology</i>	
Office information technology	5

**1.6 Stocks and work in progress**

The Commission does not have material levels of stocks and so writes off the cost of such items in the year of purchase.

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

**1.8 Pension costs**

The Commission participates in the Principal Civil Service Pension Scheme (PCSPS), the Civil Service Compensation Scheme (CSCS) and other statutory schemes under the Superannuation Act 1972.

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

The PCSPS is an unfunded multi-employer defined benefit scheme but the Retained Organs Commission is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 1999. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation ([www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk))

For 2002-2003, employers' contributions of £73,000 were payable to the PCSPS (2001-2002 £57,000) at one of four rates in the range 12 to 18.5 per cent of pensionable pay, based on salary bands. Employer contributions are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Additional pension costs 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 Commission commits itself to the retirement, regardless of the method of payment.

## 1.9 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

## 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 to the operating cost statement on a straight line basis over the lease term.

## 1.12 Provisions

The Commission 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 6% in real terms. There were no provisions recognised by the Commission in 2002-2003.

## 2.1 Programme costs

	Notes	£000	£000	Restated 2001-2002 £000
Non-executive members remuneration			<b>66</b>	63
Staff costs	2.2		<b>651</b>	496
Capital: Depreciation and amortisation	5	<b>7</b>		6
Capital charges interest	9	<b>(3)</b>		(1)
Loss on disposal	5	<b>5</b>		0
			<b>9</b>	5
Travel and subsistence			<b>79</b>	104
Training			<b>4</b>	7
Committee fees			<b>0</b>	63
Conferences			<b>118</b>	105
IT costs			<b>57</b>	22
Publications and PR			<b>48</b>	81
General office			<b>36</b>	23
Consultancy and advice			<b>82</b>	21
Miscellaneous expenditure			<b>3</b>	8
Auditor's remuneration: External Audit Fees <sup>1</sup>			<b>26</b>	25
Auditor's remuneration: Internal Audit Fees			<b>20</b>	0
			<b>1,199</b>	1,023

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

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

There was £Nil interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2001-2002: £Nil). No compensation payments were made.

The categories into which expenditure is analysed have been changed from the 2001-2002 accounts. The 2001-2002 comparative figures have been restated to fit into these new categories.

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	2001-2002 £000
Salaries and wages	467	399
Social security costs	66	37
Employer contributions to NHSPA	7	3
Other pension costs	73	57
Agency staff	<u>38</u>	<u>0</u>
	<u>651</u>	<u>496</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 20. (2001-2002: 17)

### Expenditure on staff benefits

The amount spent on staff benefits during the year was £nil (2001-2002: £nil).

### Retirements due to ill-health

During 2002-2003 there were no early retirements from the Commission on the grounds of ill-health.

## 2.3 Senior staff remuneration

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

Name and title	Age years	Salary 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 2003 in £5k bands £000
<b>Executive members</b>				
Steve Catling - Chief Executive	50	70-75	2.5-5	25-30
Dennis Copeman - Finance Director	55	50-55	0-2.5	20-25
<b>Non-executive members</b>				
Professor Margaret Brazier (Chair)	53	20-25	n/a	n/a
Professor Alastair Campbell	65	05-10	n/a	n/a
Professor Sir Gareth Roberts	63	05-10	n/a	n/a
Professor Philip Hasleton	62	05-10	n/a	n/a
Dr Philip Cheung	61	05-10	n/a	n/a
Helen Shaw	43	05-10	n/a	n/a
Jan Robinson	48	05-10	n/a	n/a
Jenni Thomas	60	05-10	n/a	n/a
Michaela Willis	36	05-10	n/a	n/a
<b>2001-2002 disclosures</b>				
<b>Executive members</b>				
Steve Catling - Chief Executive	49	85-90	*	*
Dennis Copeman - Finance Director	54	60-65	*	*
<b>Non-executive members</b>				
Professor Margaret Brazier (Chair)	52	25-30	n/a	n/a
Professor Alastair Campbell	64	5-10	n/a	n/a
Professor Sir Gareth Roberts	62	5-10	n/a	n/a
Professor Philip Hasleton	61	5-10	n/a	n/a
Dr Philip Cheung	60	5-10	n/a	n/a
Helen Shaw	42	5-10	n/a	n/a
Jan Robinson	47	5-10	n/a	n/a
Jenni Thomas	59	5-10	n/a	n/a
Michaela Willis	35	0-5	n/a	n/a

\* For 2001-2002, the balances for the pension were not obtained from the Civil Service Pension Fund for the necessary disclosure.

