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# Department of Health

## Annual Report and Accounts

### 2010-11

**(For the period ended 31 March 2011)**

Accounts presented to the House of Commons pursuant to Section 6(4) of the Government Resources and Accounts Act 2000.

Annual Report presented to the House of Commons by Command of Her Majesty

Annual Report and Accounts presented to the House of Lords by Command of Her Majesty

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This is part of a series of departmental reports which, along with the Main Estimates 2010-11, the document *Public Expenditure: Statistical Analyses 2010*, and the Supply Estimates 2010-11: Supplementary Budgetary Information, present the Government's outturn and planned expenditure for 2010-11.

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## ANNUAL REPORT AND MANAGEMENT COMMENTARY

### 1 INTRODUCTION

- 1.1 The Department's Resource Account is published each year by HM Treasury, and is an essential part of the Department's accountability to both Parliament and the public for financial performance and the use of resources. These accounts also provide details of the high-level management and governance of the Department, and summarise performance, policy and financial achievements for the year just ended.
- 1.2 The other key elements of financial accountability published during the year are as follows:
- **Parliamentary Estimates** – The Estimates are the Government's requests for resources from Parliament and are presented annually in the following cycle:
    - Main Supply Estimates start the supply procedure and are presented at the beginning of the financial year to which they relate;
    - Winter Supplementary Estimates are presented in November, and reflect changes to the Supply, and the funds that are required by the Department, that have been identified during the year; and
    - Spring Supplementary Estimates are presented in February, and represent the final changes to Supply and funding required by the Department in year.Supply Estimates are presented to Parliament by HM Treasury and can be found on their website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).
  - **Public Expenditure Outturn White Paper** – This is published by HM Treasury in July. For each Department, this shows provisional expenditure against the Departmental Expenditure Limits and the Administration Cost Limit, which covers the Department's running costs. This is used to determine the level of underspend that may be available to be carried forward for spending in the current or future years, subject to agreement with HM Treasury. The White Paper can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).
- 1.3 These Resource Accounts relate to the financial year 1 April 2010 to 31 March 2011. They have been prepared in accordance with a direction issued by HM Treasury under section 7 of the Government Resources and Accounts Act 2000. A copy of this direction is available online, by accessing the HM Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk).
- 1.4 The Department's financial statements consolidate the financial information of organisations within the Department's Resource Accounting Boundary. As such, this consolidation includes the Department itself, those Special Health Authorities that are not funded by trading activities, Strategic Health Authorities, and Primary Care Trusts. The relationship between organisations within this boundary is substantially different from the concept of a group in the commercial sector, as it is based on in-year budgetary controls, rather than strategic controls or profit motive. In general terms, the primary focus of the Government-funded organisations within the Resource Accounting boundary lies with the commissioning of healthcare from the provider sector.
- 1.5 A wide range of organisations lie outside the Department's Resource Accounting boundary, but remain within the much broader parameters of the Departmental Budgeting boundary. The latter is significantly different from the Department's Resource Accounting Boundary, in that it also includes the Special Health Authorities that receive their funding directly from trading activities, Non-Departmental Public Bodies, NHS Trusts and NHS Foundation Trusts. By far the majority of this group of organisations operate as providers of healthcare, and work within what may be described as a trading environment with commissioners.
- 1.6 The primary statements and related disclosures show the total financial effects of all the activities in the year for all bodies within the Resource Accounting Boundary. The Comptroller and Auditor General audits these financial statements, and gives an opinion as to whether they provide a true and fair view. His opinion is provided with these accounts.
- 1.7 The rules for completing the accounts in each financial year are provided in HM Treasury's Government Financial Reporting Manual (FReM) which is available at [www.financial-](http://www.financial-)

reporting.gov.uk. The Manual is given the force of law by an accounts direction, issued by HM Treasury under section 5(2) of the Government Resources and Accounts Act 2000.

- 1.8 The FReM reflects the rules in professional accounting standards to the extent that they are appropriate to both the public sector and Government accounting requirements. From 2009-10, HM Treasury has required Government Departments to prepare their annual accounts on the basis of International Financial Reporting Standards (IFRS). A number of older international standards, many of which remain in use, are described as International Accounting Standards (IAS). However, other than where referring to a specific standard, these terms can be used interchangeably.
- 1.9 The financial statements consist of five primary statements (which provide summary information) and accompanying notes. The five primary statements are:
- **Statement of Parliamentary Supply.** This is the prime Parliamentary accountability statement. It provides a comparison of outturn against the Supply Estimate voted by Parliament for each Request for Resources (RfR); a summary of the cash required to finance expenditure; and a summary of income both appropriated-in-aid of expenditure and surrendered to the Consolidated Fund.
  - **Consolidated Statement of Comprehensive Net Expenditure (CSCNE) (formerly the Operating Cost Statement).** This shows net resources (administration costs, programme costs and income) consumed by organisations within the Resource Accounting Boundary during the year, analysed by Request for Resources.
  - **Consolidated Statement of Financial Position (formerly the Balance Sheet).** This shows the current and non-current assets, liabilities and taxpayers' equity of organisations within the Resource Accounting Boundary at the beginning and end of the year.
  - **Consolidated Cash Flows Statement.** This shows how cash has been used during the year on operating, investing and financing activities.
  - **Consolidated Statement of Changes in Taxpayer's Equity.** This shows the changes in the General Fund and reserves in the year.
- 1.10 When reading these Resource Accounts, a number of accounting issues should be considered:
- Abolition of cost of capital**
- 1.11 The need for the Department, (and those organisations whose accounts are consolidated into its Resource Account), to include a charge for the cost of capital was abolished by HM Treasury in 2010-11 as a consequence of the Clear Line of Sight (alignment) legislation. Consequently, 2009-10 primary statements and disclosure notes have been restated as appropriate.
- Impairments**
- 1.12 Compared to the previous year, there has been a change in the treatment of impairments. For 2010-11 and beyond, HM Treasury have adapted the way in which IAS 36, *Impairment of Assets*, applies to the public sector. In 2009-10, any impairment loss on a revalued asset was charged first against the revaluation surplus held specifically in respect of that asset in the revaluation reserve. Only when that revaluation surplus was exhausted, would the impairment be charged to the CSCNE. Following the adaptation of IAS 36, however, only those impairment losses that do not result from a loss of economic value or service potential will be taken to the revaluation reserve. Impairment losses that do result from a clear consumption of economic benefits will be charged directly to the CSCNE. The Department has determined that a re-statement of prior-year revenue expenditure comparators relating to this adaptation of IAS 36 would be impracticable. Further details of this change are provided in note 1 to the Accounts (Statement of Accounting Policies).
- Transfer of Community Health Services from PCTs and Merger accounting**
- 1.13 In the course of 2010-11, certain functions have been transferred to or from entities consolidated into the Department's Resource Account. The majority of such transactions related to the "Transforming Community Services" initiative, whereby elements of PCT provider functions have transferred to NHS Trusts or NHS Foundation Trusts. HM Treasury require that merger accounting principles are applied in these circumstances and prior year comparators be restated, unless it is impractical to do so as per IAS1. Consequently, the Department has applied merger accounting principles from the 1 April 2010 and primary statements and related

disclosure notes that have opening balances have been restated as appropriate, because it was impractical to restate comparative years.

- 1.14 In a further difference, the HM Treasury budgeting framework follows the European System of Accounts, whilst the Resource Account is based on International Financial Reporting Standards (IFRS). HM Treasury therefore introduced legislation (Constitutional Reform and Governance Act 2010) to reduce the misalignment which results from the reliance on these two separate accounting frameworks, and to effectively align budgeting and accounts. This legislation will be implemented in full by the end of 2011-12. In summary:
- From 2010-11, HM Treasury introduced changes to the budgetary framework. Consequently, all budgetary information in this Annual Report is presented on the new “aligned” basis, and where possible, comparators have been restated.
  - From 2011-12, the Department of Health’s Resource Accounting Boundary will be substantially increased to include all NHS Trusts, NHS Foundation Trusts, and all Arms Length Bodies. This will be a fundamental change, which will significantly increase the size and scope of the Department’s Resource Account from next year.
- 1.15 Note 35 to the financial statements provides a comprehensive list of all organisations within the Departmental Budgeting Boundary, indicating those inside and outside the Resource Accounting boundary. A reconciliation between the financial results of the organisations within the two boundaries is given on page 9.

## 2 SUMMARY OF FINANCIAL RESULTS

- 2.1 These Resource Accounts show how the Department’s activities have been funded, and its resources deployed, during the 2010-11 financial year. For the second year, the financial statements and supporting notes have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS).
- 2.2 The Department has two primary sources of funding: Parliamentary (Supply) funding and National Insurance Contributions, with the latter treated as operating income. In 2010-11, National Insurance Contributions amounted to just over £17 billion. HM Treasury sets the Department’s budgets independently from the level of National Insurance Contributions and, as such, they have no impact on the resources available to cover expenditure on healthcare.
- 2.3 The Department must contain expenditure within a series of controls operated by both HM Treasury and Parliament. HM Treasury controls relate to expenditure by organisations within the budgeting boundary, whilst Parliamentary controls relate to expenditure by organisations within the accounting boundary. HM Treasury also operates controls over the Department’s running costs through the Administration Cost Limit (ACL).
- 2.4 In 2010-11, the Department met all its financial duties, by managing resources within the budgets set by HM Treasury, and the amounts voted by Parliament. The following paragraphs summarise performance in 2010-11 for revenue, capital and administration expenditure.

### REVENUE

#### **Revenue expenditure within the budgeting boundary:**

- 2.5 The Department must manage the revenue expenditure of all organisations inside its budgeting boundary within the Revenue Departmental Expenditure Limit (RDEL) or Annually Managed Expenditure (AME). Details of RDEL budget and expenditure are set out in table one on the next page.

**Table One: Revenue Departmental Expenditure Limit (RDEL) 2010-11**

	2010-11 £m	2009-10 £m	Growth £m	Growth %
Revenue DEL budget	101,384	97,701	3,683	3.8%
Revenue DEL expenditure	100,416	97,075	3,341	3.4%
Under/(over) spend £m	968	625		
Under/(over) spend %	1.0%	0.6%		
Breakdown of 2010-11 Revenue DEL underspend:				
<i>NHS Bodies (Primary Care Trusts, Strategic Health Authorities, NHS Trusts and Foundation Trusts)</i>	1,845			
<i>Central Programme</i>	(880)			
<i>Central Administration</i>	3			

## Notes

- 1) The 2009-10 RDEL provision and expenditure figures have been adjusted to reflect HMT's changes to the budgetary framework for the Alignment legislation.
- 2) Figures may not sum due to roundings

- 2.6 The Department underspent by £968 million (or 1.0%) against its final RDEL budget in 2010-11. This underspend has been attributed to the following sectors: the NHS, central programme and central administration. The planned central over-commitment of £880 million is mainly due to 2009-10 PCT and SHA underspends repaid in 2010-11 without drawdown of End of Year Flexibility (EYF) from HM Treasury, offset by planned underspends in PCTs and SHAs. This arrangement allows the NHS flexibility to plan and manage its expenditure across years whilst allowing the Department to manage its overall spending within its annual limits.
- 2.7 RDEL expenditure in 2010-11 grew in cash terms by £3,341 million or 3.4%. NHS RDEL expenditure grew in cash terms by 4.3%, which reflects the Department's policy of maximising NHS allocations. Central expenditure in 2010-11 reduced in cash terms by 7.4%, mainly because 2009-10 revenue expenditure had been increased by £470 million to cover pandemic flu. When the effect of the 2009-10 spend on pandemic flu is excluded, 2010-11 central expenditure reduced in cash terms by 0.9%.
- 2.8 Expenditure that HM Treasury has deemed to be demand-led or exceptionally volatile scores against the Annually Managed Expenditure (AME) budget. For DH, this includes expenditure on provisions, certain impairments and Credit Guarantee Finance. Details of the AME budget and expenditure are set out in table two below:

**Table Two: Annually Managed Expenditure (AME) 2010-11**

	2010-11 £m	2009-10 £m	Growth £m	Growth %
AME budget	4,844	5,335	(491)	-9.2%
AME expenditure	2,791	3,699	(908)	-24.5%
Under/(over) spend £m	2,053	1,636		
Under/(over) spend %	42.4%	30.7%		

## Notes

- 1) The 2009-10 AME provision and expenditure figures have been adjusted to reflect HMT's changes to the budgetary framework for the Alignment legislation.
- 2) Figures may not sum due to roundings

- 2.9 The Department underspent by £2,053 million (or 42.4%) against its final AME budget in 2010-11. The main reason for this underspend relates to the fact that an increased AME budget provision of £2.5 billion (as voted in the Spring Supplementary Estimate) to cover NHS Reform transition costs within the health system - for example, provisions relating to redundancy costs - was not required. This is because, following the recent pause in the passage of the Health and

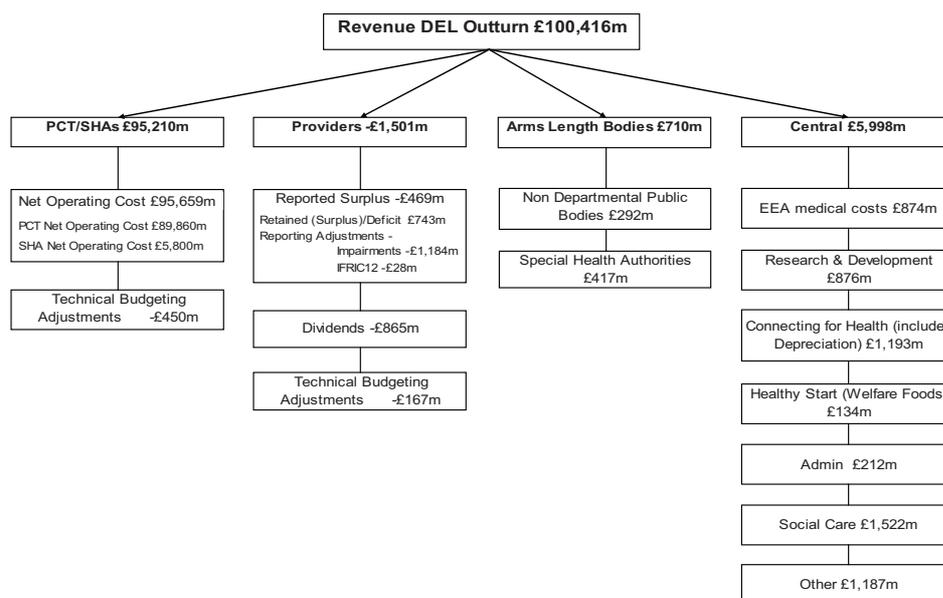
Social Care Bill through Parliament, it is the Department's judgement that any potential revised financial impact of the Government's reform programme in both the NHS and DH itself, which results from the Department's response to the recommendations made in the NHS Future Forum's report, is not sufficiently advanced or certain in scope to allow the robust estimation of a provision. Consequently, the Department has not included a provision in respect of transition costs in the core Department accounts within these consolidated financial statements. Given the continuing uncertainty in terms of value and timing of transition costs, the Department has instead disclosed a contingent liability (see note 29.2).

- 2.10 AME expenditure in 2010-11 reduced in cash terms by £908 million or 24.5% compared to 2009-10. This is because the equivalent category of expenditure in 2009-10 had included impairments in NHS assets due to both market valuations (whether planned or as a result of prevailing economic conditions) and changes in valuation methodology.

**Disposition of the Department's 2010-11 Departmental Expenditure Limit (DEL) expenditure (Revenue)**

- 2.11 Figure 1 below illustrates the high-level disposition, by spending sector, of the expenditure that scores against the Department's Revenue expenditure limit (RDEL). The distribution does not represent an allocation of resources, rather it relates to the outturn position by sector. The figure for the provider sector represents the actual surplus, before PDC dividend, of both NHS Trusts and NHS Foundation Trusts.

Figure 1: Revenue



Note

1) Figures may not sum due to rounding

**Revenue expenditure within the resource accounting boundary:**

- 2.12 Revenue expenditure within the resource accounting boundary includes the Department itself, Special Health Authorities, Primary Care Trusts and Strategic Health Authorities. Budgetary provision for this expenditure is voted by Parliament, and categorised into three requests for resources (RfRs). Details of budgetary provision and expenditure across the three RfRs is set out in table three on the next page:

**Table Three: Revenue expenditure within the resource accounting boundary (RAB)**

Expenditure Type	Provision £m	FY Outturn £m	Under/(over) Spend £m	Under/(over) Spend %
<b>Request for Resources 1</b>				
Securing health for those who need it	86,426	83,003	3,424	4.0%
<b>Request for Resources 2</b>				
Securing social care for those who need it and at national level, protecting, promoting and improving the nation's health	3,714	3,370	344	9.3%
<b>Request for Resources 3</b>				
Office of the Independent Regulator for NHS Foundation Trusts	16	14	2	11.2%
<b>Total Resources</b>	<b>90,157</b>	<b>86,387</b>	<b>3,770</b>	<b>4.2%</b>
2009-10 expenditure within RAB	84,323	82,384	1,939	2.3%
2010-11 growth in expenditure within RAB (£m)		4,003		
2010-11 growth in expenditure within RAB (%)		4.9%		

Note

1) Figures may not sum due to roundings

- 2.13 The Department underspent by £3,770 million (or 4.2% ) against its final provision. This underspend is consistent with the explanations given above.
- 2.14 2010-11 expenditure within the resource accounting boundary grew in cash terms by £4,003 million or 4.9%. This level of growth mainly results from the increase in NHS allocations – see paragraph 2.8, and also the effect of reduced income from National insurance contributions.
- 2.15 Table four on the next page provides an explanation for significant variations between provision and outturn in the Parliamentary Estimates. When arriving at the final Estimate, a balance has to be struck between a prudent assessment of expenditure for each Request for Resource (RfR) at the time the estimate is made, based on known information, the attribution between each line of each RfR, and the overall management of risk. Each element includes a contingency for risk, and virement is allowable (with HM Treasury approval) in respect of each RfR.

**Table Four: Significant variation between provision and expenditure within the resource accounting boundary 2010-11**

<b>Budget</b>	<b>Provision £m</b>	<b>Outturn £m</b>	<b>Variance £m</b>	<b>Explanation</b>
<b>RfR1</b>				
Strategic health authorities and primary care trusts unified budgets and central allocations	97,424	96,424	1,000	Mainly the planned underspend in PCTs and SHA's.
Strategic health authority and primary care trusts grants to local authorities	327	252	75	Actual expenditure was lower than planned at spring supply. See para 2.16.
Provisions and NHS Impairments and hospital financing for credit guarantee pilot projects	5,480	3,262	2,218	Lower than planned expenditure on NHS reforms - for example, provisions for redundancy costs.
IFRS Non Budget	313	202	111	The NHS IFRS revenue expenditure on PFI/LIFT assets reduced between their quarter 2 forecast, on which the spring supply provision was based, and the expenditure in their accounts.
<b>RfR2</b>				
Total Administration Costs	267	240	28	Lower than planned expenditure on exit schemes.
Other services including medical, scientific and technical services, grants to voluntary bodies, information services and health promotion activities	210	150	60	Actual expenditure was lower than planned at spring supply. See para 2.16.
Healthy Start Programme and European Economic Area and other countries medical costs	984	917	67	This estimate line covers Healthy Start and European Economic Area (EEA) medical costs, both of which are demand led. Expenditure on EEA is highly volatile due to its demand led nature and risks of foreign exchange movements. The provision was set based on a prudent estimate of exchange rate risks.
Personal Social Services	248	207	41	Actual expenditure was lower than planned at spring supply. See para 2.16.
AME	222	128	94	Expenditure lower than planned EEA medical costs provisions.
Grant in Aid funding Non Departmental Public Bodies and special health authorities	345	294	51	Lower than planned grant in aid funding, mainly due to efficiency measures in all NDPBs and delays in HPA's Chrysalis capital programme.

## Note

1) Figures may not sum due to roundings

- 2.16 Table five on the next page provides a reconciliation between revenue expenditure which comes within the resource accounting boundary and revenue expenditure within the budgeting boundary:

**Table Five: Reconciliation between revenue expenditure within the resource accounting and budgeting boundary:**

	2010-11 £m	2009-10 £m
<b>Net Resource Outturn (Estimates)</b>	<b>86,387</b>	<b>82,384</b>
adjustments to 2009-10		(513)
<b>Net Resource Outturn (re-stated)</b>	<b>86,387</b>	<b>81,871</b>
<b>Adjustments to additionally include:</b>		
Consolidated Fund Extra Receipts in the CSCNE	(750)	(9)
<b>Net Operating Cost Accounts</b>	<b>85,637</b>	<b>81,862</b>
<b>Adjustments to remove:</b>		
Capital Grants to Local Authorities and Third Parties	(349)	(493)
Profit & (Loss) on disposal		1
Voted expenditure outside the budget (mainly National Insurance Contributions, Grant in Aid, IFRS non-budget items and PDC dividends)	17,572	18,321
<b>Adjustments to additionally include:</b>		
Other Consolidated Fund Extra Receipts	750	9
Resource consumption of Non Departmental Public Bodies	295	369
Other adjustments (mainly Trust and Foundation Trust surplus before interest and dividends)	(1,335)	(1,264)
NHS Trust and NHS Foundation Trust AME expenditure	637	1,970
<b>Resource Budget Outturn (Budget) of which:</b>	<b>103,208</b>	<b>100,774</b>
Departmental Expenditure Limit (DEL)	100,416	97,075
Annually Managed Expenditure (AME)	2,791	3,699

Note

1) Figures may not sum due to roundings

- 2.17 The main reason for the difference between net budgeting expenditure and net accounting expenditure relates to the receipt of National Insurance Contributions (NICs) of around £17 billion. NICs are treated as operating income in the accounts, as directed in HM Treasury's Financial Reporting Manual, but are excluded from budgets because the Department does not have any control over the amount received. The amount is determined by HM Revenue and Customs.

## CAPITAL

### **Capital expenditure within the resource budgeting boundary:**

- 2.18 The Department must manage the capital expenditure of all bodies inside the budgeting boundary within a Capital Departmental Expenditure Limit (CDEL) set by HM Treasury.

**Table Six: Capital Departmental Expenditure Limit (CDEL) 2010-11**

	2010-11 £m	2009-10 £m	Growth £m	Growth %
Capital DEL provision	4,897	5,388	(491)	-9.1%
Capital DEL expenditure	4,202	5,183	(981)	-18.9%
Under/(over) spend £m	695	205		
Under/(over) spend %	14.2%	3.8%		
Breakdown of 2010-11 Capital DEL underspend:				
<i>NHS Bodies (Primary Care Trusts, Strategic Health Authorities, NHS Trusts and Foundation Trusts)</i>	213			
<i>Central Programme</i>	482			

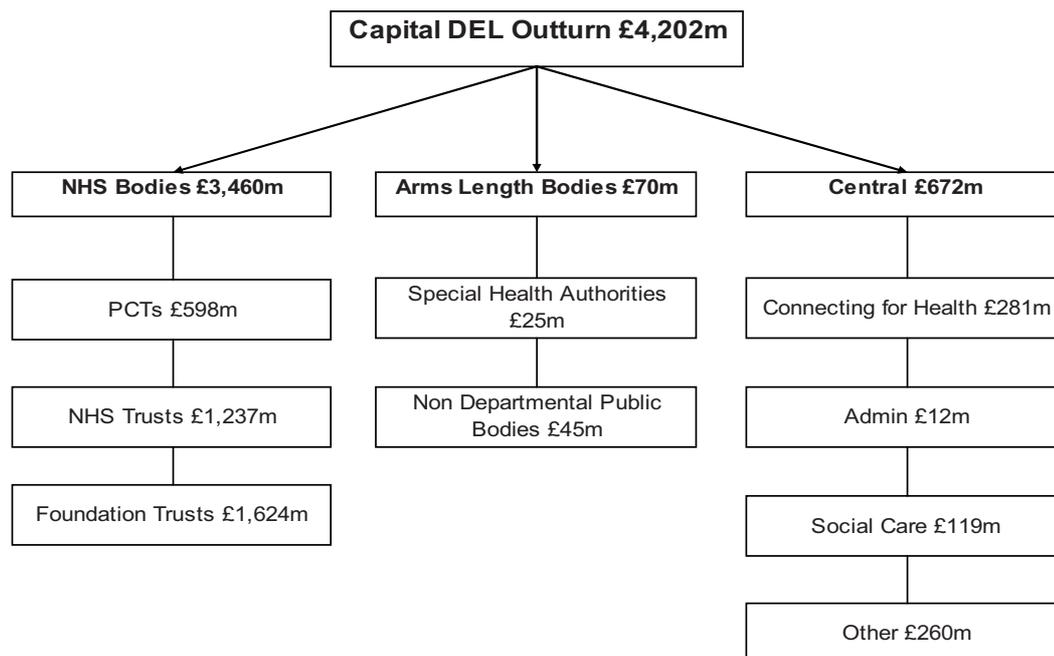
## Notes

- 1) The 2009-10 CDEL budget and expenditure figures have been adjusted to reflect HMT's changes to the budgetary framework for the Alignment legislation.  
 2) Figures may not sum due to roundings

### Disposition of the Department's 2010-11 Departmental Expenditure Limit (DEL) expenditure (Capital)

- 2.19 Figure 2 below illustrates the high-level disposition, by spending sector, of the expenditure that scores against the Department's Capital DEL. The distribution does not represent an allocation of resources, rather it relates to the outturn position by sector.

Figure 2: Capital



## Note

- 1) Figures may not sum due to rounding

- 2.20 The Department underspent by £695 million (14.2%) against its final CDEL budget.
- 2.21 CDEL expenditure in 2010-11 reduced in cash terms by £981 million (18.9%) this was mainly due to:
- A reduction in the baseline budget as part of the Spending Review;
  - Reduced PCT/SHA capital expenditure of around £400 million due mainly to a switch of Community services to providers; and
  - Reduced central capital expenditure of around £500 million, of which £300 million related to slippage of Connecting for Health spend.

### Capital expenditure within the resource accounting boundary:

- 2.22 Whereas the Treasury's budgetary controls are exercised over the expenditure of organisations within the Department's budgeting boundary, Parliamentary controls are exercised over the expenditure of those organisations within the accounting boundary. The main difference is that the former includes all capital expenditure by NHS Trusts and NHS Foundation Trusts, whilst the latter only includes net lending to those provider organisations, but excludes expenditure

financed by internally generated resources. Details of the capital budgetary provision and expenditure within the resource accounting boundary is set out in table seven below:

**Table Seven: Capital expenditure within the resource accounting boundary 2010-11**

<b>Expenditure Type</b>	<b>Provision £m</b>	<b>FY Outturn £m</b>	<b>Under/(over) Spend £m</b>	<b>Under/(over) Spend %</b>
Acquisition of Property, Plant and Equipment (PPE) and intangibles	2,243	1,349	893	39.8%
Proceeds from the disposal of PPE and intangibles	(290)	(140)	(150)	51.6%
Investments (issued & repaid)	932	696	237	25.4%
<b>Total Resources</b>	<b>2,885</b>	<b>1,905</b>	<b>980</b>	<b>34.0%</b>
2009-10 expenditure within RAB	3,521	2,681		
2010-11 growth in expenditure within RAB £m		(776)		
2010-11 growth in expenditure within RAB %		-40.7%		

Note

1) Figures may not sum due to roundings

2.23 The Department underspent by £980 million (34.0%) against its final provision. This is due to the same reasons as for the DEL underspend set out in table six, plus lower than planned financing for NHS providers.

2.24 Capital expenditure within the resource accounting boundary in 2010-11 reduced in cash terms by £776 million or 40.7%. This was largely due to the reasons set out above (paragraph 2.21).

2.25 Table eight below provides a reconciliation between capital expenditure within the resource accounting boundary and capital expenditure within the budgeting boundary.

**Table Eight: Reconciliation between capital expenditure within the resource accounting boundary and budgeting boundary**

	<b>2010-11 £m</b>	<b>2009-10 £m</b>
<b>Net Capital Outturn (Resource Account)</b>	1,905	2,681
<b>Adjustments to remove:</b>		
(Gains)/ losses from sale of capital assets	11	
IFRS expenditure that does not score against the capital budget	(196)	(303)
<b>Adjustments to additionally include:</b>		
Capital spending by non departmental public bodies	45	67
Capital grants	349	493
Other Adjustments	(145)	(212)
Capital expenditure of NHS Trusts and FTs	2,861	3,014
Less net PDC and loans to trusts and FTs	(621)	(560)
<b>Capital Budget Outturn (Budget) of which:</b>	<b>4,210</b>	<b>5,180</b>
Departmental Expenditure Limit (DEL)	4,202	5,173
Annually Managed Expenditure (AME)	8	6

Note

1) Figures may not sum due to roundings

DEPARTMENT OF HEALTH ADMINISTRATION

2.26 The overall running costs of the Department in 2010-11, as compared to 2009-10, are set out in table nine below:

**Table Nine: Overall departmental running costs 2010-11**

<b>Expenditure Type</b>	<b>2010-11 £m</b>	<b>2009-10 £m</b>	<b>Growth £m</b>	<b>Growth %</b>
Staff costs (note 9.1)	349.7	322.9	26.7	8.28%
Non staff costs (note 10)	76.5	93.7	(17.2)	-18.35%
<b>Total</b>	<b>426.2</b>	<b>416.6</b>	<b>9.6</b>	<b>2.24%</b>

Notes

1) Figures may not sum due to roundings

2.27 Although the staff costs have increased by £26.7 million (8.28%) , this included:

- Exit costs of £19 million;
- A transfer of 74 staff into the Department from the Food Standards Agency;
- The full year effect of the transfer into the Department's Procurement Centre of Excellence from the former NHS Purchasing and Supplies Agency; and
- The 2010-11 pay award.

2.28 After adjusting for these items, there is a downward trend on staff costs between the two years. This is discussed in more detail from paragraph 3.22 below (Department of Health workforce).

2.29 The reduction of £17.2 million (18.35%) in non-staff costs can be largely attributed to the combined effect of the Departments own efficiency drive, and the wider Government's overall expenditure controls. The reduction mainly comprises:

- £7.5 million in consultancy costs;
- £3 million in travel and subsistence costs;
- £2 million in general office costs; and
- £5 million in lower depreciation and provisions.

2.30 A subset of the Department's overall running costs must be managed within an Administration Cost Limit (ACL) set by HM Treasury. Total administration expenditure includes costs which are mainly related to spend either directly on, or in support of, front line services. Details of this administration budget and related expenditure are set out in table ten on the next page:

**Table Ten: Administration expenditure 2010-11**

<b>Expenditure Type</b>	<b>Provision £m</b>	<b>FY Outturn £m</b>	<b>Under/(over) Spend £m</b>	<b>Under/(over) Spend %</b>
Administration cost limit	215.3	212.3	2.9	1.36%
Other administration	57.0	34.9	22.1	38.74%
<b>Total Resources</b>	<b>272.3</b>	<b>247.3</b>	<b>25.0</b>	<b>9.19%</b>
2009-10 ACL expenditure		216.8		
2010-11 growth in ACL expenditure £m		(4.5)		
2010-11 growth in ACL expenditure %		-2.06%		
2009-10 total administration expenditure		227.2		
2010-11 growth in total administration expenditure £m		20.1		
2010-11 growth in total administration expenditure %		8.84%		

## Note

1) Figures may not sum due to roundings

- 2.31 The department underspent by £2.9 million (1.36%) against its ACL in 2010-11. This category of administration expenditure reduced in cash terms in 2010-11 by £4.5 million (2.06%) which was in line with overall Spending Review reductions.
- 2.32 The Department underspent by £25.0 million (9.19%) against its total administration budget - this was largely due to lower than planned exit scheme costs. Total administration expenditure increased in cash terms by £20.1 million (8.84%), and this was largely due to one-off exit scheme costs.

**NHS ADMINISTRATION**

- 2.33 The overall planned reduction in administration costs across the whole health system will be in the region of £1.7 billion by 2014-15. NHS administration costs will decrease by one third to reach this target, and this will include a planned 45% reduction in SHA and PCT non-provider management costs as detailed in *Equity and Excellence: Liberating the NHS*. The revised 2010-11 NHS Operating Framework required an aggregate PCT and SHA saving of at least £222 million in 2010-11. It was for SHAs to manage this target reduction between both PCT provider and PCT and SHA non-provider functions. In the 2010-11 accounts, SHAs, and the non-provider elements of PCTs, reported a reduction in management costs of £158 million.
- 2.34 For those provider functions remaining in PCTs, management costs reduced by £54 million in 2010-11. The combined effort of the provider and non-provider elements in SHAs and PCTs substantially achieved the 2010-11 target.

## Core Table 1 Public Spending

Total departmental spending										
	£'000									
	2005-06 Outturn <sup>4,5</sup>	2006-07 Outturn <sup>4,5</sup>	2007-08 Outturn <sup>4,5</sup>	2008-09 Outturn <sup>4,5</sup>	2009-10 Outturn <sup>4,5</sup>	2010-11 Outturn <sup>4</sup>	2011-12 Plans <sup>2</sup>	2012-13 Plans	2013-14 Plans	2014-15 Plans
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Resource DEL of which depreciation <sup>3</sup>	74,831,996 506,817	78,491,058 989,581	84,207,717 733,404	90,156,640 971,188	97,075,200 1,187,318	100,454,031 1,231,383	102,652,756 1,140,636	105,166,386 1,181,699	108,154,189 1,224,240	111,055,007 1,268,313
Resource AME of which depreciation <sup>3</sup>	663,807 123,810	1,303,203 232,014	3,679,949 548,759	1,588,034 386,765	3,699,212 2,499,236	2,792,983 619,399	2,964,845 900,000	2,631,300 900,000	2,875,400 700,000	3,124,600 700,000
<b>Total Resource Budget</b>	<b>75,495,803</b>	<b>79,794,261</b>	<b>87,887,666</b>	<b>91,744,674</b>	<b>100,774,412</b>	<b>103,247,014</b>	<b>105,617,601</b>	<b>107,797,686</b>	<b>111,029,589</b>	<b>114,179,607</b>
Capital DEL	2,225,159	2,995,270	3,966,103	4,368,533	5,182,275	4,200,063	4,429,000	4,429,000	4,437,000	4,648,000
Capital AME	649,016	88,737	37,142	13,831	6,441	7,876	-	-	-	-
<b>Total Capital Budget</b>	<b>2,874,175</b>	<b>3,084,007</b>	<b>4,003,245</b>	<b>4,382,364</b>	<b>5,188,716</b>	<b>4,207,939</b>	<b>4,429,000</b>	<b>4,429,000</b>	<b>4,437,000</b>	<b>4,648,000</b>
<b>Total departmental spending<sup>1</sup></b>	<b>77,739,351</b>	<b>81,656,673</b>	<b>90,608,748</b>	<b>94,769,085</b>	<b>102,276,574</b>	<b>105,604,171</b>	<b>108,005,965</b>	<b>110,144,987</b>	<b>113,542,349</b>	<b>116,859,294</b>
of which:										
Total DEL	76,550,338	80,496,747	87,440,416	93,553,985	101,070,157	103,422,711	105,941,120	108,413,687	111,366,949	114,434,694
Total AME	1,189,013	1,159,926	3,168,332	1,215,100	1,206,417	2,181,460	2,064,845	1,731,300	2,175,400	2,424,600

1 Total departmental spending is the sum of the resource budget and the capital budget less depreciation. Similarly, total DEL is the sum of the resource budget DEL and capital budget DEL less depreciation in DEL, and total AME is the sum of resource budget AME and capital budget AME less depreciation in AME.

2 A breakdown of the 2011-12 plan data is set out in the 2011-12 Main Estimate ([http://www.hm-treasury.gov.uk/d/doh\\_main\\_supply\\_estimates\\_april11.pdf](http://www.hm-treasury.gov.uk/d/doh_main_supply_estimates_april11.pdf))

3. Includes impairments

4. The outturn figures for 2005-06 to 2010-11 include Resource DEL PSS of 1,951 / 1,715 / 1,778 / 1,295 / 1,484 / 1,532 and Capital DEL 78 / 98 / 195 / 124 / 133 / 119

5. For presentational purposes, the outturn for 2005-06 to 2009-10 includes the Machinery of Government transfer from the Food Standards Agency. This transfer actually took effect during 2010-11.

6. All figures in the core tables are taken from HM Treasury's (HMT) public expenditure database "COINS". The 2010-11 figures in the core tables are based on an earlier submission of data to HMT, whereas the Annual Report tables reflect the latest position in the Resource Account

7. Figures may not sum due to rounding

## Spending by local authorities on functions relevant to the department

	£'000					
	2005-06 Outturn	2006-07 Outturn	2007-08 Outturn	2008-09 Outturn	2009-10 Outturn	2010-11 Outturn
<b>Current spending</b>	-	-	-	-	-	-
of which:						
financed by grants from budgets above	1,879,733	1,579,483	1,609,038	1,073,844	1,228,087	1,316,244
<b>Capital spending</b>	-	-	-	-	-	-
of which:						
financed by grants from budgets above	78,457	97,124	116,389	108,392	120,420	118,416

## Core Table 2 Public Spending Control

	2010-11 Original plan £'000	2010-11 Final plan £'000	2010-11 Outturn £'000
<b>Resource DEL</b>	101,363,520	101,383,591	100,454,031
<b>Capital DEL</b>	4,896,852	4,896,852	4,200,063
<b>Resource AME</b>	2,509,064	4,844,064	2,792,983
<b>Capital AME</b>	3,539	3,539	7,876

1. All figures in the core tables are taken from HM Treasury's (HMT) public expenditure database "COINS". The 2010-11 figures in the core tables are based on an earlier submission of data to HMT, whereas the Annual Report tables reflect the latest position in the Resource Account

## Core Table 3 Capital Employed

	2006-07 <sup>1</sup>	2007-08	2008-09	2009-10	2010-11	2011-12 <sup>4</sup>	2012-13	2013-14	2014-15
	outturn £'000	outturn £'000	outturn £'000	outturn £'000	outturn £'000	plan £'000	plan £'000	plan £'000	plan £'000
<b>Assets and Liabilities on the statement of financial position at end of year</b>									
<b>Fixed assets</b>									
Property plant and equipment	7,131,418	8,646,071	8,720,252	8,415,077	8,721,063	8,968,676	9,181,061	9,431,214	9,691,021
Intangible assets	942,578	1,446,397	1,500,786	1,618,071	1,573,344	1,618,015	1,656,331	1,701,461	1,748,332
Financial assets	23,438,751	23,900,035	23,980,987	24,580,024	25,363,912	26,084,056	26,701,745	27,429,278	28,184,888
Other non-current assets	157,655	167,156	204,814	227,249	203,494	209,271	214,227	220,064	226,126
	<b>31,670,402</b>	<b>34,179,659</b>	<b>34,406,819</b>	<b>34,840,421</b>	<b>35,861,813</b>	<b>36,880,019</b>	<b>37,753,364</b>	<b>38,782,017</b>	<b>39,850,367</b>
<b>Current assets</b>									
Assets classified as held for sale	134,535	100,558	88,407	101,233	77,235	79,428	81,309	83,524	85,825
Inventories	321,635	240,405	194,051	302,738	169,797	174,618	178,753	183,624	188,682
Trade and other receivables	1,236,800	1,239,076	962,580	1,050,361	896,434	921,886	943,717	969,430	996,135
Other current assets	926,982	928,688	710,717	551,982	549,020	564,608	577,978	593,726	610,082
Financial assets	85,770	155,492	154,987	169,990	195,765	201,323	206,091	211,706	217,538
Cash and cash equivalents	1,352,674	2,452,244	1,745,219	1,336,302	1,724,498	1,773,461	1,815,458	1,864,923	1,916,297
	<b>4,058,396</b>	<b>5,116,463</b>	<b>3,855,961</b>	<b>3,512,606</b>	<b>3,612,749</b>	<b>3,715,324</b>	<b>3,803,305</b>	<b>3,906,933</b>	<b>4,014,559</b>
<b>Current liabilities</b>									
Trade and other payables	- 3,937,798	- 4,550,590	- 4,787,953	- 4,918,629	- 4,420,320	- 4,545,824	- 4,653,472	- 4,780,264	- 4,911,948
Other liabilities	- 3,982,202	- 4,601,903	- 3,932,068	- 3,905,593	- 4,709,523	- 4,843,238	- 4,957,929	- 5,093,016	- 5,233,316
Provisions	- 1,618,450	- 2,049,898	- 2,071,330	- 2,311,428	- 2,707,103	- 2,783,964	- 2,849,891	- 2,927,541	- 3,008,187
	<b>- 9,538,450</b>	<b>- 11,202,391</b>	<b>- 10,791,351</b>	<b>- 11,135,650</b>	<b>- 11,836,946</b>	<b>- 12,173,026</b>	<b>- 12,461,292</b>	<b>- 12,800,820</b>	<b>- 13,153,452</b>
<b>Non-Current liabilities</b>									
Other payables	- 193,000	- 244,353	- 297,303	- 267,840	- 211,701	- 217,712	- 222,867	- 228,940	- 235,246
Provisions	- 9,731,550	- 12,325,793	- 13,611,191	- 14,621,516	- 16,215,818	- 16,676,225	- 17,071,130	- 17,536,261	- 18,019,343
Financial Liabilities	-	- 1,446,889	- 1,761,084	- 2,030,926	- 2,100,143	- 2,159,771	- 2,210,916	- 2,271,156	- 2,333,721
	<b>- 9,924,550</b>	<b>- 14,017,035</b>	<b>- 15,669,578</b>	<b>- 16,920,282</b>	<b>- 18,527,662</b>	<b>- 19,053,708</b>	<b>- 19,504,914</b>	<b>- 20,036,357</b>	<b>- 20,588,310</b>
<b>Capital employed within main department</b>	<b>16,265,798</b>	<b>14,076,696</b>	<b>11,801,851</b>	<b>10,297,095</b>	<b>9,109,954</b>	<b>9,368,609</b>	<b>9,590,464</b>	<b>9,851,772</b>	<b>10,123,164</b>
Total Capital employed Trusts	25,553,600	23,366,800	17,890,600	13,992,300	14,489,611	14,901,007	15,253,873	15,669,490	16,101,146
Total Capital employed Foundation Trusts	9,299,300	13,469,600	16,537,800	15,786,200	16,347,269	16,811,408	17,209,514	17,678,416	18,165,413
Others <sup>2</sup>	316,773	274,141	229,838	200,534	207,661	213,557	218,614	224,571	230,757
<b>Non Department Public Bodies Net Assets</b>	<b>34,852,900</b>	<b>36,836,400</b>	<b>34,428,400</b>	<b>29,778,500</b>	<b>30,836,879</b>	<b>31,712,415</b>	<b>32,463,387</b>	<b>33,347,906</b>	<b>34,266,560</b>
<b>Total Capital Employed in Departmental Group<sup>3,5</sup></b>	<b>28,449,947</b>	<b>27,785,312</b>	<b>23,046,668</b>	<b>16,299,189</b>	<b>15,415,102</b>	<b>15,852,775</b>	<b>16,228,180</b>	<b>16,670,343</b>	<b>17,129,571</b>

**Notes:**

1. 2006-07 Consolidated Balance Sheet interpolated into new structure in 2009-10: "Consolidated Statement of Financial Position"

2. Other organisations in 2009-10 comprise: Monitor, Appointments Commission, Commission for Healthcare Regulatory Excellence, Care Quality Commission, General Social Care Council, Health Protection Agency, Health Treatment Agency, Human Fertilisation and Embryology Authority; the composition of these organisations has changed in prior years; so an overall figure for others has been interpolated based on the growth in capital employed within main department

3. This calculated as the sum of capital employed within main department and non department public body net assets minus

financial assets reported within the main department "Consolidated Statement of Financial Position", that are with trusts and FTs

NB. Actual and forecast Investment not with Trusts/FTs 770,000 772,251 797,404 803,618 832,180 855,808 876,074 899,944 924,735

4. Forecast growths are consistent with expenditure growth assumptions in Spending Review 2010 Settlement

5. The decline in total capital employed in departmental group in 2008-09 and 2009-10 is linked to the Modern Equivalent Asset Revaluation (IFRS)

6. Figures may not sum due to rounding

**Others: Detail**

	£'000
Total Capital Employed Monitor	2,222
Total Capital Employed Appointments Commission	835
Total Capital Employed CHRE	291
Total Capital Employed Care Quality Commission	22,900
Total Capital Employed GSCC	28
Total Capital Employed Health Protection Agency	171,200
Total Capital Employed Health Treatment Agency	597
Total Capital Employed HFEA	2,461
	<b>200,534</b>

Spending Review Settlement Total Expenditure:	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	99,450	102,985	105,909	108,417	111,371	114,439

## Core Table 4 Administration Budgets

	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Outturn <sup>1</sup> £'000	Outturn <sup>2</sup> £'000	Plans £'000	Plans £'000	Plans £'000	Plans £'000				
<b>Total administration budget</b>						<b>5,428,995</b>	<b>4,869,478</b>	<b>4,383,662</b>	<b>4,114,103</b>	<b>4,129,940</b>

<sup>1</sup> The extended administration control did not exist in the outturn years.<sup>2</sup> The 2010-11 administration figure is as per the baseline used for the Spending Review

## PCT OPERATIONAL EXPENDITURE

2.35 The following table analyses PCT operational expenditure, especially as it relates to the purchase of healthcare on behalf of PCT resident populations:

**Table Eleven****PCT Operating expenditure: Purchase of healthcare on behalf of resident populations**

	2010-11 £000	2009-10 £000	Change from 2009-10 %
<b>Purchase of Primary Health Care</b>			
GP Services	7,680,265	7,581,275	1.31
Prescribing Costs	8,287,292	7,944,487	4.32
Dental Services	2,820,041	2,733,705	3.16
General Ophthalmic Services	478,194	467,747	2.23
Pharmaceutical Services	1,983,902	1,988,697	(0.24)
Other	124,650	154,846	(19.50)
<b>Total Primary Healthcare purchased</b>	<b>21,374,344</b>	<b>20,870,757</b>	<b>2.41</b>
<b>Purchase of Secondary Healthcare</b>			
Learning Difficulties	2,583,433	2,497,197	3.45
Mental Illness	8,373,632	8,076,983	3.67
Maternity	2,532,350	2,407,090	5.20
General and Acute	38,911,958	37,095,815	4.90
Accident and emergency	2,224,765	2,051,250	8.46
Community Health Services	8,409,641	7,966,205	5.57
Other Contractual	3,065,643	2,794,241	9.71
<b>Total Secondary Healthcare Purchased</b>	<b>66,101,422</b>	<b>62,888,781</b>	<b>5.11</b>
Grants (revenue) to fund Capital Projects	132,219	240,486	(45.02)
<b>Total Healthcare Purchased by PCT</b>	<b>87,607,985</b>	<b>84,000,024</b>	<b>4.30</b>

- 2.36 Expenditure on secondary healthcare has increased by 5.1%, of which 2% relates to increased activity, a further 1% to a change of case mix, and the balance to price increases in non-tariff activity. Overall, the cost of primary healthcare rose by 2.4%. This increase was largely volume driven, with some of the volume growth offset by lower prices. For instance, GP-led activity grew by 3%, dental volumes by 3.6% and prescribing volumes by 4.4%.
- 2.37 The Government is committed to ensuring the best value for money for the taxpayer from NHS expenditure on drugs. It has two principal ways of achieving this:
- Through the Pharmaceutical Price Regulation Scheme (PPRS) – which controls the price of branded prescription medicines supplied to the NHS by the regulation of manufacturer profits; and
  - Through the community pharmacy contractual framework – which uses the prices of a group of generic medicines to adjust the reimbursement prices of around 500 drugs. This allows profit margins to be monitored, and any excess profit, above that agreed in the framework, to be removed.
- 2.38 These actions have driven substantial savings in the cost of medicines in recent years. The increase in prescribing expenditure indicated in the table above, is therefore largely driven by an increase in the volume of drugs prescribed.

