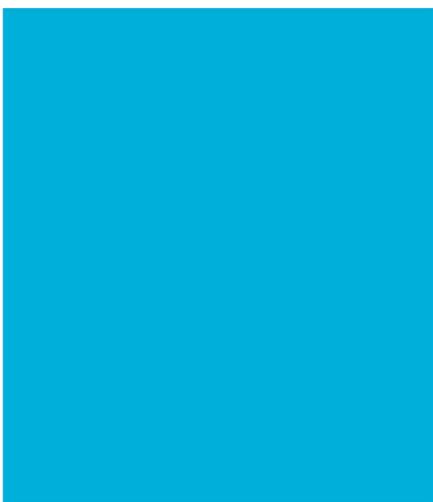
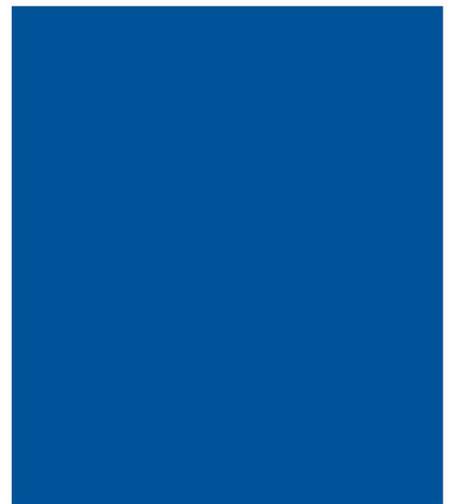
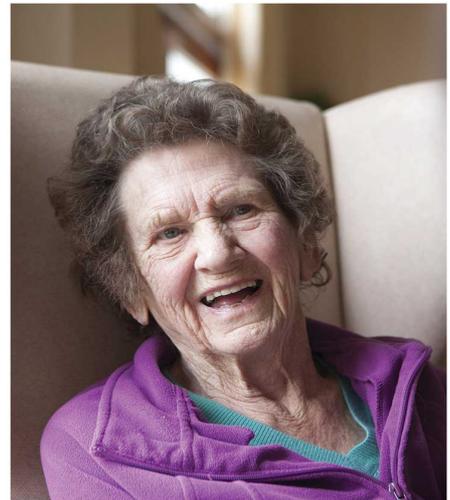




Commissioning Board
A special health authority

Annual Reports and Accounts 2011/12



**NHS Commissioning Board Authority
(Special Health Authority)**

Annual Report and Accounts 2011/12

Presented to Parliament pursuant to Paragraph 6 (3) Schedule 15 of the
National Health Service Act 2006

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NHS Commissioning Board Authority

Contents

Chair's and Chief Executive's foreword	4
Overview	6
About the Board Authority	8
Our management commentary	9
Remuneration report	11
Accounts	
Statement of accounting officer's responsibilities	17
Governance statement	18
Certificate and report of the Comptroller and Auditor General	25
Accounts	27

Chair's and Chief Executive's foreword

During the period of this report, the NHS has seen the start of unprecedented change in response to the NHS Health and Social Care Act 2012. The Government has set out a clear vision for a modern NHS driven by a new commissioning system with improved outcomes for patients at its heart. At its cornerstone are locally-led clinical commissioning groups (CCGs) to harness the knowledge and understanding of GPs to deliver real improvement for our patients.

The NHS Commissioning Board Authority (the Board Authority) has a key role to play in laying the firm foundations for this new system and in paving the way for the successful creation of the NHS Commissioning Board as an Executive Non Departmental Public Body (ENDPB) in October 2012, ahead of taking up its full statutory duties on 1 April 2013. During this time, all current NHS planning and delivery responsibilities remain with the Department of Health (DH), strategic health authorities and primary care trusts.

Creating this new system represents both a significant challenge for the NHS and its partners and a remarkable opportunity to innovate and achieve sustainable improvements in health care.

It is therefore important that our current work sets the right tone and behaviours that will achieve the change needed to deliver real benefits to patients. Throughout the past five months, the Board Authority has kick started an ambitious programme of work alongside our partners to put in place processes and systems to secure the safe, successful transition to the new system and to ensure that everything we do is firmly underpinned by the values and principles of the NHS Constitution.

Four fixed points will enable us to measure our success: the NHS Constitution; the NHS Outcomes Framework; delivering within budget and fulfilling our statutory duties, including driving equality and reducing health inequalities.

A number of key milestones have already been achieved. During this reporting period we appointed eight of nine national directors¹ who will provide the vision, leadership, experience and expertise to steer us through this important period of transition and beyond, and who will support clinicians in their emerging leadership roles.

Working closely with over 200 emerging CCGs, much work has been done to provide guidance and support to help them to be the best they can be in preparation for authorisation. Much work has also

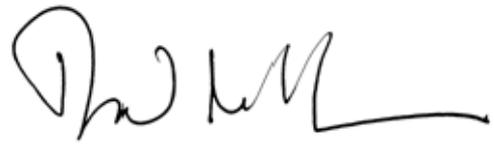
¹ Tim Kelsey was appointed National Director: Patients and Information in May 2012.

gone into planning for the launch of a full leadership development programme for clinical leaders and in starting to create clinical senates and networks across England.