2001-2002 salary figures for the Executive members include pension and National Insurance contributions.

There were no payments of other remuneration, golden hellos, compensation for loss of office or benefits in kind during 2002-2003.

## *Pension*

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). New entrants after 1 October 2002 may choose between membership of premium or joining a good quality "money purchase" stakeholder based arrangement with a significant employer contribution (partnership pension account).

### **a Classic Scheme**

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

### **b Premium Scheme**

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

### **c Classic Plus Scheme**

This is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic.

Pensions payable under classic, premium, and classic plus are increased in line with the Retail Prices Index.



**3.1 Reconciliation of net operating cost to net resource outturn and Revenue Resource Limit**

	£000	2001-2002 £000
Net operating cost	<u>1,071</u>	<u>1,023</u>
<b>Net resource outturn</b>	<b><u>1,071</u></b>	<b><u>1,023</u></b>
<b>Revenue resource limit</b>	<b><u>1,156</u></b>	<b><u>1,062</u></b>
<b>Under spend against limit</b>	<b><u>85</u></b>	<b><u>39</u></b>

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

	£000	2001-2002 £000
Gross capital expenditure	<u>7</u>	<u>28</u>
<b>Net capital resource outturn</b>	<b><u>7</u></b>	<b><u>28</u></b>
Capital resource limit	<u>0</u>	<u>0</u>
<b>(Over)spend against limit</b>	<b><u>(7)</u></b>	<b><u>(28)</u></b>

**4 Operating income**

Operating income analysed by classification and activity, is as follows

	£000	2001-2002 £000
Income received from National Assembly for Wales	<u>128</u>	<u>0</u>
<b>Total</b>	<b><u>128</u></b>	<b><u>0</u></b>

**5 Tangible fixed assets**

The only fixed assets held are Information Technology

	<b>Information Technology £000</b>
Cost or valuation at 31 March 2002	28
Additions - purchased	<b>9</b>
Disposals	<u>(6)</u>
<b>Gross cost at 31 March 2003</b>	<b><u>31</u></b>
Accumulated depreciation at 31 March 2002	6
Provided during the year	<b>5</b>
Additions - purchased	<b>2</b>
Disposals	<u>(1)</u>
Accumulated depreciation at 31 March 2003	<u>12</u>
Net book value as at 31 March 2002	22
<b>Net book value as at 31 March 2003</b>	<b>19</b>

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date was £nil.

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

**6 Debtors**

		31 March 2002 £000
	<b>£000</b>	
<b>Amounts falling due within one year</b>		
NHS debtors	<b>1</b>	0
Prepayments	<b>0</b>	12
Other debtors	<b>1</b>	12
	<b>2</b>	24

**7 Creditors**

		31 March 2002 £000
	<b>£000</b>	
<b>Amounts falling due within one year</b>		
NHS creditors	<b>0</b>	13
Other creditors	<b>89</b>	3
Accruals	<b>0</b>	73
	<b>89</b>	89

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

		2001-2002 £000
	<b>£000</b>	
(Decrease)/increase in debtors	<b>(22)</b>	24
(Increase) in creditors	<b>0</b>	(89)
	<b>(22)</b>	(65)

**9 Reserves**

The movement on the General Fund in the year comprised

	<b>£000</b>
Balance at 31 March 2002	(43)
Net operating costs for the year	<b>(1,071)</b>
Net Parliamentary funding	<b>1,049</b>
<i>Non-cash items</i>	
Capital charge interest	<b>(3)</b>
Balance at 31 March 2003	<b>(68)</b>

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

		2001-2002 £000
	<b>£000</b>	
Net operating cost for the year	<b>1,071</b>	1,023
Adjust for non-cash transactions	2.1 <b>(9)</b>	(5)
Adjust for movements in working capital other than cash	8 <b>(22)</b>	(65)
<b>Net cash outflow from operating activities</b>	<b>1,040</b>	953

**11 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**12 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £nil (2001-2002: £nil).