**NHS TRUST & NHS FOUNDATION TRUST FINANCIAL PERFORMANCE**

- 2.39 As providers of healthcare are outside the Accounting Boundary, the financial results of NHS Trusts and NHS Foundation Trusts are not currently consolidated into the Department's Resource Account. Rather than being funded directly by Government, these organisations receive their income through trading activity with healthcare commissioners.
- 2.40 In relation to the budgetary controls (that is, RDEL and CDEL), the overall surplus or deficit recorded by NHS Trusts and NHS Foundation Trusts scores against the budget. NHS Trusts are expected to report a deficit in their 2010-11 Summarised Accounts of £367 million. However, when impairment adjustments are disregarded, their financial performance changes to a surplus of £98 million. Similarly, on the basis of their unaudited accounts, NHS Foundation Trusts reported a deficit in 2010-11 of £376 million. When impairment adjustments are disregarded, their financial performance changes to a surplus of £343 million.

**Impairments**

2.41 NHS Trusts and NHS Foundation Trusts are required to carry their assets at fair value. Impairments of non-current assets arise when assets fall in value, either because there has been a deterioration in the service potential of an asset beyond normal depreciation, or because of price reductions in the wider economy. For 2010-11 and beyond, HM Treasury have adapted the way in which IAS 36 *Impairment of Assets* applies to the public sector. In 2009-10, any impairment loss on a revalued asset was charged first against the revaluation surplus held specifically in respect of that asset in the revaluation reserve. Only when that revaluation surplus was exhausted, would the impairment be charged to the Consolidated Statement of Comprehensive Net Expenditure (CSCNE). As a result of the adaptation of IAS 36, however, only those impairment losses that do not result from a loss of economic value or service potential will be taken to the revaluation reserve. Impairment losses that do result from a clear consumption of economic benefit will still be charged directly to the CSCNE.

**Core Table 6 Total Spending by Country and Region**

	National Statistics					£ million
	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 plans	
North East	4,138	4,481	4,899	5,129	5,473	
North West	10,922	11,957	12,772	13,606	14,219	
Yorkshire and the Humber	7,602	8,229	9,009	9,518	10,118	
East Midlands	5,799	6,442	7,007	7,317	7,799	
West Midlands	7,922	8,603	9,256	9,880	10,343	
East	7,352	7,848	8,639	9,362	9,954	
London	12,217	13,763	14,794	16,438	17,155	
South East	11,014	11,866	12,849	13,792	14,338	
South West	6,924	7,642	8,291	8,697	9,221	
Total England	73,889	80,832	87,514	93,740	98,621	
Scotland	34	38	42	38	49	
Wales	-191	-162	-164	-238	-149	
Northern Ireland	4	5	5	5	6	
<b>UK identifiable expenditure</b>	<b>73,736</b>	<b>80,713</b>	<b>87,398</b>	<b>93,544</b>	<b>98,527</b>	
Outside UK	666	907	815	953	1,149	
<b>Total identifiable expenditure</b>	<b>74,402</b>	<b>81,620</b>	<b>88,213</b>	<b>94,497</b>	<b>99,676</b>	
Non-identifiable expenditure	0	0	0	0	3	
<b>Total expenditure on services</b>	<b>74,402</b>	<b>81,620</b>	<b>88,213</b>	<b>94,497</b>	<b>99,679</b>	

1) Figures may not sum due to rounding

## Core Table 7 Total Spending per Head, by Country and Region

	National Statistics					£ per head	
	2006-07 outturn	2007-08 outturn	2008-09 outturn	2009-10 outturn	2010-11 plans		
North East	1,619	1,747	1,902	1,985	2,113		
North West	1,594	1,742	1,858	1,972	2,055		
Yorkshire and the Humber	1,478	1,589	1,728	1,810	1,907		
East Midlands	1,329	1,464	1,581	1,644	1,733		
West Midlands	1,476	1,599	1,711	1,819	1,894		
East	1,311	1,386	1,508	1,624	1,708		
London	1,626	1,821	1,941	2,120	2,200		
South East	1,337	1,428	1,533	1,635	1,687		
South West	1,351	1,476	1,592	1,662	1,741		
England	1,456	1,582	1,701	1,809	1,889		
Scotland	7	7	8	7	9		
Wales	-64	-54	-55	-79	-49		
Northern Ireland	2	3	3	3	3		
<b>UK identifiable expenditure</b>	<b>1,217</b>	<b>1,324</b>	<b>1,424</b>	<b>1,514</b>	<b>1,583</b>		

1) Figures may not sum due to rounding

## Core Table 8 Spending by Function or Programme, by Country and Region

Data in this table are National Statistics

Department of Health	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West	England	Scotland	Wales	Northern Ireland	UK identifiable expenditure	Outside UK	Total identifiable expenditure	Not identifiable	Totals
<b>Health</b>																		
Central and other health services	58.8	152.9	104.5	79.4	111.5	105.3	182.3	154.3	98.1	1,047.1	0.0	0.0	0.0	1,047.1	810.1	1,857.2	0.0	1,857.2
Medical services	5,225.3	13,870.2	9,709.6	7,469.2	10,052.7	9,564.0	16,622.4	14,164.2	8,952.8	95,630.5	0.0	0.0	0.0	95,630.5	0.0	95,630.5	0.0	95,630.5
<b>Total health</b>	<b>5,284.1</b>	<b>14,023.2</b>	<b>9,814.2</b>	<b>7,548.6</b>	<b>10,164.2</b>	<b>9,669.3</b>	<b>16,804.7</b>	<b>14,318.5</b>	<b>9,050.9</b>	<b>96,677.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>96,677.5</b>	<b>810.1</b>	<b>97,487.6</b>	<b>0.0</b>	<b>97,487.6</b>
<b>Social protection</b>																		
Sickness and disability	15.1	39.8	27.4	20.9	28.6	27.2	47.4	39.8	25.3	271.7	0.0	0.0	0.0	271.7	0.0	271.7	0.0	271.7
<i>of which: incapacity, disability and injury benefits</i>	15.1	39.8	27.4	20.9	28.6	27.2	47.4	39.8	25.3	271.7	0.0	0.0	0.0	271.7	0.0	271.7	0.0	271.7
Old age	-184.2	-495.5	-350.5	-273.4	-338.4	-361.9	-448.4	-613.8	-411.1	-3,477.1	36.1	-257.9	4.3	-3,694.6	134.2	-3,560.4	0.0	-3,560.4
<i>of which: pensions</i>	-184.2	-495.5	-350.5	-273.4	-338.4	-361.9	-448.4	-613.8	-411.1	-3,477.1	36.1	-257.9	4.3	-3,694.6	134.2	-3,560.4	0.0	-3,560.4
Survivors	14.2	38.1	27.0	21.0	26.0	27.8	34.5	47.2	31.6	267.5	2.2	19.8	0.3	289.8	8.3	298.1	0.0	298.1
<i>of which: widows' benefits</i>	14.2	38.1	27.0	21.0	26.0	27.8	34.5	47.2	31.6	267.5	2.2	19.8	0.3	289.8	8.3	298.1	0.0	298.1
<b>Total social protection</b>	<b>-154.9</b>	<b>-417.6</b>	<b>-296.2</b>	<b>-231.4</b>	<b>-283.8</b>	<b>-306.8</b>	<b>-366.5</b>	<b>-526.7</b>	<b>-354.1</b>	<b>-2,938.0</b>	<b>38.4</b>	<b>-238.1</b>	<b>4.6</b>	<b>-3,133.1</b>	<b>142.4</b>	<b>-2,990.7</b>	<b>0.0</b>	<b>-2,990.7</b>
<b>Total Department of Health</b>	<b>5,129.2</b>	<b>13,605.5</b>	<b>9,518.0</b>	<b>7,317.1</b>	<b>9,880.4</b>	<b>9,362.5</b>	<b>16,438.2</b>	<b>13,791.8</b>	<b>8,696.8</b>	<b>93,739.6</b>	<b>38.4</b>	<b>-238.1</b>	<b>4.6</b>	<b>93,544.4</b>	<b>952.5</b>	<b>94,497.0</b>	<b>0.0</b>	<b>94,497.0</b>

1) Figures may not sum due to rounding

## Notes to tables 6, 7 and 8

- Tables 6, 7 and 8** show analyses of the Department's spending by country and region, and by function. The data presented in these tables are consistent with the country and regional analyses (CRA) published by HM Treasury in Chapter 9 of Public Expenditure Statistical Analyses (PESA) 2011. The figures were taken from the HM Treasury public spending database in November 2010 and the regional distributions were completed in early 2011. Therefore, the tables may not show the latest position and will not be consistent with other tables presented in this Report.
- The analyses are set within the overall framework of Total Expenditure on Services (TES). TES broadly represents the current and capital expenditure of the public sector, with some differences from the national accounts measure Total Managed Expenditure. The tables show the central government and public corporation elements of TES. They include current and capital spending by the Department and its NDPBs, and public corporations' capital expenditure, but do not include capital finance to public corporations. They do not include payments to local authorities or local authorities' own expenditure.

3. TES is a cash equivalent measure of public spending. The tables do not include depreciation, cost of capital charges, or movements in provisions that are in departmental budgets. They do include pay, procurement, capital expenditure, and grants and subsidies to individuals and private sector enterprises. Further information on TES can be found in Appendix E of PESA 2011.
4. The data are based on a subset of spending – identifiable expenditure on services – which is capable of being analysed as being for the benefit of individual countries and regions. Expenditure that is incurred for the benefit of the UK as a whole is excluded. Regional attribution of expenditure for the years 2005-06 to 2009-10 is based on NHS audited Accounts, and for 2010-11 on allocations to the NHS. Central expenditure is attributed pro rata to NHS expenditure for all years.
5. The functional analyses of spending in **Table 8** are based on the United Nations Classification of the Functions of Government (COFOG), which is the international standard. The presentation of spending by function is consistent with that used in chapter 9 of PESA 2011.

### Promoting Efficiency and transparency

- 2.42 In May 2010, the Coalition Government introduced a range of efficiency controls relating to both the Civil Service and the work of Departments and Arms Length Bodies. The aim of these controls was to secure around £6 billion in efficiency savings in 2010-11. The specific areas covered by the controls were:
- Consultancy;
  - Communications, marketing and advertising;
  - Information Communication Technology (ICT);
  - Property; and
  - Recruitment.
- 2.43 The Department has implemented these controls across both the core department and its ALBs. As the Department continues to drive out wasteful and unnecessary spending, a key challenge is to protect both the front-line delivery of services and the realisation of DH objectives, where the latter depends on activities that necessarily require spending in areas covered by the efficiency controls.
- 2.44 Under its recruitment controls, the Department considered more than 600 requests to fill vacant posts. None of these posts were filled by external permanent recruitment.

### Spend on Consultancy and temporary and agency workers

- 2.45 The following table provides details of expenditure by the Department, its Arms Length Bodies and NHS organisations within the Resource Accounting Boundary in respect of consultancy and temporary and agency workers. The consultancy values are based on data taken from the Department's General Ledger which has been adjusted to ensure compliance with OGC/ERG definitions. Information relating to temporary and agency workers has been taken directly from the Department's General Ledger without further adjustment.

## ANNUAL REPORT AND MANAGEMENT COMMENTARY

	2010-11		2009-10	
	£'000		£'000	
	Consultancy	Temporary Agency	Consultancy	Temporary Agency
Core Department	9,797	89,614	108,304	88,942
Connecting for Health	4,975	62,160	6,259	129,415
<b>RAB Special Health Authorities:</b>				
NHS Institute for Innovation and Improvement	1,548	5,509	8,552	7,501
National Patient Safety Agency	243	2,614	2,425	4,580
NHS Business Services Authority	95	1,578	691	4,192
The Information Centre	197	5,664	89	10,630
National Institute for Health and Clinical Excellence	-	4,750	104	4,573
NHS Litigation Authority	-	428	173	489
National Treatment Agency for Substance Misuse	35	833	55	826
<b>Sub Total - DH Core and RAB ALBs</b>	<b>16,890</b>	<b>173,150</b>	<b>126,652</b>	<b>251,148</b>
<b>Outside RAB Special Health Authorities:</b>				
Care Quality Commission	1,559	12,566	12,065	
Appointments Commission	-	2	10	
Council for the Regulation of Healthcare Professionals	45	7	50	47
General Social Care Council	129	2,242	45	2922
Health Protection Agency	2,782	7,323	13,761	13,404
Human Fertilisation and Embryology Authority	206	574	167	
Human Tissue Authority	320	703	832	
Monitor – Independent Regulator of NHS Foundation Trusts	1,056	1,644	1,535	605
<b>NHS Bodies included in the RAB</b>				
Primary Care Trusts	138,834	585,064	261,147	803,049
Strategic Health Authorities	35,482	49,663	52,734	51,137
<b>Total</b>	<b>197,303</b>	<b>832,938</b>	<b>468,998</b>	<b>1,122,312</b>

## Note:

1) Consultancy Expenditure is in line with the OGC/ERG definition, namely “the provision of advisory services to the business...[including]...both strategic and operational advice, and excluding operational delivery.”

**Consultancy**

2.46 Reflecting a Government-wide commitment to Efficiency Reform Group (ERG) initiatives, a significant reduction in consultancy spend has been achieved by the Department, its ALBs, SHAs and PCTs when compared to 2009-10. The total reduction amounts to some £272 million (58%). A proportion of this reduction is attributable to the Department’s alignment to OGC/ERG definitions, but the majority reflects a real reduction in expenditure.

**Temporary staff**

2.47 The contingent labour reported in this Table is consistent with the definition used for the “Other” category within note 9 of the Resource Accounts. Contingent labour includes Agency and Temporary Staff, Contractors and Secondees, as well as any relevant staff whose costs have been capitalised.

2.48 The total DH, NHS and ALB reduction in contingent labour expenditure amounts to £289 million (26%), which reflects the limitations on the use of external recruitment across the system.

2.49 The Department has extended its controls on consultancy to all other forms of professional services, including specialist contractors and temporary labour. Whilst the Department and its ALBs have made good progress in reducing spend in both categories, some areas of DH continue to require specialist external skills. As the Department seeks to make further reductions in these categories, more emphasis has been placed on skills transfer within the permanent workforce, and the substitution of permanent civil servants for external contractors as far as possible, consistent with the need to achieve business objectives.

## Transparency

- 2.50 Greater transparency is at the heart of the Coalition Government's commitment to enable the public to hold politicians and public bodies to account. The Department is fully committed to the transparency agenda and has made available a number of key documents on the transparency page of the Department's website via a link to data.gov.uk. For example, during 2010-11, the following key DH documents were made available on data.gov.uk:
- DH staff salaries above £150,000;
  - Senior DH civil servants' pay and details;
  - Senior staff pay details for the Department's Arms Length Bodies (ALBs), Executive Agency, Executive Non-Departmental Bodies and Special Health Authorities;
  - All new DH ICT contracts and central DH contracts;
  - All new DH tender documents for contracts over £10,000;
  - DH's organisational chart and related staff data;
  - New items of central DH spending over £25,000;
  - Publication of expenses information for senior officials in the Department.
- 2.51 The DH Business Plan sets out the vision and priorities for the Department. The Structural Reform section of this Plan, sets out the key commitments involved in delivering the Department's reform programme. Each month, the DH publishes a simple report on progress made in meeting its SRP commitments. These reports are available on both the Department's and the Number 10 website.
- 2.52 The Transparency section of the plan sets out the key indicators that the Department believes will be most useful to the public in understanding the costs and outcomes of health and social care services. More information is included in the supporting Information Strategy that accompanies the Business Plan.

## 3 MANAGEMENT & GOVERNANCE OF THE DEPARTMENT

- 3.1 The Department is led by a team of Ministers, who are supported by officials, the most senior of which are: the Permanent Secretary, the NHS Chief Executive and the Chief Medical Officer.
- 3.2 The Permanent Secretary, Una O'Brien, is also the Principal Accounting Officer, and, as such, has personal responsibility for the proper presentation of the Department's Resource Accounts and their transmission to the Comptroller & Auditor General. She is also responsible for the use of public money and stewardship of assets. As well as leading the Department – the Permanent Secretary must also ensure that it operates effectively, that Ministers receive the advice and support they need, and that there is effective working with all Department of Health partners across local and national government, the NHS and in the private, public and third sectors.
- 3.3 The NHS Chief Executive, Sir David Nicholson, is the Additional Accounting Officer for NHS expenditure (Request for Resources 1). He is responsible for leading the NHS, and is chief advisor to the Secretary of State in respect of all aspects of NHS delivery and management. The Chief Medical Officer is the most senior professional advisor to both Department of Health and wider Government Ministers on medical and public health issues. The former Chief Medical Officer, Professor Sir Liam Donaldson, retired at the end of May 2010. Professor Dame Sally Davies was appointed Chief Medical Officer on an interim basis from the beginning of June 2010, and was confirmed in this position in March 2011.

### *Ministers*

- 3.4 The following Ministers were responsible for the Department in 2010-11:
- **Secretary of State for Health** with overall responsibility for the work of the Department:
    - Rt. Hon Andy Burnham, MP (until 11 May 2010)
    - Rt Hon Andrew Lansley CBE MP (from 12 May 2010)

- **Ministers of State** with responsibilities for the NHS and Social Care, including long term care, disability and mental health:
  - Mike O'Brien QC, MP, Minister of State for Health Services (until 11 May 2010)
  - Gillian Merron MP, Minister of State for Public Health (until 11 May 2010)
  - Phil Hope MP, Minister of State for Care Services (until 11 May 2010)
  - Rt Hon Simon Burns MP, Minister of State for Health (from 13 May 2010)
  - Paul Burstow MP, Minister of State for Care Services (from 13 May 2010)
- **Parliamentary Under Secretaries** with responsibility for Health and Public Health:
  - Ann Keen MP, Parliamentary Under Secretary of State for Health Services (until 11 May 2010)
  - Baroness Thornton, Parliamentary Under Secretary of State (Lords) (until 11 May 2010)
  - Anne Milton MP, Parliamentary Under Secretary of State Public Health (from 14 May 2010)
  - Earl Howe, Parliamentary Under Secretary of State for Quality (Lords) (from 14 May 2010)

### **Board Structure and Membership**

3.5 A Departmental Board (DB), chaired by the Secretary of State, leads the Department of Health. The DB provides collective leadership for the Department. Its main focus and remit relates to the Department's performance and delivery, and this includes appropriate oversight of sponsored bodies.

3.6 Membership of the Departmental Board from **April 2010** was as follows:

Sir Hugh Taylor KCB	Permanent Secretary (retired 31 July 2010)
Sir David Nicholson KCB CBE	NHS Chief Executive
Professor Sir Liam Donaldson KB	Chief Medical Officer (until 31 May 2010)
Professor Dame Sally Davies DBE	Chief Medical Officer (interim from 1 June 2010; confirmed in post 3 March 2011)
David Behan CBE	Director General of Social Care, Local Government and Care Partnerships
Richard Douglas CB	Director General Finance & Chief Operating Officer (until 31 July 2010); Interim Permanent Secretary (1 August to 31 October 2010); Director General Policy, Strategy & Finance (from 1 November 2010)
Julie Baddeley	Non-Executive member (until July 2010)
Jon Rouse	Non-Executive member (until August 2010)
Mike Wheeler	Non-Executive member

3.7 Membership of the Departmental Board from **January 2011** was:

Rt Hon Andrew Lansley CBE MP	Secretary of State (Chair)
Rt Hon Simon Burns MP	Minister of State for Health
Paul Burstow MP	Minister of State for Care Services
Anne Milton MP	Parliamentary Under Secretary of State for Public Health
Earl Howe	Parliamentary Under Secretary of State for Quality (Lords)
Una O'Brien CB	Permanent Secretary (from 1 November 2010)
Sir David Nicholson KCB CBE	NHS Chief Executive

Professor Dame Sally Davies DBE	Chief Medical Officer (interim from 1 June 2010; confirmed in post 3 March 2011)
David Behan CBE	Director General of Social Care, Local Government and Care Partnerships
Richard Douglas CB	Director General of Policy, Strategy & Finance
Dr Catherine Bell	Non-Executive member
Professor David Heymann	Non-Executive member
Mike Wheeler	Non-Executive member

3.8 The Departmental Board is responsible for:

- Supporting Ministers in terms of managing and shaping strategic issues linked to the development and implementation of the Government's objectives for the health and social care systems;
- Ensuring that there is strategic alignment across all those bodies which are accountable to the Department for the health and care system;
- Agreeing the Department's three-year rolling business plan, and oversight of progress against business plan milestones, including performance against efficiency metrics;
- Ensuring sound financial management in the Department, in the context of the business plan;
- Assurance on performance of the Department's sponsored bodies; and
- Ensuring, on the advice of the Executive Board, the effective management of risks within the Department and its sponsored bodies.

3.9 The Departmental Board is supported by:

- The **Executive Board**, which is chaired by the Permanent Secretary, and includes the Chief Executive of the NHS, the Chief Medical Officer, the Director General of Policy, Strategy and Finance, and the Director General of Social Care, Local Government and Care Partnerships. This Board supports the Permanent Secretary in the discharge of her responsibilities as Principal Accounting Officer;
- The **DH Management Committee**, which is chaired by the Permanent Secretary, and includes all Directors General and Managing Directors. The Committee provides corporate leadership for the Department of Health and supports the Executive Board in supporting the Permanent Secretary in the discharge of her responsibilities as accounting officer for DH. The DH Management Committee has replaced the Corporate Management Board;
- The **Audit and Risk Committee**, which is chaired by Mike Wheeler, one of the Department's Non-Executive Directors, and comprises other non-executive members. The Audit and Risk Committee advises the Department of Health's Principal Accounting Officer and the Departmental Board on risk management, corporate governance and assurance arrangements in the Department of Health and its subordinate bodies;
- The **Equality & Human Rights Assurance Group** which comprises senior officials with responsibilities for major policy and operational activity relating to equality and human rights. In line with the implementation of new legislation and the Government's reform programme, the Group, which will now be chaired by a Director General, has been reconfigured to oversee the Department's performance in embedding consideration of equality and human rights across all areas of its business and to ensure compliance with the law.

***Remuneration of Ministers and senior officials***

- 3.10 Ministers' remuneration is set by the Ministerial and Other Salaries Act 1975 (as amended by the Ministerial and Other Salaries Order 1996) and the Ministerial and Other Pensions and Salaries Act 1991.

**Appointment of senior officials**

- 3.11 Senior Civil Servants, including the Permanent Secretary and Departmental Board members are appointed in accordance with the Department's procedures, the Civil Service Commissioner's Recruitment Principles and Guidance on Civil Service Commissioner's Recruitment to Senior Posts.

**Pension Liabilities**

- 3.12 The transactions and balances of the NHS Pension Scheme are not consolidated in the Department of Health Resource Accounts. The report and accounts of the NHS Pension Scheme are prepared separately by the Chief Executive of the NHS Business Services Authority (BSA) who is the Accounting Officer for the scheme. Further information is available at: <http://www.nhsbsa.nhs.uk/Pensions>.
- 3.13 The Department's share of the transactions and balances of the Principal Civil Service Pension Scheme (PCSPS), to which its employees belong, are also not consolidated into the Department of Health's financial statements: separate accounts are prepared for the scheme, and details can be found at: <http://www.civilservice.gov.uk/pensions>.

**Employment of Disabled Persons policy**

- 3.14 The Department of Health has set out its strategic commitments to equal opportunities and diversity in the Single Equality Scheme, which was published in 2009. These commitments incorporate an extensive range of activities including targets to increase the representation of women, ethnic minority and disabled staff in the senior civil service (SCS); a comprehensive suite of equality policies; work-life balance and mental health initiatives; workforce monitoring by diversity characteristics; awareness raising programmes; and targeted action such as career progression support for ethnic minority staff.

At an operational level, the Department's Equal Opportunities Policy underpins all policies, guidance and activities:

*'The aim of the Department's equal opportunities policy is to promote equality of opportunity whereby no employee or job applicant is discriminated against on the grounds of their race, colour, ethnic or national origin, sex, marital status, responsibility for children or other dependants, work pattern, disability, age, sexual orientation, gender reassignment, Trade Union membership or activity, religion or belief.'*

- 3.15 The Department uses a range of measures to track progress – including the annual position against the SCS targets, trends in staff survey data, and participation in external benchmarking exercises such as the cross-sector Stonewall Workplace Equality Index. This year, the Department achieved its targets for the proportions of women, ethnic minority and disabled staff in the senior grades. It also earned a place as one of the 'Top 100 Employers' in the Stonewall Workplace Equality Index.

**Recruitment and Retention of Disabled Persons**

- 3.16 The Department has put in place a number of policies and activities to aid the recruitment and retention of disabled staff. These include: involving the disabled staff network in the assessment (by equality) of all workforce policies and guidance; a comprehensive suite of flexible working policies; putting specific guidance in place such as 'reasonable adjustments', mental health, support for carers, anti-bullying and harassment and the Guaranteed Interview Scheme; occupational health support; accessible IT systems, information, accommodation and facilities.

**Sickness absence data**

- 3.17 Sickness absence data is provided in the table below for the Core Department, NHS Connecting for Health, Primary Care Trusts and Strategic Health Authorities. Sickness absence data for Special Health Authorities, PASA and other Arms Length Bodies consolidated into these accounts is available in the underlying accounts of each organisation.

	2010-11							
	Days Lost (Short Term) Headcount days	Days Lost (Long Term) Headcount Days	Total Days Lost (12 month period)	Total Staff Years	Average Working Days Lost	Total Staff Employed in Period (Headcount)	Total Staff employed in Period with no sickness absence (Headcount)	% Staff with no sickness absence Headcount
Core Department	5,578	6,233	11,810	2,596	4.5	2,916	1,495	51
Connecting for Health	2,920	3,760	6,680	1,256	5.3	1,299	660	51
Strategic Health Authorities			17,929	3,520	5.1			
Primary Care Trusts			1,866,065	197,250	9.5			

Sickness absence is based on available staff days on Headcount basis

- 3.18 In respect of Primary Care Trusts and Strategic Health Authorities, final data relating to the last quarter of 2010-11 was not available at the date of these accounts. Consequently, the data used in the above table relates to the 12 month period 1 January 2010 to 31 December 2010. Data for the period 1 January to 31 March 2010 is considered to be a reasonable proxy for the same three-month period in 2011.
- 3.19 NHS Connecting for Health, responsible for implementing the National Programme for IT in the NHS, is a programme managed by the Department's Director General for Informatics and Chief Information Officer.

#### ***Provision of information to, and consultation with, employees***

- 3.20 The Department has a series of communication channels in place to deliver information about organisational and business developments to staff, and to provide an opportunity for feedback, both at a corporate and local level. Methods of communication range from regular electronic messages to all staff via e-mail or the Department's intranet site (including the Permanent Secretary's updates) to face-to-face briefings by Corporate Management Board members and the Department's senior managers. The Department also works in partnership with the Departmental Trade Unions through consultation and negotiation to encourage involvement and build engagement in decision-making processes.

#### ***Details of Company Directorships & other significant interests held by the Board***

- 3.21 Other than those disclosed in Note 32 (Related Party Transactions), there are no company directorships or significant interests held by Board members.

#### ***Department of Health Workforce***

- 3.22 Towards the end of the 2009-10 financial year, recognising the need to reduce staffing costs on a permanent basis to reflect planned future reductions in budgets, the Department's Board agreed to put in place:
- A programme of work, beginning in February 2010, to significantly reduce the number of non-permanent workers employed by the Department by the end of 2010-11;
  - The operation of central recruitment controls; and
  - A minimum of a 20% reduction in the SCS pay bill over the following three years.
- 3.23 In May 2010, further controls were applied across central Government, including a recruitment freeze into the civil service in respect of all non-front line posts.
- 3.24 The average number of staff employed by the Core Department during the whole of the financial year (as reported in Note 9 to these accounts, and excluding NHS Connecting for

Health) fell during 2010-11 by a total of 45 or 1.3%. The growth in permanent staff of some 3.2% was counterbalanced by a reduction in the non-permanent workforce of 13.4%. When NHS Connecting for Health staff are included in these averages, the level of the reduction remained at 1.3%. The increase in permanent staff numbers is almost entirely explained by the transfer of 74 members of staff from the Foods Standard Agency into the Department as part of a Machinery of Government change.

- 3.25 In February 2010, the Department's Board set out a clear objective that the number of programme-funded non-permanent workers should be significantly reduced by the end of the 2010-11 financial year. The rate of reduction in this category of staff was greatest towards the end of the year as specific programmes of work came to an end. For this reason, the 13.4% decrease in the *average* number of non-permanent workers (as recorded in Note 9 to the accounts), does not reflect the much more substantial reduction in actual staff-in-post numbers between 1 April 2010 and 31 March 2011, as the majority of staff left the Department at or towards the end of the financial year. A more significant reduction in average staff numbers will be evident in the 2011-12 Resource Accounts, not least because some 160 staff in this category of workers left the Department in the first month of the new financial year.
- 3.26 The movement in actual, as opposed to average, numbers is illustrated in the following table:

**Movement in DH Workforce (actual full-time equivalents)**

Category	31-Mar-10	31-Mar-11	Net reduction	
			30-Apr-11	from 31-Mar-10
Permanent employees	2,857	2,743	2,696	161
Non-Permanent workers	1,161	696	535	626
<b>Total</b>	<b>4,018</b>	<b>3,439</b>	<b>3,231</b>	<b>787</b>

Note: Both Permanent and Non-permanent employees include those funded from administration and programme budgets.

- 3.27 This table illustrates a clear reduction in the actual number of Department of Health staff in all categories between 31 March 2010, and the 2010-11 year end. There was a further reduction, particularly in the non-permanent staff category, immediately after 31 March 2011. As at the 30 April 2011, the Department employed 787 fewer staff than at 31 March 2010. The vast majority of this decrease, that is some 80%, falls within the non-permanent worker category.
- 3.28 There will be a further large reduction in the number of the Department's permanent work force in 2011-12 following a voluntary exit scheme operated in January 2011, and this will further reduce the average staff numbers recorded in next year's accounts. The scheme is expected to result in 254 departures during 2011-12. The Department continues to operate the stringent central recruitment controls introduced in November 2009.
- 3.29 As noted in Section 2, in terms of actual, as opposed to average, numbers, since the recruitment controls were introduced the number of permanent staff funded from the *administration* budget rose slightly between 31 March 2010 and 31 March 2011. The small increase in actual staff numbers masks an overall falling trend because the year-end figure includes both the 74 staff transferred into the Department from the Food Standards Agency, and the full year effect of the transfer of staff from the former NHS Purchasing & Supply Agency. After allowing for the effect of this transfer, the reduction in admin-funded permanent staff during the year is 2.5%. This is consistent with the increase in administration-funded staff costs described in paragraph 2.28 above.

**Core Table 5 Staff in Post**

	2008-09 Number	2009-10 Number	2010-11 Number
Core Department	2,256.5	2,627.2	2,555.9

Figures represent the Full Time Equivalent position at the end of each financial year, and are following Cabinet Office guidelines.

**Well-being of DH staff**

- 3.30 The Department's Health & Well-being (H&WB) Board was established in the Summer of 2008. Both the Board, and its programme of initiatives, were refreshed in 2010-11 which resulted in the "Five ways to Well-being" framework. This recognises the importance of both the physical and emotional aspects of well-being. For example, the Department has implemented a range of activities to support the emotional well-being of staff during the current transition programme. These include dedicated HR surgeries, "Impact of Change" workshops for all staff, and "Excellence in Managing Change" sessions for members of the Senior Civil Service. The H&WB is seeking to ensure that well-being initiatives available to the public as part of "Change4Life" and NHS Choices are also available to staff within the Department as part of their working lives. Drawing on relevant indicators from the Civil Service People surveys and other internal measures, a well-being dashboard will be used during 2011-12 to track successful areas and identify areas for further action.

**4 DEALING WITH RISKS AND UNCERTAINTIES**

- 4.1 The Department's strategic risk register provides the focal point for overall risk management within DH. This register is updated on a regular basis, and the contents are considered by the Departmental Board and the Audit & Risk Committee at each of their meetings. Supporting Committees and groups manage those risks that fall within their specific areas of responsibility, and, as appropriate, will escalate risks for inclusion in the strategic risk register.
- 4.2 During 2010-11, the Department revised the format of its strategic risk register. Risks are now included on the register under three categories:
- Business as usual;
  - Transition-specific; and
  - Risks inherent in the new system.
- 4.3 The Minister for the Cabinet Office, Francis Maude, recently announced the creation of a new network of Counter Fraud Champions drawn from each Government department. Members will work to strengthen the important fight against fraud and error in terms of awareness, detection, investigation and prevention. In line with all other departments, agencies and public bodies, DH has nominated a champion to lead this work on its behalf.
- 4.4 The transformation of procurement activity in the Department required a fundamental review of all "procure to pay" business processes in order to secure improvements in terms of cost, security, financial controls, quality, service delivery and time to procure. The case for the centralisation of procurement was based on the need to reduce duplication of effort, to pool volume purchases for discounts, to increase the skill of specialist procurement staff, and to enhance the Department's relations with its suppliers. The Department's new procurement system came into operation on 1 April 2011 and will offer:
- **Improved controls** – to secure tighter financial approvals; introduce less complex levels of interaction between business areas and procurement specialists; ensure a substantial reduction in the number of staff involved in procurement activity, thereby reducing the risk

of error and the potential for fraud; provide more accessible information which will improve probity and increase audit assurance; and avoid re-work by procurement staff.

- **Better purchasing decisions** – the central procurement function will be highly skilled, and will use industry approved metrics to provide assurance of cost-effectiveness; it will act as a catalyst to drive up procurement skills, not least through the provision of training and will ensure consistency across all major procurement spend in the Department. The central function will ensure that there is an appropriate level of challenge to suppliers with regard to cost and levels of service.

## 5 DEPARTMENTAL PERFORMANCE REPORTING

- 5.1 The Department's overall aim is to improve the health and well-being of the people of England. The principal focus of the Department's work, for which it is accountable to both Parliament and the public, includes setting appropriate national policies and standards which will shape the direction of the NHS and adult social care systems, and which will promote healthier living in the population. In working with its partners to achieve these goals, the Department is responsible for just over £100 billion of public funds. It advises Ministers on how best to use this funding in order to inform and achieve their decisions and to carry out their objectives. Its staff are responsible for leading and driving forward change in both the NHS and social care, as well as improving standards in public health.
- 5.2 The Department of Health is one of the busiest departments of State in Whitehall. Working through and with the 1.4 million NHS staff operating in more than 300 organisations and approximately 8,200 GP practices, the Department is responsible for the provision of health services to around 1.5 million patients and their families every day. The Department also sets the strategic framework for adult social care. It gives advice and guidance to local authorities, which are responsible for managing social care funding according to local priorities and the principles of local accountability. Over 1.6 million staff work in the social care sector. Local authorities provide or arrange services for 1.7 million users through some 24,000 social care providers, of which the great majority are smaller, independent sector organisations.
- 5.3 Until the General Election in May 2010, the Department's medium-term objectives were defined by its Public Service Agreements (PSAs) as agreed with HM Treasury in the 2007 Spending Review. The Coalition Government has since abolished PSAs, replacing them with a new performance framework of input and impact indicators. These will be published on a regular basis as part of the Government's commitment to greater transparency across public services.
- 5.4 Following the Election, the Department refocused its strategic priorities, as set out in its published Structural Reform Plan. Its five principal priorities are to:
- **Create a patient-led NHS** - strengthen the patient's ability to exercise extended choice, to have a greater say in managing their own care, and have their voice heard in the NHS;
  - **Promote better healthcare outcomes** – shift focus and resources away from top-down process targets towards better healthcare outcomes, including national health outcome measures, patient reported outcome measures and patient experience measures;
  - **Revolutionise NHS accountability** – create a long term, sustainable framework of institutions, with greater autonomy for doctors and nurses, greater accountability to patients and the public, and increased democratic participation in the NHS;
  - **Promote public health** – create a public health service which rebalances the Department's approach to health, drawing together national leadership with local delivery and fostering a new sense of community and social responsibility; and
  - **Reform social care** – enable people needing care to be treated with dignity and respect, and work to reform the system of social care to provide more control to individuals and their carers, thereby easing the cost burden that they and their families face.
- 5.5 These priorities and ambitions for the health and social care system provide the foundation principles of the White Paper: *Equity & Excellence, Liberating the NHS*, and the subsequent Health and Social Care Bill, and will also inform the shape of future Social Care legislation.
- 5.6 As part of its Structural Reform Plan, the Departmental Board agreed three additional major responsibilities, namely to:

- **Run an efficient and effective Department of State** – provide an efficient and effective service to the public, Parliament and Ministers through advice and timely responses to queries on health and adult social care policy;
  - **Help prepare for emergencies** – work with other Government departments and public services to ensure that the Department and the NHS are prepared for emergencies and other critical events;
  - **Devolve leadership of Information Technology (IT) development** – devolve the leadership of IT development to NHS organisations, taking implementation closer to the front line.
- 5.7 The Department retains a priority in terms of promoting equality and diversity through:
- Embedding consideration of equality and human rights across all areas of DH business;
  - Improving the information and analytical base needed to support work in respect of equality and human rights.
- 5.8 The Department delivers its objectives by working with Ministers, the NHS, social care providers and other partners through five distinct but inter-related roles:
- Setting direction for the NHS, adult social care and public health, including the integration of public health, health care commissioning and social care at a national level;
  - Supporting delivery, including securing the financial resources within which our partners can successfully deliver health and social care services;
  - Leading health and well-being for Government;
  - Ensuring appropriate accountability to both Parliament and the public for the services for which DH is responsible; and
  - Supporting staff to succeed.
- 5.9 Progress against these functional areas is addressed in Section 6: “Review of the Year”.

### **Structural Reform Priorities**

- 5.10 As noted above the Department set out its five Structural Reform Priorities in its *Business Plan 2011-15*. This plan was developed after a public consultation during Summer 2010, and published in November 2010.
- 5.11 In addition to these responsibilities, the Department made a clear commitment in its 2011-15 Business Plan that it will **no longer**:
- Manage the NHS through the use of central process targets. Instead, the Department will ensure that patients have access to the data they need to make meaningful choices about their care;
  - Require the publication of data where it does not help inform patient choice, or can be used to hold public servants to account;
  - Support Arm’s Length Bodies that are no longer needed or which duplicate functions, and streamline those that should continue.
- 5.12 The Structural Reform Plan (SRP) section in the Department’s 2011-15 Business Plan, sets out how and when the Department will achieve the actions that are needed to deliver the Coalition Government’s programme of health and social care reform. Structural Reform Plans replaced targets and onerous top-down management. All legislative timings and subsequent actions have been subject to Parliamentary timetable and approval. Progress against SRP commitments during the 2010-11 financial year is shown in the following table:

Priority	Number of actions	Number met on time	Number missed by <1 month	Number missed by <2 months	Number missed by <3 months	Number missed by >3 months
Priority 1 <b>Create a patient-led NHS</b>	12	10	2	0	0	0
Priority 2 <b>Promote better healthcare outcomes</b>	13	11	0	2	0	0
Priority 3 <b>Revolutionise NHS accountability</b>	18	12	6	0	0	0
Priority 4 <b>Promote public health</b>	18	8	9	0	1	0
Priority 5 <b>Reform social care</b>	3	3	0	0	0	0
Total	64	44	17	2	1	0

5.13 Each month, the Department publishes a simple report on progress made in meeting its SRP commitments. These reports are available on both the Department's and Number 10 websites. Where there were delays in delivering an SRP action, the Department provided explanations in its monthly report. Reasons for delays included slippage in the legislative timetable (as was the case with the Health and Social Care Bill) or competing priorities in the Government's media planning schedule.

## 6 REVIEW OF THE YEAR

6.1 The Department's activities and achievements in 2010-11 can be summarised as follows:

### Progress against the Structural Reform Plan

6.2 Key SRP achievements for the Department of Health during 2010-11 were as follows:

- Publication of a number of White Papers and important communications, including:
  - *Equity and excellence: Liberating the NHS*, July 2010, followed by the introduction of the *Health and Social Care Bill* into Parliament in January 2011;
  - *A vision for adult social care: Capable communities and active citizens*, September 2010;
  - *Healthy Lives, Healthy People: Our strategy for public health in England*, November 2010;
  - *Health visitor implementation plan 2011-15: a call to action*, February 2011.
- Establishment of a comprehensive network of GP 'pathfinder' consortia, covering nearly 90 per cent of the country, to lead the commissioning of NHS services;
- Extension of the role of the Care Quality Commission to oversee the quality and safety of primary dental care services;
- Continuation of plans to cut the cost of NHS administration by a third by 2014-15, to allow the transfer of resources to support doctors and nurses in delivering front-line NHS services. The NHS now employs 3,500 fewer managers, whilst the number of doctors has increased by almost 2,500, and the number of qualified nursing and midwifery staff has increased by almost 200;
- Review of the Department's arm's length bodies, and agreement to make those which remain in the sector more effective;
- Introduction of five pilot sites for the new NHS 111 service – covering 1.9 million people.

This 24/7 urgent care service is expected to be operational in every area of England by April 2013;

- Launch of a £600 million Cancer Drugs Fund in October 2010, with funding being provided over the next three years;
- Launch of twenty “early implementer” sites in February 2011 to lead the way in delivering a new health visiting service. This service will improve the health and well-being of children, families and communities. A total of 4,200 full-time equivalent health visitors will be recruited over the next four years to support delivery of this new service;
- Publication of a “Talking Therapies Programme” in February 2011 as part of the cross-Government strategy for mental health services. A DH transition team will be in place from April 2011 to implement the Improving Access to Psychological Therapies service;
- Extending the roll-out of personal budgets to give people and their carers more control and purchasing power over their care, and establishing a Commission on long-term care in July 2010.

### Setting direction for the NHS, for adult social care and public health

6.3 The Department has overall responsibility for standards of health care in the country, including within the NHS. It also sets the strategic framework, and influences local authority expenditure, in respect of adult social care services. The Department provides direction for the promotion and protection of the public’s health, taking the lead on issues such as environmental health hazards, infectious diseases, health promotion and education, the safety of medicines and ethical matters. More specifically, the Department is engaged in:

- Defining the overall strategic framework for the NHS, adult social care and public health;
- Developing and implementing health and social care policies, and working with appropriate health and social care partners to ensure their successful delivery;
- Developing legislation and regulation, including the promotion of Bills through Parliament;
- Setting the NHS Operating Framework; and
- Providing input for Local Area Agreements.

6.4 The White Paper *Equity and Excellence: ‘Liberating the NHS’*, was published on Monday 12 July 2010. This set out the Government’s plans for a new direction for the NHS, and offered four key themes:

- **Putting patients first** - providing more information to patients, giving them greater choice and control over their care – based on the principle: *‘no decision about me without me’*;
- **Improving healthcare outcomes** - ensuring that professionals are free to focus on improving health outcomes so as to make them amongst the best in the world. Improved quality of care will become the main purpose of the NHS;
- **Autonomy and accountability** - this involves returning power to NHS professionals and healthcare providers, giving them more autonomy and, in return, making them more accountable to patients and the public; and
- **Cutting bureaucracy** - improving efficiency, reducing bureaucracy, simplifying structures.

6.5 The Department holds the NHS in England to account through the Operating Framework. The 2010-11 Framework was revised in June 2010 to reflect Coalition Government priorities. This revision resulted in a number of immediate changes relating to centrally-driven performance targets. The Operating Framework for the NHS in England 2011-12 was published in December 2010, and this set out key priorities and accountability arrangements for the NHS during the coming year, particularly in the context of transition, and described the requirement to reduce the administration costs of the health system by one third in real terms by 2014-15.

6.6 Proposals to modernise the NHS were set out in the Health and Social Care Bill presented to Parliament on 19 January 2011. The Bill included proposals to:

- Create a national NHS Commissioning Board to work with commissioning groups to set the direction of local commissioning;
  - Increase local accountability for patients and the public, for example by establishing Health Watch and local health and wellbeing boards within local councils;
  - Support NHS Trusts to become Foundation Trusts and improve provider regulation;
  - Increase the focus on public health by creating Public Health England; and
  - Streamline Arms Length Bodies to reduce bureaucracy and improve services.
- 6.7 As a result of the response of both the public and key health and social care partners to the proposals in the Bill, the Coalition Government launched the NHS Listening Exercise, an intensive period of engagement and review led by the NHS Future Forum.
- 6.8 The web links to the NHS Future Forum Recommendations to Government and the Government response to the NHS Future Forum Recommendations can be found at:
- [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_127443](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_127443)
- [http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsLegislation/DH\\_127868](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsLegislation/DH_127868)

### Supporting delivery

- 6.9 The Department must find the best way to support and mobilise the health and social care system to deliver improvements for patients and the public, and achieves this by:
- Supporting a comprehensive performance management system;
  - Providing managerial and professional leadership for external groups;
  - Building capacity and capability across the system; and
  - Ensuring value for money for the taxpayer.
- 6.10 Key performance indicators in the wider health and social care system are measured and tracked through the appropriate management and programme boards. The performance of DH itself is reviewed by the Department of Health Management Committee using a performance scorecard, which includes metrics on delivery, stakeholder feedback, use of resources, and business improvement.
- 6.11 Improvements realised during 2010-11 included:

#### *Putting patients first*

- Primary Care Trust personal health budget pilots, including direct payments for healthcare which will give individuals more control over how their health needs are met;
- National drive to recruit 4,200 new health visitors, thereby increasing the number who work with families and communities across the country by almost 50 per cent; and
- Launch of a new NHS 111 service in four pilot areas as part of the Coalition Government's commitment to improve public access to urgent care services.

#### *Improving healthcare outcomes*

- An extra £50 million was made available in 2010-11 to give access to new cancer drugs to help extend life or improve quality of life. £200 million a year in funding will be available for cancer drugs from April 2011 to the end of 2013. A review into the funding of palliative care for both adults and children will report in Summer 2011; and
- With the aim of driving up cancer survival rates, and saving an additional 5,000 lives per year by 2014-15, the Department launched *Improving Outcomes – A Strategy for Cancer*, which set out how cancer can be prevented, and how the quality and efficiency of cancer services can be improved.