Looking ahead there is still a great deal to do to build on the real changes and progress already happening across the country. The Board Authority's Business Plan outlines in detail what we aim to achieve over the coming months but this will only be possible with the continued support, involvement and commitment of colleagues and partners to deliver real improvement and outcomes for our patients.



Professor Malcolm Grant, Chair



Sir David Nicholson, Chief Executive

Overview

Who we are

The NHS Commissioning Board Special Health Authority was established in October 2011 under the NHS Act 2006. It is an interim body set up to undertake all the necessary preparatory work for the successful establishment of the NHS Commissioning Board and the new commissioning architecture. The Board Authority is based in Leeds, with a small office in London. It is anticipated that when fully established the Board will have four regional teams and a number of local teams nationwide.

What we do

The Board Authority will be held to account for its performance by the Secretary of State for Health against four strategic objectives, relating to:

- transferring power to local organisations;
- establishing the commissioning landscape;
- developing specific commissioning and financial management capabilities; and
- developing excellent relationships.

The Board Authority has translated these into four operational objectives and is working to ensure:

- appropriate infrastructure and resources are in place to enable the Board to operate successfully upon its establishment as an executive non departmental public body (ENDPB) in October 2012;
- the Board's role and functions are agreed;
- the design of the Board is completed and agreed, including its business model and sub-national structures and how it will discharge its functions; and
- the Board's relationships and how it will work with its partners are developed and agreed.

How we work

The Board Authority recognises it cannot achieve its objectives in isolation and is working with clinicians, managers and a wide range of stakeholders to deliver its aims.

The Board Authority is also committed to openness and transparency. Two board meetings have been held on the 9 December 2011 and 2 February 2012. These meetings were held in public and

were live-streamed over the internet. Papers were published on the Board Authority's website in advance of the meeting.

Further information on the Board Authority, including board papers and publications can be found on our website: www.commissioningboard.nhs.uk

Next steps

We are working towards becoming an ENDPB in October 2012. How we intend to achieve this is set out in our Business Plan published on 29 May 2012.

Equal opportunities and diversity

The Board Authority is committed to providing equal opportunities for all staff. Our aim is to ensure that all staff are aware that any form of discrimination against people because of their gender, marital status, race, age, sexual orientation, religion, disability, part-time or fixed-term working, is prohibited within the Board Authority, and to ensure that the Board Authority abides by the statutory regulations regarding human rights and discrimination.

Staff involvement and wellbeing

The Board Authority keeps all members of staff informed about organisational, management and policy issues through regular staff briefings.

As all staff other than the executive team are seconded from the Department of Health (DH) or NHS organisations, no sickness absence records are yet held by the Board Authority.

Personal data incidents

In the 2010/11 period of accounts, the Board Authority had no personal data incidents:

- a) there is no relevant audit information of which the Board Authority's auditors are unaware; and
- b) all possible steps have been taken to ensure that the Board Authority's auditors are aware of any relevant information.

2011/12 accounts

The accounts have been prepared and issued by the Board Authority, under directions given by the Secretary of State, with the approval of HM Treasury, in accordance with Schedule 15 (paragraph 6) of the NHS Act 2006. The accounts report the resources that have been used by the Board Authority to deliver its objectives. These annual accounts have been prepared in accordance with the guidance set out in the Government Financial Reporting Manual (FReM) 2011/12.

About the Board Authority

The board

The Board Authority is run by its board, which comprises a non-executive chair, a chief executive, two non-executive directors, and three executive directors:

Chair, Professor Malcolm Grant

Chief Executive, Sir David Nicholson

Non-Executive Director, Ciaran Devane

Non-Executive Director, Ed Smith

Chief Financial Officer, Paul Baumann

Chief Nursing Officer, Jane Cummings

National Medical Director, Sir Bruce Keogh

The executive team

Since its establishment as a special health authority, a number of key posts have been recruited. Eight of the nine² national directors, who will form the senior team of the Board were in post by April 2012.

The executive team comprises:

Chief Executive, Sir David Nicholson

Chief Financial Officer, Paul Baumann

Chief Nursing Officer, Jane Cummings

Chief Operating Officer and Deputy Chief Executive, Ian Dalton

National Director: Strategy, Jim Easton

National Director: Commissioning Development, Dame Barbara Hakin

National Medical Director, Sir Bruce Keogh

National Director: Policy, Bill McCarthy

National Director: HR, Jo-Anne Wass

² Tim Kelsey was appointed National Director: Patients and Information in May 2012.

Our management commentary

Background

The financial statements contained within this report have been prepared in accordance with the direction given by the Secretary of State for Health under the NHS Act 2006 and in a format instructed by the DH with the approval of HM Treasury.

Our accounts for 2011/12 have been prepared under International Financial Reporting Standards (IFRS) and comprise a Statement of Financial Position, Statement of Comprehensive Net Expenditure, a Statement of Cash Flows and a Statement of Changes in Taxpayers Equity, all with related notes.

The NHS Commissioning Board Authority (the Board Authority) was established on 31 October 2011 for the sole purpose of establishing the NHS Commissioning Board (the Board) and the supporting commissioning architecture outlined in the NHS Health and Social Care Act 2012. During the period from October 2011 to March 2012 the vast majority of the Board Authority's expenditure related to the reimbursement of seconded staff from DH and a number of NHS organisations.