**13 Commitments under operating leases**

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

	£000	2001-2002 £000
Other operating leases	<u>48</u>	<u>48</u>
	<b>48</b>	<b>48</b>
 Commitments under non-cancellable operating leases		
	£000	£000
<b>Land and buildings</b>		
Operating leases which expire: within one year	48	48
between one and five years	0	0
after five years	<u>0</u>	<u>0</u>
	<b>48</b>	<b>48</b>

**14 Other commitments**

The Commission has not entered into any non-cancellable contracts which are not operating leases (2001-2002: £nil).

**15 Losses and special payments**

There were no losses and special payments made in the year (2001-2002: £nil).

**16 Related parties**

The Commission 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 Commission has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as a parent Department.

All Parliamentary funding is received via the Department of Health making payments on behalf of the Commission. The majority of full time staff have been seconded from the Department of Health. Their payroll is part of the Department of Health. The Department of Health provides accounting services, IT services and premises for the Commission.

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

**17 Post balance sheet events**

The Commission will cease to exist on 31 March 2004.

## 18 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 Commission 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 Commission 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 Commission in undertaking its activities.

As allowed by FRS 13, debtors and creditors that are due to mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

### *Liquidity risk*

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

### *Interest-rate risk*

All of the Commission's financial assets and all of its financial liabilities carry nil or fixed rates of interest. The Commission is not, therefore, exposed to significant interest-rate risk.

### *Foreign currency risk*

The Commission has negligible foreign currency income or expenditure.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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 United Kingdom Transplant

LAI D BEFORE THE SCOTTISH PARLIAMENT BY THE SCOTTISH MINISTERS 26 APRIL 2004

SE/2004/71

HC 505-II





## 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 United Kingdom Transplant Authority at the year end and 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 the United Kingdom Transplant 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 2002-2003

This statement is given in respect of the Summarised Account for the UK Transplant (UKT).

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the UKT maintains an effective system of internal control that supports the achievement of its policies, aims and objectives and that it reviews the effectiveness of that system.

To help me fulfil this responsibility, I appointed the Chief Executive of the UKT as an Accountable Officer. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the body.

The Board of the UKT is accountable for internal control. The Accountable Officer has responsibility for maintaining an effective system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

I have issued guidance to the Accountable Officer of the UKT regarding corporate governance and systems of internal control. For 2002-2003, the system of internal control was underpinned by a requirement to comply with the three core control assurance standards which set out the criteria that organisations should achieve covering:

- governance;
- risk management; and
- financial management.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically.

I draw my major source of assurance from the Chief Executive who provided me with the statement on internal control made on behalf of the UKT Board. This is included in the annual financial statements and is 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. The Chief Executive gains assurances from the work of the internal auditors who work to the NHS internal audit standards and from other reviewers, both internal and external and from the executive management team within the organisation who have responsibility for the development and maintenance of the internal control framework.

### UKT governance arrangements

These included

- a Chief Executive, appointed as Accountable Officer for the UKT, who is accountable to me for maintaining an effective system of internal control;
- a formally constituted Board of Directors which meets regularly to consider matters of strategy, policy, performance and significance;
- an Audit Committee comprised of non-executive directors which reports to the Board on matters of internal control and the reports of internal and external auditors; and
- internal auditors who work to standards laid out in the NHS Internal Audit Manual.

## UKT actions and plans

The UKT assurance framework is still being finalised and will be fully embedded during 2003-2004 to provide the necessary evidence of an effective system of internal control.

The actions taken so far include

- the organisation has undertaken a self-assessment exercise against the core Controls Assurance standards (Governance, Financial Management and Risk Management). An action plan has been developed and implemented to meet any gaps; and
- the organisation has in place arrangements to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant Controls Assurance standards covering areas of potentially significant organisational risk.

In addition to the actions outlined above, in the coming year it is planned to

- roll out a programme of risk awareness training for key staff in quarter 3 of 2003-2004;
- more clearly incorporate risks identified as part of the business planning process in, and cross referenced to, the Authority Risk Register; and
- maintain centralised documentation to support the controls assurance process.