*Promoting and protecting public health*

- The Government published *Healthy lives, healthy people: a strategy for public health in England*, in November 2010. This document set out plans for reshaping the delivery of public health services in England, which include the creation of a new national body – Public Health England. This will incorporate the functions of many of the current public health organisations and will permit the transfer of new local public health duties to local authorities. This enhanced service will be supported by a ring-fenced public health budget.

*Reforming social care and promoting health and well-being*

- The Department will allocate an additional £162 million to PCTs, which will be transferred to local authorities to support the joint delivery of social care in 2011-12. The NHS will also receive an extra £150 million in 2011-12, and then £300 million a year from 2012-13 to support re-ablement services;
- *No health without mental health*, a cross-government outcomes strategy, outlines how a new emphasis on early intervention and prevention will improve the mental health and well-being of the population, and improve outcomes for people with mental health problems. Central to these plans is an additional investment of around £400 million to support improved access to modern, evidence-based psychological therapies;
- The Government will support local projects around the country to help identify and support carers, particularly those who have taken on the role for the first time, and those who may not realise they have a caring role.

*Investing in the Workforce*

- DH forecast a £44.5 billion pay bill to employ 1.4 million staff across the NHS;
- DH also made available £4.8 billion of funding to support education and training within the healthcare workforce through the Multi-Professional Education and Training (MPET) budget. This funding supported the clinical placement of over 22,000 undergraduate medical and dental students; training for over 43,000 postgraduate medical trainees; training bursaries for over 91,000 nurses, midwives and allied healthcare professionals; and support to NHS trainees through the NHS Bursary Scheme.

*Investing in research*

- The Department of Health, the Ministry of Defence, University Hospitals Birmingham and the University of Birmingham are investing £20 million in a new initiative to share innovation in medical research and advanced clinical practice in the battlefield to benefit all trauma patients in the NHS at an early stage of injury.

**Leading health and well-being for Government**

6.12 The Department leads on the integration of health and well-being issues into cross-Government policies, and, conversely, on the incorporation of wider public policy considerations into the delivery of health and social care services. The Department's work cuts across both the public and private sectors and Government at local, national and international level, and includes:

- working with the wider public, third and private sectors on issues such as health protection or lifestyle choices, including the integration of health and well-being issues into other Government priorities at the local level through the work of regional teams; and
- working with international partners, including the European Union (EU), World Health Organisation (WHO) and the Organisation for Economic Co-operation and Development (OECD).

6.13 In providing leadership across Government on health and well being, the Department has:

- Continued its Act F.A.S.T stroke initiative with a new TV advertising campaign to publicise the early warning signs of stroke, and demonstrate the importance of rapid action. This campaign was supported by both public sector and industry partners;

- Expanded its Change4Life programme – a national movement designed to help people eat more healthily and be more active. More than half a million adults and families have now registered to join Change4Life;
- Built on the success of the Smokefree campaign, with over 500,000 people ordering the Quit Kit last year. The updated kit was developed and distributed in conjunction with commercial and pharmacy partners;
- Launched a new campaign, supported by leading charities, to raise awareness about the signs and symptoms of the three most common cancers – bowel, breast and lung – and to encourage people to seek treatment early.

### Accounting to Parliament and the public

- 6.14 As a Department of State, DH is responsible for supporting Ministers in discharging their accountability to Parliament and the public. In meeting its accountability commitments, DH:
- Laid an unqualified 2009-10 IFRS-compliant Resource Account to a pre-recess deadline;
  - Published a total of 30 impact assessments. Two of these accompanied regulations which came into force during 2010-11, and 28 were part of the policy development process;
  - Completed a total of 114 Equality Impact Assessments: 91 screening assessments and 23 full assessments. In line with the implementation of new legislation, the Department is gradually moving to an outcomes-focussed, single stage process of equality analysis;
  - Answered 2,023 Freedom of Information (FOI) requests, responding to 100% of these within the deadline, (including permitted extensions), compared to a cross-Government average of 91% (source Ministry of Justice FOI Annual Report 2010 Publications – Ministry of Justice);
  - Answered 5,600 Parliamentary questions, dealt with 6 Health Select Committee inquiries and 7 Public Accounts Committee hearings; and
  - Supported the House of Lords ad hoc Committee on HIV/AIDS, contributed to the Lords Science and Technology Committee inquiry on Behaviour change; the Communities and Local Government Committee inquiry on localism, the House of Commons Science and Technology Committee inquiries on scientific advice and evidence in emergencies and on the UK Centre for Medical Research and Innovation; and the Environmental Audit Committee's inquiry into sustainable development.

### Supporting our staff to succeed

- 6.15 The Department can only meet its objectives and discharge its responsibilities by having a highly-skilled, professional and motivated workforce, these being supported by the right tools and infrastructure to help them succeed. This work includes:
- Provision of appropriate training and development opportunities; and
  - Provision of effective and efficient support services relating to Information Technology, Human Resources, accommodation and finance.
- 6.16 The Department's work in this area is supported by core values relating to its people, its overall purpose, the principle of working together, and accountability.
- 6.17 The Department is proud of its success in achieving Investors in People (IIP) re-accreditation in 2010 for a further three years, but recognises that further work can and should be done to improve its organisational capability. The IIP achievement is a real tribute to the work done by the Department's staff during the last three years in respect of organisational and personal development and performance management.

## Forward Look

### Spending Review and efficiency

- 6.18 The Department's Business Plan for 2010-11 was originally framed within the context of the 2007 Comprehensive Spending Review and the Department's 2009 Capability re-Review. Since the May 2010 General Election, the Coalition Government has set out its vision for system-wide reform, through a series of White Papers. In November 2010, the Government published the Department's Business Plan 2011-15. This Plan covers the 2010 Spending Review (SR) period, and sets out in high-level terms the Coalition Government's expectations for reform of the health, public health and social care sectors over the next four years.
- 6.19 The 2010 Spending Review (SR) set out the financial parameters for the health and social care system during the period 2011-12 to 2014-15. Total funding for health will increase by 10.3% in cash terms from £103.8 billion in 2010-11 to £114.4 billion in 2014-15. The Government also allocated an additional £2 billion to protect the delivery of social care. Whilst the health settlement is generous compared to the settlements for other Government departments, it presents greater challenges than previous Spending Review rounds, and therefore relies on an ambitious efficiency programme for health care services in the NHS and across local government.
- 6.20 The Government's priority has been to maximise the level of resources available for the frontline. The SR therefore set challenging limits for administrative expenditure in each financial year between 2011-12 and 2014-15. Total administration costs (covering DH, its ALBs, PCTs and SHAs) must fall by one third in real terms over the SR period, from £5.1 billion in 2010-11 to £3.7 billion in 2014-15. The Department's 2011-12 Plan describes how it will start to achieve these savings, whilst leading and enabling change both within the Department itself and across the wider health, public health and social care system.

### Quality, Innovation, Productivity and Prevention (QIPP)

- 6.21 The scale and complexity of the system-wide changes that the Coalition Government has set out, together with the significant tightening of financial resources following the 2010 Spending Review, represent an unprecedented set of challenges for the NHS.
- 6.22 Over the four-year Spending Review period, the NHS will face an additional demand for services from an aging population, an increase in the number of people living with multiple long-term conditions, and the need to fund new technologies and drugs. The Department believes that to achieve these demands, the NHS will have to deliver and re-invest up to £20 billion in efficiency savings, whilst continuing to drive up the quality of the services it provides.
- 6.23 Since the NHS Chief Executive first set out the potential scale of the efficiencies he required from the system, the NHS has been planning to meet the 'Quality, Innovation, Productivity and Prevention' challenge by means of staff engagement, the integration of planning and performance management, and the support provided by a number of national work streams. Every local NHS organisation has identified opportunities to achieve efficiencies, while taking account of local circumstances, needs and priorities.
- 6.24 To support these local initiatives, the Department has identified a number of national work streams. These primarily focus on commissioning:
- **Safe Care:** supporting the NHS to deliver safer care in hospitals and community settings;
  - **Right care:** providing a range of data and training to help commissioners to understand their spending patterns and thresholds, and to benchmark themselves against others. The national team will work with the clinical community to identify areas where variations in spending can be reduced, and will consider how to use the national standard contract to effect change;
  - **Long Term Conditions:** supporting and accelerating the identification of new models of care for long-term conditions, which represent the best in evidence and experience across the NHS, and which will support a range of best practice exemplars;
  - **Urgent Care:** supporting and accelerating the national roll-out of the 111, 24/7 urgent care service. In addition, the Department will provide support and best practice information to

support the commissioning of high quality and productive urgent care services; and

- **End of Life Care:** accelerating implementation of the existing national strategy to increase patient choice and reduce unplanned admissions.

6.25 National work streams established to support providers include:

- **Back office efficiency and optimal management:** delivering tools to help NHS Trusts reconfigure their back office functions (e.g. through the simplification of core functions, the introduction of standard processes and maximisation of opportunities for shared services and cost bases) to improve quality, and drive out efficiencies, thereby releasing money which the trusts can reinvest in frontline patient care;
- **Procurement review:** relating to the current architecture, and incentives to identify and address barriers to more collaborative procurement of non-clinical products;
- **Clinical support Rationalisation:** engaging pathologists to explain the opportunities that might be achieved through the reconfiguration of pathology services, and what these could offer regions as part of their regional QIPP agendas. This work is now contained within the Strategic Health Authorities' Integrated QIPP and Reform plans;
- **Supporting staff productivity:** promoting the means to give NHS staff more time for frontline patient care in order to maximize efficiency. The Department will also provide central support to organisations to help them reduce temporary staffing costs, and will continue to encourage progress in the improvement of NHS staff health and wellbeing in order to reduce sickness absence rates. The Centre for Workforce Intelligence will support NHS organisations in understanding the impact of proposed service changes on workforce education and training requirements. The Department will continue to work with employers and staff to manage the impact of change on pay, conditions and workforce flexibility; and
- **Medicines use and procurement:** offering a range of advice and support to reduce variation and waste in prescribing, including ways in which the NHS can make better use of low-cost generic medicines.

6.26 National work streams established to look at key system enablers:

- **Primary Care Contracting and Commissioning:** providing support to PCTs to enable them to commission higher quality and more efficient primary care services;
- **Workforce:** working with the NHS to improve the health and wellbeing of the workforce whilst increasing productivity.

6.27 The Department has used an extensive engagement programme to support the delivery of QIPP. This has led to a high level of understanding within both the NHS and the media about the nature and scale of the efficiency challenge facing the NHS. The Department believes that awareness of QIPP initiatives is increasing in relation to NHS managers, clinical leaders and PCT commissioners. The next stage of meeting the QIPP challenge will involve the development of local leadership, not least by increasing the skills of NHS staff through the use of the "Community Organising" and "Mobilising" approaches to change.

6.28 The 2010-11 financial year has been used by the NHS to plan their response to the QIPP challenge. Delivery against the locally identified programmes and national work streams will begin in earnest in 2011-12. It is therefore too early to identify and quantify anticipated savings in these Resource Accounts.

### Transition Programme

6.29 The Department of Health Transition Programme is intended to design and implement a new structure for the Department of Health - including the new public health service - and will also manage the implementation of the Arm's Length Body review. In addition, this programme will oversee the implementation of the health and wellbeing boards located in local authorities as an integral part of the local delivery chain.

6.30 The transition period will run broadly as follows:

- In 2011-12 and 2012-13, PCTs and SHAs will remain statutorily accountable, with more commissioning groups emerging as they develop the required level of commissioning expertise; and

- The NHS Commissioning Board will be created in shadow form, and will focus on building its own capacity, and developing the infrastructure of the new commissioning system.
- 6.31 The Department will continue to play an important role in the new system, but that role will change. The Department will continue to have a strategic role in the shape and design of the health and care system overall and in acquiring and accounting for resources at a national level. However, the Department will not micromanage the system. Consequently, some of the Department's functions will stop, others will stay the same, some will change, and a number of new areas of work will take effect. This shifting role means that the size and structure of the Department will also have to change, but this is likely to provide opportunities to develop new ways of working and to both refresh and grow staff skills and capabilities.
- 6.32 As well as laying the foundations for the new health and social care system, the Department will maintain its focus during 2011-12, and will achieve this through the NHS Operating Framework. It will also publish a White Paper on a new sustainable financial and legislative framework for social care by December 2011.
- 6.33 The Department of Health will also invest £4.9 billion in development and training for the NHS workforce during 2011-12.

## 7 DEVELOPING THE DEPARTMENT

- 7.1 The July 2009 Capability re-Review confirmed the scale and breadth of improvements achieved by the Department since the 2007 Capability Review undertaken by the Cabinet Office, and highlighted particular strengths in terms of delivery and key aspects of leadership and strategic capability. However, as with all other Government departments and the wider public sector, the next few years will bring significant financial challenges for DH. The Department will have to become smaller, more efficient and productive, and lead and manage change effectively. In its *Preparing for the Future* plans for 2010-11, the Department recognised the importance of continuing to build capability and of maintaining its progress as a healthy organisation.
- 7.2 There is clear evidence of a link between engaged staff and high levels of organisational performance. Consequently, the Department regards employee engagement as a key element in how it develops its capability. Following the most recent results of the annual Civil Service People Survey, the Department is taking action to improve the level of employee engagement, including through:
- The launch of a "transition hub" on the Department's intranet site, where information relating to the DH transition can be accessed by staff;
  - The introduction of "Your Say" – a staff discussion forum to encourage staff to become more involved in issues affecting the Department;
  - The introduction of "Open House" sessions, in which staff are able to speak directly to a Director General or the Permanent Secretary about the direction of transition; and
  - A series of workshops for staff to explore the impact of change, as well as a workshop for Senior Civil Servants entitled "Excellence in Managing Change".
- 7.3 The Department is seeking to improve how it supports and engages with its staff during the transition period, and will focus its improvement activity in three key areas:
- Developing and communicating the strategic narrative – that is, describing the future role and purpose of the Department, including how it will lead and manage change;
  - Building an understanding amongst DH staff of the nature and purpose of the changes; and
  - Engaging and developing the Department's leaders and managers.

## 8 PUBLIC INTEREST AND OTHER ISSUES

### *Public Dividend Capital*

- 8.1 Public Dividend Capital (PDC) represents the Government's investment in NHS Trusts and NHS Foundation Trusts. PDC is recorded on the Statement of Financial Position of NHS Trusts and NHS Foundation Trusts, and is an asset of the Consolidated Fund.

- 8.2 The rules governing PDC for NHS Trusts and NHS Foundation Trusts are provided in the NHS Act 2006. This allows for the use of PDC as originating capital for NHS Trusts, and initial PDC for NHS Foundation Trusts. The Act also sets out the Secretary of State's powers in determining the conditions under which PDC can be issued. Consequently, with the consent of the Treasury, the Secretary of State may determine in respect of an NHS Trust:
- the dividend which is payable at any time on any Public Dividend Capital issued, or treated as issued, to an NHS Trust or NHS Foundation Trust under the 2006 Act;
  - the amount of any such Public Dividend Capital which must be repaid at any time; and
  - any other terms on which any Public Dividend Capital is issued, or treated as issued.
- 8.3 The NHS Act 2006 also sets out how initial PDC is determined for NHS Foundation Trusts, and details the powers that the Secretary of State may exercise in setting the terms under which PDC is treated as having been issued and the dividend payable. Under the financial regime currently operating in the provider sector, both NHS Trusts and NHS Foundation Trusts are required to pay a PDC dividend to the Department. This is currently set at 3.5% of the average net relevant assets of each NHS Trust and NHS Foundation Trust.

### ***Research and Development***

- 8.4 The Department spent a little over £920.5 million on Research and Development in 2010-11. Of this, £920.3 million was provided to the National Institute of Health Research (NIHR). This funding was utilised in four key areas:
- £604.0 million – Infrastructure to provide the support and facilities the NHS needs to deliver first class research;
  - £210.5 million – Research Programmes to provide evidence to support decision making by professionals, policy makers and patients;
  - £81.4 million – Development of a research capability and talent in clinical and applied health care and social care research; and
  - £24.4 million – Systems to simplify and streamline the approvals and procedures underpinning research.

### ***Payment of Suppliers***

- 8.5 The Department complies with both the CBI prompt payment code and the British Standard on prompt payment. The Department is a signatory to the Government's Prompt Payment Code, and has a policy to pay all bills as soon as possible.
- 8.6 In 2010-11, the core Department paid 99.48% (192,668) of its invoices in accordance with the 30-day policy. The comparable figures for 2009-10 were 99.3% (215,153). In the same period, the core Department paid 97.68% (189,195) of its bills within 10 days, compared to 95.78% (207,536) in 2009-10, and 91.18% (176,609) invoices in accordance with the new 5-day target. The Department's prompt payment performance is published on the DH website, and that of the other entities consolidated into this Resource Account can be found in the individual annual accounts of those organisations.
- 8.7 The Department is required to report payment to suppliers on a payable days basis. This is calculated as a proportion of the amount owed to trade payables at the year end compared with the aggregate amount invoiced by suppliers during the year, expressed as a number of days in the same proportion to the total number of days in the financial year. Under this measure, the Department paid suppliers within an average of 15 payable days in 2010-11 (2009-10 17 payable days).

### ***Fees and Charges***

- 8.8 The information below is provided for fees and charges purposes in accordance with section 5.4.30 of the HM Treasury FReM. Primary Care Trusts have received the following income in 2010-11 in respect of Prescription and Dental charges to patients.

The financial objective of Prescription and Dental charges is to collect charges only from those patients that are eligible to pay.

	2010-11		2009-10	
	Dental £000s	Prescription £000s	Dental £000s	Prescription £000s
Fees and Charges Income	617,632	449,643	596,675	450,368
Costs	2,730,387	10,313,141	2,657,783	9,938,814
(Deficit)	<u>(2,112,755)</u>	<u>(9,863,498)</u>	<u>(2,061,108)</u>	<u>(9,488,446)</u>

All material fees & charges have been analysed in the above note.

### **Information Risk Incidents**

- 8.9 Within the core Department, there was one recorded instance of personal data loss and two near-misses during 2010-11, with two of these incidents being reported to the Information Commissioner. Internal processes were reviewed and updated where necessary. NHS organisations and Department of Health Arm's Length Bodies record any data loss incidents in their individual published accounts.

### **Contingent Liabilities**

- 8.10 Note 30 to these Accounts reports that the Department had £93.750 million in quantifiable contingent liabilities in 2010-11 which are disclosed under parliamentary reporting requirements but which are not disclosed under IAS37, as the likelihood of payment resulting is remote.
- 8.11 In addition to these quantifiable contingent liabilities, a further 31 unquantified contingent liabilities (indemnities) were recorded in 2010-11. These indemnities mainly relate to potential legal action against organisations or individuals, and the Department continues to monitor the potential risks relating to these remote contingencies.
- 8.12 In addition, in Note 29, the Department has reported a number of operational contingent liabilities which are required to be disclosed under IAS37.

### **Reporting on Better Regulation**

- 8.13 DH is committed to reducing the regulatory burden which affects business and wider society. It will achieve this ambition both by issuing fewer regulations and by improving the quality of the regulations it does produce. In Autumn 2010, the Minister of State for Health initiated a rolling review of the stock of DH regulations to support this work.
- 8.14 The principle of this reform is such that, for any direct net cost imposed on business by regulations, departments are required to identify and remove existing regulations with an equivalent value (i.e. the One-in, One-out principle). Nine DH regulations were introduced during the period April 2010 to March 2011 (comprising four in and five out), with a net financial impact at the end of March 2011 of a £1.78 million debit.
- 8.15 Examples of better regulation initiatives include:
- **Better regulation of medicines:** in partnership with the pharmaceutical industry to encourage self-regulation and ease the burden of compliance with regulations;
  - **Consolidation of medicines legislation:** the law regulating UK medicines is very complex and potentially confusing. Consolidation of the regulations in 2012 will deliver a single, shorter and more coherent text, and remove obsolete provisions;
  - **Health care workers:** published in February 2011, the "Enabling Excellence" Command Paper sets out the Government's strategy for reforming and simplifying the system of regulating healthcare workers in the UK, and both social workers and social care workers in England; and
  - **Influencing EU Regulations:** for example, the Clinical Trials Directive Review is an initiative which seeks to reduce administrative burdens, and ensure that the requirements of the Directive are flexible and proportionate to risk. The Department

believes that reducing regulation will stimulate research & innovation in the UK pharmaceutical sector.

### **Sustainable Development and Climate Change**

#### **Climate Change Plan 2010-12**

- 8.16 The UK Low Carbon Transition Plan, published on 15 July 2009, announced that all government departments would issue both a Carbon Reduction Delivery Plan and a Climate Change Adaptation Plan. DH published a combined Climate Change Plan on 31 March 2010: [http://www.dh.gov.uk/prod\\_consum\\_dh/groups/dh\\_digitalassets/@dh/@en/@ps/documents/digitalasset/dh\\_114995.pdf](http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/@dh/@en/@ps/documents/digitalasset/dh_114995.pdf)

#### **Sustainable Development Action Plan 2009-11**

- 8.17 The Department's Sustainable Development Action Plan 2009-11 was first published in July 2009: [http://www.dh.gov.uk/prod\\_consum\\_dh/groups/dh\\_digitalassets/documents/digitalasset/dh\\_102243.pdf](http://www.dh.gov.uk/prod_consum_dh/groups/dh_digitalassets/documents/digitalasset/dh_102243.pdf)
- 8.18 Progress during the first 18 months of the plan, (January 2009 to June 2010), showed that 42% of actions had been completed, with a further 25% on target for completion. Some 28% of the actions were behind target but recoverable, and the remaining 5% had been withdrawn on the grounds of no longer being relevant.

#### **Sustainable Operations**

- 8.19 In common with all other departments, the Department of Health has contributed to the Prime Minister's pledge that central government will reduce its energy consumption by 10% in the first year of the current Parliament. The Department of Health is set to meet its target reduction. The Department will also comply with its *Greener Government Operations & Procurement* commitment to reduce its carbon emissions from offices and transport by 25% by 2015.
- 8.20 The Department has deployed low energy desktop computer equipment to maximise the use of virtual technology and significantly reduce direct and indirect carbon emissions. Work will continue in 2011-12 to rationalise server storage space, and further reduce the number of physical devices in use across the Department. Print volumes in 2010-11 were more than 20% lower than in 2009-10, saving approximately six million sheets, or 29 tonnes, of paper.

#### **Sustainable Procurement**

- 8.21 The Department continued to embed sustainable development principles into its procurement practices. The annual assessment of compliance with Government Buying Standards, along with participation in a project to reduce its carbon footprint, put DH in a strong position to meet its Greening Government commitments on procurement in 2011-12.
- 8.22 The Department has made a significant contribution to cross government initiatives to develop sustainable product standards. For example, DH played a central role in developing a Carbon Literacy course with Defra and the European Funded 'Clear About Carbon' project. This has been adopted for the public sector and central Government under the National Sustainable Public Procurement Programme.

#### **NHS Sustainable Development**

- 8.23 National data indicates that the NHS has reduced its total energy consumption by 10% (from the base year of 1999-00), while the floor area used to deliver services has risen by 20%. Moreover, NHS Carbon Dioxide Emissions per area have reduced by 15% in the same period.
- 8.24 The NHS Sustainable Development Unit published its updated carbon reduction strategy in January 2010, developed a framework for supporting a sustainable health system, and has promoted a new framework for reporting sustainability. The latter will be part of the NHS financial reporting process, and includes a mixture of quantitative and qualitative indicators to highlight the progress that the NHS is making in reducing its carbon footprint.

**External auditor**

- 8.25 Finally, the Department's Resource Accounts have been prepared under a direction issued by HM Treasury in accordance with the Government Resources and Accounts Act 2000 and are subject to audit by the Comptroller and Auditor General. As far as the Accounting Officer is aware, there is no relevant audit information of which the Department's auditors are unaware, and the Accounting Officer has taken all the steps necessary to make herself aware of any relevant audit information and to establish that the Department's auditors are aware of that information.

Una O'Brien

31 August 2011

Permanent Secretary & Accounting Officer  
Department of Health  
Richmond House  
79 Whitehall  
London SW1A 2NS

## Publications List

HMT Direction for Accounts

[http://www.hm-treasury.gov.uk/d/accounts\\_direction\\_guidance.pdf](http://www.hm-treasury.gov.uk/d/accounts_direction_guidance.pdf)

HMT Supply Estimates

[http://www.hm-treasury.gov.uk/psr\\_estimates\\_mainindex.htm](http://www.hm-treasury.gov.uk/psr_estimates_mainindex.htm)

HMT Public Expenditure White Paper

[http://www.hm-treasury.gov.uk/pespub\\_index.htm](http://www.hm-treasury.gov.uk/pespub_index.htm)

Finance Directors report to the Secretary of State on NHS financial Performance Quarter 4

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsStatistics/DH\\_087335](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsStatistics/DH_087335)

Annual Report of the Chief Medical Officer: On the state of Public Health

<http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports/index.htm#jumpTo2>

The NHS Operating Framework 2011-12

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_122738](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_122738)

The Revised NHS Operating Framework 2010-11

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_110107](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_110107)

Liberating the NHS White Paper

<http://www.dh.gov.uk/en/Healthcare/LiberatingtheNHS/index.htm>

Health and Social Care Bill

<http://www.dh.gov.uk/en/Publicationsandstatistics/Legislation/Actsandbills/HealthandSocialCareBill2011/index.htm>

NHS Future Forum Recommendations to Government

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH\\_127443](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_127443)

Government response to the NHS Future Forum Recommendations

[http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsLegislation/DH\\_127868](http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsLegislation/DH_127868)

## STATEMENT OF PRINCIPAL ACCOUNTING OFFICER'S RESPONSIBILITIES

1. Under the Government Resources and Accounts Act 2000, the Department of Health is required to prepare Resource Accounts for each financial year, in conformity with a HM Treasury direction, which details the resources acquired, held or disposed of, and the use of resources by the Department, during the year.
2. The Resource Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, changes in taxpayer's equity and cash flows for the financial year.
3. HM Treasury has appointed the Permanent Secretary of the Department as Principal Accounting Officer of the Department with overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General. In preparing the accounts, the Principal Accounting Officer is required to comply with the Financial Reporting Manual, prepared by HM Treasury, and in particular to:
  - observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
  - make judgements and estimates on a reasonable basis;
  - state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
  - prepare the accounts on a going concern basis.
4. In addition, HM Treasury has appointed:
  - the Chief Executive of the NHS as an Additional Accounting Officer to be accountable for expenditure on hospital and community health services, family health services, some central health services, the drugs bill and NHS Trusts' external financing; and
  - a separate Accounting Officer to be accountable for the NHS Pension Scheme and NHS compensation for premature retirement scheme Resource Account. These are produced and published as a separate account.

These appointments do not detract from the Permanent Secretary's overall responsibility as Principal Accounting Officer for the Department's accounts.

5. The responsibilities of an Accounting Officer, including responsibility for regularity and accounting accurately for their organisation's financial position and transactions are set out by HM Treasury in *Managing Public Money*.

## REMUNERATION REPORT

### Remuneration Policy

1. The remuneration of senior civil servants (SCS) is set by the Prime Minister following independent advice from the Senior Salaries Review Body (SSRB).
2. The Review Body also advises the Prime Minister from time to time on the pay and pensions of Members of Parliament and their allowances; on Peers' allowances; and on the pay, pensions and allowances of Ministers and others whose pay is determined by the Ministerial and Other Salaries Act 1975.
3. In reaching its recommendations, the Review Body has regard to the following considerations:
  - the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
  - regional/local variations in labour markets and their effects on the recruitment and retention of staff;
  - Government policies for improving the public services including the requirement on Departments to meet the output targets for delivery of Departmental services;
  - the funds available to Departments as set out in the Government's Departmental expenditure limits; and
  - the Government's inflation target.
4. The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at [www.ome.uk.com](http://www.ome.uk.com).

### Remuneration of Board Members and Directors General

5. The remuneration of the Permanent Secretary, the Chief Executive of the NHS and the Chief Medical Officer is set by the Prime Minister on the recommendation of the Permanent Secretaries' Remuneration Committee. Departments are given discretion in some areas to adapt the pay system to local needs under the auspices of a Departmental Senior Pay Strategy Committee and to produce an annual senior pay strategy agreed by the Committee. The strategy document sets out how the system operates in the Department. In 2010, the Senior Pay Strategy Committee was chaired by Sir Hugh Taylor (Permanent Secretary). The other members were Sir David Nicholson (NHS Chief Executive), Sir Liam Donaldson (Chief Medical Officer), Julie Baddeley (Non-Executive Director), Harbhajan Brar (HR Director), Simon Reeve (FDA) and Kent Woods (Chief Executive, Medicines and Healthcare Products Regulatory Agency - MHRA). In 2011, the Senior Pay Strategy Committee was chaired by Una O'Brien (Permanent Secretary). The other members were Sir David Nicholson (NHS Chief Executive), Dame Sally Davies (Chief Medical Officer), Mike Wheeler (Non-Executive Director), Harbhajan Brar (HR Director), Simon Reeve (FDA) and Kent Woods (Chief Executive, Medicines and Healthcare Products Regulatory Agency - MHRA).
6. From 1<sup>st</sup> April 2010, there was no change in base pay levels for the SCS.
7. The remuneration of Directors General is determined by a pay committee in accordance with the rules set out in the Civil Service Management Code (Chapter 7.1, Annex A). In 2010 the relevant Committee was chaired by Sir Hugh Taylor (Permanent Secretary). The other members were Sir David Nicholson (NHS Chief Executive), Sir Liam Donaldson (Chief Medical Officer), Julie Baddeley (Non-Executive Director) and Harbhajan Brar (HR Director). In 2011 the relevant Committee was chaired by Una O'Brien (Permanent Secretary). The other members were Sir David Nicholson (NHS Chief Executive), Dame Sally Davies (Chief Medical Officer), Mike Wheeler (Non-Executive Director) and Harbhajan Brar (HR Director). Una O'Brien did not participate in any aspect of the Pay Committee's deliberations on any award for her period as a Director General.

8. In the case of the three inward secondees who served as Directors General, various remuneration arrangements apply. One of the secondees (Sir Bruce Keogh) is subject to SCS terms and conditions, which means that his pay is determined in the same way as the civil servants who are permanent employees of the Department. Sir Bruce Keogh remains a member of the NHS Pension Scheme. The pay of David Flory is determined in accordance with the Pay Framework for Very Senior Managers (VSMs) in the NHS which falls under the remit of the Senior Salaries Review Body. Any non-consolidated performance pay payable is subject to recommendation from the Department's Pay Committees. As a Doctor, the remuneration of Professor Dame Sally Davies is subject to recommendation from the Doctors' and Dentists' Review Body.

### Service Contracts

9. Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. Further information about the work of the Civil Service Commissioners can be found at <http://www.civilservicecommissioners.gov.uk>.
10. Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme available on the civil service website, [www.civilservice.gov.uk](http://www.civilservice.gov.uk).

## **A – MEMBERS OF THE DEPARTMENTAL BOARD AND DEPARTMENT OF HEALTH MANAGEMENT COMMITTEE (FORMERLY THE CORPORATE MANAGEMENT BOARD)**

11. This Remuneration Report covers Ministers, Non-Executive Directors, and all officials sitting on the Departmental Board (DB) and the Department of Health Management Committee (DHMC) (formerly the Corporate Management Board (CMB)). The following elements of the Remuneration Report are subject to audit:
- Salaries (including non-consolidated performance pay) and allowances;
  - Compensation for loss of office;
  - Non-cash benefits;
  - Pension increases and values;
  - Cash Equivalent Transfer Values (CETV) and increases;
  - Amounts payable to third parties for the services of senior managers.
12. The following table details the dates of appointment, and where appropriate, departure, of the 16 officials sitting on the DB, CMB or DHMC. Thirteen held permanent Senior Civil Service contracts during this period and three were seconded into the Department.

Individual	Job Title	Date of Appointment to Grade/Departure	Employing Authority (if Seconded)
<b>SCS Contract</b>			
Dame Christine Beasley	Chief Nursing Officer	19 October 2004	
David Behan	Director General of Social Care, Local Government and Care Partnerships	29 August 2006	
Clare Chapman	Director General of Workforce	3 January 2007	
Christine Connelly	Director General – Chief Information Officer	22 September 2008	
Sir Liam Donaldson	Chief Medical Officer	21 September 1998 – 31 May 2010	
Richard Douglas	Director General of Finance and Chief Operating Officer to 31 July 2010; interim Permanent Secretary (1 August 2010 – 31 October 2010), Director General Policy, Strategy & Finance from 1 November 2010	1 May 2001	
David Harper	Director General of Health Improvement and Protection	14 October 2003	
Sian Jarvis	Director General of Communications	1 April 2004	
Sir David Nicholson	NHS Chief Executive	1 September 2006	
Una O'Brien	Director General of Policy and Strategy to 31 October 2010, Permanent Secretary from 1 November 2010	1 October 2007	
Sir Hugh Taylor	Permanent Secretary to 31 July 2010	18 December 2006 – 31 July 2010	
Gary Belfield	Acting Director General of Commissioning and System Management	15 June 2009 – 31 May 2010	
Flora Goldhill	Acting Director General – Chief Operating Officer and Transition for the Department of Health from 6 September, Acting Director General - Transition for the Department of Health from 1 November 2010	6 September 2010	
<b>Secondments</b>			
Dame Sally Davies	Director General of Research and Development and interim Chief Medical Officer from 1 June 2010. Chief Medical Officer from 3 March 2011	1 May 2005	North West London Hospitals Trust
David Flory	Director General of NHS Finance, Performance and Operations	1 June 2007	NHS North East
Sir Bruce Keogh	NHS Medical Director	12 November 2007	UCL Hospitals NHS Foundation Trust

13. Table 1 provides details of remuneration interests of DB, CMB and DHMC members (provided on page 49).

14. Table 2 provides details of pension interests of DB, CMB and DHMC members (provided on page 50).

### Salary

15. 'Salary' includes gross salary; performance pay or non consolidated performance pay; overtime; reserved rights to London Weighting or London allowances; and any other allowance to the extent that it is subject to

UK taxation. For the performance year 2009-10, the Permanent Secretary's bonus allocation was donated to the Civil Service Benevolent Fund.

### Non-Consolidated performance pay

16. The performance management and reward policy for members of the Senior Civil Service, including board members, is managed within a central framework set by the Cabinet Office. The framework allows for non-consolidated performance-related awards following SSRB recommendations. The Senior Civil Service Performance Management and Reward principles, which include explanations of how non-consolidated performance awards are determined, can be found at: [www.civilservice.gov.uk](http://www.civilservice.gov.uk). SCS non-consolidated performance pay is allocated from a central 'pot', which is agreed each year following SSRB recommendations, and is expressed as a percentage of the Department's total base pay for the SCS. Pay Committees are responsible for assessing, in the light of the SCS Pay Strategy, the relative contribution of individual SCS members and making the final pay decisions. Non-consolidated performance pay is awarded in arrears. The non-consolidated performance pay included in the 2009-10 figures in Table 1 relates to awards made in respect of the 2009-10 performance year but paid in 2010-11. Similarly, the non-consolidated performance pay included in the 2010-11 figures in Table 1 relate to awards made in relation to the 2010-11 performance year, but which will be paid in 2011-12. Following Cabinet Office recommendations, non-consolidated performance awards could be awarded to no more than 25% of the SCS for the performance year 2010-11.

### Benefits in Kind

17. The monetary value of benefits in kind covers any payments (for business expenses or otherwise) or other benefits provided by the Department which are treated by HM Revenue & Customs as a taxable emolument. For its direct employees, the Department pays the individual a net sum and pays tax directly to HMRC.
18. Five members received payments deemed by the HMRC to be benefits in kind. In line with Departmental policy, Sir David Nicholson received an allowance for the extra costs of living away from his home base. Sir David is based in Leeds, and the payment covered the cost of rent and related expenses for staying in London where he has an office and is required to spend several days each week. In 2010-11 Sir David received £59,657 (gross). Sir David gave up his rented accommodation in London in May 2011. The last payment for rent and related expenses was also in May 2011. He is also entitled to one return journey per week from his home base to London, this amounted to £8,210 (gross) in 2010-11. Sir David received a payment of £2,526 to cover the tax due on his benefits in kind in the 2009-10 tax year.
19. David Flory has been on secondment from North East Strategic Health Authority since 1st June 2007. He is entitled to accommodation and travel expenses for living away from home. As the secondment has gone beyond two years, these expenses are accounted for as a benefit in kind, which in 2010-11 amounted to £35,769 (net). He also has the benefit of a lease car under the North East SHA's family lease car salary sacrifice scheme. Even though the car is not for work use, there is a benefit in kind of £1,902 in 2010-11.
20. Sir Bruce Keogh is entitled to claim one return journey per week from his home base to London. This amounted to £3,334 (gross) in 2010-11.
21. Sir Hugh Taylor, Sir Liam Donaldson and Sir David Nicholson have had the benefit of a Government car for part of the year. In 2010-11 this was assessed as a benefit of £314 for Sir Hugh Taylor, £314 for Sir Liam Donaldson and £1,947 for Sir David Nicholson. This is a provisional assessment of their benefits, pending confirmation by HMRC. Sir Hugh Taylor and Sir Liam Donaldson ceased to have the benefit of a Government car from 30th April 2010 and Sir David Nicholson ceased to do so from 19<sup>th</sup> August 2010. Una O'Brien has not had the benefit of a Government car.

### Civil Service Pensions

22. Pension benefits are provided through the Civil Service pension arrangements. From 30th July 2007, civil servants may be in one of four defined benefit schemes; either a "final salary" scheme (classic, premium or classic plus); or a "whole career" scheme (nuvos). These statutory arrangements are unfunded with the

cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium, classic plus and nuvos are increased annually in line with Pensions Increase legislation. Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (partnership pension account).

23. Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium, classic plus and nuvos. Benefits in classic accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years' initial pension is payable on retirement. For premium, 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. Classic plus is essentially a hybrid with benefits in respect of service before 1 October 2002 calculated broadly as per classic and benefits for service from October 2002 calculated as in premium. In nuvos a member builds up a pension based on his/her pensionable earnings during their period of scheme membership. At the end of the scheme year (31st March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is updated in line with Pensions Increase legislation. In all cases, members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.
24. The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).
25. The accrued pension quoted is the pension the member is entitled to receive when they reach pension age or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is currently 60 for members of classic, premium and classic plus and 65 for members of nuvos.
26. Further details about the Civil Service pension arrangements can be found at the website [www.civilservice-pensions.gov.uk](http://www.civilservice-pensions.gov.uk).

### **Cash Equivalent Transfer Values**

27. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are drawn.

### **Real Increase in CETV**

28. This reflects the increase in CETV that is funded by the employer. It does not include the increase in accrued pension due to inflation or contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It does rely on common market valuation factors for the start and end of the period.

The following tables are subject to audit:

Table 1 - Remuneration interests of DB and CMB Members

	2009-10					2010-11				
	Salary (excl non- consol perf pay)	Full Year Equivalent Salary (excl non- consol perf pay)	Bonus Payments <sup>3</sup>	Benefit in Kind (gross)	Benefit in Kind (net)	Salary (excl non- consol perf pay) <sup>4</sup>	Full Year Equivalent Salary (excl non- consol perf pay)	Bonus Payments <sup>5</sup>	Benefit in Kind (gross)	Benefit in Kind (net)
	£ '000	£ '000	£'000	nearest £100	nearest £100	£ '000	£ '000	£'000	nearest £100	nearest £100
Dame Christine Beasley	140-145	140-145	5-10	Nil	Nil	140-145	140-145	Nil	Nil	Nil
David Behan	180-185	180-185	5-10	Nil	Nil	180-185	180-185	5-10	Nil	Nil
Clare Chapman <sup>7</sup>	220-225	220-225	25-30	Nil	Nil	220-225	220-225	35-40	Nil	Nil
Christine Connelly	200-205	200-205	5-10	Nil	Nil	200-205	200-205	Nil	Nil	Nil
Dame Sally Davies <sup>1</sup>	225-230	225-230	Nil <sup>8</sup>	Nil	Nil	225-230	225-230	Nil <sup>8</sup>	Nil	Nil
Sir Liam Donaldson <sup>2,4</sup>	205-210	205-210	Nil	6,600	6,600	60-65	205-210	Nil	300	300
Richard Douglas	140-145	140-145	5-10	Nil	Nil	140-145	140-145	5-10	Nil	Nil
David Flory <sup>1</sup>	205-210	205-210	10-15 <sup>8</sup>	40,307	39,474	205-210	205-210	10-15 <sup>8</sup>	37,700	37,700
David Harper	130-135	130-135	5-10	Nil	Nil	130-135	130-135	Nil	Nil	Nil
Sian Jarvis	135-140	135-140	5-10	Nil	Nil	135-140	135-140	Nil	Nil	Nil
Sir Bruce Keogh <sup>1</sup>	190-195	190-195	5-10 <sup>8</sup>	7,600	6,800	190-195	190-195	Nil <sup>8</sup>	3,300	3,000
Sir David Nicholson	210-215	210-215	Nil <sup>3</sup>	66,300	46,500	210-215	210-215	Nil <sup>5,9</sup>	72,300 <sup>10</sup>	41,100 <sup>10</sup>
Una O'Brien	125-130	125-130	5-10	Nil	Nil	140-145	140-145	0-5 <sup>11</sup>	Nil	Nil
Sir Hugh Taylor <sup>2,4</sup>	155-160	155-160	Nil	16,100	16,100	60-65	155-160	Nil	300	300
Gary Belfield <sup>2,4,6</sup>	105-110	105-110	5-10	Nil	Nil	35-40 <sup>6</sup>	135-140	Nil	Nil	Nil
Flora Goldhill <sup>4</sup>	N/A	N/A	N/A	N/A	N/A	75-80	130-135	Nil	Nil	Nil

#### Footnotes

1) Each of these individuals was seconded into the Department from NHS organisations, and in each case was paid by the employing NHS authority. Details of their individual terms and conditions can be found in paragraph 8. The Department re-imburse the employing authority for salary and associated expenses. The table above shows the amount paid in salary by the employing authority not the amount invoiced to the Department. For the two members of staff from organisations outside the Resource Accounting boundary, the amounts reimbursed in 2010-2011 were £187,543 to North West London Hospitals NHS Trust for Dame Sally Davies and £244,886 to UCL Hospitals NHS Trust for Sir Bruce Keogh.

2) Salary for 2010-11 includes payment in lieu of untaken annual leave.

3) With the exception of Sir David Nicholson, performance pay is awarded in arrears and disclosed on an accruals basis. Therefore, the non-consolidated performance pay included in the 2009-10 column relates to the 2009-10 performance year. Actual payments in respect of this performance year were made to individuals during 2010-11. For Sir David Nicholson, the nil value included in the 2009-10 column relates to the 2008-09 performance year. Along with the Permanent Secretary and the Chief Medical Officer, Sir David agreed to voluntarily forego the non-consolidated performance pay awarded to him in respect of the 2008-09 year.

4) Details of start and end dates for those not serving the full term can be found in paragraph 12.

5) With the exception of Sir David Nicholson, performance pay is awarded in arrears and disclosed on an accruals basis. Therefore, the non-consolidated performance pay included in the 2010-11 column relates to the 2010-11 performance year. Actual payments in respect of this performance year will be made to individuals in 2011-12. For Sir David Nicholson, the non-consolidated performance pay included in the 2010-11 column relates to 2009-10 performance, paid in 2010-11.

6) Includes compensation payment of £11,321 paid in lieu of notice to avoid a conflict of interest.

7) Clare Chapman receives non-consolidated performance pay of £27,500 per annum subject to satisfactory performance. This is paid in the year to which it is related.

8) Any non consolidated performance bonus payments made are paid by their individual employing authority and not by the Department.

9) Bonus allocation for Permanent Secretaries was donated to the Civil Service Benevolent Fund

10) Sir David Nicholson gave up his rented accommodation in London in May 2011, the last payment for rent and related expenses was also in May 2011.

11) Una O'Brien received a bonus for 2010-11 pro rata for 7 months in respect of her role as a DG from April to October 2010.

Table 2 – Pension interests of DB and CMB members

		Accrued pension at pension age as at 31/3/11 and related lump sum £'000	Real increase in pension and related lump sum at pension age £ '000	CETV at 31/3/11 £ '000	CETV at 31/3/10 <sup>1</sup> £ '000	Employer contribution to Real partnership increase pension in CETV account £'000 Nearest £100
Dame Christine Beasley	Chief Nursing Officer	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 0-2.5	1,223	1,200	-1 <sup>2</sup> N/A
David Behan	Director General of Social Care, Local Government and Care Partnerships	5-10	0-2.5	158	118	26 N/A
Clare Chapman	Director General of Workforce	15-20	2.5-5	229	166	38 N/A
Christine Connelly	Director General, Chief Information Officer	10-15	2.5-5	136	79	46 N/A
Dame Sally Davies	Director General of Research and Development and Chief Medical Officer	70-75 plus lump sum of 220-225	0-2.5 plus lump sum of 5-7.5	Nil <sup>3</sup>	Nil <sup>3</sup>	0 <sup>3</sup> N/A
Sir Liam Donaldson	Chief Medical Officer	100-105 plus lump sum of 310-315	0 to -2.5 plus lump sum '0 to - 2.5	2,360 <sup>5</sup>	2,375	-8 <sup>2</sup> N/A
Richard Douglas	Director General Policy, Strategy & Finance	55-60 plus lump sum of 175-180	0-2.5 plus lump sum of 2.5-5	1,136	1,020	26 N/A
David Flory	Director General of NHS Finance, Performance and Operations	20-25 plus lump sum of 60-65	5-7.5 plus lump sum of 15-17.5	334	365	0 <sup>7</sup> N/A
David Harper	Director General of Health Improvement and Protection	50-55 plus lump sum of 150-155	0-2.5 plus lump sum of 0-2.5	1,008	935	1 N/A
Sian Jarvis	Director General of Communications	15-20 plus lump sum of 50-55	0-2.5 plus lump sum of 2.5-5	254	219	14 N/A
Sir Bruce Keogh	NHS Medical Director	70-75 plus lump sum of 215-220	0 to -2.5 plus lump sum of '-5 to -7.5	1,524	1,684	-160 <sup>7</sup> N/A
Sir David Nicholson	NHS Chief Executive	95-100	0-2.5	1,642	1,519	0 N/A
Una O'Brien	Permanent Secretary	35-40 plus lump sum of 105-110	0-2.5 plus lump sum of 0-2.5	679	621	7 N/A
Sir Hugh Taylor	Permanent Secretary	75-80 plus lump sum of 225-230	0 to -2.5 plus lump sum of 0 to -2.5	1,736 <sup>4</sup>	1,709	-3 <sup>2</sup> N/A
Gary Belfield	Acting Director General of Commissioning and System Management	55-60	0-2.5	767 <sup>6</sup>	746	10 N/A
Flora Goldhill	Acting Director General - Transition for Department of Health	55-60 plus lump sum of 175-180	2.5-5 plus lump sum of 10-12.5	1,308	1,177	73 N/A

**Footnotes**

1) The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31/3/10 and 31/3/11 have both been calculated using the new factors, for consistency. The CETV at 31/3/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors.