Financial performance

We have been set stringent financial targets by the DH against which we are expected to deliver. For 2011/12 we were required to maintain our expenditure within certain key funding limits:

- revenue expenditure within a limit of £7.3m.

We are able to report that for 2011/12 the Board Authority maintained expenditure within this target. There were no post balance sheet events to report.

In addition to the above, we are required to comply with the Better Payments Practice Code, which requires non NHS trade creditors to be paid within 30 days or agreed terms. Our performance against this target for 2011/12 is as follows:

Non-NHS trade creditors	Number	Value £000
Total non-NHS trade invoices paid 2011/12	55	72
Total non-NHS trade invoices paid within target	49	71
Percentage of non-NHS bills paid within target	89%	99%

Auditor

The Comptroller and Auditor General is appointed by statute to audit the Board Authority. The audit fee for the period ended 31 March 2012 of £22,000 is for the audit of these accounts.

Accounting Officer's disclosure to the auditors

As far as the Accounting Officer is aware, there is no relevant audit information of which our auditors are unaware and the Accounting Officer has taken all steps he ought to have taken to make himself aware of any relevant audit information and to establish that our auditors are aware of that information.

Principal risks and uncertainty

Effective risk management is a cornerstone of good governance and our framework of procedures and internal controls contribute to mitigating and controlling the risks we face.

Our Annual Governance Statement, included at page 18, provides further details of our risk management strategy and procedures.

Remuneration report

The remuneration of the NHS Commissioning Board Authority's (the Board Authority) national directors is set by the Remuneration and Terms of Service Committee on behalf of the board in conjunction with the Department of Health (DH). The pay rates are in line with the Very Senior Manager (VSM) pay framework for Arm's Length Bodies (ALBs) and are subject to DH approval. The committee is chaired by the Chair of the board together with two non-executive directors.

This report for the period ended 31 March 2012 is produced by the board. The Remuneration and Terms of Service Committee has met twice during the period 1 April 2011 to 31 March 2012.

The Remuneration and Terms of Service Committee operates within a framework laid down by the DH. Its remit is to determine, on behalf of the Board Authority, the terms of service, remuneration and other benefits of the Chief Executive, national directors and such other posts as are specifically designated by the board to be within their purview, ensuring that relevant employees are fairly rewarded for their individual contributions to the organisation.

The committee also ensures that an effective system is in place and being properly administered to monitor and evaluate the performance of relevant employees, including such assessments as may be required to determine their level of remuneration.

The remuneration of national directors is reviewed annually by the Remuneration and Terms of Service Committee, taking account of national awards, central guidance and other relevant factors. The remuneration of non-executive directors is determined by the Secretary of State for Health.

The Board Authority, with the approval of the DH Remuneration Committee, operates the NHS VSM Pay Framework. This framework also provides access to an approved scheme for performance related payments which are paid in line with DH instructions.

In line with revised DH arrangements, no bonus payments were paid to the executive directors by the Board Authority during 2011/12.

Appointments

Non-executive directors are appointed by the Secretary of State for a term of four years.

The Chief Executive has a DH contract of employment.

All other national directors will have NHS VSM contracts of employment. There are no contractual clauses or other agreements for compensation in the event of early termination of office other than those provided by statutory requirements.

Emoluments of board members

The remuneration relating to all directors in post during 2011/12 is detailed in the tables below which identifies the salary, other payments and allowances and pension benefits applicable to both executives and non-executives. This information is subject to audit and has been audited by the Board Authority's external auditors.

Non-executive directors

The following table sets out details of payments made and appointment term details for the Chair and non-executive members:

Name and title	2011/12			Date of appointment	Appointment ends
	Salary in £5k bands £000	Bonus payments in £5k bands £000	Benefits in kind (rounded to the nearest £100) £000		
Malcolm Grant Chair	0-5 *	0	0	31 October 2011	30 October 2015
Ed Smith Non-Executive Director	10-15	0	0	9 November 2011	8 November 2015
Ciaran Devine Non-Executive Director	0-5	0	0	1 January 2012	31 December 2015

* The Chair of the Board Authority receives no direct remuneration for the appointment, but his employer, University College London (UCL) makes a recharge to the Board Authority for the time Professor Grant devotes to the appointment (limited to the advertised remuneration for the appointment). The Board Authority paid £27,083 to UCL in the period to 31 March 2012.

Chief Executive and national directors

The following table sets out details of payments made and contract term details for the Chief Executive and national directors, as appropriate. All benefits in kind relate to the provision of a lease car.