## Future plans for the NHS

The complexity of the NHS means that fully meeting the requirements of the Statement on Internal Control is a significant challenge. Progress is currently monitored and managed by the Department through measures which include reports on compliance with the controls assurance standards that are analysed by the Controls Assurance Unit at Keele University. It is the intention that the actions identified in the SICs will also form part of this management arrangement. At the NHS body itself, the controls are subject to review by NHS internal auditors whose reports are made available to the external auditors.

Over the past six years there has been a comprehensive risk-training programme for boards' risk managers and internal auditors across the NHS. This is being further strengthened across all areas of governance and risk management with the emphasis on the identification of specific training needs.

## Turnbull Committee recommendations

As Accounting Officer I am aware of the recommendations of the Turnbull Committee. Progress against Turnbull will be reported by the Accountable Officer for UKT from 2003-2004 onwards. On the basis of current plans they will be providing a full statement from 2004-2005.

*Nigel Crisp*

27 November 2003

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

I certify that I have audited the financial statements on pages W8 to W22 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 W11 to W14.

## Respective responsibilities of the Accounting Officer and Auditor

As described on page W3, 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 W4 to W5 reflects the Department's compliance with Treasury's guidance 'Corporate governance: 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.

## 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 UK Transplant, 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 UK Transplant at 31 March 2003 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 505-I.

*John Bourn*  
Comptroller and Auditor General

30 March 2004

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

## Operating Cost Statement for the year ended 31 March 2003

### Continuing operations

	Notes	£000	2001-2002 £000
Programme costs	2.1	<b>9,503</b>	7,125
Operating income	4	<b>(1,448)</b>	(1,074)
<b>Net operating cost</b>		<b><u>8,055</u></b>	<u>6,051</u>
<b>Net resource outturn</b>	3.1	<b><u>8,055</u></b>	<u>6,051</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
Unrealised surplus on the indexation of fixed assets	11.2	<b>569</b>	161
Prior period adjustment	11.1	<b>153</b>	0
<b>Recognised gains and losses for the financial year</b>		<b><u>722</u></b>	<u>161</u>

*The notes at pages W11 to W22 form part of this account.*

## Balance Sheet as at 31 March 2003

	Notes	£000	Restated 31 March 2002 £000
<b>Fixed assets</b>			
Tangible assets	5.1	<u>4,521</u>	<u>4,181</u>
<b>Current assets</b>			
Debtors	6	<b>290</b>	221
Cash at bank and in hand	7	<u>11</u>	<u>379</u>
		<b>301</b>	600
<b>Creditors: amounts falling due within one year</b>	8	<u>(218)</u>	<u>(102)</u>
<b>Net current assets</b>		<u>83</u>	<u>498</u>
<b>Total assets less current liabilities</b>		<b>4,604</b>	4,679
<b>Provisions for liabilities and charges</b>	9	<u>0</u>	<u>(84)</u>
		<b>4,604</b>	<u>4,595</u>
<b>Taxpayers' equity</b>			
General Fund	11.1	<b>3,828</b>	4,361
Revaluation reserve	11.2	<u>776</u>	<u>234</u>
		<b>4,604</b>	<u>4,595</u>

*The notes at pages W11 to W22 form part of this account.*

*Nigel Crisp*  
Accounting Officer

31 October 2003



## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>7,464</b>	5,751
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		<b>137</b>	183
(Receipts) from disposal of tangible fixed assets		<b>(3)</b>	0
<b>Net cash outflow from investing activities</b>		<b>134</b>	183
<b>Net cash outflow before financing</b>		<b>7,598</b>	5,934
<b>Financing</b>			
Net Parliamentary funding		<b>7,230</b>	5,951
<b>(Decrease)/increase in cash in the period</b>	7	<b>(368)</b>	17

*The notes at pages W11 to W22 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 United Kingdom Transplant (the Authority) are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

This account is prepared under the historical cost convention, modified 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.

### 1.2 Operating income

Income is accounted for applying the accruals convention. The main source of funding for the Authority is a Parliamentary grant from the Department of Health from Request for Resources 1 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 Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income. 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. 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 2002-2003 was 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. From 2003-2004 the interest rate applied will reduce from 6% to 3.5%.