2) Taking account of inflation, the CETV funded by the employer has decreased in real terms.

3) Under the NHS Pension Scheme rules, the pension cannot be transferred for those over pension age so CETV value is nil.

4) CETV at 31.07.2010

5) CETV at 31.05.2010

6) CETV at 31.05.2010

7) The uprating changed from RPI to CPI and as a result transfer factors have been reviewed by the Govt Actuaries department. The new CETV factors have been used by NHS Pensions in the calculations and as a result some members CETV values have fallen since 31/3/10.

**B - MINISTERS**

29. Ministers are political appointments made by the Prime Minister; they do not have contracts of employment. Consequently notice periods and termination periods do not apply.

30. The following Ministers were in post during the 2010-11 financial year:

<b>Minister</b>		<b>Date Appointed</b>
Rt Hon Andrew Lansley CBE, MP	Secretary of State	12 May 2010
Paul Burstow MP	Minister of State	13 May 2010
Rt Hon Simon Burns MP	Minister of State	13 May 2010
Anne Milton MP	Parliamentary Under Secretary	14 May 2010
Earl Howe MP	Parliamentary Under Secretary	14 May 2010
Rt Hon Andy Burnham MP	Secretary of State	6 June 2009*
Ann Keen MP	Parliamentary Under Secretary	30 June 2007*
Phil Hope MP	Minister of State	6 October 2008*
Mike O'Brien QC MP	Minister of State	8 June 2009*
Gillian Merron MP	Minister of State	8 June 2009*
Baroness Thornton	Parliamentary Under Secretary	19 February 2010*

\* until 11 May 2010

31. There is no provision for compensation for early termination. Compensation for loss of office is payable to former Ministers at the flat-rate of three month's salary. This is set out in legislation rather than an approved Compensation Scheme. There is no other liability in the event of early termination.

32. Table 3 provides details of remuneration interests of Ministers:

	2009-10				2010-11				
	Salary	Full Year Equivalent Salary	Lords Ministers Night Subsistence	FYE Lords Ministers Night Subsistence	Salary	Full year Equivalent Salary	Lords Ministers Night Subsistence	FYE Lords Ministers Night Subsistence	Compensation for Loss of Office
	£	£		£	£	£		£	£
Phil Hope	40,646	40,646			4,589	40,646			10,162
Ann Keen	30,851	30,851			3,483	30,851			7,713
Mike O'Brien	30,484	40,646			4,589	40,646			10,162
Gillian Merron	31,301	40,646			4,589	40,646			10,162
Baroness Thornton	5,050	72,326	3,185	38,280	8,167	72,326	4,316	38,280	18,082
Andy Burnham	58,767	78,356			8,847	78,356			19,589
Andrew Lansley <sup>1 3</sup>					61,056	68,827			
Paul Burstow <sup>1 2</sup>					29,187	33,002			
Simon Burns <sup>1 2</sup>					29,187	33,002			
Anne Milton <sup>1 2</sup>					20,894	23,697			
Earl Howe <sup>1 2</sup>					60,583	68,710	16,032	18,183	

**Footnotes**

1) Ministers did not draw ministerial pay rise accruing for 2009-10; there is no increase for 2010-11 with salaries remaining at the entitled rate as at 31 March 2008.

2) Members of the Departmental Board from January 2011.

3) Chair of the Departmental Board from January 2011.

33. Table 4 provides details of pension interests of Ministers.

	Real increase in pension	Pension at End Date	CETV at Start Date (31/03/09)	CETV at End Date (31/03/10)	Employee contributions and transfers in	Real increase in CETV as funded by employer
	(£'000)	(£'000)	(£'000)	(£'000)	To nearest £1,000	To nearest £1,000
Phil Hope	0-2.5	0-5	56	59	1	1
Ann Keen	0-2.5	0-5	36	37	0	1
Andy Burnham	0-2.5	5-10	44	45	1	0
Mike O'Brien	0-2.5	10-15	186	189	1	3
Gillian Merron	0-2.5	5-10	57	61	1	1
Baroness Thornton	0-2.5	0-5	54	56	1	2
Andrew Lansley	0-2.5	0-5	0	13	4	9
Paul Burstow	0-2.5	0-5	0	9	4	5
Simon Burns	0-2.5	0-5	25	40	4	9
Anne Milton	0-2.5	0-5	0	9	3	6
Earl Howe	0-2.5	5-10	117	149	5	18

Footnotes:

1) The actuarial factors used to calculate CETVs were changed in 2010/11. The CETVs at 31/3/10 and 31/3/11 have both been calculated using the new factors, for consistency. The CETV at 31/3/10 therefore differs from the corresponding figure in last year's report which was calculated using previous factors.

### Salary

34. In respect of Ministers in the House of Commons, Departments bear only the cost of the additional ministerial remuneration; the salary for their services as an MP (£65,738 from 1st April 2010) and various allowances to which they are entitled are borne centrally. The Department does pay legitimate expenses for Ministers which are not a part of the salary or a benefit in kind.

35. However, the arrangement for Ministers in the House of Lords is different, in that they do not receive a salary but rather an additional remuneration which cannot be quantified separately from their Ministerial salaries. This total remuneration, as well as the allowances to which they are entitled, is paid by the Department and is therefore shown in full in Table 3.

### Ministerial pensions

36. Pension benefits for Ministers are provided by the Parliamentary Contributory Pension Fund (PCPF). The scheme is statutorily based (made under Statutory Instrument SI 1993 No 3253, as amended).

37. Those Ministers who are Members of Parliament may also accrue an MP's pension under the PCPF (details of which are not included in this report). The arrangements for Ministers provide benefits on an 'average salary' basis, taking account of all service as a Minister. The accrual rate has been 1/40th since 15 July 2002 (or 5 July 2001 for those that chose to backdate the change) but Ministers, in common with all other members of the PCPF, can opt for a 1/50th accrual rate and the lower rate of employee contribution. An additional 1/60th accrual rate option (backdated to 1 April 2008) was introduced from 1 January 2010.

38. Benefits for Ministers are payable at the same time that MPs' benefits become payable under the PCPF or, in the case of those who are not MPs, on retirement from Ministerial office, from age 65. Pensions are re-valued annually in line with changed Pension Increase legislation. From 1 April 2009, members pay contributions of 5.9% of their Ministerial salary if they have opted for the 1/60th accrual rate, 7.9% of salary if they have opted for the 1/50th accrual rate or 11.9% of salary if they have opted for the 1/40th accrual rate. There is also an employer contribution paid by the Exchequer representing the balance of cost as advised by the Government Actuary. This is currently 28.7% of the Ministerial salary.

39. The accrued pension quoted is the pension the Minister is entitled to receive upon reaching 65, or immediately on ceasing to be an active member of the scheme if they are already 65.

**Cash Equivalent Transfer Values**

40. A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total Ministerial service, not just their current appointment as a Minister. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

**Real Increase in CETV**

41. This reflects the increase in CETV effectively funded by the Exchequer. It does not include the increase in accrued pension due to inflation or contributions paid by the Minister. It uses common market valuation factors for the start and end of the period.

**C – NON-EXECUTIVE DIRECTORS**

42. The Department appointed two Non-Executive Directors to the Departmental Board for the first time in 2005. A third Non-Executive Director joined the Departmental Board in June 2006. Guidance about the reimbursement for Non-Executive Directors is available from Cabinet Office and reimbursement ranges from simply reimbursing expenses to significant payments for discharging substantial roles.
43. Non-Executive Directors are not employees of the Department. They are appointed for a fixed term of three years initially, with the possibility of extension. They are appointed primarily to attend DB meetings, which involve an estimated time commitment of eleven, four-hour meetings, and two overnight events per year. One of the Non-Executive Directors chairs the Department's Audit Committee (4-5 meetings per year). The Non-Executive Directors also make a significant contribution to meetings of the Performance Committee, and by working through Committees and with senior officials, also contribute to other Departmental business.
44. Either party may terminate the contract for any reason before the expiry of the fixed period by giving one month's notice in writing. There is no provision for compensation for early termination.
45. Julie Baddeley was a Non-Executive Director until 30th June 2010 and received a fee of £2,000 per day with payment of £11,000 made in 2010-11. Mike Wheeler is entitled to charge a fee of £2,000 per day, with payments of £22,000 made in 2010-11. Jonathan Rouse resigned as Non-Executive Director in October 2010. His employer was reimbursed £750 per day, with payments of £3,229 made in 2010-11. All these amounts exclude VAT. Catherine Bell was appointed on a 3 year fixed-term contract from 1st January 2011 on an annual fee of £15,000 which is paid quarterly in arrears. David Heymann was appointed on a fixed-term contract for the period January 2011 to April 2012 and is reimbursed for his expenses only. Catherine Bell was paid £3,750 for the period January to March 2011.
46. Non-Executive Directors fees are not pensionable.

Una O'Brien  
31 August 2011  
Permanent Secretary  
Department of Health  
Richmond House  
79 Whitehall  
London SW1A 2NS

**RELATIONSHIP BETWEEN ACCOUNTING OFFICERS IN THE DEPARTMENT OF HEALTH, ITS AGENCIES AND THE NHS**

1. This Note sets out the nature of the relationship between Accounting Officers in the Department of Health, its Agencies and the NHS. It refers to *Managing Public Money* published by HM Treasury.
2. As Principal Accounting Officer, the Permanent Secretary of the Department of Health is accountable for the Department's administration, some central health and miscellaneous health services, those elements of social services expenditure within the Department's responsibilities, Welfare Foods, European Economic Area (EEA) medical costs and resources voted for the Office of the Independent Regulator for NHS Foundation Trusts. These are covered by the Request for Resources 2 and Request for Resources 3 in the Department's Estimates and Accounts. As Head of the Department, she takes responsibility for the consolidation of the Department's Accounts and for the voted cash requirement, and has the Department-wide responsibility for the good management of the Department as a whole, including a high standard of financial management. This includes the parts of the Department managing the NHS (as distinct from the NHS itself) and the Department's Agencies, since they are parts of the Department operating in support of the Secretary of State. The Principal Accounting Officer is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money*.
3. As an Additional Accounting Officer the Chief Executive of the NHS is directly responsible to the Secretary of State for the management of the NHS. He is accountable for expenditure on hospital and community health services, family health services, some central health services, the drugs bill and NHS Trusts' external financing. These are covered by the Request for Resources 1 in the Department's Estimates and Accounts. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money*. He is also the Accounting Officer for the Summarised Accounts of NHS Trusts, Primary Care Trusts, Strategic Health Authorities, and Special Health Authorities where required.
4. The Chief Executive of the Medicines & Healthcare Products Regulatory Agency is accountable for the expenditure relating to this Trading Fund. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money* in respect of the Agency. His accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health.
5. Chief Executives of NHS Trusts, Primary Care Trusts and Strategic Health Authorities are designated as Accountable Officers and Chief Executives of Special Health Authorities are designated as Accounting Officers, who are accountable to Parliament through the NHS Chief Executive for the efficient, effective and proper use of all the resources in their charge. The Chief Executives of Special Health Authorities are accountable for the expenditure relating to those bodies. They are responsible for carrying out the duties set out in *Managing Public Money* in respect of those Authorities. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health.
6. The Chief Executive of the NHS Business Services Authority is also the Accounting Officer for the NHS Pension Scheme. He is responsible for carrying out the duties set out in Chapter 3 of *Managing Public Money* in relation to the operation of the NHS Pension Scheme. In respect of the administrative expenditure of the Authority, the Chief Executive's responsibilities are set out in the Authority's Framework Document and his letter of designation as Authority Accounting Officer.
7. The Chief Executives of Non Departmental Public Bodies are designated as Accounting Officers and are accountable to Parliament through either the Permanent Secretary or the NHS Chief Executive, depending upon their designation, for the efficient, effective and proper use of all the resources in their charge. They are responsible for carrying out the duties set out in *Managing Public Money* in respect of their organisations.

## STATEMENT ON INTERNAL CONTROL

### Scope of Responsibility

1. As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Health's policies, aims and objectives, while safeguarding the public funds and Departmental assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in *Managing Public Money*.
2. This Statement is given in respect of the Resource Account for the Department of Health, which incorporates the transactions and net assets of the core Department, its Executive Agencies and other bodies falling within the Departmental boundary for resource accounting purposes. This includes English NHS bodies except NHS Trusts and NHS Foundation Trusts (although the Department's investment in them is included) and certain Special Health Authorities. As Principal Accounting Officer for the Department, I acknowledge my overall personal responsibility for ensuring that the Department, its Executive Agency and other Arm's Length and NHS bodies maintain a sound system of internal control. I am supported in exercising this responsibility by the Additional Accounting Officer (the Chief Executive of the NHS) for the resources voted by Parliament for the NHS (RfR1). Both mine and the Additional Accounting Officer's roles and responsibilities are set out in a Memorandum of Understanding between us both. In particular, I have drawn on the overall statements on internal control for Strategic Health Authorities (SHAs), Primary Care Trusts (PCTs) and NHS Trusts, which he has approved, to support this Statement on Internal Control (SIC).

### The purpose of the system of internal control

3. The Department of Health's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Department's 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 Departmental policies, aims and objectives;
  - evaluate the likelihood of those risks being realised and the impact should they be realised;
  - manage them efficiently, effectively and economically; and
  - regularly review the risks being managed.
4. The system of internal control has been in place in the Department of Health for the financial year ending 31 March 2011, and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

5. The internal control system is based on a clear risk management framework and accountability process that is embedded in the Department and its Agencies via delivery and business planning processes.
6. Leadership of the system of internal control has been demonstrated by senior staff, in that they have visibly owned and supported risk assessment and control activity as a key requirement of their delivery against the Department's objectives and priorities. The Department of Health is managed by a Departmental Board (DB) within the strategic framework set by ministers. The Board is at the apex of the Department's governance system and maintains an oversight of strategy, performance and risk.
7. In December 2010 the Board was enhanced in line with the Coalition Government's Guide to Board Protocol and the Department's governance arrangements were reviewed. This resulted in two sub Committees of the then Corporate Management Board (CMB) - the Corporate Management and Improvement Committee (CMIC) and the Policy Committee - being wound up, along with the following groups:
  - the Performance Committee (PC);
  - the Committee for the Regions; and
  - the Equality and Human Rights Assurance Group (see paragraph 36 below).

8. The Department's new Board is supported by the:
- Executive Board (EB) from January 2011, which is attended by officials leading the Department's transition programme;
  - NHS Management Board (NHSMB) and the NHS Operations Board which provide leadership for the NHS and supports the NHS Chief Executive in the discharge of his responsibilities as the Additional Accounting Officer;
  - DH Management Committee (DHMC), which until January 2011 was known as the CMB, and which provides leadership for the work of the Department and ensures the proper operation of systems of governance and financial control necessary for the Permanent Secretary to meet her personal responsibility as Accounting Officer;
  - Transition Board, which oversees the design and implementation of the new health and care system. The Board manages two key programmes of work, one to design the new health and care system, and one to implement that design; and
  - the Audit and Risk Committee ((ARC) - formerly the Audit Committee), which provides advice to the Principal Accounting Officer, the Additional Accounting Officer, and the Department's Board on risk management, corporate governance, and assurance arrangements in the Department and its subsidiary bodies.
9. The Department's policy is to know about its risks; have clear accountabilities and robust and consistent procedures in place for the management of them; and to have staff at all levels who possess the necessary competencies in risk management. The Department's risk framework makes clear that all staff have a responsibility for identifying, assessing, addressing, monitoring and reviewing risks to the achievement of objectives in the areas of work for which they are responsible and engaging with stakeholders and partners on identifying and mitigating risks. For example, until September 2010, the Department's Health Care Associated Infections (HCAI) Improvement Programme engaged with NHS Trusts to reduce the risks of healthcare associated infections by helping them to diagnose issues that prevent reductions in infections, and support them to develop and implement practical action plans.
10. The Department's policy and guidance on risk management is kept under active review by the DB's Secretariat, working closely with the Governance team, to ensure that it is fully in line with the latest Treasury guidance on corporate government and risk. The risk policy is underpinned by a single IT system for capturing and monitoring information about risks, supported by an electronic desk-based training tool, and a Department of Health specific one-day training course, which help to ensure that good practice is shared across the Department.
11. During 2010-11, the format of the strategic risk register was revised; risks on the register are now considered under three categories: business as usual, transition-specific and inherent in the new system.
12. The Department's Internal Audit (IA) team conducts periodic reviews of the Department's capacity to handle risk and assesses the Department's risk management maturity.

### **The risk and control framework**

13. Within the Department, I operate an accountability process based around compliance with five core assurance standards:
- risk management;
  - planning and delivery;
  - resource management;
  - policy development, and
  - governance of Arm's Length Bodies (ALBs).
14. Risk management has been integrated into the Departmental Planning process and further improvements have been implemented to link Directorate level operational risks with strategic risks. Similarly, the 2010-11 Budget Accountability letters, issued to Directors General (DGs) in April 2010, were accompanied by guidance on the Department's updated corporate core assurance standards, which sets out how Directorates can judge and report on their compliance against the five core

assurance standards. The risk management standard sets out the DGs' accountabilities for identifying, assessing, communicating, escalating and managing risk in their Directorates.

15. DGs and their staff are responsible for risk management through the performance management system. In their business plans for 2010-11, directorates set out key risks or dependencies that could affect successful delivery and were expected to assess the risk potential for all significant programmes of work, particularly where investment decisions would be required.
16. In November 2010, the Department published its Business Plan 2011–15. The Structural Reform Plan (SRP) section in the Plan sets out how the Department would achieve the actions that were needed to deliver the Coalition Government's programme of reform of health, public health and social care. SRPs, and the public reporting arrangements associated with them, replaced the previous system of Public Service Agreements (PSAs). Each month, the Department publishes a simple report on its progress in meeting the SRP commitments. These reports are available on the DH website and on the Number 10 website. The Business Plan provides the basis for the Department's internal business planning and performance reporting processes, which are key to providing assurance to the Board on the delivery of the Department's objectives.
17. During 2010, the Department launched a major programme of change to plan and implement the NHS and wider DH and Public Health reforms. This constitutes one of the biggest change programmes the Department has undertaken. As with any such change programme, it brings some significant risks given that the restructuring will affect operational effectiveness, and carry a significant cost during a period of financial contraction and controls. The programme has been established and run as an integrated programme of reform between DH and the NHS, and is closely overseen by myself and David Nicholson who are the programme Senior Responsible owners. It is managed through both a Transition Programme Board and the Department's EB, and its risks have been closely managed as an integrated part of the Department's strategic risk register, reviewed monthly at the EB. In addition, since it was formed in July 2010, the programme has been subject to a series of external reviews by the Cabinet Office's Major Projects Authority.
18. DB is responsible for the ownership and oversight of high-level strategic risks. Throughout the year the Board, supported by its Audit and ARC and other Committees, has maintained an overview of the strategic risks. Each risk on the strategic register has a Board level owner. During 2010-11, members have challenged risk ratings, suggested new risks and commissioned additional mitigation activity where appropriate. Risks have also been removed from the strategic register when the Board were confident that these were being well managed in the Department.
19. Directorate level operational risks are monitored using the Department's Enterprise Project Management system. These risks are escalated to the departmental and the corporate risk registers where appropriate, for consideration and action by the DHMC and the DB. The Board Secretariat commissions regular updates of risks from directorates.
20. Regarding Information Risk, the Department confirmed its compliance with the Cabinet Office's Information Assurance Model Level 1 in managing its Information Risk in 2010, and is working towards Level 2. An Internal Audit review in 2010 highlighted variations in awareness of and compliance with information security requirements in the Department. All the recommendations in the report were accepted and are being addressed, and awareness activities, some of which are ongoing, have been taken forward. Quarterly risk assessments and staff's responses to the Civil Service people survey showed greater understanding of the issues and how to address them. Continued work with the ALBs and third party suppliers has demonstrated increased engagement.
21. For the accounts for the 2009-10 financial year, and continued for 2010-11, an additional level of assurance was introduced into the risk and control framework between the Department and the NHS. This requires SHA Chief Executives to confirm the accuracy of PCT and NHS trust disclosures of significant control issues, and to indicate whether any of these issues warrant disclosure in the SICs in the NHS Summarised Accounts and the Resource Account.

**Review of effectiveness**

22. As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by the work of the internal auditors and the executive managers within the Department who have responsibility for the development and maintenance of the internal control framework, and other comments made by external auditors in their management letter and other reports.
23. The EB has ensured proper governance in respect of the Department's SRP. Prior to this until May 2010, the Department's Performance Committee oversaw the Department's Strategic Objectives, PSAs (including the Department's contribution to the cross-government PSA led by other departments), finance, major programmes, and value for money. The PC and the EB have been successful in delivering these priorities, in challenging areas of poor performance and where there has been a need to tighten reporting requirements. They have therefore added value to the Department's accountability arrangements, and reported on performance to the DB.
24. The Department's ARC advises the Accounting Officers and the Board on the quality of risk management, corporate governance and internal control in the Department. The ARC seeks assurance that robust governance arrangements are in place for all the Department's ALBs. It has reviewed this statement in draft and its comments on evidence of assurances received have been reflected in the final version.
25. Within the Department, the IA team provides an independent assurance function on the robustness of governance and internal control processes. The Head of IA's Annual Opinion is as follows:
- 'In accordance with the requirements of the Government Internal Audit Standards (GIAS), I am required to provide the Accounting Officer with my annual opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.*
- My opinion is based on the outcomes of the work that Internal Audit has conducted throughout the course of the reporting year and on the follow up action from audits conducted in the previous reporting year. There have been no undue limitations on the scope of audit work and the appropriate level of resource has been in place to enable the function to satisfactorily complete the work planned.*
- My overall opinion is that I can give reasonable assurance to the Accounting Officer that the Department of Health has had adequate and effective systems of control, governance and risk management in place for the reporting year 2010-11.'*
26. During the year, I received regular updates and feedback from my Head of IA on the outcomes of assurance work. The IA programme found that the Department has effective systems of control in most business areas. However, it found deficiencies in specific areas and indicated the need for continued emphasis on improving and developing the culture of control so as to ensure that everyone within the organisation takes proper account of their responsibilities particularly in relation to procurement and financial management. Action has been and continues to be taken in areas where any weaknesses were identified, including those in directorates where the staffing of core business and financial management processes has been subject to in-year reduction and change as a result of a planned reduction in the Department's non-permanent workforce. This has been accompanied by effective monitoring and reporting arrangements to embed the changes.
27. On the basis of a summary report (prepared by my Governance Team), I have reviewed the end of year assurance statements provided to me by all DGs, which recorded the position in their business groups over the year. These confirmed that the Department has adequate and effective systems of control in most cases, and that assurance arrangements are in place to pick up and address any weaknesses.
28. In order to secure improvements in terms of cost, security, financial controls, quality, service delivery and time to procure, the Department carried out a fundamental review of all "procure to pay" business processes. The case for the centralisation of procurement was based on the need to reduce duplication of effort, to pool volume purchase for discounts, to increase the skill of specialist procurement staff, and

to enhance the Department's relations with its suppliers. The Department's new procurement system came into operation on 1 April 2011 and will provide the basis for:

- **Improved controls** – to introduce less complex levels of interaction between business areas and procurement specialists while maintaining tight financial approval procedures; ensure a substantial reduction in the number of staff involved in procurement activity, thereby reducing the risk of error and potential fraud; provide more accessible information which will improve probity and increase audit assurance; and avoid re-work by procurement staff.
- **Better purchasing decisions** – the central procurement function will be highly skilled, and will use industry approved metrics to provide assurance of cost-effectiveness; it will act as a catalyst to drive up procurement skills, not least through the provision of training and will ensure consistency across all major procurement spend in the Department. The central function will ensure that there is an appropriate level of challenge to suppliers with regard to cost and levels of service.

29. In response to the changing shape of the Department, the cost reductions required in the spending review and the anticipated significant change and movement between directorates, IA have been commissioned to undertake a review of governance, financial management and operational arrangements within each directorate of the Department. The objectives of these reviews are:

- to confirm that financial control processes are effective and being proactively managed and that corporate policies are being consistently complied with;
- that an adequate scheme of delegated authorities is operating across directorates and that funds are being disbursed with proper authorisation and transparency;
- that directorate boards have appropriate oversight arrangements and provide effective guidance, direction and supervision;
- that directorate boards actively manage key risks within their business areas;
- that records and audit trails are effectively maintained which demonstrate controls are working effectively in practice.

30. In addition to the Department's internal processes, I gain assurance from:

- assessments by SHAs which, as part of their role of performance management of PCTs and NHS Trusts, identify local risks to delivery, where necessary coordinate mitigation actions, and report into NHS MB discussions;
- work by the Care Quality Commission during the year;
- reports from the National Audit Office (NAO) (Annex A) resulting from their work in the Department and the NHS, and the Public Accounts Committee (Annex B);
- the Department's DH IA report for 2010-11;
- work by the NAO's financial audit team during the year;
- Gateway reviews of large projects; and
- assessments of the Department's work by other external units.

31. The NHS National Programme for IT (NPfIT) is run as a managed programme by NHS Connecting for Health which is part of the Department's Informatics Directorate. Following a review of the National Programme for IT in 2010, the Department concluded that a centralised, national approach was no longer necessary and that a more locally-led plural system of procurement should operate, although national systems already procured should continue. The change to a modular approach allowed NHS organisations to introduce smaller, more manageable change in line with their business requirements along with locally driven solutions that embody the core assumption of 'connect all' rather than 'replace all' systems. It also reflected the Coalition Government's commitment to ending top down government and enabling greater localised decision making. Minister of State for Health announced in September 2010 that the activities of the programmes should no longer be managed as a single programme but broken into National Infrastructure, National Applications and Local Services. Risk continues to be

managed in a structured way through the Department's National Programme Board which also provides the main governance framework for the Programme. In addition, regular Gateway Reviews of the NPfIT are carried out in conjunction with the Office of Government Commerce.

32. In Hugh Taylor's (Permanent Secretary until July 2010) statement in 2009-10 he noted that the account in which prescription charges are recorded, the NHS Business Services Authority (BSA) Pharmaceutical Account, was qualified for a number of years on the grounds of regularity, because of an estimated loss of revenue due to patients fraudulently claiming entitlement to free prescriptions. For 2010-11 there was no Pharmaceutical Account and accountability for this expenditure was devolved to SHAs and PCTs.
33. The previous Government had announced a policy intention to phase out prescription charges for people with long-term conditions. The Coalition Government has stated that it would continue to consider options for creating a fairer system of prescription charges, taking account of the NHS financial context. The Department of Health and NHS Protect (which leads on work to identify and tackle crime across the health service) continue to consider a number of options for reducing prescription charge fraud, which are proportionate in terms of the level of administrative activity involved versus the potential for maximising prescription charge revenue collected. Any new processes will need to ensure that pharmacists are always able to dispense urgently needed medicines.
34. The reform of the NHS has provided opportunities for considering how fraud (not just prescription fraud) can be dealt with more effectively. The fraud provisions in the current NHS Act are retained in the Health Bill. The issue of operational responsibility for managing fraud will be taken forward as part of the reforms.
35. Another major policy change on the horizon that relates to the issue of exemption from payment of prescription charges is benefits reform, with the introduction of Universal Credit in 2013. Universal Credit will, over time, replace current means tested benefits that provide access to free prescriptions. We are working with Department for Work and Pensions to ensure that patients who are eligible for free prescriptions because they are in receipt of Universal Credit can provide evidence of their exemption status to the dispenser.
36. Last year's statement also reported progress on compliance with equality duties and the Single Equality Scheme. As part of consolidated action to strengthen compliance, in September 2010 the Department entered into a voluntary 18 month Framework Agreement with the Equality and Human Rights Commission. All DGs committed to action to ensure equality was integral to key planning and reform activities and this was overseen by a DG level chaired Equality and Human Rights Assurance Group.
37. For the Department's ALBs, I have reviewed the end of year assurance statements provided by the senior member of staff in the Department responsible for sponsoring each ALB. These statements set out how they have complied with the governance of the ALB standard (see paragraph 13) and whether there are any significant issues to report in respect of financial controls and risk management, for example as set out in their ALB's SICs. On this basis I have concluded that at least minimum assurance standards are being met.
38. For the Department's Regional Public Health Offices, I have been assured that appropriate controls are in place in each of the regions and there are no significant control issues to report.
39. The SICs prepared for the NHS Summarised Accounts, approved by the NHS Chief Executive as Additional Accounting Officer for RfR1, have been drawn on in compiling this Statement. The significant control issues disclosed by the NHS Bodies are included in the NHS SIC.
40. For NHS Trusts and PCTs, SHAs have collated information from the Accountable Officers' own SICs and IA reports in their area, and the SHA Executives have reviewed these collations. These show that an adequate system of internal control was in place and there were no significant control issues to report.

41. In 2010-11, expenditure remained within the sums voted by Parliament and the Department of Health resources limit set by HM Treasury. Overall, there was a planned net surplus of £1.34 billion for SHAs and PCTs. The aggregate surplus delivered in 2010-11 by SHAs and PCTs of £1.37 billion will be carried forward to 2011-12.
42. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the DB, and the ARC and plan to address weaknesses and ensure continuous improvement of the systems in place.

### **Significant internal control issues**

#### Delayed publication of the Resource Accounts

43. The Department failed to meet the Treasury timetable to publish the Resource Accounts before Parliament rose for the summer. The delay was due to a number of factors, none of which I consider individually to represent a significant internal control problem. Nevertheless, I consider the delay to laying the Resource Accounts, resulting from the cumulative impact of these factors, to represent a significant control problem. Each one of the individual issues is being addressed, and the Department is undertaking a lessons learnt review with the advice and assistance of the NAO to ensure that the 2011-12 Resource Accounts are published by the agreed date.

### **Conclusion**

44. I conducted my review of the effectiveness of the system on internal control in the Department of Health jointly described above, in parallel with that of the NHS Chief Executive as Additional Accounting Officer. Within the NHS, SHAs will continue to monitor and review the ongoing development and embedding of systems of internal control by PCTs and NHS Trusts.
45. In the Department overall, leadership of the system of internal control has been shown by senior staff in visibly owning and supporting risk assessment and control activity, in particular in support of the Structural Reform Programme and the Coalition Government's proprieties in respect of Health.

**Una O'Brien**  
**Permanent Secretary and Principal Accounting Officer**  
**31 August 2011**

## **THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS**

I certify that I have audited the financial statements of the Department of Health for the year ended 31 March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cashflows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Accounting Officer and auditor**

As explained more fully in the Statement of Principal Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Department's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Department; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report and Management Commentary to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Opinion on Regularity**

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### **Opinion on Financial Statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Department's affairs as at 31 March 2011 and of its net cash requirement, net resource outturn and net operating cost, for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the Annual Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I report by exception**

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

**Report**

I have no observations to make on these financial statements.

Amyas CE Morse  
Comptroller and Auditor General

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

5 September 2011

**Statement of Parliamentary Supply**

for the year ended 31 March 2011

**Summary of Resource Outturn 2010-11**

Request for Resources	Note	Estimate			Outturn			2010-11	2009-10
		Gross Expenditure £'000	A-in-A £'000	Net Total £'000	Gross Expenditure £'000	A-in-A £'000	Net Total £'000	Net total outturn compared with Estimate savings /(excess)	Net Total
								£'000	£'000
1	2	107,658,628	21,232,160	86,426,468	103,533,399	(20,530,456)	83,002,943	3,423,525	79,123,904
2	2	3,811,329	97,182	3,714,147	3,455,694	(85,777)	3,369,917	344,230	3,245,927
3	2	15,949	-	15,949	14,168	-	14,168	1,781	14,300
<b>Total resources</b>	3	<b>111,485,906</b>	<b>21,329,342</b>	<b>90,156,564</b>	<b>107,003,261</b>	<b>(20,616,233)</b>	<b>86,387,028</b>	<b>3,769,536</b>	<b>82,384,131</b>
<b>Non-operating cost A-in-A</b>	4			<b>820,837</b>			<b>447,247</b>	<b>(373,590)</b>	<b>445,655</b>

**Net cash requirement 2010-11**

Net cash requirement	Note	2010-11		2009-10	
		Estimate	Outturn	Net total outturn compared with estimate Saving/ (excess)	Outturn
		£'000	£'000	£'000	£'000
	4	87,353,929	84,747,714	2,606,215	80,720,663

**Summary of the income payable to the Consolidated Fund**

In addition to appropriations in aid, the following income relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

Total	Note	Forecast 2010-11		Outturn 2010-11	
		Income	Receipts	Income	Receipts
		£'000	£'000	£'000	£'000
	5	-	-	750,286	735,845

Explanations of variances between Estimate and outturn are given in the Management Commentary.

**Footnotes**

a) In line with HM Treasury advice, Prior Period Adjustments (PPAs) arising from the removal of the cost of capital charge were not included in Spring Supplementary Estimates for 2010-11, other than as a note, on the basis that the PPA numbers could have been misleading. The impact of this accounting policy change on the Supply outturn in 2009-10 is shown in Note b). PPAs arising from an error in previous recording or any other change in accounting policy were included in the Estimates in line with conventional arrangements.

b) The removal of the cost of capital charge has the following effect on the Resource outturn in 2009-10. The Statement of Parliamentary Supply and related notes have not been restated for this effect.

	<b>2009-10</b>
	<b>£'000</b>
Net Resource Outturn (Statement of Parliamentary Supply)	82,384,131
Removal of the cost of capital charge	(504,053)
Adjusted Net Resource Outturn	<u>81,880,078</u>

The notes on pages 69-134 form part of these accounts.

## Consolidated Statement of Comprehensive Net Expenditure

for the year ended 31 March 2011

	Notes	2010-11			Restated 2009-10				
		Core Department			Consolidated				
		Staff Costs £'000	Other Costs £'000	Income £'000	Staff Costs £'000	Other Costs £'000	Income £'000	Core Department £'000	Consolidated £'000
<b>Administration Costs:</b>									
Staff costs	9	167,572			167,572			137,086	137,086
Other administration costs	10		76,490			76,490		93,680	93,680
Operating income	12			(4,405)			(4,405)	(7,216)	(7,216)
<b>Programme Costs:</b>									
<b>Request for Resources 1:</b>									
Securing health care for those who need it.									
Staff Costs	9	169,720			7,970,819			178,459	8,809,703
Programme Costs	11		3,259,728			95,562,580		3,534,375	91,316,586
Income	12			(1,119,225)			(21,280,690)	(1,162,798)	(21,511,744)
<b>Request for resources 2:</b>									
Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.									
Staff Costs	9	12,388			12,388			7,391	28,893
Programme Costs	11		3,199,244			3,199,244		3,057,045	3,070,656
Income	12			(81,424)			(81,424)	(80,861)	(80,862)
<b>Request for resources 3:</b>									
Office of the Independent Regulator for NHS Foundation Trusts									
Staff Costs	9	-			-			-	-
Programme Costs	11		14,168			14,168		14,300	14,300
Income	12							-	-
<b>Totals</b>		<b>349,680</b>	<b>6,549,630</b>	<b>(1,205,054)</b>	<b>8,150,779</b>	<b>98,852,482</b>	<b>(21,366,519)</b>	<b>5,771,461</b>	<b>81,871,082</b>
<b>Net Operating Cost</b>	3,13			<b>5,694,256</b>			<b>85,636,742</b>	<b>5,771,461</b>	<b>81,871,082</b>
<b>Other Comprehensive Expenditure</b>							2010-11		Restated 2009-10
							Core Department £'000	Core Department £'000	Consolidated £'000
Net (gain)/loss on revaluation of property, plant and equipment				(73,858)			(234,451)	(4,664)	(326,045)
Net (gain)/loss on revaluation of Assets held for Sale				-			-	-	-
Net (gain)/loss on revaluation of intangible assets				(137,726)			(137,726)	(112,102)	(112,149)
Net (gain)/loss on revaluation of investments				(115,724)			(115,764)	21,908	21,712
Impairment				28,634			131,905	81,738	768,843
Impairment reversal				-			-	-	-
<b>Total Comprehensive Expenditure for the year ended 31 March 2011</b>				<b>5,395,582</b>			<b>85,280,706</b>	<b>5,758,341</b>	<b>82,223,443</b>

The notes on pages 69-134 form part of these accounts.

**Consolidated Statement of Financial Position**

as at 31 March 2011

		2011 £'000		Restated <sup>(ii)</sup> 1 April 2010 £'000		Restated <sup>(i)</sup> 2010 £'000		Restated <sup>(i)</sup> 2009 £'000	
Note	Core Department	Consolidated	Core Department	Consolidated	1 April 2010 Transfer of functions adjustment	Consolidated	Core Department	Consolidated	
<b>Non-current assets</b>									
Property plant and equipment	14	1,297,908	8,721,063	1,177,158	8,415,077	(7,433)	8,422,510	1,089,633	8,720,252
Intangible assets	15	1,495,696	1,573,344	1,542,567	1,618,071	(30)	1,618,101	1,442,651	1,500,766
Financial assets	16	25,323,617	25,363,912	24,529,424	24,580,024	-	24,580,024	23,937,145	23,980,987
Other non-current assets	18	129,975	203,494	153,540	227,249	(259)	227,508	142,251	204,814
<b>Total non-current assets</b>		<b>28,247,196</b>	<b>35,861,813</b>	<b>27,402,689</b>	<b>34,840,421</b>	<b>(7,722)</b>	<b>34,848,143</b>	<b>26,611,680</b>	<b>34,406,819</b>
<b>Current assets</b>									
Assets classified as held for sale	20	6,084	77,235	12,852	101,233	-	101,233	21,087	88,407
Inventories	17	89,428	169,797	215,634	302,738	(3,856)	306,594	109,097	194,051
Trade and other receivables	18	94,825	896,434	164,294	1,050,361	(44,666)	1,095,027	83,224	962,580
Other current assets	18	184,458	549,020	224,967	551,982	-	551,982	329,847	710,717
Financial assets	18	189,138	195,765	167,342	169,990	-	169,990	152,424	154,987
Cash and cash equivalents	19	1,619,343	1,724,498	1,237,866	1,336,302	(413)	1,336,715	1,676,501	1,745,219
<b>Total current assets</b>		<b>2,183,276</b>	<b>3,612,749</b>	<b>2,022,955</b>	<b>3,512,606</b>	<b>(48,935)</b>	<b>3,561,541</b>	<b>2,372,180</b>	<b>3,855,961</b>
<b>Total assets</b>		<b>30,430,472</b>	<b>39,474,562</b>	<b>29,425,644</b>	<b>38,353,027</b>	<b>(56,657)</b>	<b>38,409,684</b>	<b>28,983,860</b>	<b>38,262,780</b>
<b>Current liabilities</b>									
Trade and other payables	21	(194,029)	(4,420,320)	(409,793)	(4,918,629)	49,245	(4,967,874)	(328,130)	(4,787,953)
Other liabilities	21	(2,904,033)	(4,709,523)	(2,164,477)	(3,905,593)	-	(3,905,593)	(2,428,723)	(3,932,068)
Provisions	22	(270,996)	(2,707,147)	(406,243)	(2,314,308)	354	(2,314,662)	(407,546)	(2,071,330)
<b>Total current liabilities</b>		<b>(3,369,058)</b>	<b>(11,836,990)</b>	<b>(2,980,513)</b>	<b>(11,138,530)</b>	<b>49,599</b>	<b>(11,188,129)</b>	<b>(3,164,399)</b>	<b>(10,791,351)</b>
<b>Non-current assets plus/less net current assets/liabilities</b>									
		<b>27,061,414</b>	<b>27,637,572</b>	<b>26,445,131</b>	<b>27,214,497</b>	<b>(7,058)</b>	<b>27,221,555</b>	<b>25,819,461</b>	<b>27,471,429</b>
<b>Non-current liabilities</b>									
Other payables	21	(157,439)	(211,701)	(198,331)	(267,840)	-	(267,840)	(180,045)	(297,303)
Provisions	22	(1,216,010)	(16,215,774)	(968,683)	(14,618,636)	3,234	(14,621,870)	(1,200,104)	(13,611,191)
Financial liabilities	21	(72,965)	(2,100,143)	(63,057)	(2,030,926)	-	(2,030,926)	(49,978)	(1,761,084)
<b>Total non-current liabilities</b>		<b>(1,446,414)</b>	<b>(18,527,618)</b>	<b>(1,230,071)</b>	<b>(16,917,402)</b>	<b>3,234</b>	<b>(16,920,636)</b>	<b>(1,430,127)</b>	<b>(15,669,578)</b>
<b>Assets less liabilities</b>		<b>25,615,000</b>	<b>9,109,954</b>	<b>25,215,060</b>	<b>10,297,095</b>	<b>(3,824)</b>	<b>10,300,919</b>	<b>24,389,334</b>	<b>11,801,851</b>
<b>Taxpayers' equity</b>									
General fund		25,150,989	7,043,047	24,945,431	8,439,926	(3,396)	8,443,322	23,933,968	9,335,814
Revaluation reserve		464,011	1,944,872	269,629	1,738,401	(396)	1,738,797	455,366	2,325,744
Donated asset reserve		-	122,035	-	118,768	(32)	118,800	-	140,293
<b>Total Taxpayers' Equity</b>		<b>25,615,000</b>	<b>9,109,954</b>	<b>25,215,060</b>	<b>10,297,095</b>	<b>(3,824)</b>	<b>10,300,919</b>	<b>24,389,334</b>	<b>11,801,851</b>

## Footnotes

The Statement of Financial Position has been restated for two items this year:

i) First, both the Core Department and Consolidated Statement of Financial Position in respect of the 2008-09 and 2009-10 financial years have been restated to reflect the removal of the cost of capital charges required as a consequence of the HMT Alignment Legislation.

This change has no visible impact on the face of the Statement of Financial Position in either 2008-09 or 2009-10, as both sides of the journal to reduce operating costs in respect of cost of capital go to the General Fund. (Paragraph 1.7 of Note 1 refers) and therefore the figures remain unchanged from the published accounts.

ii) Second, the Consolidated Statement of Financial Position for 2009-10 has been restated to include the impact of the transfer of provider functions from PCTs to NHS Trusts, NHS Foundation Trusts or Social Enterprises. The impact of this transfer is clearly shown in the column labelled "Transfer of functions adjustment".

Una O'Brien  
Permanent Secretary and Principal Accounting Officer  
31 August 2011

The notes on pages 69-134 form part of these accounts.

**Consolidated Statement of Cash Flows**

for the year ended 31 March 2011

	Note	2010-11 £'000	Restated 2009-10 £'000
<b>Net cashflow from operating activities</b>			
Net Operating Cost		(85,636,742)	(81,871,082)
Adjustment for PDC dividends received	12	(866,025)	(998,283)
Adjustments for non-cash transactions	10b	5,252,868	4,801,323
(Increase)/decrease in trade and other receivables	18	199,794	(11,409)
less movements in receivables relating to items not passing through the CSCNE	18	40,482	21,747
(Increase)/decrease in inventories	17	136,797	(112,543)
Increase/(decrease) in payables	21	269,454	393,825
less movements in payables relating to items not passing through the CSCNE	21	(487,526)	10,360
Use of provisions	22	(1,280,863)	(1,453,158)
Consumption of stockpiled goods	14, 17	7,744	113,705
Transfer of provisions to payables		(639,664)	(278,396)
<b>Net cash outflow from operating activities</b>		<b>(83,003,681)</b>	<b>(79,383,911)</b>
<b>Cash flows from investing activities</b>			
PDC dividends received	12	866,025	998,283
Purchase of property, plant and equipment	14, 21	(937,086)	(1,361,245)
Purchase of intangible assets	15, 21	(327,084)	(444,598)
Proceeds of disposal of property, plant and equipment		132,509	100,866
Proceeds of disposal of intangibles		8,035	697
Purchase of investments	16	(1,002,746)	(931,882)
Disposal of investments	16, 18	306,969	341,653
Other		-	-
<b>Net cash outflow from investing activities</b>		<b>(953,378)</b>	<b>(1,296,226)</b>
<b>Cash flows from financing activities</b>			
From the Consolidated Fund (Supply) - current year		84,400,000	80,350,000
Advances from the Contingencies Fund		-	-
Repayments to the Contingencies Fund		-	-
Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(43,678)	-
Other		(11,132)	(40,441)
<b>Net financing</b>		<b>84,345,190</b>	<b>80,309,559</b>
<b>Net increase/(decrease) in cash and cash equivalents in the period before receipts and payments to the Consolidated Fund</b>		<b>388,131</b>	<b>(370,578)</b>
Receipts due to the Consolidated Fund which are outside the scope of the Department's activities		-	-
Payment of amounts due to the Consolidated Fund		(176)	(39,403)
<b>Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipt and payment to the Consolidated Fund</b>		<b>387,955</b>	<b>(409,981)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>1,332,308</b>	<b>1,742,289</b>
Adjustment for mergers		(413)	-
<b>Restated cash (and) cash equivalents (and bank overdrafts) at the beginning of the financial year</b>		<b>1,331,895</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	19	<b>1,720,263</b>	<b>1,332,308</b>

The notes on pages 69-134 form part of these accounts.