Name	Title	Salary in £5k bands	Benefits in kind	Notes
Sir David Nicholson	Chief Executive	35-40	0	Role commenced with the Board Authority on 31 October 2011. Remains on secondment from the DH for 40% of his time until April 2013 as he is also NHS Chief Executive. Proportionate salary recharged to the Board Authority from 1 November 2011
Ian Dalton	Chief Operating Officer/Deputy Chief Executive	15-20	0	Role commenced with the Board Authority on 3 February 2012. Remains on assignment from North East SHA for 40% of his time. Salary recharge accrued in 2011/12.
Professor Sir Bruce Keogh	National Medical Director	20-25	0	Role commenced with the Board Authority on 10 December 2011. Remains on secondment from the DH for 40% of his time until April 2013 because he is also the NHS Medical Director. His substantive employer is University College London Hospitals NHS Foundation Trust. Salary recharge accrued in 2011/12.
Paul Taylor	Interim Director of Finance	40-45	0	Appointed to the Board Authority on 8 December 2011 on secondment from the West Midlands SHA (WMSHA). Recharge from WMSHA from 1 January 2012. Services provided via a contract for service between WMSHA and Taylor Moore Associates Limited.
Dame Barbara Hakin	National Director: Commissioning Development	40-45	0	Role commenced with the Board Authority on 1 February 2012. Currently on assignment from East Midlands SHA (EMSHA) for 80% of her time. Proportionate salary recharged from EMSHA from 1 January 2012.
Bill McCarthy	National Director: Policy	40-45	0.8	Role commenced with the Board Authority on 3 February 2012. Currently on assignment for all of his time from Yorkshire and the Humber SHA (Y&HSHA). Salary recharged by Y&HSHA from 1 January 2012.
Jim Easton	National Director: Strategy	25-30	0	Role commenced with the Board Authority on 3 February 2012. Currently on assignment from South Central SHA for 80% of his time. Salary recharge accrued in 2011/12.
Jo-Anne Wass	National Director: HR	5-10	0	Role commenced the Board Authority on 1 February 2012. Currently on assignment from North West SHA for 40% of her time. Salary recharge accrued in 2011/12.
Jane Cummings	Chief Nursing Officer	0-5	0	Role commenced with the Board Authority on 16 March 2012. Currently on assignment from the North West SHA for 40% of her time. Salary recharge accrued in 2011/12.

For 2011/12 there is a requirement for all public sector bodies to disclose the ratio of top to median staff pay as part of the Remuneration Report. The disclosure should include the banded total remuneration of the highest paid director, the median total remuneration of the staff and the pay multiple (ratio) between the two.

In 2011/12 the Board Authority staff were employed on a secondment basis. Many staff were seconded on a part-time basis and some national directors worked on a part-time basis for the Board Authority. It is therefore felt that it would not be appropriate to include this disclosure for 2011/12.

Pension benefits

The Chief Executive and national directors (with the exception of Paul Taylor) are members of either the Civil Service or NHS pension schemes.

The pension benefits of the Chief Executive and national directors are disclosed in the Annual Reports or websites of their host or substantive organisations' reports as follows:

Sir David Nicholson - The Department of Health

Jane Cummings – NHS North West

Ian Dalton – NHS North East

Jim Easton – NHS South Central

Dame Barbara Hakin – NHS East Midlands

Sir Bruce Keogh – The Department of Health

Bill McCarthy – NHS Yorkshire and the Humber

Jo-Anne Wass – NHS North West

As non-executive directors do not receive pensionable remuneration, there are no entries in respect of pensions for non-executive directors.



Sir David Nicholson
Chief Executive
NHS Commissioning Board Authority
28 June 2012

Financial Statements 2011/12

Statement of accounting officer's responsibilities

The Accounting Officer for the DH has appointed the Chief Executive of the NHS Commissioning Board Authority (the Board Authority) as the Accounting Officer. As Chief Executive and Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible, in accordance with the responsibilities set out in HM Treasury's *Managing Public Money* and as assigned to me in the Accounting Officer Memorandum.

Under the NHS Act 2006 and directions made thereunder by the Secretary of State with the approval of Treasury, we are required to prepare a statement of accounts for each financial year in the form, and on the basis, determined by the Secretary of State, with the approval of Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of our state of affairs at the year end and of its net resource outturn, recognised gains and losses and cash flows for the financial year. As Accounting Officer, I have responsibility for ensuring the preparation of our accounts and the transmission of them to the Comptroller and Auditor General.

In preparing the accounts, I am required to:

- observe the accounts direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclosed and explained any material departures in the financial statements; and
- prepare the financial statements on a going concern basis, given that the NHS Commissioning Board will be the successor body to the Board Authority.

My relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public funds and assets vested in the Board Authority, and for the keeping of proper records, are set out in *Managing Public Money* issued by the Treasury.

Governance statement

Scope of responsibilities

The NHS Commissioning Board Authority (the Board Authority) is a special health authority which has been established since 31 October 2011 to October 2012 (exact date to be determined) for the sole purpose of establishing the NHS Commissioning Board and the supporting commissioning architecture outlined in the NHS Health and Social Care Act 2012. The Board Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this responsibility the Board Authority is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions which includes ensuring that a sound system of internal control is maintained throughout the year and those arrangements are in place for the management of risk.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Board Authority is directed and controlled and the activities through which it accounts to, and engages with, the DH and the wider NHS community.

A significant element of this framework is the system of internal control, which is designed to manage risk to a reasonable level. It cannot eliminate all risks of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to:

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

The system of internal control was introduced for the start date of the Board Authority on 31 October 2011 and was fully established by the end of the financial year.