### 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. No Intangible Assets were recognised in 2002-2003.

- ii 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 setting-up cost of a new building, irrespective of their individual or collective cost.

*b Valuation*

**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 Buildings*

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 provided by the Valuation Office Agency and published in the Manual for Accounts 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 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 Land and assets in the course of construction are not depreciated.
- ii Buildings (including dwellings) are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer. At the last revaluation the lives were assessed in the range 8 to 85 years. Leaseholds are depreciated over the primary lease term.
- iii 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
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

### 1.6 Stocks and work in progress

The Authority does not have material levels of stocks and so writes off the cost of such items in the year of purchase.

### 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 Authority to identify its share of the underlying scheme liabilities.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 1999. 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 1994) employer contribution rates for 2002-2003 were set at 7% (7% for 2001-2002) of pensionable pay. The total employer contribution payable in 2002-2003 was £188,000 (£153,000 for 2001-2002). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay. Employer contribution rates have been set at 14% from 1 April 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 for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die, 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. 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 Authority commits itself to the retirement, regardless of the method of payment.

### **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project.

### **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**

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

### **1.12 Prior period adjustment**

In 2002-2003 the accounting for pre-6 March 1995 early retirements has been brought into line with that for post-5 March early retirements. The forecast remaining liability (or remaining prepayment, where the liability has been bought out) has been recognised as a prior period adjustment.

The total charge to the General Fund was £153,000 of which £69,000 was shown in prepayments as at 31 March 2002, the remaining £84,000 being a new provision which was paid in year. 2001-2002 figures have been restated to reflect this adjustment.

### **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 6% in real terms.

## 2.1 Programme costs

	Notes	£000	£000	2001-2002 £000
Staff costs	2.2		<b>3,422</b>	2,796
Capital: Depreciation and amortisation	5.1	<b>334</b>		314
Capital charges interest	11.1	<b>265</b>		254
Loss on disposal	5.3	<b>29</b>		68
			<b>628</b>	636
Auditor's remuneration - Audit Fees <sup>1</sup>			<b>43</b>	41
Authority activity			<b>1,019</b>	689
Premises			<b>343</b>	544
Computer and IT			<b>627</b>	769
Donation initiative			<b>2,214</b>	140
Other			<b>1,207</b>	1,083
<b>Discontinued operations</b>				
Laboratory costs			<b>0</b>	269
Donor Reimbursement Scheme			<b>0</b>	158
			<b>9,503</b>	7,125

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

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

The Authority does not have any operating lease commitments.

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

No interest was paid under the legislation or no compensation payments made.

## 2.2 Staff costs

### Executive members' remuneration and staff costs

	£000	£000
Salaries and wages	<b>2,862</b>	2,344
Social security costs	<b>204</b>	176
Employer contributions to NHSPA	<b>188</b>	153
Agency staff	<b>107</b>	96
	<b>3,361</b>	2,769
Authority non-executive members' remuneration	<b>61</b>	27
<b>Total staff costs</b>	<b>3,422</b>	2,796

The average number of whole-time equivalent persons employed (including senior management) during the year was 127 (2001-2002: 100).

### Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £nil (2001-2002: £nil).

### Retirements due to ill-health

During 2002-2003 there were no early retirements from the Authority on the grounds of ill-health.