## Consolidated Statement of Changes in Taxpayer's Equity

for the year end 31 March 2011

Note	Core Department				Consolidated			
	General Fund £'000s	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000	General Fund £'000s	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000
<b>Balance at 1 April 2010</b>	24,945,431	269,629	-	25,215,060	8,443,322	1,738,797	118,800	10,300,919
Adjustment for transfer of functions	-	-	-	-	(3,396)	(396)	(32)	(3,824)
<b>Balance at 1 April 2010</b>	24,945,431	269,629	-	25,215,060	8,439,926	1,738,401	118,768	10,297,095
<b>Changes in taxpayers' equity for 2010-11</b>								
Receipt of donated assets	-	-	-	-	-	-	9,398	9,398
Release of reserves to the CSCNE	-	-	-	-	-	86	(6,360)	(6,274)
Comprehensive Expenditure for the Year	(5,694,256)	-	-	(5,694,256)	(85,636,742)	-	-	(85,636,742)
Non cash changes - auditor's remuneration	10, 11 665	-	-	665	750	-	-	750
<b>Movement in Reserves Recognised in CSCNE</b>								
Net gain/(loss) on revaluation of property, plant and equipment	-	73,858	-	73,858	-	231,483	2,968	234,451
Net gain/(loss) on revaluation of Assets held for Sale	-	-	-	-	-	-	-	-
Net gain/(loss) on revaluation of intangible assets	-	137,726	-	137,726	-	137,726	-	137,726
Net gain/(loss) on revaluation of investments	-	115,724	-	115,724	-	115,764	-	115,764
Impairment	-	(28,634)	-	(28,634)	-	(131,490)	(415)	(131,905)
Impairment reversal	-	-	-	-	-	-	-	-
Transfers between reserves	104,292	(104,292)	-	-	155,301	(147,098)	(6,781)	1,422
Net Actuarial Gain/(Loss) on Pension	-	-	-	-	2,652	-	4,457	7,109
<b>Total recognised income and expense for 2010-11</b>	<b>(5,589,299)</b>	<b>194,382</b>	<b>-</b>	<b>(5,394,917)</b>	<b>(85,478,039)</b>	<b>206,471</b>	<b>3,267</b>	<b>(85,268,301)</b>
Net parliamentary funding - draw n down	6,107,323	-	-	6,107,323	84,400,000	-	-	84,400,000
Net parliamentary funding - deemed	1,332,132	-	-	1,332,132	1,332,132	-	-	1,332,132
Supply (payable)/receivable adjustment	21.1 (984,418)	-	-	(984,418)	(984,418)	-	-	(984,418)
CFERs payable to the Consolidated Fund	21.1 (750,286)	-	-	(750,286)	(750,286)	-	-	(750,286)
PDC investment adjustment	-	-	-	-	-	-	-	-
Consolidated fund standing services	-	-	-	-	-	-	-	-
Net finances from the contingencies fund	-	-	-	-	-	-	-	-
Other Transfers	90,106	-	-	90,106	83,732	-	-	83,732
<b>Balance at 31 March 2011</b>	<b>25,150,989</b>	<b>464,011</b>	<b>-</b>	<b>25,615,000</b>	<b>7,043,047</b>	<b>1,944,872</b>	<b>122,035</b>	<b>9,109,954</b>
<b>Restated Prior year: for the year end 31 March 2010</b>								
Note	Core Department				Consolidated			
	General Fund £'000s	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000	General Fund £'000s	Revaluation Reserve £'000	Donated Asset Reserve £'000	Total Reserves £'000
<b>Balance at 1 April 2009</b>	23,933,968	455,366	-	24,389,334	9,335,814	2,325,744	140,293	11,801,851
<b>Changes in taxpayers' equity for 2009-10</b>								
Net gain/(loss) on revaluation of property, plant and equipment	-	4,664	-	4,664	-	320,217	5,828	326,045
Net gain/(loss) on revaluation of intangible assets	-	112,102	-	112,102	-	112,149	-	112,149
Net gain/(loss) on revaluation of investments	-	(21,908)	-	(21,908)	-	(21,712)	-	(21,712)
Impairment	-	(81,738)	-	(81,738)	-	(751,251)	(17,592)	(768,843)
Impairment reversal	-	-	-	-	-	-	-	-
Receipt of donated assets	-	-	-	-	-	-	8,443	8,443
Release of reserves to the CSCNE	-	-	-	-	-	(3,719)	(9,203)	(12,922)
Non cash changes - auditor's remuneration	10, 11 567	-	-	567	729	-	-	729
Transfers between reserves	198,857	(198,857)	-	-	228,283	(242,784)	(8,969)	(23,470)
Net operating cost for the year	(5,771,462)	-	-	(5,771,462)	(81,871,082)	-	-	(81,871,082)
<b>Total recognised income and expense for 2009-10</b>	<b>(5,572,038)</b>	<b>(185,737)</b>	<b>-</b>	<b>(5,757,775)</b>	<b>(81,642,070)</b>	<b>(587,100)</b>	<b>(21,493)</b>	<b>(82,250,663)</b>
Net parliamentary funding - draw n down	6,182,625	-	-	6,182,625	80,350,000	-	-	80,350,000
Net parliamentary funding - deemed	1,702,795	-	-	1,702,795	1,702,795	-	-	1,702,795
Supply (payable)/receivable adjustment	21.1 (1,332,132)	-	-	(1,332,132)	(1,332,132)	-	-	(1,332,132)
CFERs payable to the Consolidated Fund	21.1 (9,080)	-	-	(9,080)	(9,080)	-	-	(9,080)
PDC investment adjustment	43,844	-	-	43,844	43,844	-	-	43,844
Consolidated fund standing services	-	-	-	-	-	-	-	-
Net finances from the contingencies fund	-	-	-	-	-	-	-	-
Other Transfers	(4,551)	-	-	(4,551)	(5,849)	153	-	(5,696)
<b>Balance at 31 March 2010</b>	<b>24,945,431</b>	<b>269,629</b>	<b>-</b>	<b>25,215,060</b>	<b>8,443,322</b>	<b>1,738,797</b>	<b>118,800</b>	<b>10,300,919</b>

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

### 1 Statement of accounting policies

HM Treasury have directed that the financial statements of the Department of Health shall meet the accounting requirements of the Government Financial Reporting Manual (FReM). Consequently, the financial statements within this Resource Account have been prepared in accordance with the 2010-11 FReM issued by HM Treasury. The Department of Health's Resource Account is prepared on a going concern basis and provides a true and fair view of the state of affairs of the Department at the end of the financial year, and of the results for the year. The functional and presentational currency is pounds sterling and figures are expressed in thousands of pounds unless expressly stated otherwise.

The accounting policies contained in the FReM follow International Financial Reporting Standards (IFRS) to the extent that they are meaningful and appropriate to Government bodies. Whether the standards are meaningful and appropriate is determined by HM Treasury acting on the advice of the Financial Reporting Advisory Board. Where the FReM permits a choice of accounting policy, the policy that is judged to be most appropriate by the Department to its particular circumstances, especially for the purposes of giving a true and fair view, has been selected. The particular policies adopted by the Department are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

In recent years, new international accounting standards have been issued in the form of International Financial Reporting Standards (IFRS) whereas older standards, many of which remain in use, are described as International Accounting Standards (IAS). Other than when referring to a specific standard, the two terms are used interchangeably in these accounts.

The FReM requires the Department to prepare the following primary statement in addition to those required under IFRS:

- **The Statement of Parliamentary Supply:** This statement and its supporting notes show outturn against Estimate for the net resource requirement and net cash requirement.

HM Treasury has required Government bodies to follow International Financial Reporting Standards, in place of UK Generally Accepted Accounting Practice (UKGAAP), since 2009-10.

The 2010-11 Resource Accounts include five departures from the FReM which have been agreed with HM Treasury:

- Public Dividend Capital issued by the Department on the creation of new NHS Trusts, or written-off on the dissolution of NHS Trusts, is debited or credited, as appropriate, to the General Fund rather than to the Consolidated Statement of Comprehensive Net Expenditure.
- Income from NHS bodies received by the Department or bodies within the accounting boundary is excluded and netted off the relevant expenditure.
- National Insurance Contributions are recognised on a cash basis.
- In the Analysis of net operating cost by spending body, Note 13, the Department has grouped the spending bodies, rather than listing them individually.
- Some NHS organisations whose accounts are consolidated into the Department's Resource Account receive donations that are held on trust. For 2010-11, HM Treasury has agreed that NHS bodies should not consolidate the NHS charitable funds for which they are trustees. Consequently, any such charitable funds are not consolidated into this Resource Account.

### 1.1 Operating segments

Income, expenditure, depreciation and any other material items are analysed in the operating segments note (Note 23) across the headings of: NHS, DH Programme and DH Administration, as reported to, and used by, the chief operating decision makers of the Department.

### 1.2 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation to fair value of property, plant and equipment, intangible assets and current cost for inventories.

### 1.3 Basis of consolidation

The basis of consolidation of the Department's Resource Account differs from that of a group consolidation in a private sector entity. HM Treasury requires that Government departments consolidate the accounts of those bodies that meet the appropriate requirements for consolidation under IFRS, provided that they are both inside the departmental accounting boundary, as defined in the Government Financial Reporting Manual, and are the subject of in-year budgetary and spending control by the parent department. Note 35 gives a list of the entities within the Department of Health's accounting boundary whose accounts are consolidated into these financial statements, and those which are not.

More information on the individual entities within the Departmental family can be found in the annual reports and accounts of those organisations, and in the summarised accounts of Strategic Health Authorities, Primary Care Trusts, and, where appropriate, in the accounts of NHS Foundation Trusts and NHS Trusts.

### 1.4 Staff costs

#### Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees, except for non consolidated performance pay, which, on the grounds of immateriality, is recognised when paid. Annual leave that has been earned but not taken at the year end is not accrued, as it is not material.

In relation to Strategic Health Authorities and Primary Care Trusts, salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where material, annual leave that has been earned but not taken at the year end, and non-consolidated performance pay, are recognised in the financial statements of the underlying organisations.

#### Retirement benefit costs:

##### Principal Civil Service Pension Scheme

Past and present employees of the Department are covered by the provisions of the Principal Civil Service Pension Scheme which is described at Note 9.3. The defined benefit schemes are unfunded and are non-contributory except in respect of dependents' benefits. The Department recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from the employees' services, by payment to the Principal Civil Service Pension Scheme (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 schemes, the Department recognises the contributions payable for the year.

The Department recognises the full cost of benefits paid under the Civil Service Compensation Scheme, including the early payment of pensions.

##### NHS Pension Scheme

Past and present employees of the NHS are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions)

The scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as being equal to the contributions payable to the scheme for the accounting period.

The scheme is subject to a full actuarial valuation every four years (until 2004, every five years) and an accounting valuation every year. More details can be found in Note 9.3.

### **1.5 Administration and programme costs**

The Consolidated Statement of Comprehensive Net Expenditure (hereafter referred to as the CSCNE) is analysed between administration and programme costs, as defined by HM Treasury. Administration costs reflect the costs of running the Department. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the Department, as well as certain staff costs where they relate directly to, or support, front-line service delivery.

### **1.6 Grants payable**

Grants made by the Department are recognised as expenditure in the period in which they are paid, as grant funding is not intended to be directly related to activity in a specific period.

### **1.7 Capital charge**

A charge, reflecting the cost of capital utilised by the Department, was included in operating costs in 2009-10. The charge was calculated at the real rate set by HM Treasury (3.5%) on the average carrying amount of relevant net assets. However, the need for the Department, and those organisations whose accounts are consolidated into these financial statements, to include any charge for the cost of capital was abolished by HM Treasury in 2010-11 as a consequence of the Clear Line of Sight (alignment) legislation.

Consequently, no cost of capital charge is recorded in these accounts. Where appropriate, comparator figures for 2009-10 have been re-stated to remove the impact of the charge in that year and so ensure comparability with the current year. The Statements of Financial Position for both 2008-09 and 2009-10 have therefore been restated to reflect this change as required by IAS1.

The consolidated financial effect of removing the cost of capital charge in 2010-11 is a non-cash reduction of £504,053,000, which would have impacted the CSCNE, with the offset in equity being a non-cash charge.

### **1.8 Audit costs**

A charge reflecting the cost of audit is included in operating costs. The Department of Health is audited by the Comptroller and Auditor General. No charge is made for this service but a notional charge representing the cost of the audit is included in the accounts. This charge covers the audit costs in respect of the Department's Resource accounts, and the audit of the three NHS Summarised Accounts which are prepared under section 232 of the NHS Act 2006. Other Group bodies are audited by the Comptroller and Auditor General or an Audit Commission-appointed auditor and include expenditure in respect of audit fees in their individual accounts. (Note 11 to the accounts refers).

### **1.9 Value added tax**

Most of the activities of the Department are outside the scope of VAT. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### **1.10 Income**

Income comprises charges for services provided on a full cost basis, investment income and National Insurance contributions. It includes Appropriations-in-Aid (A-in-A) and Consolidated Fund Extra Receipts

(CFERs) that are treated as income, but excludes those that are treated as capital. Income in respect of services provided is recognised when the service is rendered and the stage of completion of the transaction at the end of the reporting period can be measured reliably, and it is probable that economic benefit associated with the transaction will flow to the Department. Income is measured at fair value of the consideration receivable.

Income is analysed in the notes between that which, under HM Treasury's administrative cost-control regime, can be offset against gross administrative costs in determining the outturn against the administration cost limit, and that which cannot.

National Insurance contributions are recognised within consolidated entries rather than within entries for the core Department.

### 1.11 Property, plant and equipment

#### Recognition

Property, plant and equipment is capitalised if:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential will be supplied to, the Department;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and
- the item cost at least £5,000; or
- collectively, a number of items have a total cost of at least £5,000 and individually have a cost of more than £250, 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.

Where an asset includes a number of components with significantly different asset lives, the components are treated as separate assets and depreciated over their individual useful economic lives.

Expenditure incurred on the National Programme for IT has been split between capital and revenue using a financial model that analyses contractor costs over the life of the project. The capitalised expenditure is recognised as property, plant and equipment or as intangible assets, as appropriate.

#### Valuation of property, plant and equipment excluding the National Programme for IT

All property, plant and equipment is measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. All assets are measured subsequently at fair value. Revaluations of one third of property, plant and equipment assets are performed each year to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Fair values are determined as follows:

- Land and non-specialised buildings – market value for existing use
- Specialised buildings – depreciated replacement cost, modern equivalent asset basis

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by IAS 23 for assets held at fair value. Assets are revalued and depreciation commences when they are brought into use.

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost as a proxy for fair value.

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease is only recognised as an impairment charged to the revaluation reserve when it does not result from a loss in the economic value or service potential to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Gains and losses recognised in the revaluation reserve are reported in the Statement of Changes in Taxpayers' Equity.

### **Valuation of the National Programme for IT property, plant and equipment**

The plant and equipment relating to the National Programme for IT (NPfIT) is held at depreciated replacement cost. The Department revalues its NPfIT non-current assets at the end of each financial year, by indexing their original cost. Given the very significant value of these assets, the Department applies as an uplift the difference between the Retail Price Index (RPI) operating in the month of purchase and the RPI as at 31 March. RPI is considered by the Department to be the most appropriate measure of indexation to use with this group of assets, as no other indexation factor is available that (i) more accurately reflects the commercial environment in the computer services sector or (ii) would not be compromised by the very high value of this group of assets. This valuation method is reviewed each year by the Department to determine whether it remains the most appropriate index to use.

### **Subsequent expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

### **Specific NHS Accounting Treatment of Land, Buildings, Dwellings and Assets under Construction**

Until 2009-10, the PCT and SHA accounts followed a FReM departure which had been agreed with HM Treasury, whereby the accumulated depreciation at the end of the previous financial year was netted off against the cost of the asset brought forward at the beginning of the current financial year. This applied to the following classes of assets:

- Land
- Buildings
- Dwellings
- Assets under construction

From 2010-11, PCTs and SHAs are required to show gross values in respect of these classes of assets, unless assets have been revalued in the year. This change ensures consistency of presentation across the NHS and core Department. Where an asset has been revalued, the accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. The adjustment to the 1 April 2010 brought-forward balances for both "cost or valuation" and "cumulative depreciation" elements of Note 14 shows the effects of the change in presentation and the elimination of cumulative depreciation related to revalued assets. It is not practicable to adjust 1 April 2009 comparative figures in this way because underlying data in respect of PCT and SHA valuations and cumulative depreciation is not available for this date.

### **1.12 Intangible non current assets**

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of the Department's business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the Department; where the cost of the asset can be measured reliably, and where the cost is at least £5,000.

Intangible assets acquired separately are initially recognised at fair value. Software that is integral to the operation of hardware is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware is capitalised as an intangible asset.

Following initial recognition, intangible assets are carried at fair value by reference to an active market, or, where no active market exists, at replacement cost if the asset is not yet available for use or amortised replacement cost if it is, as a proxy for fair value.

### **Recognition and Valuation of the National Programme for IT intangible assets**

The Department commissioned KPMG LLP to carry out a review of accounting principles in respect of NPfIT transactions. A product of this review was the development in 2006 of financial models designed to apportion expenditure between revenue and capital for the Local Service Provider contracts. The model is reviewed regularly, with the latest such review being carried out in April 2011. Applying the financial models, NPfIT assets are capitalised by reference to contracts and not individual assets. In terms of valuing Local Service Provider assets, the financial model output alone is used.

The Local Service Provider financial model provides the underlying data for capital expenditure calculations but does not apportion such expenditure between tangible and intangible non-current assets. The Department therefore makes a judgement that all the non-current IT assets identified by the model should be accounted for as intangible, as it concludes that the intangible element is the more significant.

The intangible assets relating to the National Programme for IT, are held at depreciated replacement cost which is calculated by indexing the historic cost of the assets by the movement in the Retail Price Index between the month of purchase and the Statement of Financial Position date.

The intangible assets relating to the National Programme for IT, are held at depreciated replacement cost which is calculated by indexing the historic cost of the assets by the movement in the Retail Price Index between the month of purchase and the Statement of Financial Position date.

### **1.13 Research and development**

Expenditure on research is not capitalised: it is recognised as an operating expense in the period in which it is incurred.

Internally-generated assets are recognised if, and only if, there is the technical feasibility, intention and availability of resources to complete the asset; the ability to use or sell the asset to generate probable future economic benefits or service potential, and the ability to measure the development expenditure. The amount initially recognised is the sum of the expenditure incurred from the date when the criteria for recognition are initially met. Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

### **1.14 Depreciation, amortisation and impairments**

Freehold land, assets under construction or development, investment properties, stockpiled goods and assets held for sale are not depreciated/amortised.

Otherwise, depreciation or amortisation, as appropriate, are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, on a straight-line basis over their estimated remaining useful lives. The estimated useful life of an asset is the period over which the Department expects to obtain economic benefits or service potential from the asset. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

At each reporting period end, the Department determines whether there is any indication that its property, plant and equipment or intangible non-current assets have suffered an impairment loss. If there is an indication of

such an impairment, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually.

Compared to 2009-10, there has been a significant change in the treatment of impairments. For 2010-11 and beyond, HM Treasury have adapted the way in which IAS 36, *Impairment of Assets*, applies to the public sector. In 2009-10, any impairment loss relating to a revalued asset was charged first against the revaluation surplus held specifically in respect of that asset in the revaluation reserve. Only when that revaluation surplus was exhausted would the impairment be charged to the CSCNE. Following the adaptation of IAS 36, however, only those impairment losses that do not result from a loss of economic value or service potential will be taken to the revaluation reserve. Impairment losses that do result from a clear consumption of economic benefits will be charged directly to the CSCNE. However, to ensure that the outcome as reflected in the reserves figure on the Statement of Financial Position is consistent with the requirements of IAS 36 had this adaptation not been applied, the balance on any revaluation reserve (up to the level of the impairment) to which the impairment would have been charged under IAS 36 will be transferred to the general fund.

The retrospective application of this adaptation results in no change to Statement of Financial Position balances in respect of asset values, revaluation reserve and general fund balances, as there is a transfer from the revaluation reserve to the general fund as described above. The Department considers that re-statement of prior-year revenue expenditure comparators in respect of this adaptation is impracticable in view of the absence of detail available to facilitate such calculations.

### **1.15 Donated assets**

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to the Donated Asset Reserve. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations and impairments are 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 offset the expenditure. On sale of donated assets, the net book value is transferred from the Donated Asset Reserve to the General Fund.

### **1.16 Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is met when the asset is available for immediate sale in its present condition; management is committed to the sale, as evidenced by commitment to a plan for the sale, with active marketing at a reasonable price; and a completed sale within one year from the date of classification is highly probable. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

Property, plant and equipment that is to be scrapped or demolished does not qualify for recognition as held for sale. Instead, it is retained as an operational asset and its economic life is adjusted. The asset is de-recognised when it is scrapped or demolished.

### **1.17 Leases**

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the CSCNE.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are accounted for separately. Leased buildings are assessed to determine whether they are operating or finance leases.

IAS 17 *Leases* was amended for accounting periods beginning on or after 1 January 2010, and the amendments were adopted by the NHS for 2010-11. Consequently, leases of land must now be classified according to the criteria applicable for other asset categories, so that certain long land leases may now be classified as finance leases, where in 2009-10 they were classified as operating leases. The financial impact of this change is £1.178m which relates to 1 PCT.

The Department does not have the information necessary to apply the IAS 17 amendments retrospectively, and so has followed the provisions of IAS 17 68A by: classifying land leases on the basis of the facts and circumstances existing at 1 April 2010; and, recognising the asset and liability related to a land lease newly classified as a finance lease at their fair values on that date; any difference between those fair values is recognised in the general fund.

#### **1.18 Private Finance Initiative (PFI) and NHS Local Improvement Finance Trust (LIFT) transactions**

HM Treasury has determined that Government bodies shall account for infrastructure PFI and NHS LIFT schemes, where the Government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement, as service concession arrangements, following the principles set out in IFRIC 12. Consolidated bodies therefore recognise the PFI/LIFT asset as an item of property, plant and equipment together with a liability to pay for it, on their Statement of Financial Position.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- Payment for the fair value of services received;
- Payment for the PFI asset, including finance costs; and
- Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

##### **a) Services received**

The fair value of services received in the year is recorded under the relevant expenditure headings within 'operating expenses'.

##### **b) PFI and LIFT assets, liabilities, and finance costs**

The assets are recognised as property, plant and equipment when they come into use. They are measured initially at fair value in accordance with the principles of IAS 17. Subsequent measurement is carried at fair value in accordance with IAS 16. A PFI/LIFT liability is recognised at the same time as the assets are recognised. It is measured initially at the same amount as the fair value of the assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to the CSCNE.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is treated as contingent rent and is expensed as incurred.

### **c) Lifecycle replacement**

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the consolidated bodies' criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term finance lease liability or prepayment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

### **Assets contributed by consolidated bodies to the operator for use in the scheme**

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the CSCNE.

### **Other assets contributed by consolidated bodies to the operator**

Other assets contributed (e.g. cash payments, surplus property) by the consolidated bodies to the operator before the asset is brought into use, where these are intended to defray the operator's capital costs, are recognised initially as prepayments during the construction phase of the contract. When the asset is made available to the consolidated body, the prepayment is treated as an initial payment towards the finance lease liability and is set against the carrying value of the liability.

## **1.19 Inventories**

Inventories and stockpiled goods are held at fair value.

Inventories held by the Core Department are held at last price paid as a proxy for fair value. The Department undertakes an annual review of the difference between the last price paid for inventory and fair value. Where the difference is found to be material, the inventory is revalued to fair value. In 2010-11, the Essential Medicines and Emergency Preparedness inventories were both revalued to fair value.

Strategic goods held for use in national emergencies are held as non-current assets within Property, Plant and Equipment. These inventories are maintained at minimum capability levels by replenishment to offset write-offs and so are not depreciated, as agreed with HM Treasury.

## **1.20 Cash and cash equivalents**

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and which are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of cash management.

Cash, bank and overdraft balances are recorded at current values. Interest earned on bank accounts and interest charged on overdrafts are recorded as, respectively, 'Interest receivable' and 'Interest payable' in the periods to which they relate. Bank charges are recorded as operating expenditure in the periods to which they relate.

### 1.21 Provisions

Provisions are recognised when the Department has a present legal or constructive obligation as a result of a past event, it is probable that the Department will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rate of 2.2% in real terms.

### 1.22 Clinical and non-clinical negligence costs

Clinical and non-clinical negligence costs are managed through schemes run by the NHS Litigation Authority (NHSLA). The Existing Liability and Ex-Regional Health Authority schemes are funded by the Department of Health, whilst the Clinical Negligence Scheme for Trusts, Liability to Third Parties and Property Expenses Schemes are funded from Trust contributions. The accounts for the schemes are prepared by the NHSLA in accordance with IAS 37. A provision for these schemes, disclosed in Note 22, is calculated in accordance with IAS 37 by discounting the gross value of all claims received.

Calculation of the provision for each scheme is made using:

- probability factors. The probability of a claim having to be settled is assessed between 10% and 94%. This probability is applied to the gross value to give the probable cost of each claim; and
- a discount factor calculated using HM Treasury's real discount rate of 2.2%, RPI of 3% and claims inflation (varying between schemes) of between 5% and 10%, is 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 29.

### Existing Liabilities Scheme (ELS) and Ex-Regional Health Authorities (Ex-RHA) Scheme

Claims are included in the ELS provision on the basis that the incident occurred on or before 31st March 1995. Qualifying claims under the Ex-RHA scheme are those which were brought against the former Regional Health Authorities whose clinical negligence liabilities passed to the NHS Litigation Authority with effect from 1st April 1996.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his/her 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 NHS Litigation Authority in respect of these schemes.

### Clinical Negligence Scheme for Trusts (CNST)

A provision for this scheme is calculated in accordance with IAS 37 by discounting the gross value of all claims received relating to incidents that occurred on or before 31 March 2011 and after 1 April 1995.

Claims are included in the provision on the basis that the CNST members have assessed:-

- the probable cost and time to settlement in accordance with scheme guidelines;
- that they are qualifying incidents; and
- that the Trust remains a member of the scheme.

As at 31st March 2002 all outstanding claims for incidents post-1st 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.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his/her 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 NHSLA in respect of this scheme.

### **Property Expenses Scheme and Liability to Third Parties Scheme**

These schemes are managed and funded via the same mechanisms as CNST except that specific excesses exist for some types of claims. The provisions for these schemes are calculated in accordance with IAS 37 but relate only to the organisation's proportion of each claim.

### **Incidents Incurred but not reported (IBNR)**

IAS 37 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 2011 where the following can be reasonably forecast:

- that an adverse incident has occurred;
- that a transfer of economic benefit will occur; and
- 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 22 and 29 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.

### **1.23 Contingent liabilities**

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Department, or
- a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably.

A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Department. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingencies are disclosed at their present value.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Department discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

- items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by Departmental Minute prior to the Department entering into the arrangement
- all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of Resource Accounts) which are required by the Financial Reporting Manual to be noted in the Resource Accounts.

Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

### 1.24 Financial instruments

The Department of Health mainly relies on Parliamentary voted funding and receipt of a proportion of National Insurance Contributions to finance its operations. The Department holds investments in private limited companies and other items such as trade receivables and payables that arise from its operations and cash resources. It does not enter into speculative transactions such as interest rate swaps. The Department enters into forward contracts where a specific amount of foreign currency is required at a particular date in the future.

The Department's investment in NHS Trusts, NHS Foundation Trusts and the Medicines & Healthcare Products Regulatory Agency is represented by Public Dividend Capital (PDC) which, being issued under statutory authority, is not classed as being a financial instrument.

The foreign currency forward purchase contracts are measured at fair value with movements in fair value being charged or credited to the Statement of Comprehensive Net Expenditure. The fair value is measured as the difference between the currency's closing mid-market rate at the date of valuation (representing the spot rate) and the rate stipulated in the contract, multiplied by the number of contracted units of currency. The Department obtains the closing mid-market rate from the Bank of England. The forward contracts will only have a fair value up to their date of settlement. Once each contract has been settled, it is removed from the Department's Statement of Financial Position. The forward contracts were purchased from the Bank of England.

Details of existing contracts are at Note 28 to the accounts.

### 1.25 Financial assets

Financial assets are recognised on the Consolidated Statement of Financial Position when the Department becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are de-recognised when the contractual rights have expired or the asset has been transferred. Financial assets are initially recognised at fair value. Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

As available for sale financial assets, the Department's investments are measured at fair value. With the exception of impairment losses, changes in value are taken to the revaluation reserve. Accumulated gains or losses are recycled to the CSCNE on de-recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method. This is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Derivatives are measured at fair value with changes in value recognised in the CSCNE.

At the Statement of Financial Position date, the Department assesses whether any financial assets are impaired. Financial assets are impaired, and impairment losses recognised, if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which have an impact on the estimated future cash flows of the asset. For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in the CSCNE.

### 1.26 Financial liabilities

Financial liabilities are recognised in the Consolidated Statement of Financial Position when the Department becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Note that the Core Department sets the following de minimis threshold levels for the raising of manual accruals: £2,499 for accruals relating to administration budgets and

£9,999 for accruals relating to central programme budgets. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

Derivatives are measured at fair value with changes in value recognised in the CSCNE.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

### **1.27 Foreign exchange**

The large majority of the Department's foreign currency transactions relate to European Economic Area (EEA) medical costs. Because of delays in submission of medical cost claims by member states, the Department estimates annual medical costs and adjusts future years' expenditure when actual costs are claimed. Estimated costs are converted into sterling at average rates calculated using EU published rates. Payments made are valued at prevailing exchange rates and the Department enters into forward contracts for the purchase of Euros for this purpose. Amounts in the Statement of Financial Position at year-end are converted at the exchange rate ruling at the Statement of Financial Position date. Exchange rate gains or losses are calculated in accordance with accepted accounting practice.

### **1.28 Assets belonging to third parties**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Department has no beneficial interest in them. These amounts are disclosed in Note 33.

### **1.29 Losses and Special Payments**

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the Department or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled. Further information can be found on the HM Treasury website: [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). Losses and special payments are disclosed in Note 31.

Losses and special payments are charged to the relevant functional headings, including losses which would have been made good through insurance cover had the Department not been bearing its own risks.

### **1.30 Transfer of Functions**

In the course of 2010-11, certain functions were transferred to or from entities consolidated in this account, the counter parties being other public sector entities. The majority of the transactions were in connection with the "Transforming Community Services" initiative, whereby elements of PCTs' provider functions transferred to NHS Trusts, NHS Foundation Trusts or Social Enterprises.

Such transactions are outside the scope of IFRS 3 Business Combinations. HM Treasury requires that merger accounting is to be applied in these circumstances.

Merger accounting involves: the presentation of the current year's results as if the recipient of the functions had exercised those functions from the commencement of the year, whatever the actual date of the transfer. Similarly, the entity relinquishing the functions presents results that exclude any transactions relating to those functions for the full 12 month period. The Consolidated Statement of Comprehensive Net Expenditure follows this presentation and so excludes certain transactions carried out by PCTs, for example, where these are now accounted for as 2010-11 NHS Trust or Foundation Trust transactions.

It is impracticable to re-state prior-period comparator figures in view of the degree of estimation and risk of mis-statement that would have attended re-statements of financial data by individual NHS bodies. Had such information been available, 2009-10 comparator figures in respect of, mainly, the provision of healthcare by PCTs would have been reduced. The corresponding adjustments would have been found in NHS Trusts' and Foundation Trusts' accounts which are not consolidated into these accounts.

The Department has followed the provisions of IAS 1 Presentation of Financial Statements in presenting re-stated balances to the extent that this is possible. 1 April 2010 Statement of Financial Position balances and the opening balances of the Statement of Changes in Taxpayers' Equity, Note 14, Note 15, Note 17 and Note 22 have therefore been re-stated to show the position that would have applied at that date had the transfers of functions always been the case.

As per IAS 1, the detailed comparatives for the Statement of Changes in Taxpayers' Equity, Note 14, Note 15, Note 17, Note 18, Note 19, Note 21 and Note 22 have not been restated as this would be impractical.

### 1.31 Accounting standards that have been issued but have not yet been adopted

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2010-11. The application of the Standards as revised would not have a material impact on the accounts in 2010-11, were they applied in that year:

- IFRS 7 - Financial Instruments: Disclosures (amendment) - Transfers of financial assets (effective 2012-13);
- IAS 12 - Income Taxes amendment (2012-13);
- IAS 24 (Revised) Related Party Disclosures (2011-12);
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction amendment (2011-12);
- IFRIC 19 - Extinguishing financial liabilities with Equity instruments (2011-12); and
- IFRS 9 Financial Instruments was issued in November 2009, but will not be effective until 2013-14. The Department's investments that are categorised as available for sale financial assets will, as a result of IFRS 9, be categorised as Fair Value through Profit or Loss. Under IFRS 9 Impairment testing will not need to be carried out for financial assets that are equity investments. The Department does not expect the adoption of the Standard to significantly impact the financial statements in this account.

### 1.32 Significant Accounting Policies and material judgements

Estimates and the underlying assumptions are reviewed on a regular basis by management. Areas of significant judgement made by management are:-

IAS17 - retrospective accounting for long land leases. IAS17 was amended for accounting periods beginning on or after 1 January 2010 and the amendments were adopted by the NHS for 2010-11. The Department does not have the information necessary to apply the Standard's amendments retrospectively, and so has followed the provisions of IAS17 68A.

IFRS 5 Assets Held For Sale - impose conditions to be met for assets to be classified as Non Current Assets Held for Sale. In meeting these conditions the Department have made a judgment that the asset sale will be highly probable and the assets carrying amount will be recovered through a sale of the asset.

IAS37 Provisions - judgement is made on the best estimate that can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties.

IAS16 Property Plant and Equipment - Accounting note 14 shows the Departments Consolidated position of Property Plant and Equipment. Recognition of Property Plant and Equipment is in line with IAS16. Management have made judgement to use the Retail Price Index as the most appropriate index for use in valuing the National Programme for IT. The RPI has been used as it is the Department's consideration that, given the size of the National Programme for IT, any IT specific index would be skewed by the programme itself.

IAS36 Impairments - Management make judgement on whether there are any indications of impairments to the carrying amounts of the Departments Assets. During the year the Core Departments buildings reduced in value and resulted in £13 million impairments.

Additionally, the Department recognised impairments in respect of the Emergency Preparedness Stockpile goods of £25 million in 2010-11, and in respect of the Pandemic Flu Countermeasures Stockpile goods of £89 million. Both Impairments resulted from the stockpiled goods reaching their shelf life. The Department also reversed £14 million of an impairment loss recognised in 2009-10 as documentary evidence of appropriate storage in accordance with the Wholesaler Dealers Licence (WDL) was obtained in 2010-11. Further details are given in Note 31 Losses and Special Payments.

An impairment of Essential Medicines stockpile goods of £15 million was identified in respect of differences between the contract price of the goods held and the external market price of the goods.

The valuations of the Department's financial investments are internally generated.

## 2 Analysis of net resource outturn by section:

This note compares outturn with the figures approved by Parliament.

							2010-11 £'000	2009-10 £'000	
	Admin	Other Current	Grants	Gross Resource Expenditure	A-in-A	Outturn Net Total	Estimate	Net total Outturn compared with Estimate savings /(excess)	Prior year outturn
<b>Request for Resources 1:</b>									
<b>Securing health care for those who need it.</b>									
<b>Spending in Departmental Expenditure Limits (DEL)</b>									
<b>Central government spending</b>									
Strategic health authorities and primary care trusts unified budgets and central allocations	-	98,507,390	270,736	98,778,126	(2,353,929)	96,424,197	97,423,839	999,642	95,138,868
		<b>98,507,390</b>	<b>270,736</b>	<b>98,778,126</b>	<b>(2,353,929)</b>	<b>96,424,197</b>	<b>97,423,839</b>	<b>999,642</b>	<b>95,138,868</b>
FHS-Pharmaceutical Services	-	39,738	-	39,738	-	39,738	1	(39,737)	1,156,967
FHS-Prescription charges income	-	-	-	-	(41,846)	(41,846)	(1)	41,845	(431,794)
FHS-General Ophthalmic Services	-	-	-	-	-	-	-	-	467,552
Research and Development	-	970,697	139	970,836	(24,517)	946,319	949,900	3,581	883,094
	-	<b>1,010,435</b>	<b>139</b>	<b>1,010,574</b>	<b>(66,363)</b>	<b>944,211</b>	<b>949,900</b>	<b>5,689</b>	<b>2,075,819</b>
<b>Support for Local Authorities</b>									
Strategic health authority and primary care trusts grants to local authorities	-	-	252,147	252,147	-	252,147	327,000	74,853	166,728
	-	-	<b>252,147</b>	<b>252,147</b>	-	<b>252,147</b>	<b>327,000</b>	<b>74,853</b>	<b>166,728</b>
<b>Spending in Annually Managed Expenditure (AME)</b>									
<b>Central Government spending</b>									
Hospital financing for credit guarantee finance (CGF) pilot projects and certain DH, PCT and SHA impairments	-	3,285,190	-	3,285,190	(22,703)	3,262,487	5,480,473	2,217,986	439,615
<b>Non-budget (not DEL or AME)</b>									
Grant in aid to Non-departmental Public Bodies and repayment of interest	-	-	5,424	5,424	(915,438)	(910,014)	(896,143)	13,871	(998,094)
National Insurance Contributions	-	-	-	-	(17,172,023)	(17,172,023)	(17,172,023)	-	(18,025,336)
IFRS Non-budget changes	-	201,938	-	201,938	-	201,938	313,422	111,484	326,304
	-	<b>201,938</b>	<b>5,424</b>	<b>207,362</b>	<b>(18,087,461)</b>	<b>(17,880,099)</b>	<b>(17,754,744)</b>	<b>125,355</b>	<b>(18,697,126)</b>
	-	<b>103,004,953</b>	<b>528,446</b>	<b>103,533,399</b>	<b>(20,530,456)</b>	<b>83,002,943</b>	<b>86,426,468</b>	<b>3,423,525</b>	<b>79,123,904</b>



### 3 Reconciliation of outturn to net operating cost and against Administration Budget

#### 3.1 Reconciliation of net resource outturn to net operating cost

			2010-11 £'000	2009-10 £'000	
			Outturn compared with		
	Note	Outturn	Supply Estimate	Estimate	
				Outturn	
Net Resource Outturn	2	86,387,028	90,156,564	3,769,536	82,384,131
Non-supply income (CFERS)	5	(750,286)	-	750,286	(8,996)
Non-supply expenditure		-	-	-	-
Adjustment due to Alignment legislation		-	-	-	(504,053)
<b>Net Operating Cost</b>		<b>85,636,742</b>	<b>90,156,564</b>	<b>4,519,822</b>	<b>81,871,082</b>

#### 3.2 Reconciliation of net resource Outturn against final Administration Budget

		2010-11 £'000	2009-10 £'000	
		Budget	Outturn	
			Outturn	
Gross Administration Budget		221,005	216,365	222,096
Income allow able against Administration Budget		(5,725)	(4,072)	(5,263)
<b>Net outturn against final Administration Budget</b>		<b>215,280</b>	<b>212,293</b>	<b>216,833</b>

### 4 Reconciliation of resources to cash requirement

		Estimate £'000	Outturn £'000	Net Total outturn compared with Estimate saving/(excess) £'000
	Note			
Net Resource Outturn	2	90,156,564	86,387,028	3,769,536
Capital		3,705,829	1,349,391	2,356,438
Investments		-	1,002,746	(1,002,746)
Non operating A-in-A - proceeds of asset disposals		(820,837)	(447,247)	(373,590)
Accruals adjustments				
Non-cash items	10b	(7,033,893)	(5,252,868)	(1,781,025)
Consumption of stockpile goods	14	-	7,744	(7,744)
Transfer of provisions to accruals	22	-	639,664	(639,664)
Changes in working capital other than cash and current provisions		109,532	(204,840)	314,372
Changes in payables falling due after more than one year	21	-	(13,078)	13,078
Use of provision	22	1,236,734	1,280,863	(44,129)
Excess cash receipts surrenderable to the Consolidated Fund		-	-	-
Other		-	(1,689)	1,689
<b>Net cash requirement</b>		<b>87,353,929</b>	<b>84,747,714</b>	<b>2,606,215</b>

## 5 Analysis of income payable to the Consolidated Fund

In addition to appropriations-in-aid, the following is the only income that relates to the Department and is payable to the Consolidated Fund (cash receipts being shown in italics)

	Forecast 2010-11		Outturn 2010-11	
	£'000		£'000	
	Income	Receipts	Income	Receipts
Operating income and receipts-excess A-in-A	-	-	735,792	735,792
Other operating income and receipts not classified as A-in-A	-	-	14,494	53
<b>Total income payable to the Consolidated Fund</b>	-	-	<b>750,286</b>	<b>735,845</b>

## 6 Reconciliation of income recorded within the Consolidated Statement of Comprehensive Net Expenditure to operating income payable to the Consolidated Fund

	Note	2010-11	2009-10
		£'000	£'000
Operating income	12	21,366,519	21,599,822
Gross income		21,366,519	21,599,822
Income authorised to be appropriated-in-aid		(20,616,233)	(21,590,826)
<b>Operating income payable to the Consolidated Fund</b>	<b>5</b>	<b>750,286</b>	<b>8,996</b>

## 7 Non-operating income – Excess Appropriations-in-Aid

	2010-11
	£'000
Principal repayment of voted loans	-
Proceeds on disposal of fixed assets	-
Other	-
<b>Non - operating income excess A-in-A</b>	<b>-</b>

## 8 Consolidated Fund Income

There were no amounts collected by the Department in cases where it was acting as an agent for the Consolidated Fund. The value for Consolidated Fund income shown in Note 6 above reflects this.

## 9 Staff numbers and related costs

### 9.1 Staff costs consist of

						2010-11 £'000	2009-10 £'000
	Total	Permanently employed staff	Others	Ministers	Special Advisors	Total	
Salaries and Wages	6,957,895	6,129,331	828,151	259	154	7,658,326	
Social Security costs	457,045	442,883	14,121	24	17	503,178	
NHS Pension	744,886	734,369	10,517	-	-	840,027	
Other pension costs	35,138	29,122	5,988	3	25	38,828	
<b>Sub-total</b>	<b>8,194,964</b>	<b>7,335,705</b>	<b>858,777</b>	<b>286</b>	<b>196</b>	<b>9,040,359</b>	
Less recoveries in respect of Outward Secondments	(7,275)	(7,275)	-	-	-	(14,995)	
<b>Total Net Costs</b>	<b>8,187,689</b>	<b>7,328,430</b>	<b>858,777</b>	<b>286</b>	<b>196</b>	<b>9,025,364</b>	
Of which Core Department Revenue Expenditure is	349,680	170,366	178,832	286	196	322,936	
Of which Core Department Capital Expenditure is	27,804	386	27,418	-	-	40,540	
Of which NHS Bodies Revenue Expenditure is	7,801,099	7,149,248	651,851	-	-	8,652,746	
Of which NHS Bodies Capital Expenditure is	9,106	8,430	676	-	-	9,142	

### 9.2 Average number of persons employed

The average number of whole-time equivalent persons employed during the year is shown in the table below. These figures include those working in the Department as well as in agencies and other bodies included within the consolidated Departmental Resource Account.

						2010-11 Number	2009-10 Number
	Total	Permanent staff	Others	Ministers	Special Advisors	Total	
Core Department	3,358	2,551	800	5	2	3,403	
Connecting for Health	1,433	29	1,404	-	-	1,449	
Primary Care Trusts	186,711	174,024	12,687	-	-	222,395	
Strategic Health Authorities	3,845	3,183	662	-	-	3,865	
Special Health Authorities	4,438	4,138	300	-	-	4,700	
Supply financed agency	-	-	-	-	-	206	
<b>Total whole time equivalent persons</b>	<b>199,785</b>	<b>183,925</b>	<b>15,853</b>	<b>5</b>	<b>2</b>	<b>236,018</b>	

Connecting for Health (responsible for implementing the National Programme for IT (NPfIT) in the NHS) is a programme managed by the Department's Director General for Informatics and Chief Information Officer. The employment contracts or secondment agreements of almost all of its staff are held for the Department on a "hosted" basis, by the NHS Business Services Authority.

Staff numbers in the accounts are calculated using a financial year average.

#### **Core Department**

The £26.7 million increase in staff costs attributable to Core Department Revenue Expenditure (£349.68 million compared to £322.94 million in 2009-10) results from the interaction of four elements: (i) the costs of a voluntary exit scheme; (ii) a transfer of 74 staff into the Department from the Food Standards Agency; (iii) the full year effect of the transfer of staff into the Department from the former NHS Purchasing & Supply Agency;

and (iv) the impact of the 2010-11 pay award. After adjusting for these items, there is a downward trend in the Department's staff costs.

### Strategic Health Authorities

Measured on an average basis, the total number of SHA staff reduced by 20 compared to 2009-10. The number of permanent staff increased during the year, largely as a result of a restatement by one SHA to correct the impact of a mis-classification of MPET staff in previous years, and because of a movement from non-permanent to permanent staff as all SHAs moved to reduce agency contract costs. However, this increase in the number of permanent staff was outweighed by a more significant fall in the number of non-permanent staff.

### Primary Care Trusts

The total number of PCT staff reduced by 35,684 compared to 2009-10. Approximately one third of this overall reduction relates to administrative staff categories. During the year, 24 PCTs divested their provider functions to NHS Trusts, NHS Foundation Trusts or Social Enterprises under the "Transforming Community Services" initiative. Consequently, the most significant reduction in PCT staff numbers occurred in those categories (dental, nursing, midwifery, health visitors and therapeutic staff) where staff have transferred to new providers.

## 9.3 Reporting of Civil Service and other compensation schemes - exit packages

DH and ALBs	2010-11			2009-10		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band*	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£10,000	85	38	123	18	169	187
£10,000 - £25,000	40	67	107	9	12	21
£25,000 - £50,000	33	130	163	9	23	32
£50,000 - £100,000	22	107	129	3	26	29
£100,000- £150,000	13	58	71	2	8	10
£150,000- £200,000	13	16	29	3	4	7
over 200K	-	9	9	-	2	2
<b>Total number of exit packages by type</b>	<b>206</b>	<b>425</b>	<b>631</b>	<b>44</b>	<b>244</b>	<b>288</b>
<b>Total resource cost (£)</b>	<b>7,751,056</b>	<b>26,282,360</b>	<b>34,033,416</b>	<b>1,763,745</b>	<b>4,352,691</b>	<b>6,116,436</b>

PCTs and SHAs	2010-11			2009-10		
Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band*	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
<£20,001	793	1,741	2,534	50	56	106
£20,001 - £40,000	371	849	1,220	26	6	32
£40,001 - 100,000	328	725	1,053	23	9	32
£100,001 - £150,000	111	150	261	10	1	11
£150,001 - £200,000	35	35	70	4	1	5
>£200,000	27	24	51	3	2	5
<b>Total number of exit packages by type</b>	<b>1,665</b>	<b>3,524</b>	<b>5,189</b>	<b>116</b>	<b>75</b>	<b>191</b>
<b>Total resource cost (£)</b>	<b>65,174,063</b>	<b>112,591,782</b>	<b>177,765,844</b>	<b>5,419,848</b>	<b>1,737,000</b>	<b>7,156,848</b>

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year that each departure is formally agreed. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

This disclosure reports the number and value of exit packages taken by staff leaving in the year. The expense associated with these departures may have been recognised in part or in full in a previous period. Where early retirements have been agreed, the additional costs are met by the organisation and not by the NHS pension scheme. Ill-health retirement costs are met by the NHS pension scheme and are not included in the table.

### **Principal Civil Service Pension Scheme (PCSPS)**

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. As such, the Department of Health is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation [www.civilservice.gov.uk/my-civil-service/pensions](http://www.civilservice.gov.uk/my-civil-service/pensions).

For 2010-11, employers' contributions of £24,447,529 were payable to the PCSPS (2009-10 £23,713,604) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2010-11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £166,794 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £8,210, 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Contributions due to the partnership pension providers at the balance sheet date were £50,824. Contributions prepaid at that date were £Nil.

### **NHS Pension Scheme**

The NHS Pension scheme is an unfunded, multi-employer defined benefit scheme. Individual NHS bodies are therefore unable to identify their shares of the underlying scheme assets and liabilities. The scheme actuary valued the scheme as at 31 March 2004. Details can be found on the pension scheme website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions).