Our governance framework

The Board Authority operates within a governance framework which incorporates the following areas:

- Statutory Instruments and Directions which describe and govern our core operations, processes and structure;

- matters determined by the Board Authority's board which ensure that the organisation has appropriate decision-making process in place, including:
 - the protocol for meetings and reporting;
 - the delegation of decision-making powers, not reserved for the board, to committees, chief executive and executive directors;
 - the Standing Financial Instructions; and
 - the establishment of standing committees.
 - other management information which supports effective governance and operation; and
- the Board Authority complies with the requirements of the Corporate Governance Code in so far as they relate to public bodies, although its corporate governance is developing as the organisation develops.

Our board

Our board is responsible for ensuring that the governance framework is designed appropriately and operates effectively. The board comprises a non-executive chair, five other non-executive directors (two of which were appointed as at 31 March 2012), chief executive and three executive directors. The Chair and Chief Executive were appointed from the start of the Board Authority on 31 October 2011. Other directors were appointed during the year. The table below shows the number of meetings attended by board members during the 2011/12 financial year and also highlights their declared business interests.

Board members:

Board composition	Meetings attended	Register of interests
Non-Executive Chair: Professor Malcolm Grant	2 out of 2	President and Provost, UCL Board Member, UCL Partners Board Member, HEFCE Wife is a GP at the Victoria Medical Centre
Non-Executive Directors: Ed Smith	2 out of 2	Pro Chancellor and Chair of Council, University of Birmingham
Ciaran Devane	1 out of 1	Chief Executive, Macmillan Cancer Support Trustee, Makaton Charity
Chief Executive: Sir David Nicholson	2 out of 2	NHS Chief Executive Honorary Fellow, The Royal College of General Practitioners Honorary Fellow, The Royal College of Physicians Honorary Colonel, 306 Hospital Support Medical Regiment Senior Fellow, University of Birmingham, Health Service Management Wife is Chief Executive, Birmingham Children's Hospital
Executive Directors: Sir Bruce Keogh: National Medical Director	2 out of 2	Fellow Royal College of Surgeons in England Previous Member of Council Fellow Royal College of Surgeons of Edinburgh King James 1V Professor Honorary Fellow Royal College of Surgeons in Ireland Honorary Fellow American College of Surgeons Honorary Fellow Royal College of Physicians (London) Honorary Fellow Royal College of Anaesthetists Honorary Fellow Royal College of General Practitioners Honorary Member and past Secretary General, European Association for Cardio-Thoracic Surgery Member and past president, Society for Cardio-Thoracic Surgery in Great Britain and Ireland Honorary Member, British Society of Interventional Radiology Council, British Heart Foundation Vice-Patron, The Poppy Factory
Paul Taylor, Interim Director of Finance	2 out of 2	Director, Taylor Moore Associates Limited Director, Provex Solutions Limited Associate Director, Provex Consultancy Limited
Jane Cummings, Chief Nursing Officer	0 out of 0	Trustee, Over The Wall Charity

The substantive Chief Financial Officer (Paul Baumann) has been appointed and took up his responsibilities formally from 14 May 2012.

In addition the board is supported by six other national directors – five of whom were appointed before the end of the financial year – Bill McCarthy (National Director: Policy); Dame Barbara Hakin (National Director: Commissioning Development); Ian Dalton (Chief Operating Officer / Deputy Chief Executive); Jim Easton (National Director: Strategy); Jo-Anne Wass (National Director: Human Resources).

The Chief Executive and national directors have been appointed as designate Chief Executive and national directors of the NHS Commissioning Board when it is established in October 2012.

The Declarations of Interest of all the national directors are available on the Commissioning Board Authority's website (www.commissioningboard.nhs.uk)

Standing committees

To help facilitate the effective discharge of its responsibilities, the Board Authority has three standing committees.

Audit and Risk Management Committee

The Audit and Risk Management Committee is constituted as a non-executive committee of the Board Authority's board and will consist of three non-executive members, with attendance from the Chief Financial Officer, both internal and external audit and other officers as appropriate.

The committee has not yet met because of the shortfall in the number of appointed non-executive directors. External and internal auditors continue to liaise directly with the audit chair until the Audit and Risk Management Committee is fully constituted.

The committee will be responsible for providing the board with an independent and objective view of the adequacy and effectiveness of the Board Authority's assurance framework, including the framework of governance, risks, controls and related assurances.

Remuneration and Terms of Service Committee

The Remuneration and Terms of Service Committee is a non-executive committee of the Board Authority's board and currently comprises the chair and two non-executive members.

The committee is responsible for determining the terms of service, remuneration and other benefits, as laid down by the DH framework, for the chief executive, executive directors and other posts designated by the board as within their purview. It is also responsible for ensuring that effective systems are in place and are being properly administered to monitor and evaluate the performance of relevant employees and advising and overseeing contractual arrangements for relevant employees.

Committee meetings are formally recorded and the minutes are reported to the board.

The committee also produces an annual report which is submitted to the board

Remuneration and Terms of Service Committee	Meetings attended
<p>Members Malcolm Grant Ed Smith Ciaran Devane</p>	<p>2 out of 2 2 out of 2 2 out of 2</p>

Finance and Procurement Controls Committee

The Finance and Procurement Controls Committee is a devolved sub-committee of the board comprising of the chief executive, a number of national directors, and the chair of the Audit Committee.

The committee is responsible for approving applications for spending in accordance with the Government's Efficiency Controls, and to determine when DH and Cabinet Office approvals are required for expenditure.