## 2.3 Senior staff remuneration

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

Name and title	Age	Salary in £5k bands	Benefits in kind	Real increase in pension at age 60 in £2.5k bands	Total accrued pension at age 60 at 31 March 2003 in £5k bands
	years	£000	£00	£000	£000
<b>2002-2003 disclosures</b>					
<i>Executive members</i>					
Martin Davis - Finance Director	57	35-40	0	n/a	n/a
Sue Falvey - Director of Donor Care	44	40-45	0	2.5-5	10-15
Penny Hallett - Communications Director	49	45-50	0	2.5-7.5	10-15
David Shute, Director of Information and Technology Management	49	50-55	0	0-2.5	15-20
Sue Sutherland - Chief Executive	50	80-85	8 <sup>1</sup>	2.5-5	25-30
Chris Rudge - Medical Director	54	95-100	0	*	*
<i>Non-Executive members</i>					
Gwyneth Flower - Chairman	**	15-20	0	0	0
Margaret Branthwaite	**	5-10	0	0	0
Neil Goodwin	**	5-10	0	0	0
George Jenkins	**	5-10	0	0	0
Judith Mackay	**	5-10	0	0	0
David Morgan	**	0-5	0	0	0
Alastair MacGilchrist	**	5-10	0	0	0
Gilbert Park	**	5-10	0	0	0
Gurch Randlhawa	**	5-10	0	0	0
<b>2001-2002 disclosures</b>					
Martin Davis - Finance Director <sup>4</sup>	56	15-20	0	0	0
Sue Falvey, Director of Donor Care <sup>3</sup>	43	5-10	0	0-2.5	10-15
Penny Hallett, Director of Communications <sup>5</sup>	48	30-35	0	**	**
David Shute, Director of Information and Technology Management	48	60-65	0	0-2.5	15-20
Sue Sutherland, Chief Executive	49	90-95	0	0-2.5	20-25
Chris Rudge, Medical Director	53	85-90	0	**	**
<i>Non-Executive members</i>					
Gwyneth Flower - Chairman	**	10-15	0	0	0
Margaret Branthwaite	**	0-5	0	0	0
Neil Goodwin	**	0-5	0	0	0
George Jenkins	**	0-5	0	0	0
Judith Mackay	**	0-5	0	0	0
David Morgan	**	0-5	0	0	0
Alastair MacGilchrist	**	0-5	0	0	0
Gilbert Park	**	0-5	0	0	0
Gurch Randlhawa	**	0-5	0	0	0

1 Regular User Allowance (car)

2 Increase is high as staff were not in post for a full year in 2001-2002.

3 In post since 4 February 2002

4 In post since 1 November 2001

5 In post since 30 September 2001

\* Figures not available from the NHS Pensions Agency

\*\* Consent to disclose withheld

For 2002-2003, the above figures exclude employers' superannuation and National Insurance contributions.

For 2001-2002, the above figures include 11.9% employers NI contribution and 7% employer's pension contributions.

**3.1 Reconciliation of net operating costs to net Resource outturn and Revenue Resource Limit**

	<b>£000</b>	2001-2002 £000
Net operating cost	<b>8,055</b>	6,051
<b>Net resource outturn</b>	<b><u>8,055</u></b>	<u>6,051</u>
<b>Revenue resource limit</b>	<b>8,057</b>	6,531
<b>Underspend against limit</b>	<b><u>2</u></b>	<u>480</u>

**3.2 Reconciliation of gross capital expenditure to capital Resource Limit**

	<b>£000</b>	2001-2002 £000
Gross capital expenditure	<b>137</b>	183
NBV of assets disposed	<b>(32)</b>	(68)
Capital grants	<b>(32)</b>	(19)
<b>Net capital resource outturn</b>	<b><u>73</u></b>	<u>96</u>
Capital resource limit	<b>200</b>	120
<b>Underspend against limit</b>	<b><u>127</u></b>	<u>24</u>

**4 Operating income**

Operating income analysed by classification and activity, is as follows

	<b>£000</b>	2001-2002 £000
<i>Programme income</i>		
Fees and charges to external customers	<b>4</b>	3
Income received from Scottish Parliament	<b>710</b>	518
Income received from National Assembly for Wales	<b>389</b>	283
Income received from Northern Ireland Assembly	<b>199</b>	144
Income received from other Departments, etc	<b>120</b>	120
Other	<b>26</b>	6
<b>Total</b>	<b><u>1,448</u></b>	<u>1,074</u>