For 2010-11, employers' contributions were payable to the NHS Pension Scheme at the rate of 14% of pensionable pay. The scheme's actuary reviews employer contributions every four years following a full scheme valuation. The last review took effect from April 2008 with the employer contribution rate maintained at 14%. These costs are included in the NHS pension line of note 9.1.

Of the £745 million (2009-10 £840 million) against NHS pension costs in note 9.1 £709 million (2009-10 £798 million) is attributable to PCTs, £22 million (2009-10 £20 million) to SHAs, £15 million (2009-10 £15 million) to the ALBs and £7m (2009-10 £7m) to Connecting for Health

**10 Other administration costs**

The following is an analysis of other administration costs of the Core Department

	2010-11 £'000	Restated 2009-10 £'000
Note		
<b>Rental under operating leases:</b>		
Hire of plant and machinery	5	13
Other operating leases	11,413	11,629
Interest Charges	16	26
Research and Development Expenditure	51	112
<b>Non cash items (See Note b below):</b>		
Depreciation	5,222	7,845
Amortisation	8,336	6,450
Profit on disposal of property plant and equipment	-	-
Loss on disposal of property plant and equipment	-	41
Profit on disposal of intangible non current assets	-	-
Loss on disposal of intangible non current assets	-	-
Impairment/permanent diminution of asset values	714	1,357
Impairment reversal	-	-
Auditors' remuneration	a 665	567
Provision provided for in year	22 -	2,069
Unwinding of discount on provisions	22 -	550
Other non-cash	-	-
Building and related costs	13,680	14,461
General office expenditure	17,164	17,464
Other expenditure	19,224	31,096
<b>Total</b>	<b>76,490</b>	<b>93,680</b>

Note a -The audit fee represents the cost of the audit of the Department's Resource Account and the Summarised Accounts of the NHS carried out by the Comptroller and Auditor General.

Note b - the total of non-cash transactions included in the Reconciliation of Operating Costs to Operating Cash flows in the Consolidated Cash Flow Statement and the reconciliation of resources to net cash requirement comprises:

	2010-11 £'000	Restated 2009-10 £'000
Other administration costs - non-cash items (Note 10)	14,937	18,879
Programme costs - non-cash items (Note 11)	5,244,291	4,513,251
Other non-cash amounts charged to operating expenditure	-	-
Less non-cash income: -deferred donation income released from the Donated Asset Reserve	(6,360)	(9,203)
Other: Stock Write-off	-	-
Bad Debts Expense	-	-
Write Off/On of Investment	-	-
<b>Total non-cash transactions</b>	<b>5,252,868</b>	<b>4,522,927</b>

## 11 Programme Costs

	Note	2010-11 £'000		Restated 2009-10 £'000	
		Core		Core	
		Department	Consolidated	Department	Consolidated
Current grants and other current expenditure		3,742,279	32,409,698	4,601,496	33,230,302
Purchase of healthcare from Foundation Trusts		-	25,933,492	-	23,470,160
Purchase of healthcare from NHS Trusts		-	25,267,643	-	24,308,066
Purchase of Healthcare from Non-NHS bodies		-	8,401,307	-	7,448,033
<b>Rental under operating leases:</b>					
Hire of plant and machinery		18	541	44	371
Other operating leases		12,090	338,190	13,886	345,420
Interest Charges		4,028	161,595	4,673	145,696
PFI Service Charges		-	76,122	-	71,164
Research and Development expenditure		920,530	943,114	853,966	869,079
<b>Non cash items (See Note b above):</b>					
Depreciation		94,322	443,525	96,860	444,831
Amortisation		586,712	612,134	505,023	523,936
Profit on disposal of property plant and equipment		(1,405)	(15,502)	(1,169)	(4,625)
Loss on disposal of property plant and equipment		5,622	5,701	4,122	4,379
Profit on disposal of intangible non current assets		-	(1,515)	-	(86)
Loss on disposal of intangible non current assets		-	237	-	85
Impairment/permanent diminution of asset values		118,452	362,797	259,051	842,941
Impairment reversals		(13,662)	(81,063)	(2,922)	(2,922)
Write-(on)/off of investment		604	604	-	-
Provision provided for in year	22	968,807	3,897,965	516,119	2,983,466
Unwinding of discount on provisions	22	29,567	14,146	32,967	(520)
Audit fees		-	85	-	162
Other Non-cash expenditure		5,176	5,176	-	-
<b>Total</b>		<b>6,473,140</b>	<b>98,775,992</b>	<b>6,884,116</b>	<b>94,679,938</b>

## Footnotes

1) The Core Department Programme Costs Note for 2009-10 has been restated to reflect the corrected accounting treatment of EEA medical cost provisions. This moves £278 million from the Current grants and other current expenditure line to the Provisions provided for in year line.

2) The Consolidated Programme Costs Note for 2009-10 includes the effect of the Core Department restatement, the impact of the transfer of functions from PCTs to NHS Trusts, Foundation Trusts and Social Enterprises and the impact of removing the cost of capital charge

3. Included in the Core Department column of the above Programme Costs Note is £186.5m paid to Independent Sector Treatment Centres (ISTCs) for healthcare services provided by those ISTCs. £170.4m of this expenditure was recovered from Primary Care Trusts who commission these healthcare services

	2010-11 £'000	2009-10 £'000
Auditors' Remuneration - Audit Fees	36,430	38,702
Auditors' Remuneration - Other Fees	6,612	7,325

The audit fee represents the cost of the audit of the financial statements of group bodies consolidated within the Resource Account. The Comptroller and Auditor General and auditors appointed by the Audit Commission undertake these audits.

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

**12 Income**

Operating Income analysed by classification and activity, is as follows:

				2010-11	2009-10
	RfR1	RfR2	RfR3	£'000	£'000
				Total	Total
<b>Administration Income:</b>					
Allowable within the administration cost limit	-	4,072	-	4,072	5,263
Not allowable within the administration cost limit	-	333	-	333	1,953
<b>Total Administration Income</b>	<b>-</b>	<b>4,405</b>	<b>-</b>	<b>4,405</b>	<b>7,216</b>
<b>Programme Income:</b>					
Fees and charges to external customers	148,696	-	-	148,696	152,512
Income in respect of goods and services from other departments	747,650	-	-	747,650	987,151
Prescription and dental fees and charges	1,067,275	-	-	1,067,275	1,046,994
National Insurance Contribution	17,907,815	-	-	17,907,815	18,025,336
Non-cash income	-	-	-	-	-
Rental income (operating cost and finance lease)	111,245	-	-	111,245	72,000
Interest from Overseas	2,610	-	-	2,610	-
Dividends	-	1,583	-	1,583	-
PDC Dividend Received	866,025	-	-	866,025	998,283
Other	429,374	79,841	-	509,215	310,330
<b>Total Programme Income</b>	<b>21,280,690</b>	<b>81,424</b>	<b>-</b>	<b>21,362,114</b>	<b>21,592,606</b>
<b>Total Income*</b>	<b>21,280,690</b>	<b>85,829</b>	<b>-</b>	<b>21,366,519</b>	<b>21,599,822</b>
* Of which Core Department is	1,119,225	85,829	-	1,205,054	1,250,875

**Note:** Amounts for "Income in respect of goods and services from other departments" and "other" for 2009-10 have been restated due to a change in classification of income from NHS bodies outside the Resource Accounting boundary. The total income for 2009-10 is unchanged.

**13 Analysis of net operating cost by spending body**

			Restated
	Estimate	Outturn	2009-10
			£'000
<b>Spending body:</b>			
Core Department	267,327	239,656	223,523
Purchasing and Supplies Agency	-	-	40,497
Entities within departmental boundary	86,787,294	82,559,102	78,990,048
Local authorities	1,907,761	1,770,321	1,608,969
Other bodies	1,194,182	1,067,663	1,008,045
<b>Net Operating Cost</b>	<b>90,156,564</b>	<b>85,636,742</b>	<b>81,871,082</b>

**Note:** 'Core Department' refers to Administration costs of the Core Department only.

**Note:** Entities within the Departmental boundary include all NHS bodies, i.e. both consolidated and not consolidated in the Department's Resource Account as listed in Note 35.

**Note:** The Purchasing and Supply Agency ceased to exist on 31 March 2010.

## 14 Property, plant and equipment

2010-11

	Land	Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction		Furniture and Fittings	Plant & Machinery	Transport Equipment	Stockpiled Goods	Total
					£'000	£'000					
<b>Cost or valuation</b>											
<b>At 1 April 2010</b>	<b>1,850,359</b>	<b>5,409,991</b>	<b>30,279</b>	<b>1,240,240</b>	<b>222,233</b>	<b>201,559</b>	<b>491,101</b>	<b>17,191</b>	<b>597,900</b>	<b>10,060,853</b>	
Opening balance adjustment	12,216	54,648	(74)	-	-	-	-	-	-	66,790	
<b>At 1 April 2010</b>	<b>1,862,575</b>	<b>5,464,639</b>	<b>30,205</b>	<b>1,240,240</b>	<b>222,233</b>	<b>201,559</b>	<b>491,101</b>	<b>17,191</b>	<b>597,900</b>	<b>10,127,643</b>	
Adjustment for transfer of functions	-	(1,335)	-	(2,812)	-	(3,546)	(4,995)	(389)	-	(13,077)	
<b>Restated Balance as at 1 April 2010</b>	<b>1,862,575</b>	<b>5,463,304</b>	<b>30,205</b>	<b>1,237,428</b>	<b>222,233</b>	<b>198,013</b>	<b>486,106</b>	<b>16,802</b>	<b>597,900</b>	<b>10,114,566</b>	
Additions-purchased	30,160	378,395	4,348	118,903	197,538	18,675	33,548	1,912	260,491	1,043,970	
Additions-donated	16	5,431	-	155	1,640	571	1,070	42	-	8,925	
Impairment transferred to Revaluation Reserve	(33,848)	(84,526)	(975)	(167)	(3,291)	(21)	(441)	(12)	(15,139)	(138,420)	
Impairment transferred to the CSCNE	(22,772)	(180,985)	(2,534)	-	(15,386)	-	-	-	(113,389)	(335,066)	
Impairment reversals	1,147	11,282	126	-	-	-	(137)	1	13,662	26,081	
Transfers	7,696	26,691	-	127	(319)	28,191	(5,396)	(302)	67,439	124,127	
Reclassifications to assets held for sale	(40,207)	(27,588)	(129)	(4,157)	(225)	(798)	(9,167)	(635)	-	(82,906)	
Reclassifications	10,562	150,563	(4,351)	(195,227)	(197,015)	2,222	(1,593)	655	-	(234,184)	
Revaluation and indexation	73,702	151,154	2,303	22	214	126	781	8	27,559	255,869	
Disposals	(9,692)	(17,791)	-	(68,784)	(22)	(5,328)	(22,817)	(1,517)	(8,294)	(134,245)	
<b>At 31 March 2011</b>	<b>1,879,339</b>	<b>5,875,930</b>	<b>28,993</b>	<b>1,088,300</b>	<b>205,367</b>	<b>241,651</b>	<b>481,954</b>	<b>16,954</b>	<b>830,229</b>	<b>10,648,717</b>	
<b>Depreciation</b>											
<b>At 1 April 2010</b>	<b>464</b>	<b>662,212</b>	<b>2,903</b>	<b>623,711</b>	<b>-</b>	<b>90,506</b>	<b>247,122</b>	<b>11,425</b>	<b>-</b>	<b>1,638,343</b>	
Opening balance adjustment	2,216	54,648	(74)	-	-	-	-	-	-	66,790	
<b>At 1 April 2010</b>	<b>12,680</b>	<b>716,860</b>	<b>2,829</b>	<b>623,711</b>	<b>-</b>	<b>90,506</b>	<b>247,122</b>	<b>11,425</b>	<b>-</b>	<b>1,705,133</b>	
Adjustment for transfer of functions	-	-	-	(997)	-	(2,212)	(2,189)	(246)	-	(5,644)	
<b>Restated Balance as at 1 April 2010</b>	<b>12,680</b>	<b>716,860</b>	<b>2,829</b>	<b>622,714</b>	<b>-</b>	<b>88,294</b>	<b>244,933</b>	<b>11,179</b>	<b>-</b>	<b>1,699,489</b>	
Charged in year	925	194,652	689	175,750	-	20,781	54,586	1,365	-	448,748	
Impairment transferred to the CSCNE	-	-	-	3,987	(1)	2,342	8,800	16	-	15,144	
Impairment transferred to Revaluation Reserve	-	(7,085)	-	-	-	-	-	-	-	(7,085)	
Impairment reversals	(3,474)	(48,462)	(47)	-	(1)	-	(169)	-	-	(52,153)	
Transfers	-	445	-	(439)	-	1,156	(4,352)	(259)	-	(3,449)	
Reclassifications to assets held for sale	(3,298)	(4,773)	(14)	(3,134)	-	(161)	(6,195)	(364)	-	(17,939)	
Reclassifications	-	3,925	9	(80,140)	-	(2,625)	(3,216)	544	-	(81,503)	
Revaluation and indexation	412	20,570	131	-	-	17	288	-	-	21,418	
Disposals	(64)	(1,814)	-	(66,438)	-	(4,841)	(20,411)	(1,448)	-	(95,016)	
<b>At 31 March 2011</b>	<b>7,181</b>	<b>874,318</b>	<b>3,597</b>	<b>652,300</b>	<b>(2)</b>	<b>104,963</b>	<b>274,264</b>	<b>11,033</b>	<b>-</b>	<b>1,927,654</b>	
<b>At 31 March 2011</b>	<b>1,872,158</b>	<b>5,001,612</b>	<b>25,396</b>	<b>436,000</b>	<b>205,369</b>	<b>136,688</b>	<b>207,690</b>	<b>5,921</b>	<b>830,229</b>	<b>8,721,063</b>	
At 31 March 2010	1849,895	4,747,779	27,376	616,529	222,233	111,053	243,979	5,766	597,900	8,422,510	
<b>Asset financing:</b>											
Owed	1,747,584	3,177,924	24,652	434,790	205,369	131,669	151,913	5,921	830,229	6,710,051	
Finance Lease	7,783	188,328	744	1,207	-	4,874	54,227	-	-	257,163	
On-balance sheet PFI contracts	113,791	1,625,431	-	3	-	145	1,550	-	-	1,740,920	
PFI residual interests	3,000	9,929	-	-	-	-	-	-	-	12,929	
<b>Net book value at 31 March 2011</b>	<b>1,872,158</b>	<b>5,001,612</b>	<b>25,396</b>	<b>436,000</b>	<b>205,369</b>	<b>136,688</b>	<b>207,690</b>	<b>5,921</b>	<b>830,229</b>	<b>8,721,063</b>	

## Footnote

- Stockpiled goods are not depreciated, as agreed with HM Treasury.
- For NHS land, buildings and dwellings the opening cost/valuation is the closing net book value of the previous year. For these assets, the depreciation section of the note reflects in-year adjustments only.
- PCT and SHA PPE balances at 31 March 2011 were presented in gross terms, showing both the gross value of assets and the year's depreciation charge. The Department adopts a policy of eliminating cumulative depreciation against gross carrying amounts such that the net book value of PPE is carried forward from one year to another for PCTs and SHAs only. This policy is permitted by IAS 16 in view of the incidence of property revaluations in NHS bodies each year. The closing net book value of PPE in 2010-11 equals the opening net book value in 2011-12.

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

2009-10

	Land	Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Stockpiled Goods	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost or valuation</b>										
<b>At 1 April 2009</b>	<b>1,997,619</b>	<b>5,645,042</b>	<b>31,629</b>	<b>1,011,569</b>	<b>196,015</b>	<b>174,618</b>	<b>424,975</b>	<b>16,231</b>	<b>462,750</b>	<b>9,960,448</b>
Additions-purchased	34,565	553,984	6,590	238,000	254,343	32,269	58,940	2,011	471,839	1,652,541
Additions-donated	150	3,209	-	54	2,307	180	2,012	90	-	8,002
Impairment transferred to Revaluation Reserve	(214,373)	(568,285)	(2,823)	(1,042)	(4,526)	(676)	(751)	(4)	-	(792,480)
Impairment transferred to the CSCNE	(103,831)	(499,799)	(1,726)	-	(6,522)	-	-	-	(227,478)	(839,356)
Impairment reversals	6,915	18,757	1,041	3	-	514	85	4	-	27,319
Transfers	1,197	6,578	-	719	(7,436)	(23)	(43)	-	(113,705)	(112,713)
Reclassifications to assets held for sale	(39,733)	(31,853)	(6,951)	(273)	(29)	(52)	(128)	(215)	-	(79,234)
Reclassifications	12,822	135,364	2,401	34,108	(208,584)	(2,734)	12,560	167	-	(13,896)
Revaluation and indexation	171,076	158,949	2,310	(57)	1,160	293	1,529	1	21,093	356,354
Disposals	(16,048)	(11,955)	(2,192)	(42,841)	(4,495)	(2,830)	(8,078)	(1,094)	(16,599)	(106,132)
<b>At 31 March 2010</b>	<b>1,850,359</b>	<b>5,409,991</b>	<b>30,279</b>	<b>1,240,240</b>	<b>222,233</b>	<b>201,559</b>	<b>491,101</b>	<b>17,191</b>	<b>597,900</b>	<b>10,060,853</b>
<b>Depreciation</b>										
<b>At 1 April 2009</b>	-	<b>464,251</b>	<b>2,643</b>	<b>484,514</b>	-	<b>76,090</b>	<b>201,456</b>	<b>11,242</b>	-	<b>1,240,196</b>
Charged in year	464	205,260	846	177,731	-	18,118	48,421	1,314	-	452,154
Impairment transferred to the CSCNE	-	(518)	-	2,443	-	1,570	2,841	42	-	6,378
Impairment transferred to Revaluation Reserve	-	(2,594)	-	-	-	-	-	-	-	(2,594)
Impairment reversals	-	9	-	-	-	-	-	-	-	9
Transfers	-	(124)	-	768	-	-	(322)	(1)	-	321
Reclassifications to assets held for sale	-	(4,313)	(126)	(261)	-	(38)	(83)	(213)	-	(5,034)
Reclassifications	-	596	(358)	882	-	(2,786)	796	127	-	(743)
Revaluation and indexation	-	933	-	262	-	116	1,227	-	-	2,538
Disposals	-	(1,288)	(102)	(42,628)	-	(2,564)	(7,214)	(1,086)	-	(54,882)
<b>At 31 March 2010</b>	<b>464</b>	<b>662,212</b>	<b>2,903</b>	<b>623,711</b>	-	<b>90,506</b>	<b>247,122</b>	<b>11,425</b>	-	<b>1,638,343</b>
<b>Net Book Value</b>										
<b>At 31 March 2010</b>	<b>1,849,895</b>	<b>4,747,779</b>	<b>27,376</b>	<b>616,529</b>	<b>222,233</b>	<b>111,053</b>	<b>243,979</b>	<b>5,766</b>	<b>597,900</b>	<b>8,422,510</b>
At 31 March 2009	1,997,619	5,180,791	28,986	527,055	196,015	98,528	223,519	4,989	462,750	8,720,252
<b>Asset financing:</b>										
Owned	1,741,340	3,044,255	26,638	614,505	221,924	105,260	187,924	5,766	597,900	6,545,512
Finance Lease	4,754	221,374	738	2,024	-	5,658	54,820	-	-	289,368
On-balance sheet PFI contracts	100,981	1,470,653	-	-	309	135	1,235	-	-	1,573,313
PFI residual interests	2,820	11,497	-	-	-	-	-	-	-	14,317
<b>Net book value at 31 March 2010</b>	<b>1,849,895</b>	<b>4,747,779</b>	<b>27,376</b>	<b>616,529</b>	<b>222,233</b>	<b>111,053</b>	<b>243,979</b>	<b>5,766</b>	<b>597,900</b>	<b>8,422,510</b>

The net book value of PPE assets comprises:

	Land	Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Stockpiled Goods	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Core Department 2010-11	103,966	123,652	-	146,240	85	34,530	48,477	-	830,228	1,297,908
Other NHS Bodies 2010-11	1,758,192	4,877,960	25,396	289,760	204,554	102,158	159,213	5,921	1	7,423,155
Core Department 2009-10	73,872	96,440	3,934	316,446	14,797	9,221	64,548	-	597,900	1,177,158
Other NHS Bodies 2009-10	1,776,023	4,651,339	23,442	300,083	207,436	101,832	179,431	5,766	-	7,245,352

Revaluation Reserve surplus in respect of Core Department PPE assets

	<b>£'000</b>
As at 1 April 2010	78,563
Movement in year	38,121
As at 31 March 2011	<b>116,684</b>

Property has been valued as follows:

- The Civil Estate (land and buildings held for use by the core Department) was valued on 1 September 2010 by independent valuers employed by the Department. Since then, Investment Property Databank indices have been applied, as appropriate, to uplift values as at the year end.
- Land and buildings held by NHS bodies were valued, by independent valuers, to a modern equivalent basis as required by HM Treasury, during either 2008-09 or 2009-10.
- All valuations have been undertaken according to Royal Institute of Chartered Surveyors (RICS) guidelines.
- The Retained Estate comprises land and buildings which were primarily intended for use by NHS bodies but which are now surplus to requirements and are therefore held by the Department. The Retained Estate was revalued by professional valuers as at 31 March 2010. Additional valuations were carried out as necessary in circumstances where there were indications that values had substantially changed.

The ranges of estimated useful lives are currently:

- Buildings and dwellings: 1 - 115 years
- Transport equipment: 1 - 15 years
- Information technology: 1 - 20 years
- Plant and machinery: 1 - 35 years
- Furniture and fittings: 1 - 54 years

### Explanation of Opening Balance Adjustments

There are three key reasons for the opening balance adjustments included in the PPE Note:

- **Late submission of the 2009-10 audited accounts of Kensington and Chelsea PCT**  
Kensington and Chelsea PCT did not submit their final accounts to the Department until after the 2009-10 Resource Account had been completed and laid. This PCT's final accounts included adjustments to the Property, Plant and Equipment note that were not reflected in the unaudited accounts submitted by them to the Department. In the absence of the PCT's final accounts, the Department had used this unaudited information in completing the 2009-10 Resource Account.
- **PCT mergers**  
A number of PCTs divested provider functions to NHS Trusts, NHS Foundation Trusts and Social Enterprises during 2010-11 as part of the "Transforming Community Services" initiative. HM Treasury require that merger accounting principles are applied in these circumstances. This has resulted in a restatement of prior year balances. Paragraph 1.30 of Note 1 refers.
- **Specific NHS Accounting Treatment of Land, Buildings, Dwellings and Assets under Construction**  
Until 2009-10, the PCT and SHA accounts followed a FReM departure which had been agreed with HM Treasury, whereby the accumulated depreciation at the end of the previous financial year was netted off against the cost of the asset brought forward at the beginning of the current financial year. This applied to the following classes of assets:
  - Land
  - Buildings
  - Dwellings
  - Assets under construction

However, from 2010-11, PCTs and SHAs are required to show gross values for cost and depreciation in respect of these classes of assets, unless the assets have been revalued during the previous financial year, in which case the net book value, being equal to the new valuation, is brought forward into the opening cost of the current financial year, with nil accumulated depreciation.

### Explanation of material impairments in the Core Department

DH Core buildings reduced in value during 2010-11 as a result of £13 million impairments caused by market price changes recognised both during the year and as part of a specific year end exercise.

The Department recognised impairments in respect of the Emergency Preparedness Stockpile goods of £31 million in 2010-11, and in respect of the Pandemic Flu Countermeasures Stockpile goods of £73 million. Both Impairments resulted from the stockpiled goods reaching their shelf life. Further details are given in Note 31 Losses and Special Payments.

An impairment of Essential Medicines stockpile goods of £15 million was identified in respect of differences between the contract price of the goods held and the external market price of the goods.

## 15 Intangible Non-Current Assets

Intangible non-current assets comprise: Purchased Software Licences, Trade Marks, Development Expenditure, and National Programme for IT assets relating to both the Department and the entities consolidated within these financial statements.

	2010-11			
	Software Licences	Development Expenditure	Other	Total
	£'000	£'000	£'000	£'000
<b>At 1 April 2010</b>	<b>3,061,216</b>	<b>56,376</b>	<b>2,489</b>	<b>3,120,081</b>
Opening balance adjustment	-	-	-	-
Adjustment for transfer of functions	(22)	(11)	-	(33)
<b>Restated Balance as at 1 April 2010</b>	<b>3,061,194</b>	<b>56,365</b>	<b>2,489</b>	<b>3,120,048</b>
Additions-purchased	285,439	6,080	717	292,236
Additions-donated	8	465	-	473
Impairment transferred to Revaluation Reserve	(149)	(421)	-	(570)
Impairment transferred to the CSCNE	(1,314)	-	-	(1,314)
Impairment reversal	-	-	-	-
Transfers	34	(312)	-	(278)
Reclassification to assets held for sale	(202)	-	-	(202)
Reclassification	257,741	(23,806)	(535)	233,400
Revaluation and indexation	153,428	-	-	153,428
Disposals	(414,651)	(7,385)	-	(422,036)
<b>At 31 March 2011</b>	<b>3,341,528</b>	<b>30,986</b>	<b>2,671</b>	<b>3,375,185</b>
<b>Amortisation</b>				
<b>At 1 April 2010</b>	<b>1,485,412</b>	<b>15,426</b>	<b>1,142</b>	<b>1,501,980</b>
Opening balance adjustment	-	-	-	-
Adjustment for transfer of functions	(4)	1	-	(3)
<b>Restated Balance as at 1 April 2010</b>	<b>1,485,408</b>	<b>15,427</b>	<b>1,142</b>	<b>1,501,977</b>
Charged in year	614,444	5,610	416	620,470
Impairment transferred to the CSCNE	(955)	-	-	(955)
Impairment transferred to Revaluation Reserve	-	-	-	-
Impairment reversal	-	-	-	-
Transfers	-	83	-	83
Reclassification to assets held for sale	(120)	-	-	(120)
Reclassification	80,793	(813)	(17)	79,963
Revaluation and indexation	15,702	-	-	15,702
Disposals	(414,615)	(664)	-	(415,279)
<b>At 31 March 2011</b>	<b>1,780,657</b>	<b>19,643</b>	<b>1,541</b>	<b>1,801,841</b>
<b>Net book value at 31 March 2011</b>	<b>1,560,871</b>	<b>11,343</b>	<b>1,130</b>	<b>1,573,344</b>
Net book value at 31 March 2010	1,575,804	40,950	1,347	1,618,101

1) Included within the total value for Software Licences, £39.6 million (net book value) relates to internally generated software for the Core Department.

2) Of the total intangible non-current asset balance, £1,296 million (net book value) relates to Connecting for Health

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

2009-10

	Software Licences £'000	Development Expenditure £'000	Other £'000	Total £'000
<b>Cost or valuation</b>				
<b>At 1 April 2009</b>	<b>2,440,534</b>	<b>51,149</b>	<b>1,693</b>	<b>2,493,376</b>
Additions-purchased	526,703	7,405	1,005	535,113
Additions-donated	-	441	-	441
Impairment transferred to the Revaluation Reserve	(29)	(84)	-	(113)
Impairment reversal	-	-	-	-
Transfers	840	(1)	-	839
Reclassification to assets held for sale	-	-	-	-
Reclassification	792	(264)	(209)	319
Revaluation and indexation	94,561	-	-	94,561
Disposals	(2,185)	(2,270)	-	(4,455)
<b>At 31 March 2010</b>	<b>3,061,216</b>	<b>56,376</b>	<b>2,489</b>	<b>3,120,081</b>
<b>Amortisation</b>				
<b>At 1 April 2009</b>	<b>978,638</b>	<b>13,178</b>	<b>794</b>	<b>992,610</b>
Charged in year	525,393	4,683	310	530,386
Impairment transferred to the CSCNE	281	221	-	502
Impairment reversal	-	-	-	-
Transfers	-	-	-	-
Reclassification to assets held for sale	(5)	-	-	(5)
Reclassification	250	(454)	38	(166)
Revaluation and indexation	(17,588)	-	-	(17,588)
Disposals	(1,557)	(2,202)	-	(3,759)
<b>At 31 March 2010</b>	<b>1,485,412</b>	<b>15,426</b>	<b>1,142</b>	<b>1,501,980</b>
<b>Net book value at 31 March 2010</b>	<b>1,575,804</b>	<b>40,950</b>	<b>1,347</b>	<b>1,618,101</b>
Net book value at 31 March 2009	1,461,896	37,971	899	1,500,766

**Analysis of intangible non current assets as at 31 March 2011**

	Software Licences £'000	Development Expenditure £'000	Other £'000	Total £'000
The net book value of intangible non current assets comprises:				
Core Department at 31 March 2011	1,494,236	1,460	-	1,495,696
Other NHS Bodies 31 March 2011	66,635	9,883	1,130	77,648
Core Department at 31 March 2010	1,514,852	27,715	-	1,542,567
Other NHS Bodies 31 March 2010	60,952	13,235	1,347	75,534

**Net book value of intangible assets in the Revaluation Reserve**

	£'000
As at 1 April 2010	82,605
Movement in year	40,537
As at 31 March 2011	123,142

The ranges of estimated useful lives are currently:

- Software licences : 1 – 10 years
- Development expenditure: 2 - 25 years

The Department revalues its National Programme for IT (NPfIT) intangible non-current assets at the end of each financial year, by indexing their original cost. Given the very significant value of these assets, the Department applies the difference between the Retail Price Index (RPI) operating in the month of purchase and the RPI at the end of the year. RPI is considered the most appropriate measure of indexation to use with this group of assets, as no other indexation factor is available that more accurately reflects the commercial environment in the computer services sector, or would not be compromised by the high value of the assets. This valuation method is reviewed annually to ascertain whether RPI remains the most appropriate index to use.

The effective date of revaluation for NPfIT non-current assets is 31 March 2011.

NPfIT non-current assets (whether classified as property, plant and equipment or intangible assets) are not added to the Department's Non-Current Asset Register until confirmation has been received from the appropriate NHS organisation that the relevant system has been deployed successfully.

## 16 Financial Assets – Investments

2010-11

	NHS Trusts PDC £'000	NHS Trust Loans £'000	Foundation Trusts PDC £'000	Foundation Trusts Loans £'000	Other Bodies PDC £'000	Other Bodies Loans £'000	Other Bodies Share Capital £'000	Total £'000
<b>Balance as at 1 April 2010</b>	<b>11,747,217</b>	<b>474,317</b>	<b>11,098,981</b>	<b>455,891</b>	<b>1,328</b>	<b>590,692</b>	<b>211,598</b>	<b>24,580,024</b>
Opening balance adjustment	-	-	-	-	-	-	-	-
Adjustment for transfer of functions	-	-	-	-	-	-	-	-
<b>Restated Balance as at 1 April 2010</b>	<b>11,747,217</b>	<b>474,317</b>	<b>11,098,981</b>	<b>455,891</b>	<b>1,328</b>	<b>590,692</b>	<b>211,598</b>	<b>24,580,024</b>
<b>Issued:</b>								
To newly established bodies	3,605	-	-	-	-	16,112	58,300	78,017
To existing bodies	301,087	242,042	69,178	310,393	-	5,634	-	928,334
<b>Repaid:</b>								
By continuing bodies	(93,153)	(39,369)	(5,559)	(10,199)	-	(338)	(4,000)	(152,618)
<b>Written off:</b>								
By or on behalf of dissolved bodies	-	-	-	-	-	-	-	-
<b>Other:</b>								
Revaluation	-	-	-	-	-	40	115,724	115,764
Loan repayable within 12 months transferred to receivables	-	(121,040)	-	(52,473)	-	(6,613)	-	(180,126)
Impairment	-	1	-	-	-	(2,384)	(3,100)	(5,483)
Impairment reversal	-	-	-	-	-	-	-	-
Reclassification	(424,258)	(9,854)	424,258	9,854	-	2	(2)	-
<b>Balance as at 31 March 2011</b>	<b>11,534,498</b>	<b>546,097</b>	<b>11,586,858</b>	<b>713,466</b>	<b>1,328</b>	<b>603,145</b>	<b>378,520</b>	<b>25,363,912</b>
<b>Investments held by Core Department</b>	<b>11,534,498</b>	<b>546,097</b>	<b>11,586,858</b>	<b>713,466</b>	<b>1,328</b>	<b>572,068</b>	<b>369,302</b>	<b>25,323,617</b>
<b>Investments held by other NHS bodies</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,077</b>	<b>9,218</b>	<b>40,295</b>

				Percentage Shareholding
The Department can analyse its investments in other bodies as follows:				
MHRA ( Medicines and Healthcare products Regulatory Agency)	1,328	1,328	500	100%
Community Health Partnerships	-	10,000	93,700	100%
Plasma Resources UK Ltd	-	31,186	223,702	100%
Credit Guarantee Fund (CGF)	-	497,083	-	-
SBS	-	21,766	20,000	50%
LIFT companies	-	-	-	-
Dr Foster Intelligence Ltd	-	-	4,900	48.75%
NHS Professionals	-	-	26,500	100%
Social Enterprise Loans	-	10,405	-	-
Other	-	300	-	-

2009-10

	NHS Trusts PDC £'000	NHS Trust Loans £'000	Foundation Trusts PDC £'000	Foundation Trusts Loans £'000	Other Bodies PDC £'000	Other Bodies Loans £'000	Other Bodies Share Capital £'000	Total £'000
<b>Balance as at 1 April 2009</b>	<b>12,428,425</b>	<b>427,125</b>	<b>10,053,903</b>	<b>274,130</b>	<b>1,328</b>	<b>544,804</b>	<b>251,272</b>	<b>23,980,987</b>
<b>Issued:</b>								
To newly established bodies	528,237	-	-	-	-	10,205	15,300	553,742
To existing bodies	331,629	232,774	123,214	209,354	-	9,406	-	906,377
<b>Repaid:</b>								
By continuing bodies	(111,916)	(38,709)	(22,610)	(8,875)	-	(5,030)	-	(187,140)
<b>Written off:</b>								
By or on behalf of dissolved bodies	(484,684)	-	-	-	-	-	-	(484,684)
<b>Other:</b>								
Revaluation	-	-	-	-	-	33,066	(54,974)	(21,908)
Loan repayable w within 12 months transferred to receivables	-	(137,056)	-	(28,535)	-	(3,925)	-	(169,516)
Impairment	-	-	-	-	-	(756)	-	(756)
Impairment reversal	-	-	-	-	-	2,922	-	2,922
Reclassification	(944,474)	(9,817)	944,474	9,817	-	-	-	-
<b>Balance as at 31 March 2010</b>	<b>11,747,217</b>	<b>474,317</b>	<b>11,098,981</b>	<b>455,891</b>	<b>1,328</b>	<b>590,692</b>	<b>211,598</b>	<b>24,580,024</b>
<b>Investments held by Core Department Investments held by other NHS bodies</b>	<b>11,747,217</b>	<b>474,317</b>	<b>11,098,981</b>	<b>455,891</b>	<b>1,328</b>	<b>561,310</b>	<b>190,380</b>	<b>24,529,424</b>
	-	-	-	-	-	29,382	21,218	50,600

The Department values its financial investments internally each year with reference to quoted market prices. Independent valuations are carried out at intervals of no more than three years.

One of the main considerations, in both the internal and independent valuation techniques employed by the Department, is an assessment of the value of future liabilities of the entities, including future pension liabilities.

The Government began a consultation on the Fair Deal for Pensions policy on the 3<sup>rd</sup> March 2011, in response to a recommendation made in an interim report by the Independent Public Service Pensions Commission. This consultation covers the options on pension provision in the public sector, and potentially creates significant uncertainty with regard to the future value of public sector pension liabilities.

The Department's investments predominately relate to organisations that have a substantial number of employees with public sector pensions. These could potentially be affected by the outcome of the Fair Deal consultation in 2011. The Department plans to have independent valuations undertaken for all investments in 2011-12 following the outcome of this consultation.

The Department's share of the net assets and results of the relevant bodies are summarised below:

	NHS Trusts	Foundation Trusts	Medicines and Healthcare products Regulatory Agency	Plasma Resources UK Limited	Community Health Partnerships	Joint Ventures SBS	Dr Foster Intelligence Ltd	NHS Professionals
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Net Assets at 31 March 2011</b>	13,437,340	16,173,800	79,383	53,850	53,514	1,704	16,213	32,514
Turnover	29,249,452	30,431,800	122,931	80,497	411	53,265	20,320	297,600
Surplus/profit for the year (before financing)	357,505	308,400	30,946	3,567	3,056	2,481	(1,469)	309
<b>Net Assets at 31 March 2010</b>	13,933,058	15,786,200	51,035	45,204	51,639	(892)	22,148	32,207
Turnover	28,378,120	27,890,600	112,540	120,981	1,270	47,377	25,523	315,998
Surplus/profit for the year (before financing)	(2,782,543)	(765,300)	12,071	30,877	1,706	564	1,280	(6,679)

### Investments held by the Department of Health in 2010-11

On the 1<sup>st</sup> January 2011, Plasma Resources UK acquired Bio Products Laboratory Ltd. The value of the Department's investment in Plasma Resources UK increased as a result of this acquisition. The figures for Plasma Resources UK are for its financial year ending 31<sup>st</sup> December 2010 but do not include values relating to Bio Products Laboratory Ltd.

The figures for NHS Foundation Trusts, Community Health Partnerships, and the Medicines and Healthcare Products Regulatory Agency are based on unaudited 2010-11 data.

The figures for SBS and Dr Foster Intelligence Ltd are for the financial year ended 31 December 2010.

Credit Guarantee Finance (CGF) is a loan, guaranteed by banks, monolines or other acceptable financial institutions, from the sponsoring Department to a PFI project Special Purpose Vehicle on 'market' terms. The CGF loans undertaken by the Department are pilots at two NHS PFI projects – Leeds and Portsmouth. Other than these pilots, the Department will not be undertaking any further CGF loans. The increase in the value of Credit Guarantee Finance between 2009-10 and 2010-11 results from an indexation uplift.

Information relating to NHS Professionals was included in the "Other" category of the Investments Note in 2009-10. Sufficient information has been available in 2010-11 to allow the value of that investment to be separately identified.

Dr Foster was transferred to the Department from the Information Centre in 2010-11. Dr Foster repaid £4 million of share capital to the Information Centre prior to its transfer into the Department, reducing the amount invested from £12 million to £8 million. The Department has additionally recognised an impairment of £3.1 million, further reducing the value of the investment to £4.9 million.

New Social Enterprise loans of £7.9 million have been issued in 2010-11. Additionally, £605,000 of loans made in prior periods have been written off over a number of years and reported as losses in Note 31: Losses and Special Payments.

### Investments held by other NHS bodies in 2010-11

Primary Care Trusts have investments of £40,295,000 in LIFT companies. Details of these investments can be found in individual PCT accounts.

### Financing of NHS Trusts and Foundation Trusts

The Department has two means of financing NHS Trusts/Foundation Trusts:

(1) **Public Dividend Capital (PDC)** - issued as either structural capital when NHS Trusts are established, or when the Department needs to provide additional financing to NHS Trusts or NHS Foundation Trusts after establishment.

(2) **Loans** - made under standard Government loan terms, i.e. 6 monthly equal instalments of principal and interest charged on outstanding balances. National Loan Fund rates of interest (as published by the UK Debt Management Office) are applied.

Both PDC and Loans are held at historic value.

The Department judges that there is no material credit risk associated with either form of investment. The financial performance of NHS Trusts and NHS Foundation Trusts is rigorously managed by Strategic Health Authorities and Monitor, not least through their respective powers of intervention. No loan to NHS Trusts or NHS Foundation Trusts has been written off since the re-introduction of loan-financing for NHS providers in 2004.

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

## 17 Inventories and work in progress

Core Department	2010-11						
	Emergency preparedness	Adult and Childhood Vaccines	Work in progress	Essential Medicines	Pandemic Flu Counter-measures	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 1 April 2010</b>	12,139	146,992	-	56,503	-	-	215,634
Opening balance adjustment	-	-	-	-	-	-	-
Adjustment for transfer of functions	-	-	-	-	-	-	-
<b>Restated Balance as at 1 April 2010</b>	12,139	146,992	-	56,503	-	-	215,634
Additions	-	128,801	-	-	-	-	128,801
Consumed/Disposed of	-	(204,223)	-	(7,744)	-	-	(211,967)
Written down charged to CSCNE	-	(2,261)	-	-	-	-	(2,261)
Revaluation	-	-	-	-	-	-	-
Transfer (to) / from non-current assets	(12,139)	-	-	(48,759)	(9,318)	-	(70,216)
Consumables and Raw Materials	-	20,112	-	-	9,318	7	29,437
Work in progress	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Balance as at 31 March 2011</b>	-	89,421	-	-	-	7	89,428
	2010-11						
Consolidated	Emergency preparedness	Adult and Childhood Vaccines	Work in progress	Essential Medicines	Pandemic Flu Counter-measures	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance as at 1 April 2010</b>	12,139	146,992	-	56,503	-	90,960	306,594
Opening balance adjustment	-	-	-	-	-	-	-
Adjustment for transfer of functions	-	-	-	-	-	(3,856)	(3,856)
<b>Restated Balance as at 1 April 2010</b>	12,139	146,992	-	56,503	-	87,104	302,738
Additions	-	128,801	-	-	-	1,158,853	1,287,654
Consumed/Disposed of	-	(204,223)	-	(7,744)	-	(1,163,233)	(1,375,200)
Written down charged to CSCNE	-	(2,261)	-	-	-	(2,267)	(4,528)
Revaluation	-	-	-	-	-	-	-
Transfer (to) / from non-current assets	(12,139)	-	-	(48,759)	(9,318)	-	(70,216)
Consumables and Raw Materials	-	20,112	-	-	9,318	7	29,437
Work in progress	-	-	-	-	-	-	-
Other	-	-	-	-	-	(88)	(88)
<b>Balance as at 31 March 2011</b>	-	89,421	-	-	-	80,376	169,797

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

2009-10

Core Department	Emergency preparedness	Adult and Childhood Vaccines	Work in progress	Essential Medicines	Pandemic Flu Counter-measures	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	<b>Balance as at 1 April 2009</b>	<b>6,125</b>	<b>102,733</b>	<b>239</b>	-	-	-
Additions	9,954	322,234	-	56,503	-	-	388,691
Consumed/Disposed of	(3,940)	(274,533)	-	-	(113,705)	-	(392,178)
Written down n charged to CSCNE	-	(3,442)	-	-	-	-	(3,442)
Revaluation	-	-	-	-	-	-	-
Transfer (to) / from non-current assets	-	-	-	-	113,705	-	113,705
Consumables and Raw Materials	-	-	(239)	-	-	-	(239)
Work in progress	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Balance as at 31 March 2010</b>	<b>12,139</b>	<b>146,992</b>	-	<b>56,503</b>	-	-	<b>215,634</b>

2009-10

Consolidated	Emergency preparedness	Adult and Childhood Vaccines	Work in progress	Essential Medicines	Pandemic Flu Counter-measures	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	<b>Balance as at 1 April 2009</b>	<b>6,125</b>	<b>102,733</b>	<b>239</b>	-	-	<b>84,954</b>
Additions	9,954	322,234	-	56,503	-	1,045,694	1,434,385
Consumed/Disposed of	(3,940)	(274,533)	-	-	(113,705)	(1,039,688)	(1,431,866)
Written down n charged to CSCNE	-	(3,442)	-	-	-	-	(3,442)
Revaluation	-	-	-	-	-	-	-
Transfer (to) / from non-current assets	-	-	-	-	113,705	-	113,705
Consumables and Raw Materials	-	-	(239)	-	-	-	(239)
Work in progress	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
<b>Balance as at 31 March 2010</b>	<b>12,139</b>	<b>146,992</b>	-	<b>56,503</b>	-	<b>90,960</b>	<b>306,594</b>

## 18 Trade Receivables and other current assets

### 18.1 Analysis by type

	2010-11		2009-10	
	£'000		£'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Amounts falling due within one year:</b>				
Trade receivables	45,652	742,404	69,213	751,019
Deposits and advances	-	-	-	-
Capital receivables - property plant and equipment	-	-	-	-
Capital receivables - intangible non current assets	-	-	-	-
Interest receivable	30	30	-	-
Other receivables	49,143	154,000	95,081	344,008
Pension prepayments maturing in one year	-	-	-	-
Consolidated Fund Extra Receipts receivable	23,345	23,345	8,904	8,904
Other prepayments and accrued income	161,113	523,433	216,063	541,102
Current part of loans repayable transferred from investments	189,138	195,765	167,342	169,990
Current part of PFI prepayments	-	2,242	-	1,976
	<b>468,421</b>	<b>1,641,219</b>	<b>556,603</b>	<b>1,816,999</b>
<b>Amounts falling due after more than one year:</b>				
Trade receivables and advances for house purchases	-	16,144	-	19,035
Deposits and advances	-	-	-	-
Capital receivables - property plant and equipment	-	-	-	-
Capital receivables - intangible non current assets	-	-	-	-
Other receivables	117,913	157,967	138,586	174,124
Pension prepayments maturing after one year	-	-	-	-
Prepayments and accrued income	12,062	29,383	14,954	34,349
	<b>129,975</b>	<b>203,494</b>	<b>153,540</b>	<b>227,508</b>
<b>Total receivables at 31 March 2011</b>	<b>598,396</b>	<b>1,844,713</b>	<b>710,143</b>	<b>2,044,507</b>

### 18.2 Intra-Government balances

	Amounts falling due within one year	Amounts falling due after more than one year	Amounts falling due within one year	Amounts falling due after more than one year
	£'000	£'000	£'000	£'000
	2010-11	2010-11	2009-10	2009-10
Balances with other central government bodies	86,681	2,067	86,313	3,334
Balances with local authorities	161,638	-	120,222	12,920
Balances with NHS Bodies	424,365	684	398,700	9,934
Balances with Public Corporations and Trading Funds	4,972	-	38,487	-
<b>Subtotal: Intra-government balances</b>	<b>677,656</b>	<b>2,751</b>	<b>643,722</b>	<b>26,188</b>
Balances with bodies external to government	963,563	200,743	1,173,277	201,320
<b>Total receivables</b>	<b>1,641,219</b>	<b>203,494</b>	<b>1,816,999</b>	<b>227,508</b>

**19 Cash and cash equivalents**

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Balance as at 1 April 2010</b>	<b>1,237,866</b>	<b>1,336,715</b>	<b>1,676,501</b>	<b>1,745,219</b>
Adjustment for transfer of functions	-	(413)		
<b>Restated Balance as at 1 April 2010</b>	<b>1,237,866</b>	<b>1,336,302</b>		
Net change in cash	381,477	388,196	(438,635)	(408,504)
<b>Balance at 31 March 2011</b>	<b>1,619,343</b>	<b>1,724,498</b>	<b>1,237,866</b>	<b>1,336,715</b>
The following balances at 31 March were held at:				
Office of HM Paymaster General	-	101,846	1,215,715	1,313,264
Commercial banks and cash in hand	1,619,343	1,622,652	22,151	23,451
Short term investments	-	-	-	-
<b>Balance at 31 March 2011</b>	<b>1,619,343</b>	<b>1,724,498</b>	<b>1,237,866</b>	<b>1,336,715</b>

Following the introduction of the Government Banking Service (GBS) in 2009-10, cash balances held in bank accounts operated by the Office of HM Paymaster General have significantly reduced.