Committee meetings are formally recorded and the minutes are reported to the board. The committee was formally established on 13 April 2012 and so there were no meetings during 2011/12.

The full terms of reference for all of these committees can be found in the Board Authority's Ways of Working (including standing orders).

Performance of the board and its committees

Management of the organisation

Other than those matters reserved for the board as set out in the Corporate Governance Framework, responsibility for the management of the organisation is delegated to the chief executive who is the accounting officer. The chief executive is supported by a leadership team of executive and national directors as described above.

Our sponsorship arrangements

The Board Authority manages a complex range of activities. Accountability arrangements with the DH comprise an overall senior departmental sponsor, with individual sponsors providing policy direction for each core service stream. A clear on-going accountability framework is in place, which

includes formal reviews with senior sponsors. Strategic, policy and operational issues are reviewed alongside the corporate risk register and the latest financial position. Additionally, regular scheduled meetings are held with individual service sponsors.

Elements of the governance, assurance risk and control framework

The Board Authority is a time limited and young organisation. At the end of the year the non-executive directors were the only substantive members of staff. Other members have been seconded from the DH, strategic health authorities (SHAs), primary care trusts (PCTs) and NHS trusts. It operates its own bank account and keeps separate books, but is assisted in doing this by the NHS Business Services Authority (NHS BSA). Much reliance on systems of internal control derives from using NHS BSA systems, together with the Board Authority's internal budgetary and management control systems. During 2011/12 internal control systems were developing, and so the approach to risk and assurance was embodied in the programme management approach which drives the Board Authority forward capturing risks, mitigations, and checkpoints. This system of programme management underpins the work of the Board Authority and is constantly reviewed and updated.

Risk

During 2011/12 a risk register has been developed and regularly reviewed by both the board and the Board Authority's directors.

The leadership team owns the risk register which highlights the key risks to the Board Authority as a whole and reviews this register on a quarterly basis.

Audit and Risk Management Committee assurance

The Audit and Risk Management Committee has yet to meet because of the numbers of non-executive directors available. However, the external and internal auditors have access to the Audit Committee chair and the board has maintained oversight of relevant audit and risk matters to date. The committee will schedule formal meetings as soon as another non-executive is appointed.

Complaints

We take complaints seriously and believe in the value of learning from the complaints which are made about our staff and services to make improvements for our customers. No complaints were received during 2011/12 about the Board Authority.

Review of effectiveness

The Board Authority was established on 31 October 2011 and is a relatively small organisation mostly staffed by secondees from the NHS and DH. The systems of internal control are of a scale that are appropriate to an organisation at this stage of its development.

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. Normally the head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the Assurance Framework and on the controls reviewed as part of the risk based internal audit work. The head of internal audit has only recently been appointed and has undertaken a review of the governance arrangements of the Board Authority, which has informed this statement. He reviewed the arrangements for governance and risk management. Additionally the interim director of finance has assured me that there is a generally sound system of internal control, designed to meet the Board Authority's objectives, and that controls are generally being applied consistently.

Executive directors and national directors within the Board Authority who have responsibility for the development and maintenance of the system of internal control within their service area, provide me with assurance that internal controls have remained in place during the year; financial information for their service is to the best of their knowledge correct and there is no material information of which they are aware that I have not also been made aware of and reflected as necessary in the financial statements and their disclosures.

Conclusion

While recognising the developmental and time limited nature of the Board Authority, I have not identified any significant governance issues during the five months of the Board Authority's operation in 2011/12 and my review confirms that the Board Authority has a generally sound system of internal control that supports the achievement of its policies, aims and objectives.



Sir David Nicholson
Chief Executive
NHS Commissioning Board Authority
28 June 2012

The certificate and report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the NHS Commissioning Board Authority for the period ended 31 March 2012 under the National Health Service Act 2006. These comprise the Statement of Comprehensive Net Expenditure the Statement of Financial Position, the Statement of Cash Flows, 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 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 National Health Service Act 2006. I conducted my audit under 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 NHS Commissioning Board Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the NHS Commissioning Board Authority; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report 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.

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 NHS Commissioning Board Authority's affairs as at 31 March 2012 and of its net expenditure for the period then ended; and
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and directions issued thereunder by the Secretary of State.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State's directions issued under the National Health Service Act 2006; and
- the information given in the Management Commentary for the financial period 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 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 Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
2 July 2012

Statement of comprehensive net expenditure for the period ended 31 March 2012

	Notes	2011/12
		£000
Staff costs	3.3	2,493
Non-staff costs	3.1	1,897
Less income	3.2	0
Net operating costs for the financial period		<u>4,390</u>
Total comprehensive net expenditure for the period		<u>4,390</u>

The notes on pages 31 to 43 form part of these accounts.

Statement of financial position at 31 March 2012

	Notes	31 March 2012 £000
Current assets		
Trade and other receivables	4.1	7
Cash and cash equivalents	4.3	<u>3,720</u>
Total current assets		<u>3,727</u>
Current liabilities		
Trade and other payables	4.2	<u>3,117</u>
Total current liabilities		<u>3,117</u>
Current assets less current liabilities		<u>610</u>
Taxpayers' equity		
General fund		<u>610</u>
Total taxpayers' equity:		<u>610</u>

The notes on pages 31 to 43 form part of these accounts.