**5.1 Tangible fixed assets**

	<b>Total</b>	Land	Buildings exc dwellings	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000	£000
Cost or valuation at 31 March 2002	5,310	978	2,662	101	22	1,547	0
Indexation	<b>594</b>	212	380	1	1		0
Additions - purchased	<b>137</b>	0	0	0	0	128	9
Disposals	<b>(126)</b>	0	0	(27)	0	(99)	0
<b>Gross cost at 31 March 2003</b>	<b><u>5,915</u></b>	<u>1,190</u>	<u>3,042</u>	<u>75</u>	<u>23</u>	<u>1,576</u>	<u>9</u>
Accumulated depreciation at 31 March 2002	1,129	0	171	82	6	870	0
Indexation	<b>25</b>	0	25	0	0	0	0
Provided during the year	<b>334</b>	0	107	4	3	220	0
Disposals	<b>(94)</b>	0	0	(27)	0	(67)	0
<b>Accumulated depreciation at 31 March 2003</b>	<b><u>1,394</u></b>	<u>0</u>	<u>303</u>	<u>59</u>	<u>9</u>	<u>1,023</u>	<u>0</u>
Net book value as at 31 March 2002	4,181	978	2,491	19	16	677	0
<b>Net book value as at 31 March 2003</b>	<b><u>4,521</u></b>	<u>1,190</u>	<u>2,739</u>	<u>16</u>	<u>14</u>	<u>553</u>	<u>9</u>

The net book value of assets held under finance leases and hire purchase contracts at the balance sheet date was £nil.

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

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

The net book value of land, buildings and dwellings as at 31 March 2003 comprises

	<b>£000</b>
Freehold	<b>1,190</b>
Long leasehold	<b>0</b>
Short leasehold	<b>0</b>
	<b><u>1,190</u></b>

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

	<b>£000</b>
(Loss) on disposal of plant and equipment	<b><u>(29)</u></b>
	<b><u>(29)</u></b>

**6 Debtors****6.1 Amounts falling due within one year**

	<b>£000</b>	Restated 31 March 2002 £000
Prepayments (including prior period adjustment)	<b>119</b>	112
Accrued income	<b>2</b>	0
Other debtors	<b>163</b>	109
	<b>284</b>	221

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

		31 March 2002
Prepayments	<b>6</b>	0
<b>Total debtors</b>	<b>290</b>	221

**7 Analysis of changes in cash**

	At 31 March 2002 £000	Change during the year £000	At 31 March 2003 £000
Cash at OPG	370	(370)	<b>0</b>
Cash at commercial banks and in hand	<u>9</u>	<u>2</u>	<u><b>11</b></u>
	<u>379</u>	<u>(368)</u>	<u><b>11</b></u>

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

	<b>£000</b>	31 March 2002 £000
NHS creditors	<b>1</b>	21
Other creditors	<b>134</b>	22
Accruals	<b>83</b>	59
	<b>218</b>	102

**9 Provisions for liabilities and charges**

	<b>£000</b>
At 31 March 2002	<b>0</b>
PPA (pre 95 Early Retirements)	<b>84</b>
Utilised during the year	<b>(84)</b>
<b>At 31 March 2003</b>	<b>0</b>

**Pensions for  
former staff  
£000**

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

	£000	2001-2002 £000
Increase in debtors	69	14
(Increase)/decrease in creditors	<u>(116)</u>	<u>322</u>
	<u>(47)</u>	<u>336</u>

**11 Reserves****11.1 The movement on the General Fund in the year comprised**

	£000
Balance at 31 March 2002	4,514
Prior period adjustment	<u>(153)</u>
Restated balance at 1 April 2002	<b>4,361</b>
Net operating costs for the year	<b>(8,055)</b>
Net Parliamentary funding	<b>7,230</b>
Transfer of realised profits/losses from revaluation reserve	<b>27</b>
<i>Non-cash items</i>	
Capital charge interest	<u><b>265</b></u>
<b>Balance at 31 March 2003</b>	<u><b>3,828</b></u>

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

	£000
Balance at 31 March 2002	234
Indexation of fixed assets	<b>569</b>
Transfer to General Fund: realised revaluation	<u><b>(27)</b></u>
<b>Balance at 31 March 2003</b>	<u><b>776</b></u>

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

		£000	2001-2002 £000
Net operating cost for the year		<b>8,055</b>	6,051
Adjust for non-cash transactions	2.1	<b>(628)</b>	(636)
Adjust for movements in working capital other than cash	10	<b>(47)</b>	336
Decrease in provisions	9	<b>84</b>	0
<b>Net cash outflow from operating activities</b>		<u><b>7,464</b></u>	<u>5,751</u>

**13 Contingent liabilities**

At 31 March 2003, there were no known contingent liabilities (2001-2002: £nil).

