



**Department of Health
Estimates Memorandum
2011-12 Supplementary
Estimate**

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1. Introduction.

1. The Department of Health's (DH) Supplementary Supply Estimate for 2011-12 seeks the necessary resources and cash to support the functions of the Department of Health, NHS and associated non- departmental public bodies. These are continuing functions from previous years and are categorised as follows:
 - Primary Care Trusts and Strategic Health Authorities;
 - Provision of Healthcare (NHS Trusts and NHS Foundation Trusts);
 - Special Health Authorities;
 - Non Departmental Public Bodies;
 - Social Care; and
 - Department of Health Administration and Programme
2. The purpose of this memorandum is to provide the select committee with a detailed explanation of the changes sought in the Supplementary Supply Estimate. This memorandum was shared with the Health Select Committee (HSC) on 8th February 2012. Should the HSC request any changes to this memorandum, an updated version will be published.

Summary of changes:

The spending power of the Department of Health over the Spending Review period is not impacted by the changes in this Estimate.

3. A summary of changes contained within the Estimate are as follows:

	2011-12 Main Estimate £m	2011-12 Supplementary Supply Estimate £m	Changes: (reduction)/ increase £m
Revenue Departmental Expenditure Limit (RDEL), of which:	102,652.756	102,417.984	-234.772
<i>Budget Exchange</i>			-250.000
<i>Transfer from Ministry of Justice for Prison Healthcare</i>			14.613
<i>Transfer from Department for Work and Pensions for costs associated with EEA medical costs</i>			0.615
Capital Departmental Expenditure Limit (RDEL), of which:	4,429.000	4,352.565	-76.435
<i>Budget Exchange</i>			-66.435
<i>Transfer to Department for Energy and Climate Control as a contribution to the Warm Front Initiative</i>			-10.000
Annually Managed Expenditure; of which	2,964.845	3,942.954	978.109
<i>Increase in the level of provisions for redundancy and non-redundancy costs set out in the revised Health and Social Care Bill impact assessment.</i>			616.626
<i>Increases in the forecast of other provisions, for example clinical negligence</i>			361.483

Key Points.

Budget Exchange

4. The Department has taken advantage of HM Treasury's (HMT) Budget Exchange Scheme. This scheme gives departments the flexibility to deal with slippage in expenditure while strengthening spending control. It allows departments to surrender an underspend in advance of the end of the financial year in return for a corresponding increase in their budget in the following year, subject to a prudent limit.
5. Underspends in 2011-12 of £250 million RDEL and £66.435 million CDEL have been identified, added to next year's budgetary controls and made available to support spending in 2012-13.
6. 2011-12 revenue underspends in Primary Care Trusts and Strategic Health Authorities will be made available for spending in 2012-13, as has been the case in previous years.

Transfers to Other Government Departments

7. Details of the transfers between other government departments are set out in the table in paragraph 3. These transfers have a neutral impact on DH's spending power as transfers in will require additional expenditure of that amount and vice versa for transfers out.

Transfer from administration to programme

8. The split of administration and programme funding was agreed as part of the Spending Review. Since then, further work has been done to establish a more accurate split of administration and programme expenditure – mainly in the Primary Care Sector. Details of this work are set out in the revised impact assessment for the Health and Social Care Bill (page 15). In this estimate, £400 million has been transferred from administration to programme.

Annually Managed Expenditure

9. The Department's 2011-12 Annually Managed expenditure limit has been increased by £978 million.
10. Annually Managed Expenditure limits include items of expenditure that HMT have deemed to be demand-led or exceptionally volatile. For DH this includes certain types of impairments, net new provisions and Credit Guarantee Finance.
11. The increase of £978 million in 2011-12 to the AME limit is because of:
 - a. The likely costs associated with our plans to modernise the NHS were set out clearly in the Health and Social Care Bill revised impact assessment. These plans will result in savings of £4.5 billion over a five-year period. Page 21 of the revised impact assessment sets out that costs associated with our

modernisation plans could be between £1.2 billion and £1.3 billion and occur in 2011-12 and 2012-13. The Department has estimated that £617 million of these costs may need to be recorded as provisions expenditure in the 2011-12 accounts; and

- b. Other provisions, for example for clinical negligence and communicable diseases were based on forecast levels of provisions available at the time of the Spending Review. Since then, more realistic forecasts of provisions expenditure are available and the limit has been increased by around £360 million to accommodate this.

12. Payments to settle provisions score against the Revenue DEL and will be factored into spending plans in the years in which settlement is expected.

Detailed explanation of the changes in this estimate:

13. As explained in the Main Estimates memorandum, the 2011-12 Parliamentary Estimates are significantly different from previous years Parliamentary Estimates due to changes resulting from the Clear Line of Sight/Alignment legislation enacted in the Constitutional Reform and Governance Act 2010. These are:

- a. From 2011-12, the Department's accounting boundary has been extended to include NHS Trusts, Foundation Trusts and all Non Departmental Public Bodies (NDPB);
- b. The Department's Parliamentary Estimate has also been extended to include the additional bodies consolidated into the accounts, and for the first time will reflect HMT's budgetary controls – Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME); and
- c. The 2011-12 Parliamentary Estimate is presented on a consolidated income and expenditure basis, which is after the eliminations of transactions between bodies within the Departmental Group.
- d. the Administration Control Limit has been extended to include, not just DH administration costs, but also those of Primary Care Trusts, Strategic Health Authorities, Special Health Authorities and NDPBs and is subject to a separate spending control within the overall revenue DEL.

Detailed breakdown.

14. A detailed breakdown of the changes in this Estimate is set out in Annex A (excel file). The changes have been categorised as follows:

- a. changes to budgetary controls – as set out in the paragraphs above; or
- b. changes to intra-group eliminations - as a result of updated forecasts of the transactions between bodies within the Departmental Group. For example, Annex A explains that £2.1 billion of the £3.4 billion change to the PCT/SHA section of

the estimate is because the forecast of the payments from PCTs to providers has reduced from £62.7 billion at Main Estimates to £60.5 billion. Both Main Estimates and the Supplementary Supply Estimate are based on forecasts and these transactions are likely to change again at year-end. These changes are technical and do not impact on the overall spending power of the Department.

- c. changes for intra-group redistribution - these changes are as a result of redistributing existing funding between spending sectors within the Department. For example, Annex A explains that around £700 million of the £3.4 billion change to PCT/SHA section of the estimate is because of in-year additional allocations to the NHS. These changes are routine and reflect the Department's latest estimate of where spending will occur in each sector. These changes do not affect the overall spending power of the Department.

Supplementary information.

Approval of Memorandum.

15. This memorandum has been prepared with reference to HM Treasury's *Supply Estimates: a guidance manual*. The information in this memorandum has been approved by Richard Douglas the Director General for Policy, Strategy and Finance.