The financial statements on pages 27 to 30 were approved by the Board Authority's board on 31 May 2012 and signed on its behalf by

Chief Executive:

Date: 28 June 2012



Statement of changes in taxpayers' equity for the period ended 31 March 2012

	General Fund £000	Total Reserves £000
Changes in taxpayers' equity for 2011/12		
Net operating cost for the period	(4,390)	(4,390)
Total recognised income and expense for 2011/12	(4,390)	(4,390)
Net Parliamentary funding	5,000	5,000
Balance at 31 March 2012	610	610

The notes on pages 31 to 43 form part of these accounts.

Statement of cash flows for the period ended 31 March 2012

	Notes	2011/12 £000
Cash flows from operating activities		
Net operating costs		(4,390)
Movement in working capital	5.1	<u>3,110</u>
Net cash (overflow) from operating activities		<u>(1,280)</u>
Cash flows from financing activities		
Net Parliamentary funding		<u>5,000</u>
Net financing		<u>5,000</u>
Net increase/decrease in cash and cash equivalents		3,720
Cash and cash equivalents at 31 March 2012	5.2	<u>3,720</u>

The notes on pages 31 to 43 form part of these accounts.

Notes to the accounts

1. Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual (FRoM) issued by HM Treasury. The accounting policies contained in the FRoM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where the FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Board Authority for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets at their value to the business by reference to current costs. This is in accordance with directions issued by the Secretary of State for Health and approved by Treasury. Special Health Authorities are not required to provide a reconciliation between current cost and historical cost surplus and deficits.

Acquisitions and discontinued operations

Activities are considered to be 'acquired' only if they are acquired from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one NHS body to another.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Board Authority's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, that are considered to be relevant. Actual results may differ from those estimates. The estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting for staff costs and remuneration

NHS Commissioning Board Authority (the Board Authority) and Department of Health (DH) staff have a role in establishing the NHS Commissioning Board (the Board). DH staff are accounted for in the DH Resource Account. Other staff costs are accounted for in these financial statements.

As set out in the Remuneration Report, the Chief Executive and directors costs charged to the Board Authority are based on the time spent working for the Board Authority.

1.2 Income and funding

The main source of funding for the Special Health Authority is Parliamentary grant from the DH from Request for Resources 1 and 2 within an approved cash limit, which is credited to the general fund. Parliamentary funding is recognised in the financial period in which it is received.

1.3 Taxation

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

1.4 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 three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

1.5 Losses and special payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way each individual case is handled.

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

1.6 Employee benefits

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees where their costs are charged to the Board Authority. The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

Retirement benefit costs

Past and present employees are covered by the provisions of the NHS pensions scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of

the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the Board Authority commits itself to the retirement, regardless of the method of payment.

1.7 Provisions

The Board Authority provides for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms.

1.8 Financial instruments

Financial assets

Financial assets are recognised on the Statement of Financial Position when the Board Authority 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 derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value

Financial assets are classified into the following categories: financial assets 'at fair value through profit and loss'; 'held to maturity investments'; 'available for sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the operating cost statement. The net gain or loss incorporates any interest earned on the financial asset.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to the operating cost statement on de-recognition.

Loans and receivables

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.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

The effective interest rate 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. At the Statement of Financial Position date, the Board Authority assesses whether any financial assets, other than those held at 'fair value through profit and loss' 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 has 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 Operating Cost Statement and the carrying amount of the asset is reduced directly, or through a provision for impairment of receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Operating Cost Statement to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities

Financial liabilities are recognised on the Statement of Financial Position when the Board Authority 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. Financial liabilities are derecognised when the liability has been discharged, that is, the liability has been paid or has expired.

Financial liabilities are initially recognised at fair value.

Financial liabilities are classified as either financial liabilities 'at fair value through profit and loss' or other financial liabilities.

Financial liabilities at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the Operating Cost Statement. The net gain or loss incorporates any interest earned on the financial asset.

Other financial liabilities

After initial recognition, all other 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.

2. Revenue resource limit	2011/12
	£000
Net operating costs for the financial period	4,390
Revenue resource limit *	7,300
Under/(over) spend against revenue resource limit	2,910

* This is the amount of resource allocated by the Department of Health

2.1 Under/(over)spend against cash limit	2011/12
	£000
Total charge to cash limit *	5,000
Cash limit	7,300
Under/(over) spend against cash limit	2,300

* This is the amount of cash drawn from the Department of Health

3. Non-staff costs2011/12
£000

The expenses of the Board Authority were as follows:

Non-executive members' remuneration	41
Establishment expenses	229
Premises and fixed plant	898
Auditors' remuneration: audit fees	32
Legal and professional fees	697
Total costs	1,897

3.1 Operating income

The Board Authority received no income during the period.

3.2 Staff numbers and related costs**Executive members and staff costs:**

	Total 2011/12 £000	Permanently employed £000	Other £000
Salaries and wages	2,493	0	2,493
Total	2,493	0	2,493

Salaries and wages costs relate to the cost (including social security and pension costs) of employees seconded from other NHS organisations and the Department of Health.