**14 Capital commitments**

At 31 March 2003 the value of contracted capital commitments was £nil (2001-2002: £232,000).

The definition of capital commitments has changed. Under the new definition 2001-2002 would be £nil.

**15 Other commitments**

The Authority has not entered into non-cancellable contracts (which are not operating leases) as at 31 March 2003 (2001-2002: £nil).

**16 Losses and special payments**

There were two losses in the year amounting to £5,345 (2001-2002: two losses totalling £85).

**17 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, and potentially with other entities such as

Any UK NHS Trust, NHS Information Authority, Royal Medical Colleges, any UK University (e.g. Bristol, Oxford and Birmingham), South Gloucestershire Council, NHS Pensions Agency, NHS Personnel.

UK Transplant received funding from the Scottish Executive, National Assembly for Wales, Northern Ireland Assembly, and the Republic of Ireland.

During the year none of the Board Directors or members of the key management staff or other related parties has undertaken any material transactions with the parties listed above.

**18 Post balance sheet events**

There are no post balance sheet events.

**19 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, United Kingdom Transplant 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. United Kingdom Transplant 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 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 the currency profile.

*Liquidity risk*

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

*Interest-rate risk*

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

**Financial assets**

Currency	Total	Floating rate	Fixed rate	Non-interest bearing	Fixed rate Weighted average interest rate	Weighted average period for which fixed	Non interest bearing Weighted average term
	£000	£000	£000	£000	%	years	years
At 31 March 2003							
Sterling	11	0	0	11	–	–	*
Other	0	0	0	0	–	–	–
Gross financial assets	11	0	0	11			
At 31 March 2002							
Sterling	379	0	0	379	–	–	*
Other	0	0	0	0	–	–	–
Gross financial assets	379	0	0	0			

\* These balances are held in accounts that pay no interest throughout the life of the deposit.

*Financial liabilities*

The Authority has negligible financial liabilities.

*Foreign currency risk*

The Authority has negligible foreign currency income or expenditure.

*Fair values*

A comparison, by category, of book values and fair values of the Authority's financial assets and liabilities as at 31 March 2003 is as follows

	Book value £000	Fair value £000	
At 31 March 2003			
Sterling	11	11	Manual for accounts*
Other	0	0	
Gross financial assets	11	11	
At 31 March 2002			
Sterling	0	0	
Other	0	0	
Gross financial assets	0	0	

\* The SHA Manual for Accounts states that the fair value of cash is considered to be the same as the book value.

# 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

## Dental Practice Board and Special Health Authorities

- 1 The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2003 in respect of each and every Special Health Authority and the Dental Practice Board. 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 accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts 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 summarised accounts of the Special Health Authorities and the Dental Practice Board, with the exceptions noted below, shall follow the format prescribed in the Resource Accounting Manual but specifically excluding Schedules 1 and 5. The Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the Microbiological Research Authority, The National Blood Authority and the National Health Service Logistics Authority shall include an income and expenditure account in place of the operating cost statement.
- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared so as to
  - a give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or net operating costs as appropriate, recognised gains and losses and cash flows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority; 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 Special Health Authorities and the Dental Practice Board.
- 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 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4 The summarised balance sheet of authorities preparing an income and expenditure account shall have regard to 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.

## Cash Flow Statement for the year ended 31 March 2003

	Notes	£000	2001-2002 £000
<b>Net cash outflow from operating activities</b>	12	<b>23,537</b>	22,486
<b>Capital expenditure and financial investment</b>			
Payments to acquire intangible fixed assets		<b>228</b>	260
Payments to acquire tangible fixed assets		<b>421</b>	494
(Receipts) from disposal of tangible fixed assets		<b>(660)</b>	(26)
<b>Net cash (inflow)/outflow from investing activities</b>		<b>(11)</b>	728
<b>Net cash outflow before financing</b>		<b>23,526</b>	23,214
<b>Financing</b>			
Net Parliamentary funding		<b>23,524</b>	23,216
<b>Decrease/(increase) in cash in the period</b>	7	<b>2</b>	(2)

The notes at pages F11 to F23 form part of this account.



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