**19.1 Reconciliation of Net Cash Requirement to increase/(decrease) in cash**

	Note	2010-11 £'000	2009-10 £'000
Net cash requirement	4	(84,747,714)	(80,720,663)
From the Consolidated Fund (Supply) - current year		84,400,000	80,350,000
From the Consolidated Fund (Supply) - prior year		-	-
Amounts due to the Consolidated Fund received in prior year and paid over		(176)	(39,403)
Amounts due to the Consolidated Fund received and not paid over		735,845	176
Movement in overdraft		(172)	1,477
Other		413	(91)
Increase/(decrease) in cash		388,196	(408,504)

**19.2 Reconciliation of 31 March 2011 cash balance included in the Consolidated Statement of Cash flows and the 31 March 2011 cash balance in the Consolidated Statement of Financial Position**

	31 March 2011 £'000
Cash balance in Cashflow Statement	1,720,263
Bank overdraft	4,235
Cash balance in Cash Note	1,724,498

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

## 20 Assets classified as held for sale

2010-11

	Land £'000	Buildings £'000	Plant and Machinery £'000	Stockpiled goods £'000	Intangibles £'000	Total £'000
<b>As at 1 April 2010</b>	<b>62,045</b>	<b>39,162</b>	<b>26</b>	-	-	<b>101,233</b>
Opening balance adjustment	-	-	-	-	-	-
Adjustment for transfer of functions	-	-	-	-	-	-
<b>Restated Balance as at 1 April 2010</b>	<b>62,045</b>	<b>39,162</b>	<b>26</b>	-	-	<b>101,233</b>
Assets held for sale in year	39,156	33,866	5,130	-	82	78,234
Assets sold in year	(46,054)	(32,596)	(4,481)	-	(82)	(83,213)
Impairment of assets held for sale	(1,950)	(5,648)	(1)	-	-	(7,599)
Reversal of impairments of assets held for sale	1,162	1,667	-	-	-	2,829
Assets no longer held for sale (for reasons other than sale)	(5,882)	(8,367)	-	-	-	(14,249)
Gain/(loss) on transfer to assets held for sale	-	-	-	-	-	-
Transfer to Foundation Trusts	-	-	-	-	-	-
<b>As at 31 March 2011</b>	<b>48,477</b>	<b>28,084</b>	<b>674</b>	-	-	<b>77,235</b>

Amount attributable to Core Department:

	Land £'000	Buildings (excluding dwellings) £'000	Plant and Machinery £'000	Stockpiled goods £'000	Intangibles £'000	Total £'000
Core Department 2010-11	5,854	230	-	-	-	6,084

2009-10

	Land £'000	Buildings (excluding dwellings) £'000	Plant and Machinery £'000	Stockpiled goods £'000	Intangibles £'000	Total £'000
<b>As at 1 April 2009</b>	<b>43,550</b>	<b>44,763</b>	<b>94</b>	-	-	<b>88,407</b>
Assets held for sale in year	41,994	39,526	102	-	-	81,622
Assets sold in year	(18,012)	(33,313)	(162)	-	-	(51,487)
Impairment of assets held for sale	(3,348)	(6,741)	(1)	-	-	(10,090)
Reversal of impairments of assets held for sale	472	61	-	-	-	533
Assets no longer held for sale (for reasons other than sale)	(2,611)	(5,134)	(7)	-	-	(7,752)
Transfer to Foundation Trusts	-	-	-	-	-	-
<b>As at 31 March 2010</b>	<b>62,045</b>	<b>39,162</b>	<b>26</b>	-	-	<b>101,233</b>
Liabilities associated with assets held for sale at 31 March 2010	-	-	-	-	-	-

Amount attributable to Core Department:

	Land £'000	Buildings (excluding dwellings) £'000	Plant and Machinery £'000	Stockpiled goods £'000	Intangibles £'000	Total £'000
Core Department 2009-10	8,690	4,162	-	-	-	12,852

The Department holds Retained Estates on behalf of the NHS with a total value of £64.1 million, and plans to sell £6.1 million of this total to third parties.

## 21 Trade Payables and other current liabilities

### 21.1 Analysis by type

	2010-11		2009-10	
	£'000		£'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Amounts falling due within one year:</b>				
Bank Overdraft	44	4,235	783	4,407
VAT	21,384	26,062	1,484	2,777
Other taxation and social security	3,480	99,067	3,628	121,976
Trade payables	58,847	4,005,547	99,352	4,332,323
Capital payables - property plant and equipment	-	216	-	574
Capital payables - intangible non current assets	122,362	123,536	291,894	291,894
Other payables	12,820	291,021	18,547	343,083
Early retirement costs payable within one year	-	-	-	-
EEA Medical Costs Accrual	639,664	639,664	278,396	278,396
Other Accruals	421,693	1,971,156	522,860	2,055,588
Deferred grants income (including transfer from reserves to match depreciation)	-	-	-	-
Deferred income - goods and services	60,823	65,530	-	-
Deferred income - rent of land	-	-	-	-
Other deferred income	-	7,673	-	-
Current part of finance lease	13,337	102,366	16,114	57,559
Current part of imputed finance lease element of on Statement of Financial Position PFI contracts	-	50,162	-	43,678
Amount issued from the Consolidated Fund for supply but not spent at year end	984,418	984,418	1,332,132	1,332,132
Consolidated fund extra receipts due to be paid to the Consolidated Fund - Received and receivable	23,398	23,398	9,080	9,080
Excess cash receipts surrenderable to the Consolidated Fund	735,792	735,792	-	-
Investment payables	-	-	-	-
	<b>3,098,062</b>	<b>9,129,843</b>	<b>2,574,270</b>	<b>8,873,467</b>
<b>Amounts falling due after more than one year:</b>				
Finance leases	72,965	201,647	63,057	271,222
Imputed finance lease element of on Statement of Financial Position PFI contracts	-	1,898,496	-	1,759,704
Trade payables	-	5,446	-	5,594
EEA Medical Costs Accrual	-	-	-	-
Capital payables - property plant and equipment	-	-	-	-
Capital payables - intangible non current assets	133,510	133,510	-	-
Other payables	-	48,816	198,331	262,246
Deferred grants income (including transfer from reserves to match depreciation)	-	-	-	-
Deferred income - goods and services	23,929	23,929	-	-
Deferred income - rent of land	-	-	-	-
Other deferred income	-	-	-	-
	<b>230,404</b>	<b>2,311,844</b>	<b>261,388</b>	<b>2,298,766</b>
<b>Total payables</b>	<b>3,328,466</b>	<b>11,441,687</b>	<b>2,835,658</b>	<b>11,172,233</b>

## 21.2 Intra-Government balances

	Amounts falling due within one year £'000 2010-11	Amounts falling due after more than one year £'000 2010-11	Amounts falling due within one year £'000 2009-10	Amounts falling due after more than one year £'000 2009-10
Balances with other central government bodies	1,961,840	93	1,567,892	103
Balances with local authorities	240,649	235	197,567	1,572
Balances with NHS Bodies	1,084,230	4,950	1,262,403	4,982
Balances with Public Corporations and Trading Funds	12,842	-	93,446	-
<b>Subtotal: Intra-government balances</b>	<b>3,299,561</b>	<b>5,278</b>	<b>3,121,308</b>	<b>6,657</b>
Balances with bodies external to government	5,830,282	2,306,566	5,752,159	2,292,109
<b>Total payables</b>	<b>9,129,843</b>	<b>2,311,844</b>	<b>8,873,467</b>	<b>2,298,766</b>

## Footnotes

- 1) The £735,792,000 excess cash receipts to be surrendered, relates to a higher level of National Insurance Contributions than the Department had planned in its Spring Supplementary Estimate based on HM Treasury forecasts.
- 2) The significant increase in accruals in 2010-11 relates principally to the restructuring of EEA (European Economic Area) medical cost provisions to accruals. This restructuring has been possible in the context of (i) greater certainty in the cost and claim information received in relation to the treatment received by UK nationals in EU member states; (ii) a reduction in cash payments made in line with EU regulations and (iii) a general increase in healthcare costs across EU member states. The latter have given rise to an overall increase in the EEA medical cost provision during the year.

22 Provisions for liabilities and charges

	Core Department					2010-11 Consolidated					
	Early departure costs	Injury Benefits	EEA medical costs	Other	Total	Early departure costs	Injury Benefits	EEA medical costs	Clinical Negligence	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance At 1 April 2010</b>	<b>14,778</b>	<b>678,194</b>	<b>483,385</b>	<b>198,569</b>	<b>1,374,926</b>	<b>277,281</b>	<b>678,194</b>	<b>483,385</b>	<b>14,899,455</b>	<b>598,217</b>	<b>16,936,532</b>
Opening balance adjustment	-	-	-	-	-	-	-	-	-	-	-
Adjustment for transfer of functions	-	-	-	-	-	(808)	-	-	-	(2,780)	(3,588)
<b>Restated Balance At 1 April 2010</b>	<b>14,778</b>	<b>678,194</b>	<b>483,385</b>	<b>198,569</b>	<b>1,374,926</b>	<b>276,473</b>	<b>678,194</b>	<b>483,385</b>	<b>14,899,455</b>	<b>595,437</b>	<b>16,932,944</b>
Provided in the year	6,946	24,535	788,297	197,391	1,017,169	33,121	24,535	788,297	3,319,335	556,208	4,721,496
Provisions utilised in the year	(7,550)	(48,751)	(90,883)	(99,446)	(246,630)	(60,326)	(48,751)	(90,883)	(863,398)	(217,505)	(1,280,863)
Provisions not required written back	(1,369)	(12,975)	-	(34,018)	(48,362)	(7,294)	(12,975)	-	(693,439)	(109,823)	(823,531)
Unwinding of discount	388	14,920	10,634	3,625	29,567	6,449	14,920	10,634	(22,459)	4,602	14,146
Change in discount rate	-	-	-	-	-	(1,526)	-	-	-	(81)	(1,607)
Transfer to accruals	-	-	(639,664)	-	(639,664)	-	-	(639,664)	-	-	(639,664)
<b>Balance as at 31 March 2011</b>	<b>13,193</b>	<b>655,923</b>	<b>551,769</b>	<b>266,121</b>	<b>1,487,006</b>	<b>246,897</b>	<b>655,923</b>	<b>551,769</b>	<b>16,639,494</b>	<b>828,838</b>	<b>18,922,921</b>

	Core Department					Consolidated					
	Early departure costs	Injury Benefits	EEA medical costs	Other	Total	Early departure costs	Injury Benefits	EEA medical costs	Clinical Negligence	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2010-11</b>											
Current	4,294	46,714	184,594	35,394	270,996	32,655	46,714	184,594	2,055,896	387,288	2,707,147
Non Current	8,899	609,209	367,175	230,727	1,216,010	214,242	609,209	367,175	14,583,598	441,550	16,215,774
<b>Expected timing of cash flow</b>											
Less than 1 year	4,294	46,714	184,594	35,394	270,996	32,655	46,714	184,594	2,055,896	387,288	2,707,147
1 to 5 Years	7,887	177,416	367,175	91,080	643,558	106,649	177,416	367,175	4,336,308	245,153	5,232,701
Over 5 Years	1,012	431,793	-	139,647	572,452	107,593	431,793	-	10,247,290	196,397	10,983,073
<b>Total</b>	<b>13,193</b>	<b>655,923</b>	<b>551,769</b>	<b>266,121</b>	<b>1,487,006</b>	<b>246,897</b>	<b>655,923</b>	<b>551,769</b>	<b>16,639,494</b>	<b>828,838</b>	<b>18,922,921</b>
<b>Prior year</b>											
	Core Department					Restated 2009-10 Consolidated					
	Early departure costs	Injury Benefits	EEA medical costs	Other	Total	Early departure costs	Injury Benefits	EEA medical costs	Clinical Negligence	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Balance At 1 April 2009</b>	<b>67,670</b>	<b>662,950</b>	<b>694,566</b>	<b>182,464</b>	<b>1,607,650</b>	<b>353,614</b>	<b>662,950</b>	<b>694,566</b>	<b>13,365,261</b>	<b>606,130</b>	<b>15,682,521</b>
Provided in the year	15,599	59,980	403,709	63,111	542,399	32,662	59,980	403,709	3,229,027	253,584	3,978,962
Provisions utilised in the year	(70,151)	(48,084)	(351,774)	(36,024)	(506,033)	(113,952)	(48,084)	(351,774)	(786,991)	(152,357)	(1,453,158)
Provisions not required written back	-	(11,237)	-	(12,974)	(24,211)	(3,929)	(11,237)	-	(865,851)	(112,410)	(993,427)
Unwinding of discount	1,660	14,585	15,280	1,992	33,517	8,886	14,585	15,280	(41,991)	3,270	30
Transfer to accruals	-	-	(278,396)	-	(278,396)	-	-	(278,396)	-	-	(278,396)
<b>Balance as at 31 March 2010</b>	<b>14,778</b>	<b>678,194</b>	<b>483,385</b>	<b>198,569</b>	<b>1,374,926</b>	<b>277,281</b>	<b>678,194</b>	<b>483,385</b>	<b>14,899,455</b>	<b>598,217</b>	<b>16,936,532</b>
	Early departure costs	Injury Benefits	EEA medical costs	Other	Total	Early departure costs	Injury Benefits	EEA medical costs	Clinical Negligence	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2009-10</b>											
Current	5,489	47,261	241,693	111,800	406,243	35,297	47,277	241,693	1,641,183	349,212	2,314,662
Non Current	9,289	630,933	241,692	86,769	968,683	241,984	630,917	241,692	13,258,272	249,005	14,621,870
<b>Prior year: expected timing of cash flow</b>											
Less than 1 year	5,489	47,261	241,693	111,800	406,243	35,297	47,261	241,693	1,641,183	349,228	2,314,662
1 to 5 Years	9,032	179,124	193,354	3,448	384,958	124,716	179,124	193,354	4,222,765	119,558	4,839,517
Over 5 Years	257	451,809	48,338	83,321	583,725	117,268	451,809	48,338	9,035,507	129,431	9,782,353
<b>Total</b>	<b>14,778</b>	<b>678,194</b>	<b>483,385</b>	<b>198,569</b>	<b>1,374,926</b>	<b>277,281</b>	<b>678,194</b>	<b>483,385</b>	<b>14,899,455</b>	<b>598,217</b>	<b>16,936,532</b>

The 2009-10 provisions note has been restated to correct an error in respect of EEA provisions. The correct treatment should have been to transfer a proportion of these provisions to accruals, but instead, the £278 million value was included in the 'Provisions not required written back' line. This error has now been corrected. An appropriate amendment has also been made to Note 11 to reflect this correction.

### **Clinical Negligence**

The Department of Health provides for future costs in a number of cases where it is the defendant in legal proceedings brought by claimants seeking damages for the effects of alleged clinical negligence.

Strategic Health Authorities, Primary Care Trusts, NHS Foundation Trusts and NHS Trusts, (the last two being outside the Resource Accounting boundary), retain legal responsibility for all liabilities covered by the clinical negligence schemes: the Ex-Regional Health Authority Scheme (ex RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but the NHS Litigation Authority (NHSLA) accounts for all the liabilities under these separate schemes. Actuaries appointed by the NHSLA undertake regular reviews to identify movements in the value of likely future settlements under these schemes, and these are recorded in the NHSLA's annual accounts.

The movements in provisions recorded in the Statement of Financial Position of the NHSLA are made up of several elements namely: changes to the value of existing claims brought forward at the start of the financial year, the outstanding value of new claims received in year which remain open at the end of the financial year, and an allowance for claims incurred during 2010-11 which are yet to be reported.

Known reported claims are individually valued using likely costs to resolve the claim and probability factors to take account of the potential of a successful defence, whilst incurred but not reported (IBNR) claims are valued using actuarial models to predict likely values. The NHSLA reviews its actuarial models twice each year as it seeks to compare previous forecasts to actual activity in year. During 2010-11, the value of known provisions charged was significantly higher than in 2009-10 mainly as a result of an increase in the volume of claims reported. In 2010-11, the reported number of new clinical negligence claims increased by approximately 31% compared to 2009-10, whilst other types of claims increased by approximately 6%. Following a review of these new claims, it appears that this growth can be principally attributed to faster reporting patterns i.e. claims being made faster than predicted, and not to a systemic increase in the incidence of clinical negligence. This has prompted a review of actuarial forecasts.

The value of IBNR claims recorded in 2010-11 is approximately £400 million less than originally forecast because of the impact of the changed reporting patterns for known claims.

Clinical negligence claims which may succeed, but are less likely or cannot be reliably estimated, are accounted for as contingent liabilities.

Clinical negligence provisions in the accounts of the NHSLA as at 31 March 2011 include £33,261,000 for the RHA scheme, £2,089,917,000 under the ELS and £14,516,316,000 for CNST.

Of the total £16,639,494,000 clinical negligence provisions, £2,055,896,000 is expected to be payable within 1 year, £4,336,308,000 in 1 to 5 years and £10,247,290,000 after 5 years. These estimates are based on the anticipated timing and progress of claims through the legal process.

### **Early Departure**

These financial statements provide for the additional future costs, beyond the normal benefit awards for which employees are eligible under the terms of their pension scheme, arising from compensation payments for termination of employment through redundancy, severance or early retirement. The provision also takes account of arrangements with pension schemes under which employees can make prepayments to meet future

liabilities. On the basis of the age of retirees, expenditure is likely to be incurred over a period of up to nine years.

The provision mainly relates to early retirement liabilities in Primary Care Trusts totaling £227,711,000. Of the total, £26,262,000 is expected to be payable within 1 year, £96,512,000 in 1 to 5 years and £104,937,000 after 5 years.

Further amounts of £3,926,000 are included in Strategic Health Authorities, of which £450,000 is expected to be payable within 1 year, £1,838,000 in 1 to 5 years, and £1,638,000 after 5 years; £2,067,000 in Special Health Authorities of which £1,649,000 is expected to be payable within 1 year, £412,000 in 1 to 5 years and £6,000 after 5 years; and £13,193,000 in the Department of Health, of which £4,294,000 is expected to be payable within 1 year, £7,887,000 in 1 to 5 years and £1,012,000 after 5 years.

### **Injury Benefits**

The Department's Resource Account provides for the future costs of permanent Injury Benefits awarded up to April 1997, to NHS staff injured in the course of their duties. From this date, the respective NHS body which employed the injured person has been liable for the costs. The Injury Benefit awards are guaranteed minimum income levels, and are granted for the life of the individual. The award is based on an assessment of the nature of the injury and the effect on the individual's earning capacity which results. The total claim provided for is £655,923,000 of which £46,714,000 is expected to be payable within 1 year, £177,416,000 in 1 to 5 years and £431,793,000 after 5 years.

### **EEA Medical Costs**

EEA Medical Costs refer to medical costs incurred by UK Citizens in other European countries which are accounted for as liabilities payable by the UK to those European countries.

The total cost provided for is £551,769,000 of which £184,594,000 is expected to be payable within 1 year and £367,175,000 in 1 to 5 years.

### **Other**

These financial statements disclose other provisions of £828,838,000, which relate to the following:

- The future support of patients who contracted HIV from contaminated blood supplies. The total provision is £48,045,000 of which £7,800,000 is expected to be paid within 1 year, £31,200,000 in 1 to 5 years and £9,045,000 after 5 years.
- Legal claims against Primary Care Trusts amounting to £31,488,000, of which £13,874,000 is expected to be paid within 1 year, £7,540,000 in 1 to 5 years and £10,074,000 after 5 years.
- Legal claims against Strategic Health Authorities amounting to £5,878,000, of which £4,462,000 is expected to be paid within 1 year and £1,416,000 in 1 to 5 years.
- Restructuring provisions recorded by Primary Care Trusts amounting to £15,006,000, of which £10,487,000 is expected to be paid within 1 year, £3,848,000 in 1 to 5 years and £671,000 after 5 years.
- Restructuring provisions recorded by Strategic Health Authorities, with a total value of £4,396,000, of which £4,265,000 is payable within 1 year and £131,000 payable within 1 to 5 years.
- A scheme in respect of persons who have contracted Hepatitis C through blood and blood products in the course of treatment by the NHS. The total amount provided is £200,801,000 of which £15,853,000 is expected to be paid within 1 year, £55,267,000 in 1 to 5 years and £129,681,000 after 5 years.
- A further £83,868,000 relates to anticipated costs of redundancy in the NHS (£77,601,000 in PCTs and £6,267,000 in SHAs) and £77,795,000 relates to continuing care provisions made by Primary Care Trusts.
- Of the remaining £361,561,000 balance in Other provisions (of which £194,894,000 is payable within 1 year, £124,259,000 in 1 to 5 years and £42,408,000 after 5 years) £118,709,000 relates to miscellaneous

provisions recorded by both SHAs and PCTs. These relate to a range of issues, including: onerous contracts, lease dilapidations, Independent Sector Treatment Centres, and partially completed treatments.

## 23 Operating Segments

	NHS		DH Programme		DH Admin		Total	
	2010-11 £'000	Restated 2009-10 £'000	2010-11 £'000	Restated 2009-10 £'000	2010-11 £'000	Restated 2009-10 £'000	2010-11 £'000	Restated 2009-10 £'000
<b>Expenditure</b>	100,103,951	96,448,568	6,655,248	6,791,597	244,062	230,739	107,003,261	103,470,904
<b>Income</b>	(2,253,650)	(2,323,611)	(1,200,649)	(1,243,659)	(4,405)	(7,216)	(3,458,704)	(3,574,486)
<b>NI income</b>	(17,907,815)	(18,025,336)	-	-	-	-	(17,907,815)	(18,025,336)
<b>Net expenditure</b>	<b>79,942,486</b>	<b>76,099,621</b>	<b>5,454,599</b>	<b>5,547,938</b>	<b>239,657</b>	<b>223,523</b>	<b>85,636,742</b>	<b>81,871,082</b>
<b>Material Items of Income and Expenditure</b>								
Current grants and other current expenditure	28,667,419	28,628,806	3,742,279	4,601,496	-	-	32,409,698	33,230,302
Purchase of healthcare from NHS Trusts	25,267,643	24,308,066	-	-	-	-	25,267,643	24,308,066
Purchase of healthcare from Foundation Trusts	25,933,492	23,470,160	-	-	-	-	25,933,492	23,470,160
Purchase of Healthcare from Non-NHS bodies	8,401,307	7,448,033	-	-	-	-	8,401,307	7,448,033
Staff Costs	7,801,099	8,652,746	182,108	185,850	167,572	137,086	8,150,779	8,975,682
<b>Material Non-cash items</b>								
Depreciation	349,203	347,971	94,322	96,860	5,222	7,845	448,747	452,676
Amortisation	25,422	18,913	586,712	505,023	8,336	6,450	620,470	530,386
Provision provided in year	2,929,158	2,467,347	968,807	516,119	-	2,069	3,897,965	2,985,535
<b>Income</b>								
<b>PDC Dividend Received</b>	-	-	866,025	998,283	-	-	866,025	998,283
<b>Prescription, dental and ophthalmic charges</b>	1,067,275	1,046,994	-	-	-	-	1,067,275	1,046,994

The operating segments in this note are those reported to the Department of Health Departmental Board for financial management purposes. The operating segments are:

- NHS, which here covers
  - Strategic Health Authorities; and
  - Primary Care Trusts.
- DH Programme, which covers
  - the Department's own programme expenditure, including social care grants;
  - the Department's administration costs that are not charged to the Departmental Administration Cost Limit;
  - NHS Purchasing and Supply Agency; (the Agency was abolished on 31 March 2010);
  - Special Health Authorities; and
  - Non-Departmental Public Bodies within the Resource Accounting Boundary.
- DH Administration, which covers those costs that are charged to the Department's Administration Cost Limit.

National Insurance Contributions are treated as central funding rather than being allocated to a particular segment.

The segmental analysis above includes an elimination of £10,532,530,000 in respect of inter-company income and expenditure transactions occurring between bodies within the Resource Accounting Boundary

Further detail on areas of spend are included in the NHS Summarised Accounts for Primary Care Trusts and Strategic Health Authorities.

Following the 2010 General Election, the Department refocused its strategic priorities, and set these out in its Structural Reform Plan. The five principal priorities are to:

- **Create a patient-led NHS** – strengthening the patient’s ability to exercise extended choice and have a greater say in managing their own care;
- **Promote better healthcare outcomes** – shifting the focus and resources away from top-down process targets towards better healthcare outcomes;
- **Revolutionise NHS accountability** – creating a long-term sustainable framework of institutions, with greater autonomy for medical staff and greater accountability to patients and the public.
- **Promote public health** – creating a public health service to rebalance the Department’s approach to health; and
- **Reform social care** – enabling those who need care to be treated with dignity and respect and working to reform the system of social care to provide more control to individuals and their families.

The Department is currently developing a scorecard which it will use from 2011-12 to report against these Structural Reform Plan priorities. These priorities are not currently reported to the Department’s Board against the operating segments set out in this note.

**24 Capital Commitments**

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Property, plant and equipment	1,098	139,530	200,555	451,421
Intangible non-current assets	1,891,505	1,897,932	2,403,581	2,414,137
<b>Total contracted capital commitments at 31 March for which no provision has been made</b>	<b>1,892,603</b>	<b>2,037,462</b>	<b>2,604,136</b>	<b>2,865,558</b>

The vast majority of Core Department capital commitments relate to contracts entered into by Connecting for Health for the delivery of the National Programme for IT (see note 27 for further details). The Department also has a Capital Commitment for the purchase of residual interests in Independent Sector Treatment Centre (ISTC) schemes. This capital commitment amounts to £315 million, which will fall due under leases over the next 5 years.

## 25 Commitments under leases

### 25.1 Operating leases

£113 million of the Department's minimum payments relate to the rental of office accommodation. The Department rents accommodation in 13 buildings and the term of the leases will expire in the period 2011-2018.

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Payments recognised as an expense</b>				
Minimum lease payments	23,526	323,034	25,572	328,408
Contingent rents	-	14,500	-	17,972
Sub-lease payments	-	12,615	-	11,053
<b>Total</b>	<b>23,526</b>	<b>350,149</b>	<b>25,572</b>	<b>357,433</b>

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Total future minimum lease payments under non-cancellable operating leases</b>				
<b>Land:</b>				
Expiry within 1 year	-	2,937	-	-
Expiry after 1 year but not more than 5 years	-	9,928	-	-
Expiry thereafter	-	27,887	-	-
	-	<b>40,752</b>	-	-
<b>Buildings:</b>				
Expiry within 1 year	24,613	197,341	25,226	43,622
Expiry after 1 year but not more than 5 years	81,550	647,844	82,865	131,145
Expiry thereafter	17,191	1,084,550	34,509	83,704
	<b>123,354</b>	<b>1,929,735</b>	<b>142,600</b>	<b>258,471</b>
<b>Other:</b>				
Expiry within 1 year	127	31,877	132	188,795
Expiry after 1 year but not more than 5 years	64	42,640	144	558,622
Expiry thereafter	16	17,834	-	1,095,499
	<b>207</b>	<b>92,351</b>	<b>276</b>	<b>1,842,916</b>

In 2009-10 the information collected from Primary Care Trusts and Strategic Health Authorities was not split between the land, buildings and other categories and all 2009-10 commitments were classified as other as a result. In 2010-11 the required level of information was collected from all NHS bodies and is categorised between land, buildings and other as appropriate. This accounts for the significant increase in future buildings commitments for the consolidated account and corresponding decrease in other commitments.

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

## Receipts recognised as revenue

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Minimum lease receipts	-	117,374	1,858	72,530
Contingent rents	-	554	-	355
Sub-lease receipts	-	-	-	92
<b>Total</b>	<b>-</b>	<b>117,928</b>	<b>1,858</b>	<b>72,977</b>

	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Total future minimum lease receipts under non-cancellable operating leases</b>				
<b>Land:</b>				
Expiry within 1 year	-	-	-	-
Expiry after 1 year but not more than 5 years	-	-	-	-
Expiry thereafter	-	-	-	-
<b>Buildings:</b>				
Expiry within 1 year	1,814	1,814	1,798	1,890
Expiry after 1 year but not more than 5 years	4,535	4,535	6,881	7,249
Expiry thereafter	226	226	1,873	2,057
	<b>6,575</b>	<b>6,575</b>	<b>10,552</b>	<b>11,196</b>
<b>Other:</b>				
Expiry within 1 year	-	104,643	-	61,278
Expiry after 1 year but not more than 5 years	-	272,638	-	156,939
Expiry thereafter	-	724,445	-	462,371
	<b>-</b>	<b>1,101,726</b>	<b>-</b>	<b>680,588</b>

1) The information collected from SHAs and PCTs on operating lease future receivables was not split between Land, Buildings and Others. Therefore all operating lease future receivables in respect of SHAs and PCTs have been included in the Other category.

## Finance leases

The Department's significant finance leases relate to the Ambulance Radio Programme, where leased assets include terminal equipment for radio dispatchers and associated voice systems, and to the Renal Programme, where leased assets are used in the delivery of services, and which comprise land, buildings (wards and theatres) and equipment. Different types of equipment are contained in the facilities and the major items include water treatment plants, the Commissioning Data Set (CDS) and dialysis machines.

The minimum payments of the Ambulance Radio Programme are £65,043,000 and the lease expires in 2020-21. The minimum payments of the Renal Programme are £19,801,000 and the lease expires in 2016-17.

Commitments under finance leases are as follows:

Minimum lease payments:	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Buildings:</b>				
Rentals due within 1 year	1,373	88,597	1,965	51,465
Rentals due after 1 year but within 5 years	8,767	99,374	7,745	171,437
Rentals due thereafter	9,661	143,094	989	142,780
	<b>19,801</b>	<b>331,065</b>	<b>10,699</b>	<b>365,682</b>
Less interest element	(2,992)	(107,103)	(1,864)	(118,352)
	<b>16,809</b>	<b>223,962</b>	<b>8,835</b>	<b>247,330</b>
<b>Other:</b>				
Rentals due within 1 year	17,975	26,841	14,998	16,319
Rentals due after 1 year but within 5 years	48,991	49,671	45,990	55,514
Rentals due thereafter	15,462	15,462	25,265	25,265
	<b>82,428</b>	<b>91,974</b>	<b>86,253</b>	<b>97,098</b>
Less interest element	(12,935)	(13,313)	(15,917)	(16,816)
	<b>69,493</b>	<b>78,661</b>	<b>70,336</b>	<b>80,282</b>
<b>Land:</b>				
Rentals due within 1 year	-	202	-	750
Rentals due after 1 year but within 5 years	-	809	-	-
Rentals due thereafter	-	3,185	-	-
	-	<b>4,196</b>	-	<b>750</b>
Less interest element	-	(2,806)	-	-
	-	<b>1,390</b>	-	<b>750</b>

## NOTES TO THE DEPARTMENTAL RESOURCE ACCOUNTS

Present value of minimum lease payments:	2010-11 £'000		2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
<b>Buildings:</b>				
Rentals due within 1 year	784	81,153	1,862	45,022
Rentals due after 1 year but within 5 years	6,696	77,160	6,293	143,869
Rentals due thereafter	9,329	65,649	680	58,439
	<b>16,809</b>	<b>223,962</b>	<b>8,835</b>	<b>247,330</b>
<b>Other:</b>				
Rentals due within 1 year	12,553	21,183	14,252	15,345
Rentals due after 1 year but within 5 years	39,280	39,818	38,739	47,592
Rentals due thereafter	17,660	17,660	17,345	17,345
	<b>69,493</b>	<b>78,661</b>	<b>70,336</b>	<b>80,282</b>
<b>Land:</b>				
Rentals due within 1 year	-	30	-	750
Rentals due after 1 year but within 5 years	-	162	-	-
Rentals due thereafter	-	1,198	-	-
	-	<b>1,390</b>	-	<b>750</b>

**25.2 Finance lease receivables**

Amounts receivable under finance leases

**Gross investments in leases**

	2010-11		2009-10	
	£'000		£'000	
	Core Department	Consolidated	Core Department	Consolidated
Within 1 year	-	416	-	195
Between 1 and 5 years	-	4,507	-	944
After 5 years	-	27,383	-	9,785
Less future finance income	-	(12,615)	-	(1,169)
<b>Present value of minimum lease payments</b>	-	<b>19,691</b>	-	<b>9,755</b>
Less cumulative provision for uncollectable payments:	-	-	-	-
<b>Total finance lease receivables recognised in the Statement of Financial Position</b>	-	<b>19,691</b>	-	<b>9,755</b>

**Of minimum lease payments**

	2010-11		2009-10	
	£'000		£'000	
	Core Department	Consolidated	Core Department	Consolidated
Within 1 year	-	94	-	181
Between 1 and 5 years	-	1,622	-	886
After 5 years	-	17,975	-	8,688
Less future finance income	-	-	-	-
<b>Present value of minimum lease payments</b>	-	<b>19,691</b>	-	<b>9,755</b>
Less cumulative provision for uncollectable payments:	-	-	-	-
<b>Total finance lease receivables recognised in the Statement of Financial Position</b>	-	<b>19,691</b>	-	<b>9,755</b>
included in:				
Current finance lease receivables	-	94	-	181
Non-current finance lease receivables	-	19,597	-	9,574
Sub total	-	<b>19,691</b>	-	<b>9,755</b>
<b>Rental revenue</b>				
Contingent rent	-	1,581	-	1,601
Other	-	2,049	-	63
<b>Total rental revenue</b>	-	<b>3,630</b>	-	<b>1,664</b>

## 26 Commitments under PFI and LIFT contracts

Details of PFI and LIFT contracts in respect of each of the following categories are recorded in the individual accounts of relevant PCTs.

### 26.1 NHS LIFT schemes deemed to be off Statement of Financial Position

In this financial year, 2 PCTs reported off-Statement of Financial Position LIFT schemes (2009-10; 2 PCTs). The estimated capital value of these schemes is £5,682,000 (2009-10; £5,894,000). The assets which make up this capital value are not assets of the PCTs. The amount included within operating expenses for these schemes is £804,000 (2009-10; £1,093,000).

### 26.2 NHS LIFT schemes deemed to be on Statement of Financial Position

In this financial year, 79 PCTs reported on-Statement of Financial Position LIFT schemes (2009-10; 76 PCTs). The assets of these schemes are treated as assets of the PCTs. The substance of each contract is that the PCT has a finance lease, and payments comprise an imputed finance lease charge and a service charge. The amount included within operating expenses for the service element of these schemes is £43,813,000 (2009-10; £36,354,000).

Total obligations for the on-Statement of Financial Position NHS LIFT Schemes due:

	2010-11 £'000	2009-10 £'000
Not later than 1 year	125,368	106,051
Later than 1 year, not later than 5 years	508,734	431,737
Later than 5 years	2,623,312	2,387,227
<b>Sub total</b>	<b>3,257,414</b>	<b>2,925,015</b>
Less: interest element	(1,832,124)	(1,679,541)
<b>Total</b>	<b>1,425,290</b>	<b>1,245,474</b>

### 26.3 Charges to Expenditure

The total charged in the year to expenditure in respect of off-Statement of Financial Position NHS LIFT contracts and the service element of on-Statement of Financial Position NHS LIFT contracts was £44,677,000 (2009-10; £37,514,000).

The PCTs are committed to the following total charges:

	2010-11 £'000	2009-10 £'000
<b>NHS LIFT Scheme Expiry</b>		
Not later than 1 year	45,563	20,012
Later than 1 year, not later than 5 years	200,693	79,606
Later than 5 years	1,162,093	1,092,562
<b>Total</b>	<b>1,408,349</b>	<b>1,192,180</b>

### 26.4 PFI Schemes deemed to be off Statement of Financial Position

In this financial year, 1 PCT reported an off-Statement of Financial Position PFI scheme with a value over £1,000,000 (2009-10; 1 PCT). The estimated capital value of this scheme is £1,200,000 (2009-10; £1,200,000). The assets which make up this capital value are not assets of the PCT. The amount included within operating expenses for this scheme is £450,000 (2009-10; £450,000).

**26.5 NHS PFI schemes deemed to be on Statement of Financial Position**

In this financial year, 28 PCTs reported on-Statement of Financial Position PFI schemes (2009-10; 28 PCTs). The assets of these schemes are treated as assets of the PCTs. The substance of each contract is that the PCT has a finance lease, and payments comprise an imputed finance lease charge and a service charge. The amount included within operating expenses for the service element of these schemes is £30,995,000 (2009-10; £29,256,000).

	<b>2010-11</b>	<b>2009-10</b>
	<b>£'000</b>	<b>£'000</b>
Not later than 1 year	42,666	44,883
Later than 1 year, not later than 5 years	167,682	176,373
Later than 5 years	807,742	937,989
<b>Sub total</b>	<b>1,018,090</b>	<b>1,159,245</b>
Less: interest element	(488,778)	(616,581)
<b>Total</b>	<b>529,312</b>	<b>542,664</b>

**26.6 Charges to Expenditure**

The total charged in the year to expenditure in respect of off-Statement of Financial Position PFI contracts and the service element of on-Statement of Financial Position PFI contracts was £31,445,000 (2009-10; £33,650,000).

The PCTs are committed to the following total charges:

	<b>2010-11</b>	<b>2009-10</b>
	<b>£'000</b>	<b>£'000</b>
<b>PFI Contract Expiry</b>		
Not later than 1 year	30,025	9,891
Later than 1 year, not later than 5 years	126,344	36,153
Later than 5 years	806,243	674,442
<b>Total</b>	<b>962,612</b>	<b>720,486</b>

## 27 Other Financial Commitments

	2010-11 £'000		Restated 2009-10 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expire within 1 year	1,106,602	1,161,393	885,558	968,381
Expire within 2 to 5 years	3,283,289	3,375,508	1,859,607	2,063,556
Expire thereafter	146,007	187,019	298,782	373,672
	<b>4,535,898</b>	<b>4,723,920</b>	<b>3,043,947</b>	<b>3,405,609</b>

### Footnote

1) 2009-10 has been restated following the identification of an error in the published 2009-10 Resource Accounts.

At the end of the reporting period, Connecting for Health had entered into various contracts which, if delivered according to the terms of those contracts, would result in financial commitments of £2,703,947,000 (2009-10: £2,068,129,000) over the next 5 years. The contracts relate to the National Programme for IT, which is being delivered by NHS Connecting for Health, part of the Department of Health, which is bringing modern computing systems into the NHS to improve patient care and services. Over the life of the programme, NPfIT will connect over 30,000 GPs in England, and almost 300 hospitals, and will give patients access to their personal health and care information, transforming the way the NHS works. The contracts are such that the obligation to pay does not arise until the suppliers have implemented the solution in the required locations, and it has been accepted after a period of live running. Additionally, the Department has entered into commitments for research and development for £598,021,000 with a number of NHS organisations, universities and private research organisations. The purpose of these arrangements varies from the development of the health research workforce in the NHS, developing research infrastructure in the NHS and the provision of research support by the NHS to specific research programmes or projects. The overall purpose of the work is to develop an evidence base for improved health care.

## 28 Financial Instruments

As the cash requirements of the Department are met through the Estimates process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body of a similar size. The majority of financial instruments relate to contracts for non-financial items in line with the Department's purchase and usage requirements and the Department is therefore exposed to little credit, liquidity or market risk. Where NHS bodies within the resource accounting boundary are exposed to significant credit risk, an analysis of their financial assets that are past due but not impaired is included within their underlying statutory accounts. The Department does enter into forward contracts where a specific amount of foreign currency is required at a particular date in the future for the settlement of European Economic Area (EEA) medical costs.

### Foreign Exchange

The Department undertakes certain transactions denominated in foreign currencies, the vast majority of which are transactions relating to EEA medical costs.

Due to delays in the submission of medical cost claims by member states (as per current EU regulations), the Department estimates annual medical costs and adjusts future years' expenditure when actual costs arise (are claimed). Estimated costs are converted into sterling at average rates calculated using EU published rates. Payments made are valued at prevailing exchange rates and the Department enters into forward contracts for the purchase of Euros for this purpose i.e. to mitigate risk of exposure to 'Sterling'/'Euro' exchange rate fluctuations. Amounts in the Statement of Financial Position at year-end are converted at the exchange rate ruling at the Statement of Financial Position date, with any exchange rate gains or losses calculated in accordance with accepted accounting practice.

The Department's foreign currency forward contract as at 31 March 2011, denominated in Euros, is a derivative and is classified as a Held for Trading financial instrument. Foreign currency forward purchase contracts are

measured at 'fair value', with movements in fair value being charged or credited to the Consolidated Statement of Comprehensive Net Expenditure. The forward contract outstanding at 31 March 2011 was purchased from the Bank of England.

The Department's investments in NHS Trusts, NHS Foundation Trusts and the Medicines & Healthcare Products Regulatory Agency is represented by Public Dividend Capital (PDC) which, being issued under statutory authority, is not classed as being a financial instrument.

The forward purchase currency contracts outstanding as at 31 March 2011 are as follows:

EEA Forward Rate Agreement (all for delivery in 2011-12)	Average Contract Exchange Rate	Foreign Currency	Contract Value	Financial Asset as at 31 March 2011 Fair Value	Financial Asset as at 31 March 2010 Fair Value
	£'000	€'000	£'000	£'000	£'000
Euros (€)	1.137	604,000	531,232	3,867	-

Exchange rate exposures cover approximately 57% of 2010-11 in-year EEA Revenue DEL Expenditure (Request for Resources 2C EEA (RfR2C)).

## 29 Contingent Assets and Liabilities disclosed under IAS 37

### 29.1 Contingent Assets

The Department has no contingent assets. Primary Care Trusts have £48,936,000 of contingent assets (2009-10: £44,416,000), mainly in respect of legal charges held on properties which have been purchased using grants from PCTs. Strategic Health Authorities have no contingent assets (2009-10: £9,300,000).

### 29.2 Contingent Liabilities

#### *DH transition and NHS Reform*

Implementation of the health and social care reforms remains subject to the successful passage of the Health and Social Care Bill through Parliament. The timing of passage will depend on the Parliamentary process. Following its response to the recommendations made in the NHS Future Forum's report, the Department is due to publish a revised Impact Assessment relating to the Health and Social Care Bill on 8 September, and this will present a range of possible values. The precise costs of reform, especially at a local level, will become more certain as the changes are implemented throughout the health and social care systems. Given the degree of continued uncertainty, the Department has not disclosed a provision in respect of the costs of reform within these financial statements.

#### *Clinical Negligence*

The Department is the actual or potential defendant in a number of actions regarding alleged clinical negligence, or liabilities relating to NHS property or third parties. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is a large degree of uncertainty as to the Department's liability and the amounts involved. Possible total expenditure might be estimated at £7.75 billion (2009-10: £7.28 billion), although £7.14 billion (2009-10: £6.62 billion) relating to the Clinical Negligence Scheme for Trusts (CNST), Property Expense Scheme (PES) and Liability to Third Parties Scheme (LTPS) would be expected to be met by payments receivable from NHS Trusts.

#### *NHS Contingent Liabilities*

Within Primary Care Trusts' accounts at 31 March 2011, there were net contingent liabilities of £48,796,000 (2009-10: £46,993,000). These contingent liabilities are mainly in respect of continuing care liabilities.

Within Strategic Health Authorities' accounts at 31 March 2011, there were net contingent liabilities of £1,932,000 (2009-10: £10,961,000).

**Dr Foster**

The joint venture contract between the Department and Dr Foster LLP includes a put option whereby if, anytime from 1 January 2009 to 31 December 2013, Dr Foster LLP shareholders wish to sell their share in the investment, the Department would be obliged to buy out their share of the business, at market value, if no other buyer can be found.

**Injury Benefit Scheme**

An investigation into the administration of the injury benefits scheme began in 2006 following a decision by the Pensions Ombudsman. As a result of the review, monies were due to be paid to some 10,000 people who had not received the correct payments due to irregularities in the administration of the injury benefits scheme between 1972 and 2006. Due to difficulties in contacting beneficiaries, it has not been possible to make full payment to all the affected individuals in this financial year. There are still 50 people for whom the Department retains a financial liability but who currently cannot be traced. This financial liability currently stands at £2,574,619. Although at this stage the Department cannot estimate how many of these claims will be successful nor how much benefit will eventually be owed.

### 30 Contingent Liabilities not required to be disclosed under IAS 37 but included for Parliamentary reporting and accountability purposes

**30.1 Quantifiable**

The Department of Health has entered into the following quantifiable contingent liabilities by offering indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37 since the likelihood of a transfer of economic benefit in settlement is too remote. They therefore fall to be measured following the requirements of IAS 39. HM Treasury's guidance *Managing Public Money* requires that the full potential costs of such contracts be reported to parliament. These costs are reproduced in the table below.

	1 April 2010		Increase in year	Liabilities crystallised in year	Obligation expired in year	31 March 2011		Amount reported to Parliament by departmental Minute
	£'000	No.				£'000	No.	
Guarantees:	-	-	-	-	-	-	-	-
Indemnities:	94,350	3	2,500	-	(3,100)	93,750	3	93,750
Letters of comfort	-	-	-	-	-	-	-	-
	<b>94,350</b>	<b>3</b>	<b>2,500</b>	<b>-</b>	<b>(3,100)</b>	<b>93,750</b>	<b>3</b>	<b>-</b>

**30.2 Unquantifiable**

The Department of Health has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 31 indemnities. None of these is a contingent liability within the meaning of IAS 37 since the possibility of a transfer of economic benefit in settlement is too remote. Full details of these can be found in the Statement of Contingent or Nominal Liabilities held at the Department.

**31 Losses and Special Payments and other Accounting Notes****31.1 Losses**

	<b>2010-11</b>		<b>2009-10</b>	
	<b>Cases</b>	<b>Total £'000</b>	<b>Cases</b>	<b>Total £'000</b>
Total	10,269	278,205	40,072	944,851
<b>Cases over £250,000</b>				
Claims abandoned	3	1,683	-	-
Cancellation of Public Dividend Capital (PDC)	-	-	1	484,685
Administrative write-offs	-	-	-	-
Fruitless payments	3	38,697	1	29,600
Constructive Loss	1	6,153	3	109,110
Store losses	6	89,946	5	149,752

**Department of Health share of National Insurance Contributions Losses**

Included in its total losses, the Department has recorded a technical loss of £150,515,742, which is its share of the overall loss relating to National Insurance Contributions (NICs). Such losses occur when contributions become cannot be collected because companies have ceased to exist during the year. Her Majesty's Revenue & Customs (HMRC) allocates this category of loss to those Departments which are partially funded from NICs, on a proportional basis. It should be noted that the disclosure of this category of loss is a technical requirement which is completely outside the Department's control.

**Claims abandoned**

The Department has recorded three abandoned claims in 2010-11: one relating to the Social Enterprise Investment Fund, and a further two relating to the National Decontamination Programme.

***The Social Enterprise Investment Fund***

The Department has recognised a loss of £557,290 relating to an investment made by The Social Enterprise Investment Fund (SEIF). The SEIF supports social enterprises involved in the delivery of health and social care services. Investment is available for the start up of new projects or the development of existing social enterprise schemes, particularly where it might have been difficult to obtain commercial finance. A loan was provided through SEIF in May 2008 to set up a 12-bed Drug and Alcohol Treatment Centre. The SEIF loan covered both the fitting out of the new unit, and an element of working capital. However, the unit did not achieve its expected occupancy level, so it was deemed necessary to write off part of the loan principal and interest.

***National Decontamination Programme***

The Department has written off its right to reimbursement of fees, amounting to £1,125,841, incurred in respect of two schemes that formed part of the National Decontamination Programme. Neither of these schemes was able to complete its procurement due to the insolvency of the preferred bidder. As a result, DH was unable to recover the sums expended.

**Store Losses*****Emergency Preparedness Stockpile***

The Department authorised write-offs relating to date expired inventory items, and the impairment of values in line with existing accounting standards. The Department holds countermeasures inventory for use in the event of an accidental or malicious release of chemical, biological, radiological or nuclear agents. If no such incidents occur, the inventory inevitably reaches the end of its useable life and needs to be disposed of and replaced in order to maintain a measure of protection for the UK's population. The value of inventory written-off in the year by the Department due to expiration of either shelf life or impairment was £30,948,109.

***Pandemic Flu Countermeasures Stockpile***

The Department wrote-off £59 million in relation to countermeasures held for pandemic flu preparedness that have now passed their shelf life. While this expenditure includes some items with relatively short shelf lives that were procured to strengthen preparedness in the initial stages of the specific 2009 H1N1 influenza pandemic, the vast majority relates to acquisitions made up to 2006 as part of overall planning for a pandemic response.

**Fruitless Payments*****Synthon damages settlement***

Following a judgement by the European Court in a dispute over the technical aspects of pharmaceutical licensing, and a subsequent mediation hearing to determine the quantum of damages, the Department paid 33.25 million Euros to Synthon BV.

***Cancellation of London North ISTC Contract***

The Department made a payment of £8 million to Clinicenta Limited in respect of the agreed early termination of the London North Independent Sector Treatment Centre project. The payment, and the agreement to terminate, was made at the request of NHS London, which was responsible for the management of the contract.

***NHS Gateway***

The Department recorded a £1.6 million loss relating to the termination of a contract with Agilisys Holdings Limited following a decision to end the proposed NHS Gateway programme.

## Constructive Losses

### *E-Learning for Healthcare*

E-Learning for Healthcare is a Department of Health Programme in partnership with the NHS and Professional Bodies to provide online, quality assured training material to the NHS workforce across the UK. Following a review of capital projects, a decision was made not to allocate further capital to E-Learning projects in 2010-11. Approximately 20 projects were cancelled as a result of this review, which led to the loss of £6.1 million relating to assets under construction. This loss cannot be recovered.

### Recovery of Loss recorded in 2009-10

The Department recognised an impairment loss of £79.2 million in respect of antiviral medicines made available during the swine flu outbreak in 2009-10, for which the Department had been unable to obtain documentary evidence of appropriate storage in accordance with the Wholesaler Dealers Licence (WDL). During 2010-11, the Department continued to review the antiviral medicines returned after the swine flu outbreak, and has been able to obtain the required documentary evidence in respect of a proportion of the inventory previously impaired, and has therefore been able to reverse part of the impairment recognised in 2009-10 to the value of £13.7 million.

## 31.2 Special Payments

	2010-11		2009-10	
	Cases	Total £'000	Cases	Total £'000
Total	50,804	13,593	1,802	33,601
Details Of Cases Over £250,000	4	4,095	12	29,804

### Establishing the Family Restoration fund for Former Child Migrants

A fund was established in February 2010 to enable former child migrants to be reunited with their families. The majority of surviving child migrants (around 1,500) live in Australia, with much smaller numbers living in Canada and New Zealand. Some former Rhodesian child migrants live in Zimbabwe and a few are in South Africa. An unknown number have returned to the UK. Most are elderly, although some are in late middle age, having been sent as children in the 1960s. Many have still not been reunited with their families and we anticipate that the fund will be used to a large extent to facilitate trips to the UK for family occasions. The fund will also be used to reimburse the costs to former child migrants of rebuilding relationships with their families.

Having secured a total of £5,000,000 (from discretionary Department of Health programme budgets and a £1,000,000 transfer from DCSF), HM Treasury allowed the Department to make a Payment in Advance of Need of £3,500,000 in 2009-10. The balance of the payment was made in 2010-11, from DH discretionary programme budgets.

A third party administers the Fund, under the terms of a grant agreement. The agreement sets out the criteria for accessing the Fund, and governance arrangements. The Grant letter transferring the money to the third party sets out clearly the accounting arrangements that must be applied in respect of these funds, as well as other issue relevant to the administration of the Fund.

### County Sport Partnerships

The previous government had announced its intention to fund County Sport Partnerships (CSPs) in 2010-11 to promote physical activity at a local level. Although no contracts were in place, some CSPs had entered into commitments from 1st April 2010 in anticipation of the funding. HM Treasury cancelled a range of projects on 17th June 2010, including the funding of CSPs. As a result, the costs incurred by some CSPs could no longer be met. Whilst the Department does not accept any legal liability for these costs, it nevertheless, agreed to make an ex gratia payment totalling £553,223 to 36 CSPs who provided evidence of the costs incurred by them in 2010-11 in anticipation of future funding. This payment has been distributed to the CSPs by Sport England on behalf of the Department of Health.

### Protection of Vulnerable Adults (PoVA) Provisionally Listed Cases

In January 2009, the Judicial Committee of the House of Lords decided that placing care-workers on the former Protection of Vulnerable Adults (PoVA) list provisionally, that is, without giving those individuals an opportunity to make representations beforehand, constituted a breach of their human rights. An incompatibility declaration was made between Articles 6 (right to fair trial) and 8 (right to private life) of the European Convention on Human Rights (ECHR) and section 82(4)(b) of the Care Standards Act 2000. This followed an action brought by four care home nurses who had been placed on the PoVA provisional list. The Department did not set up a general compensation scheme but agreed in principle to consider settlement in circumstances where the European Court is likely to declare claims admissible (e.g. domestic remedies are exhausted and claims are brought within the relevant six month time limit). The Department requested evidence of loss and causation in respect of 24 applications, and paid a final settlement (including legal costs) of £624,386 in March 2011.

### 32 Related Party Transactions

As disclosed in Note 35, the Department acts as the parent of the group of organisations (Strategic Health Authorities, Primary Care Trusts and Special Health Authorities) whose accounts are consolidated within this Resource Account. It also acts as the sponsor of the trading fund, executive and other Non-Departmental Public Bodies which are currently not consolidated. These bodies are regarded as related parties with which the Department has had various material transactions during the year.

In addition, the Department had a small number of transactions with other Government Departments and other central Government bodies in 2010-11.

A number of Ministers, Non-Executive Directors and members of either the Departmental Board or Department of Health Management Committee have connections with a wide range of outside organisations for reasons unrelated to their work in DH. In the normal course of its business during the year, the Department may enter into business transactions with such outside organisations or related parties. In cases where an individual within DH has an outside connection with one of these related parties, the Department is obliged to disclose the extent of its own transactions with those organisations, as set out in the table below:

	Sub Note	Payables	Purchases	Receivables	Sales to
		with related party	from related party	with related party	related party
		2010-11	2010-11	2010-11	2010-11
		£000's	£000's	£000's	£000's
Ashridge Charity	1	-	7	-	-
Marie Curie Cancer Care	2	-	2,284	-	-
Thames Valley University	3	-	235	-	-
Cambridge University	4, 5	-	3,236	-	-
New castle University	6	-	5,177	-	1
London Borough of Croydon Council	7	-	3,428	-	-
College of Occupational Therapy	8	-	2	-	-
London School of Economics	9	-	4,616	5	30
United Utilities Plc	10	-	8	-	-
Nursing and Midwifery Council	11	-	248	-	0
Wigan Metropolitan Borough Council	12	-	2,733	-	-
Restoration of Appearance and Function Trust	13	-	83	-	-

#### Sub Note

- 1) Dame Sally Davies is a Trustee of the Ashridge Charity
- 2) Dame Christine Beasley is a Trustee of Marie Curie Cancer Care (a registered charity)
- 3) Dame Christine Beasley is Pro-Vice Chancellor at Thames Valley University
- 4) Clare Chapman holds a position at Cambridge University, Judge Business School
- 5) Dame Sally Davies' husband is employed by Cambridge University as an academic clinician
- 6) Liam Donaldson is the Chancellor at New castle University (honorary position). Liam Donaldson left the Department 31 May 2010
- 7) Jonathan Rouse is Chief Executive Officer of London Borough of Croydon
- 8) Jonathan Rouse's wife is a member of the College of Occupational Therapy
- 9) Catherine Bell is a Governor of the London School of Economics
- 10) Catherine Bell is a Non Executive Director for United Utilities
- 11) Anne Keen is registered with the Nursing and Midwifery Council as a Registered Nurse (unremunerated)
- 12) Andy Burnham received a rent abatement from Wigan Metropolitan Borough Council
- 13) Earl Howe is the Chairman of the Restoration and Appearance and Function Trust (a registered charity)

The sub-note above identifies those individuals with outside connections to the organisations listed in the Table. It is important to note that the financial transactions disclosed were between the Department itself and the named organisation. The individuals named in the sub-note have not benefited from those transactions.

Apart from where disclosed in this note, no other Minister, Board member, key manager or other related party has undertaken any material transactions with the Department during the year.

### 33 Third Party Assets

	1 April 2010	Gross inflows	Gross (outflows)	31 March 2011
	£'000	£'000	£'000	£'000
<b>Monetary assets</b>				
Bank balances	5,440	14,456	(894)	19,002
Monies on deposits	-	-	-	-
<b>Total</b>	<b>5,440</b>	<b>14,456</b>	<b>(894)</b>	<b>19,002</b>

Third party assets are those which do not belong to the Department and are therefore not included in the financial statements. The above third party monetary assets, at 31 March 2011, were held by the Department of Health (but are not included in the financial statements) and include £2,343,000 held by PCTs in banks and in hand in respect of monies held by them on behalf of patients. They also include £16,658,512 held by the Department of Health in Escrow accounts relating to the National Programme for IT. These amounts are in relation to service and delay deductions and are calculated in line with the contractual clauses in respect of Service Level Agreements and Key Milestone dates.

### 34 Events after the Reporting Period

#### Health and social care reforms

Following publication of its White Paper: *Equity and excellence: Liberating the NHS* last year, the Department published detailed proposals to modernise the NHS in the *Health and Social Care Bill* presented to Parliament in January 2011. As a result of the response of both the public and key health and social care partners to a number of proposals in the Bill, the Government launched the NHS Listening Exercise – an intensive period of direct engagement and review led by the NHS Future Forum. The Department responded to the Forum's report at the end of June, accepting all of its core recommendations:

In particular:

- The NHS Commissioning Board will be established as a special health authority in shadow form in October 2011. It will provide clear leadership during transition, with a particular focus on improving quality and safety and in meeting the financial challenge. The Board will become an independent statutory body by October 2012, with the power to authorise clinical commissioning groups. It will adopt its full powers from April 2013.
- During 2012, Health Education England and the NHS Trust Development Authority will be established as special health authorities in shadow form. Health Education England will assume responsibility for Strategic Health Authorities' current responsibilities for education and training in 2013. Both national and local HealthWatch organisations will be established in October 2012. These will put patients at the heart of local reform.
- There is clear agreement that patient care is better when based on input from those who are closest to patients – doctors, nurses and other health and social care professionals. By an amendment to the Bill, GP Consortia will be called "Clinical commissioning groups". Each group will have a governing body including at least one nurse and one specialist doctor.
- Primary Care Trusts will cease to exist from 1 April 2013. However, the NHS Commissioning Board will not authorise clinical commissioning groups to take responsibility for any part of the commissioning budget in their local area until the groups are ready and willing to do so. Consequently, by April 2013, GP practices

will either belong to authorised clinical commissioning groups, or “shadow” groups. Where clinical groups are not ready to take on commissioning responsibility, local arms of the NHS Commissioning Board will commission services on their behalf in order to prevent gaps in care.

- Commissioners will be supported by clinical networks (which will advise on single areas of care) and new “clinical senates” in each area of the country, which will provide multi-professional advice on local commissioning plans.
- Strategic Health Authorities will remain as statutory bodies until April 2013, but they will be formed into a smaller number of clusters later in 2011 for management purposes. SHAs will support the transitional work of the NHS Commissioning Board and the NHS Trust Development Authority.
- The choice of “Any Qualified Provider” will now be phased in gradually from April 2012. The focus will be on those services where patients say that they want more choice. The Department expects that the remaining NHS trusts will be authorised as foundation trusts by April 2014. If any NHS trust is not ready by that date, it will continue to seek foundation trust status under new management arrangements. Monitor will now retain its specific oversight powers over foundation trusts until 2016. This will ensure continued good governance during the transition period.
- In terms of overall accountability, amendments in the *Health and Social Care Bill* will make explicit that the Secretary of State for Health remains fully accountable for the NHS, with powers to oversee and assess NHS performance, whilst respecting operational independence.

Implementation of these reforms remains subject to the successful passage of the Health and Social Care Bill through Parliament. The timing of passage will depend on the Parliamentary process. Following its response to the recommendations made in the NHS Future Forum’s report, the Department is due to publish a revised Impact Assessment relating to the Health and Social Care Bill on 8 September, and this will present a range of possible values. The precise costs of reform, especially at a local level, will become more certain as the changes are implemented throughout the health and social care systems. Given the degree of continued uncertainty, the Department has disclosed a contingent liability in Note 29.2.

#### **Extension of IAS 27 (Separate Financial Statements) to all NHS organisations**

HM Treasury announced on 30 June that, with effect from 1 April 2013, the consolidation accounting standard will be applied to all NHS organisations. A significant impact of this change will be that NHS organisations will be required to consolidate charitable fund accounts in their annual statutory financial statements. The extent to which this change needs to be reflected in the Department’s Resource Account will be clarified by HM Treasury no later than in the Financial Reporting Manual relating to the 2013-14 financial year. At this early stage, the Department has insufficient information to quantify the financial impact of this change at a consolidated level.

#### **Southern Cross Healthcare**

The Department continues to monitor the situation with Southern Cross Healthcare. However, this is a commercial company, and a commercial solution has to be found. The Government is not expecting to have to provide financial support.

#### **Divestment of PCT provider functions**

Primary Care Trusts continue to divest provider functions to NHS Trusts, NHS Foundation Trusts and Social Enterprises under the “Transforming Community Services” initiative. HM Treasury require that merger accounting principles are applied in these circumstances.

The Accounts were authorised for issue by the Accounting Officer on the 5 September 2011.

**35 Entities within the Departmental boundary**

Ministers had some degree of responsibility for the following bodies during the year 2010-11:

**Consolidated in the Department's Resource Accounts****Supply financed agencies****Other Bodies**

Strategic Health Authorities<sup>1</sup>

Primary Care Trusts<sup>2</sup>

**Special Health Authorities:**

NHS Business Services Authority

The Information Centre

National Institute for Health and Clinical Excellence

NHS Litigation Authority

National Treatment Agency for substance misuse<sup>3</sup>

National Patient Safety Agency<sup>4</sup>

NHS Institute for Innovation and Improvement<sup>5</sup>

**Not Consolidated****Trading Funds**

Medicines & Healthcare Products Regulatory Agency

**Executive Non-Departmental Public Bodies**

Appointments Commission<sup>6</sup>

Human Fertilisation and Embryology Authority

General Social Care Council<sup>7</sup>

Alcohol Education Research Council<sup>8</sup>

Health Protection Agency<sup>9</sup>

Care Quality Commission

Independent Regulator of NHS Foundation Trusts

Council for Healthcare Regulatory Excellence<sup>10</sup>

Human Tissue Authority

NHS Trusts

Food Standards Agency

NHS Blood and Transplant

NHS Direct

Social Care Institute for Excellence

NHS Foundation Trusts

**DH Controlling Equity Investments<sup>11</sup>**

Plasma Resources UK

Credit Guarantee Fund

Dr Foster Intelligence Ltd

NHS Professionals Ltd

SBS

1) Strategic Health Authorities will be abolished 1st April 2013.

2) Primary Care Trusts will be abolished 1st April 2013.

3) The National Treatment Agency for substance misuse is to be abolished by 1st April 2013 subject to the passage of legislation, and most of its functions transferred to Public Health England.

4) The National Patient Safety Agency is to be abolished during 2012 subject to the passage of legislation and most of its functions transferred to the NHS Commissioning Board.

5) The NHS Institute for Innovation and Improvement is to be abolished during 2012 subject to the passage of legislation and may become an independent organisation with some of its functions transferred to the NHS Commissioning Board.

6) The Appointments Commission is due to be abolished subject to the passage of legislation with its residue functions transferred within Government.

7) The General Social Care Council will transfer function for regulation to the Health Professions Council.

8) The Alcohol Education Research Council is due to be dissolved during 2012 subject to the passage legislation.

9) The Health Protection Agency will be dissolved and its functions transferred within Government by 1st April 2013 subject to the passage of legislation.

10) The Council for Healthcare Regulatory Excellence will become an independent body during 2012 subject to the passage of legislation.

11) The Department holds a 50% or more controlling equity investment in the bodies listed, the detail of which can be found in Note 16 - Financial Assets.

## Annex A

### GLOSSARY OF IFRS TERMS

The adoption of International Financial Reporting Standards (IFRS) from 2009-10 has brought with it some changes in terminology. The following is a list of new IFRS terms and the names by which they were previously known under UK Generally Accepted Accounting Practice (UK GAAP):

IFRS name	UK GAAP name
Consolidated Statement of Comprehensive Net Expenditure	Operating Cost Statement
Statement of Financial Position	Balance sheet
Non-current assets	Fixed Assets
Inventories	Stocks
Receivables	Debtors
Payables	Creditors
Property, plant and equipment	Tangible assets

### GLOSSARY OF GOVERNMENTAL TERMS

**Administration Cost Limit** An overall limit applied to administration costs within the Department which should not be exceeded by the administration expenditure for the year.

**Annually Managed Expenditure (AME)** A Treasury budgetary control for spending that is generally difficult to control, large as a proportion of the Department's budget, and volatile in nature.

**Appropriations-in-Aid (A-in-A)** Expected income that arises during the normal course of business that the Department is authorised to retain. The income is voted by Parliament in the Estimate and is available to offset against expenditure in the current financial year. Any Excess A-in-A over the authorised limit must be surrendered to the Consolidated Fund. These are included within the CSCNE and disclosed separately in the Summary of Resource Outturn.

**Comptroller & Auditor General** Head of the National Audit Office. Responsible for auditing the Department's Resource Accounts and NHS Summarised Accounts.

**Consolidated fund** The Treasury's account at the Bank of England which is used by most Government Departments for processing payments or receipts.

**Consolidated Fund Extra Receipts (CFERs)** Receipts which the Department cannot use to finance expenditure and which are surrendered to the Consolidated Fund. CFERs can be revenue or capital in nature.

**Core Department** The Department of Health only. It does not include any of the bodies listed in Note 35.

**Departmental Expenditure Limit (DEL)** A Treasury budgetary control for spending that is within the department's direct control and which can therefore be planned over an extended (Spending Review) period (such as the costs of its own administration, payments to third parties, etc).

**Estimate** A summary of the resources and cash voted by Parliament to the Department for a particular year and against which expenditure is monitored. It is analysed by Requests for Resources, each being monitored separately.

**General Fund** The General Fund represents the historic cost of the total assets less liabilities of the Department, to the extent that it is not represented by other reserves and financing items. It is included in Taxpayer's Equity on the Statement of Financial Position.

**Net Cash Requirement** The amount of cash required and authorised from the Consolidated Fund for the Department to carry out the functions specified in the Estimate. Actual cash used during the year is described as the outturn of the net cash requirement.

**Net Resource Outturn** This is the net total of income and expenditure consumed by the Department during the financial year.

**Non-budget** Expenditure that is not included in either DEL or AME. For the Department of Health this includes the grant in aid to non-departmental public bodies, NHS Trusts and Foundation Trusts Public Dividend Capital issues and repayments and NHS Trusts and Foundation Trusts loans and repayments and repayment of interest.

**Non-operating Cost A-in-A** Comprises proceeds from sales of assets and repayment of voted loans which can be retained by the Department. These are included in the Summary of Resource Outturn.

**Programme costs** Programme costs include the running costs of NHS bodies funded directly by the Department but otherwise reflect non-administration costs, including payments of grants and other disbursements by the Department.

**Request for Resources (RfR)** The basic unit of Parliamentary control for which resources to the Department are granted. Each RfR within the Estimate represents an accruals based measure of expected expenditure within the Department for items which fall within that RfR. The Summary of Resource Outturn, the CSCNE and Note 2 analyse net resource outturn by RfR.

## Annex B

### NAO REPORTS PRINCIPALLY FOR DEPARTMENT OF HEALTH

#### **The performance and management of hospital PFI contracts (June 2010)**

The National Audit Office (NAO) reported that most PFI hospital contracts are well-managed and the evidence indicated that they are currently achieving the value for money expected when the contracts were signed. However, the report found that there continue to be risks to the long-term value for money of these contracts.

The report, which focused on the stage of the contract once buildings are opened for use, not on the decision to use PFI as a procurement route, suggested that most contracts were performing satisfactorily or better and meeting the expectations of Trusts. The cost and performance of services such as cleaning, laundry and portering in PFI hospitals were similar to those provided in non-PFI hospitals. While catering is on average slightly cheaper in PFI hospitals, hospitals with PFI buildings spent more on maintenance annually to keep the buildings to a specified high standard.

The NAO assumed that Trusts would need to make efficiency savings over the next few years, but their ability to make savings from their PFI contracts was very limited. Because Trusts pay an index-linked fixed sum, it is difficult for them to make savings without cutting back on services. Contractors who secure economies of scale through managing multiple PFI contracts are rarely required to share these efficiency gains with Trusts.

The report concluded that, in the longer term, Trusts will need support from the DH to ensure that the current good performance is maintained, that efficiencies are sought and that an appropriate share of benefit comes back to the public sector.

#### **Tackling inequalities in life expectancy in areas with the worst health and deprivation (July 2010)**

The NAO found that, having set a target in 2000 to reduce health inequalities, it took time to embed the issue in the policy and planning framework of the NHS and to develop an evidence base of the most cost-effective interventions. However, the report concluded that the Department had made a serious attempt to tackle health inequalities across England.

The report found that although life expectancy overall has increased, the gap in life expectancy between the national average and the Government's dedicated "spearhead" areas continued to widen. The NAO predicted that the Department would not meet its target to reduce the health inequalities gap by 10 per cent by 2010, as measured by life expectancy at birth, if trends continued.

According to the report, the Department's strategy, published in 2003, lacked effective mechanisms to achieve the target because the evidence base was still being developed. It was not until 2006-07 that the strategy was matched by focused action to tackle health inequalities, leaving little time for these actions to have an impact before the 2010 target date.

Three key, cost-effective interventions to reduce the gap in life expectancy were identified by the Department's 2007 Health Inequalities Intervention Tool: increase the prescribing, first, of drugs to control blood pressure and, second, of drugs to reduce cholesterol, by 40 per cent; and third double the capacity of smoking cessation services. But, when the report was published, these interventions had not yet been used on the scale required to close the gap and progress in improving the take-up of these interventions was not being monitored.

#### **Delivering the Cancer Reform Strategy (November 2010)**

The NAO reported that improvements and efficiencies had been made in key areas of cancer care since the Cancer Reform Strategy was published in 2007. However, the report said that a lack of high quality information on costs of cancer services and their outcomes inhibited substantial further improvements. The report concluded that the performance of PCTs varied significantly and that there was scope for greater efficiencies, worth hundreds of millions of pounds each year, in the delivery of care.

The report found that there had been high levels of achievement against cancer waiting times standards and significant reductions had been made in the number of days cancer patients spend in hospital - largely as a result of increasingly treating patients as day cases. However, whilst the Strategy aimed to minimise

emergency admissions for cancer patients, these were still increasing when the report was published, with wide variations between PCTs and poor understanding of the reasons for those variations.

The report estimated that cancer cost the NHS approximately £6.3 billion in 2008-09, but said that the Department of Health had limited assurance as to whether the implementation of the Strategy was achieving value for money. Reported spending on cancer care varied between PCTs - in 2008-09 varying from £55 to £154 per head - and there was unexplained variation from year to year.

The report concluded that there were opportunities to achieve better outcomes and free up resources to meet the increasing demand for cancer services. For example, by reducing the average length of stay in hospital to the level of the best performing PCTs, efficiencies worth some £113 million a year could be achieved.

### **Management of NHS hospital productivity (December 2010)**

The NAO reported that hospital productivity had fallen over the last ten years. Over the period since the 'NHS Plan' was published in 2000, there were significant increases in hospital funding, to deliver improvements in the patient care, and designed in part to increase productivity. Hospitals used their increased resources to deliver against national priorities, but the NAO concluded that they needed to provide more leadership, management and clinical engagement to optimise the use of additional resources and deliver value for money.

The report said that the Department focused on delivering national priorities within a fixed budget and achieved significant improvements in such areas as waiting times, healthcare associated infection rates, patient outcomes, reduced cancer mortality and the patient experience. The NHS pay contracts introduced since 2003 have increased costs but, according to the report, were not always used effectively by hospitals to drive productivity improvements. The annual measure by the Office for National Statistics showed a decline by an average of 0.2 per cent per year since 2000 in NHS overall productivity, with productivity in hospitals falling by around 1.4 per cent a year. Meanwhile, NHS expenditure increased by over two thirds in ten years.

The Department made clear in 2009 that, in response to the economic downturn and increasing demand for healthcare, the NHS would need to deliver between £15 billion and £20 billion of efficiency savings per year by 2013-14. Around 40 per cent of these savings are expected to come from increasing efficiency in hospitals. Recent research indicates that the scale of these savings will require productivity gains of approximately six per cent per annum.

The 'Payment by Results' system of setting national tariffs promoted some efficient practice, such as reductions in the length of time patients spend in hospital and more operations taking place as day cases. However, the NAO report showed there was still substantial variation between hospitals: for example, in the money spent by hospital to provide the same treatment. If all hospitals performed at the level of the top 25 per cent in respect of staff costs, use of estate, control of emergency admissions and bed management, the NAO estimated that the NHS could save around £1.6 billion a year. Other initiatives to increase productivity, such as the 'Productive Ward' scheme, were not used consistently or comprehensively.

The report concluded that the Department had launched a national initiative (QIPP) to help the NHS deliver annual savings of up to £20 billion but that there were risks to the delivery of the initiative, which is the responsibility of Strategic Health Authorities and Primary Care Trusts.

### **National Health Service Landscape Review (January 2011)**

This review, published by the NAO, summarized the new arrangements for the NHS proposed in the July 4 2010 NHS White Paper, *Equity and excellence: Liberating the NHS*. The review's purpose was to inform the Public Accounts Committee so that it could take stock of the proposals as they stood and discuss their implementation with the DH and NHS.

### **Procurement of consumables in NHS acute and Foundation trusts (February 2011)**

The NAO reported that NHS hospitals often pay more than they needed to when buying basic supplies. A combination of inadequate information and fragmented purchasing meant that NHS hospitals' procurement of consumables gave poor value for money. The NAO estimated that at least £500 million a year could be saved by the NHS on its spending on consumables, and potentially much more for some products.

The report pointed out that, with no central control over Foundation Trusts, the Department could not mandate more efficient procurement practices. Responsibility to demonstrate value for money in procurement falls upon the management of individual trusts. The price that trusts pay for the same items varied widely. The average variation between the highest and lowest unit price paid was 10 per cent.

Some trusts were not getting value for money because they were buying many different types of the same product. For example, trusts bought 21 different types of A4 paper, 652 types of medical gloves and 1,751 different cannulas. There is also a large variation between trusts: one bought 13 different types of glove, whilst another bought 177 different types.

The report found that there were unnecessary administrative costs because many trusts make multiple small purchase orders. Taking just four items bought in high volumes, around £7 million in administration costs could be saved each year if the number of orders were reduced to the level achieved by the best performing 25 per cent of trusts.

### **Managing high value capital equipment in the NHS in England (March 2011)**

The NAO's report pointed out that trusts were not collaborating to get the keenest prices on purchasing or maintenance of machines. One quarter of purchases in 2009–10 were made outside existing framework agreements and opportunities were missed to secure lower prices by grouping together requirements for new machines.

The report found that there was wide variation in utilisation rates of MRI and CT scanning machines. However, because there was no central collection of data, individual trusts couldn't compare their utilisation rates and costs with other trusts in order to improve efficiency. The report also found that while trusts report their average costs per scan, they do so differently. In 2008-09, the average cost per CT scan ranged from £54 to £268 and, for MRI, it was between £84 and £472 per scan. For radiotherapy, the Department has developed a dataset that will enable comparisons to be made about efficiency and utilisation between radiotherapy treatment centres.

The report concluded that Value for money was not being achieved across all trusts in the planning, procurement and use of 'high value equipment', such as CT, MRI scanners and Linear Accelerator Machines.

## Annex C

### **PUBLIC ACCOUNTS COMMITTEE REPORTS PRINCIPALLY FOR THE DEPARTMENT**

#### **Tackling inequalities in life expectancy in areas with the worst health and deprivation (November 2010)**

Inequalities in health outcomes between the most affluent and disadvantaged members of society are longstanding, deep-seated and have proved difficult to change. In 1997, the Government put tackling health inequalities at the heart of its health agenda and subsequently published a number of policy documents and related targets. In 2004 the Government set the Department of Health (the Department) the target of reducing the gap in life expectancy between 70 'spearhead' local authorities with high deprivation and the population as a whole by 10 per cent by 2010. The Public Accounts Committee (the Committee) found that the Department had not met this target and had been slow to tackle health inequalities.

The Committee reported that whilst it was heartening to recognise the overall improvements in health over the last decade, it was of great concern that inequality in health has increased. The Department should be commended for setting out to tackle a problem that has proved historically to be so intractable. However, the Committee found it unacceptable that it took it until 2006—nine years after the Department announced the importance of tackling health inequalities—to establish this as an NHS priority. Although it was known in 1997 that certain key interventions such as smoking cessation had the most impact on the health of those living in deprived areas, it took the Department until 2007 to produce evidence about how such treatments could be delivered cost-effectively.

GPs are crucial to improving the health of people in the most deprived areas. However, the Committee found that in many of these areas the number of GPs per head of population was well below the number in more affluent areas. The Committee concluded that the Department missed an opportunity to use the revised GP contract to ensure more doctors worked in deprived areas, and had not focused its attention sufficiently on implementing the key interventions that would make a difference.

*"Equity and Excellence: Liberating the NHS"* sets out the Government's long-term vision for the NHS. In the transitional period, the Committee said that it is important that tackling health inequalities does not slip down the Department's agenda and that the Department will need to set a clear framework of accountability at all levels of the health service if it is to be successful in addressing health inequalities in future.

#### **PFI in Housing and Hospitals (January 2011)**

Following a joint hearing with the Department for Communities and Local Government and DH, the Committee published a joint report for both Departments. The Committee found no clear and explicit justification and evaluation for the use of PFI in terms of its value for money. However, they accepted that the then Government gave the departments no realistic alternatives to PFI as the procurement route to use for these capital programmes.

The Committee had concerns that central government's failure to use the market leverage that comes from overseeing multiple contracts, and the lack of robust central data to support effective programme management.

The Committee concluded that the Government should be doing more to identify the circumstances where PFI works best, capture the lessons learned from PFI procurements and apply clear criteria to future decisions over identifying the best route for particular public infrastructure investments.

On hospitals, the Committee found that most were receiving the services expected at the point when contracts were signed and were generally being well managed. The Committee, however, were very concerned that the DH had not approached the major investors and contractors to negotiate a share in these efficiency gains and economies of scale.

The Committee concluded that departments should exploit the commercial weight and buying power that comes from letting substantial contracts, but at the time of the report, neither central government nor the local bodies benefit from this.

It seemed to the Committee that the central team in the DH was under-resourced and unable to secure proper value for money from these contracts. The Committee reported that it would be a false economy to have weak central teams that are unable to implement our recommendations, all of which are aimed at delivering better value for money in the long term.

### **Progress in delivering the Cancer Reform Strategy (March 2011)**

The Committee welcomed the Department's and NHS's commitment to improving the outcomes for cancer patients. They were concerned, however, that early diagnosis does not happen often enough; and whilst cancer survival rates have improved and mortality rates have fallen, the gap in survival rates between England and the best European countries had not been closed. The Committee reported that there remain wide, unexplained variations in the performance of cancer services and in the types of treatment available across the country.

The Committee found it disappointing that ten years after the publication of the NHS Cancer Plan 2000 there remain significant gaps in information about important aspects of cancer services, in particular information on chemotherapy, on follow-up treatment, and on the stage that a patient's cancer has reached at the time of diagnosis. At the time of the report, it was not possible for the Department to measure the impact of the Strategy on key outcomes, such as survival rates, or to know if it was commissioning cancer services cost-effectively, due to poor data on costs and because outcomes data were not sufficiently timely.

The Committee were surprised that value for money has not been a stronger focus for commissioners, both in securing services to meet the health needs of their local population or in assessing the performance of its suppliers. Few commissioners made best use of the information available and most did not know whether their commissioning is cost-effective.

The Department has recently refreshed its approach to delivering improvements in Cancer Services, with the publication in January 2011 of *Improving Outcomes: A Strategy for Cancer*. The Committee consider it a priority that the Department should continue to improve information on cancer-related activities.

The Committee concluded that it would look to the Department to develop robust mechanisms to ensure the collection of high quality, comprehensive and timely data to raise awareness of cancer, provide transparency in the performance of commissioning consortia, and ultimately drive improved outcomes for cancer patients.

### **Management of NHS hospital productivity (July 2009)**

The Committee reported that figures produced by the Office for National Statistics (ONS) estimate that, since 2000, total NHS productivity fell by an average of 0.2% a year, and by an average of 1.4% a year in hospitals. The taxpayer has therefore seen a better quality NHS as a result of the additional investment but, per taxpayer pound, is getting less in return. The Committee concluded that the trend of falling productivity would need to be reversed if the NHS is to meet the Department's productivity challenge, to deliver up to £20 billion of efficiency savings a year, by 2014-15, without compromising services.

The ONS measure of productivity is the most authoritative there is, although the Department points to its shortcomings. The Committee accepted that it is challenging to make accurate adjustments for quality improvements but, despite previous assurances to this Committee, the Department has failed to reach agreement with ONS on how the measure should account effectively for improvements in quality.

The Department promotes efficiency and productivity improvements in hospitals primarily through national pay contracts and by setting a fixed price, or 'tariff', for individual hospital procedures (Payment by Results). While Payment by Results does seem to have driven some improvements, the Committee reported that the system only covered 60% of hospital activity and there was substantial variation in hospital costs and activity. The Department is introducing 'best practice tariffs' to promote greater hospital efficiency. On the one hand, this tariff system can promote efficiency and productivity, but on the other hand could prioritise price over quality. Although potentially positive, the Committee said that the system would need to be carefully monitored to ensure quality is maintained, as the Department acknowledged that cutting tariffs could damage quality.

The Committee concluded that there are risks to the NHS being able to deliver up to £20 billion savings annually, for reinvestment in healthcare, alongside implementing a substantial agenda of reform and that productivity improvements will be key to delivering these savings.

## Annex D

**OUTSTANDING PUBLIC ACCOUNTS COMMITTEE RECOMMENDATIONS**

<b>Progress in improving stroke care</b>	
Conclusion (7): The Department should work with the Care Quality Commission (CQC) and Skills for Care to develop proposals for the accreditation and training of care home staff in stroke awareness and care.	Skills for Care and a number of Awarding Organisations are working with the Stroke Improvement Programme, the UK Forum for Stroke Training and other key stakeholders to develop some stroke management units for the Qualifications and Credit Framework (QCF). These are expected to be complete by October 2011.
<b>Improving Dementia Services in England – an Interim Report</b>	
Conclusion (1): The Department should also work with Strategic Health Authorities to explore the feasibility of pooling health and social care resources in order to develop local dementia budgets; and require Strategic Health Authorities to agree with each Primary Care Trust a local dementia implementation plan, comprising costed actions and a timetable, by July 2010. The Department should establish a process for monitoring annual progress, similar to that for End of Life Care, and provide a progress report on the first two years to the Committee by October 2011.	<p>The Department is reviewing the progress made by PCTs in improving support for people with dementia, through a National Audit of dementia services. The audit will highlight what progress different localities are making in key areas, for example, the use of senior clinical leads for dementia in hospitals, establishment of memory services and reducing the use of anti-psychotic drugs. It will also look at expenditure on dementia services encompassing spend by Local Authorities as well as PCTs.</p> <p>The National Audit of Dementia Services is being delivered in stages, The first results are now expected by October 2011 and the final results by Spring 2012.</p> <p>The Department is also working with key partners to develop a practical tool to enable organisations to self-assess and benchmark their progress towards implementing the strategy at local level. The tool will be agreed in July 2011 and plans to make it available across localities will follow.</p>
Conclusion (3): The Department has only recently commissioned an audit of costs of dementia services which is expected to be completed in summer 2010. The Department should provide us with a copy of its audit of costs and details of how the first £60 million of funding has been spent. It should also include in the October 2011 progress report to the Committee the results of reporting from Primary Care Trusts to Strategic Health Authorities on how they spend the further £90 million of dementia funding provided for 2010–11.	It is estimated that £8.2 billion is spent on health and social care for people with dementia. The National Audit of Dementia Services will encompass total expenditure on dementia services by Local Authorities as well as PCTs. The first results are expected to be available by October 2011.

<p>Conclusion (8): As the Department has now estimated what proportion of the social care workforce is without any qualification it should require PCTs and local authorities to use their commissioning powers to drive improvements in training and qualification rates by only letting/renewing contracts with providers who have a robust approach to training, or who employ suitably trained staff.</p>	<p>The Department will continue to work with statutory commissioning organisations to improve commissioning processes, including how best to ensure robust contracting arrangements which reflect the importance of training.</p>
<p><b>Reducing Alcohol Harm: health services in England for alcohol misuse</b></p>	
<p>Conclusion (4): The Department has announced a scheme to provide pilot sites with additional funding and support for specialist services. At the end of the pilots, the Department should publish the results, showing what has been achieved and assessing whether a national expansion of the model would provide a cost-effective means to tackle the demonstrable variations and gaps in service provision that currently exist across English regions and between PCTs.</p>	<p>The report on the Early Implementation PCTs will be finalised in October 2011 and published shortly after that.</p>
<p><b>Tackling inequalities in life expectancy in areas with the worst health and deprivation</b></p>	
<p>Conclusion (2): The Department was too slow to develop an evidence base of cost effective interventions.</p> <p>It knew at an early stage that certain key interventions cost little, but could have a major impact, but did not provide relevant tools and guidance until 2007... The Department and the NHS Commissioning Board should identify and implement the action needed to stimulate the wider adoption of these treatments so that GPs in all areas comply with accepted good practice.</p>	<p>In the light of the publication of the two White Papers: Equity and Excellence: Liberating the NHS and Healthy Lives, Healthy People: our strategy for public health in England, and the consultations on these, the Department is developing new architecture for both the NHS and public health systems. The Department is embedding health inequalities into the emerging systems.</p> <p>The new proposals for commissioning devolve responsibility for commissioning the majority of NHS services to GP consortia, supported by and held to account by the NHS Commissioning Board. Additionally, there is a new proposed role for Public Health England. The proposals are subject to Parliamentary approval through the forthcoming Health and Social Care Bill.</p> <p>The NHS Commissioning Board will have responsibility for quality improvement, which will include setting commissioning guidelines on the basis of quality standards developed with advice from the National Institute for</p>

	<p>Health and Clinical Excellence (NICE) and designing model contracts for consortia to use with providers and setting standards for the quality of NHS Commissioning. Duties will be placed on the NHS Commissioning Board to reduce inequalities in access to and outcomes from healthcare.</p> <p>Work is under way to design the functions of the NHS Commissioning Board. Decisions about the detailed delivery will be made by the Board in due course.</p>
<p>Conclusion (3): The Department has failed adequately to address GP shortages in areas of highest need.</p> <p>The Department should identify, as a matter of urgency, what measures it can take to drive up the numbers of GPs in deprived areas, including using direct financial incentives to encourage GPs into areas of greatest health need. The Department should implement an action plan to deliver this objective within a defined timeframe.</p>	<p>The previous focus on targets did not improve the situation. A new approach is needed to improve the health of the poorest, fastest.</p> <p>The Government will set out a timeframe for implementing the objective, following discussions with the BMA General Practitioners Committee.</p>
<p>Conclusion (4) Many GPs fail to focus their attention sufficiently on the more deprived people registered with their practices.</p> <p>More affluent people are generally more likely to seek help from their GP, and be clearer about the services they expect to receive. The Department and the Commissioning Board should use the GP contract to link payments explicitly to GPs' success in improving the health of the neediest people in their practices and to encourage up-take of good practice preventative treatments for those with the greatest health needs.</p>	<p>The Public Health White Paper includes a proposal that, to increase the incentives for GP practices to improve the health of their patients, at least 15% of the current value of the Quality and Outcomes Framework (QOF) should be devoted to evidence-based public health and primary prevention indicators from 2013. The funding for this element of QOF will be within the Public Health England budget. The Government will discuss, with the profession, the implications of these proposals for the existing GP contractual arrangements.</p> <p>The Government has proposed, as part of the White Paper Equity and excellence: liberating the NHS that the NHS Commissioning Board, supported by NICE, will develop a Commissioning Outcomes Framework, so that there is clear, publicly available information on the quality of healthcare services commissioned by GP consortia, their management of NHS resources and their progress in reducing health inequalities. As far as possible, outcomes will be chosen, so that they can be measured by different equalities characteristics. Specific measures will be developed to reflect the consortium's duties to promote equality and to assess progress in reducing health inequalities.</p> <p>The White Paper consultation included the proposal that a proportion of GP practice</p>

	<p>income should be linked to the outcomes that they achieve collaboratively through commissioning consortia and the effectiveness with which they manage financial resources (a “quality premium”). These arrangements will be developed following discussion with the BMA in the light of consultation responses. The quality premium would be paid in the first instance to the consortium, who would be free to decide how best to apportion it between its member practices. In order to ensure that consortia are rewarded and incentivised for improving care for all population groups, including those who are most vulnerable and for whom outcomes may be more difficult to achieve, there will be a need for an appropriate adjustment for case mix.</p>
<p>Conclusion (5): Two thirds of primary care trusts in areas with the highest deprivation still do not receive the money due to them under the Department’s funding formula.</p> <p>The Department is seeking to move all areas towards the right level of funding based on an assessment of need, but significant imbalances remain. In developing the funding model for GP consortia and public health, the Department and the Commissioning Board should consider how funding shortfalls in the most deprived areas could be corrected.</p>	<p>From 2013-14 onwards, the NHS Commissioning Board will be responsible for the allocation of resources to GP Consortia, this will include pace-of-change policy. The detail of how resources are allocated will be a matter for the Board. However, they will be made on the basis of securing equivalent access to NHS services in all areas relative to the prospective burden of disease and disability.</p> <p>In addition, from 2013-14, Public Health England will allocate a ring-fenced health improvement budget to Local Authorities. The allocation formula for those funds will include a new ‘health premium’ to target public health resources towards those areas with the poorest health to reduce avoidable ill health and health inequality.</p> <p>Shadow allocations to GP Consortia and to Local Authorities for 2012-13 will be published in late 2011, and actual allocations for 2013-14 in late 2012.</p>
<p>Conclusion (6): The NHS spends around 4% of its funding on prevention, although individual commissioners’ spending on prevention is not readily identifiable.</p> <p>In the new NHS structure the Department’s intention is that the public health budget will be ring-fenced and Directors of Public Health will be responsible for how it is spent. The Department should develop a robust process so that there is transparency and accountability for this funding and should require Directors of Public Health to benchmark the costs and</p>	<p>The ring-fenced funding for each upper tier or unitary authority will be published, as will the allocation methodology.</p> <p>Public Health England will publish progress against the outcome indicators for each local authority. This will enable the population locally to hold their council to account for local performance, and for Directors of Public Health and colleagues to assess their performance against comparator authorities.</p> <p>The Department proposes to introduce a “health premium” to incentivise action to reduce health inequalities. The health premium will apply to the part of the local</p>

<p>effectiveness of their public health activity.</p>	<p>public health budget which is for health improvement. The premium will be simple and driven by a formula developed with key partners. It will therefore be a transparent system for rewarding local authorities for the progress they make.</p> <p>Public Health England will also publish evidence on what works, which will be available for Directors of Public Health to use when deciding on public health investments, and which will assist in benchmarking the effectiveness of interventions.</p> <p>The Department does not believe it is for central Government to require Directors of Public Health to benchmark the costs and effectiveness of their public health activity - this would be a local responsibility. However, the Government envisages that the proposed Health and Well-Being Boards will develop joint health and wellbeing strategies, based on the assessment of need outlined in the local joint strategic needs assessment. There will be new legal duties on commissioners to have regard to both the Joint Strategic Needs Assessment and the joint health and wellbeing strategy in discharging their functions. The Health and Wellbeing Board could invite Directors of Public Health to explain the rationale for particular public health interventions.</p>
<p>Conclusion (8) The Department is not clear why some areas are performing better than others, or of the extent of the NHS' contribution in tackling health inequalities.</p> <p>It is fundamental that there should be clear accountability within the new NHS structure to improve health outcomes in the populations with the highest levels of deprivation. The Department intends that each local authority will establish a Health and Wellbeing Board that will have power to hold commissioners to account. The Department should put in place an effective mechanism to hold the NHS Commissioning Board to account for tackling inequalities in access to healthcare and should seek assurance that local accountability arrangements are operating effectively. It should report back to the Committee in 2011 on these arrangements once it has finalised its plans.</p>	<p>The Secretary of State for Health will set the NHS Commissioning Board an annual mandate, which will cover the totality of what the Government expects from the Board including progress against the outcomes specified by the Secretary of State in the NHS Outcomes Framework, delivering improvements in choice and patient involvement, and tackling inequalities in access to and outcomes from healthcare.</p> <p>Work is under way to design the functions of the NHS Commissioning Board. Any decisions about the detailed delivery will be made by the Board after it has been established.</p>

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