The average number of persons employed during the period:

	Total Number	Permanently Employed Number	Other Number
Total	55	0	55

The amount spent on staff benefits during the period totalled £Nil.

4. Receivables

	Current 31 March 2012 £000
Other receivables	7
Trade and other receivables	7

4.1 Trade payables and other current liabilities

	Current 31 March 2012 £000
Trade payables revenue	666
Accruals and deferred income	2,451
Trade and other payables	3,117

4.2 Cash and cash equivalents

	2011/12 £000
Balance at 31 October	0
Net change in the period	3,720
Balance at 31 March	3,720

Comprising:

	31 March 2012 £000
Held with the Government Banking Service	3,720
Commercial banks and cash in hand	0
Current investments	0
Cash and cash equivalents as in Statement of Financial Position	3,720
Bank overdraft	0
Cash and cash equivalents as in Statement of Cash Flows	3,720

4.3 Events after the reporting period

There have been no adjusting or non-adjusting events after the reporting period.

This annual report and accounts has been authorised for issue on the date the accounts were certified by the Comptroller and Auditor General.

5. Movements in working capital

	2011/12
	£000
(Increase)/decrease in receivables within 1 year	(7)
Increase/(decrease) in payables within 1 year	<u>3,117</u>
Total	<u>3,110</u>

5.1 Analysis of changes in net debt

	As at 31	Cash	As at 31
	October 2011	flows	March 2012
	£000	£000	£000
GBS cash at bank	0	3,720	3,720
Commercial cash at bank and in hand	0	0	0
Bank overdraft	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>0</u>	<u>3,720</u>	<u>3,720</u>

6. Related party transactions

The Board Authority is a body corporate established by order of the Secretary of State for Health. The DH is regarded as a related party. During the year the Board Authority had a number of material transactions with DH and with other entities for which the DH is regarded as the parent department including strategic health authorities, primary care trusts and NHS trusts.

7. Financial instruments**Financial risk management**

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. As the cash requirements of the Board Authority are met primarily through Parliamentary funding, financial instruments play a more limited role in creating 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 Board Authority's expected purchase and usage requirements and the Board Authority is therefore exposed to little credit, liquidity or market risk.

Currency risk

The Board Authority is principally a domestic organisation with the great majority of transactions,

assets and liabilities being in the UK and sterling based. The Board Authority has no overseas operations. The Board Authority therefore has low exposure to currency rate fluctuations.

Interest rate risk

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

Credit risk

Because the majority of the Board Authority's income comes from funds voted by Parliament and from other NHS bodies the Board Authority has low exposure to credit risk.

Liquidity risk

The Board Authority's net operating costs are financed from resources voted annually by Parliament. The Board Authority largely finances its capital expenditure from funds made available from Government under an agreed capital resource limit. The Board Authority is not, therefore, exposed to significant liquidity risks.

7.1 Financial assets

	At 'fair value through profit and loss'	Loans and receivables	Available for sale	Total
	£000	£000	£000	£000
Trade receivables	0	0	0	0
Other receivables	0	7	0	7
Cash at bank and in hand	0	3,720	0	3,720
Other financial assets	0	0	0	0
Total at 31 March 2012	0	3,727	0	3,727

7.2 Financial liabilities

	At 'fair value through profit and loss'	Other	Total
	£000	£000	£000
Trade payables	0	666	666
Other payables	0	0	0
Borrowings	0	0	0
Other financial liabilities	0	2,451	2,451
Total at 31 March 2012	0	3,117	3,117

7.3 Maturity of financial liabilities

	31 March 2012 £000
In one year or less	3,117
In more than one year but not more than five years	0
In more than five years	0
Total	3,117

7.4 Fair values

Fair values of financial assets and liabilities do not differ from the carrying amounts.

8. Intra-government balances

	Receivables amounts falling due within one year £000	Receivables amounts falling due after more than one year £000	Payables amounts falling due within one year £000	Payables amounts falling due after more than one year £000
Balances with other central government Bodies	7	0	2,276	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	0	0	80	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to Government	0	0	761	0
At 31 March 2012	7	0	3,117	0

9. Early adoption of IFRS's, amendments and interpretations

The Board Authority has not adopted any IFRS's, amendments or interpretations early.

IFRS's, amendments and interpretations in issue but not yet effective, or adopted

IAS 8, accounting policies, changes in accounting estimates and errors, require disclosures in respect of new IFRS's, amendments and interpretations that are, or will be applicable after the accounting period. There are a number of IFRS's, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period.

The following have not been adopted early by the Board Authority:

- IFRS 7 Financial Instruments: disclosures amendment to allow for better comparisons between financial statements. The effective date is for accounting periods beginning on or after 1 January 2013. Also an amendment to improve the disclosure requirements in relation to transferred financial assets which is effective for accounting periods beginning on or after 1 July 2011.
- IFRS 9 Financial Instruments: new standard intended to replace IAS39. The effective date is for accounting periods beginning on, or after 1 January 2015.
- IFRS 13 Fair Value Measurement IFRS 13 applies when other IFRS's require or permit fair value measurements. The new requirements are effective for accounting periods beginning on, or after 1 January 2013.
- IAS 1 Presentation of Financial Statements Amendment to the existing standard to improve disclosures to users of the accounts. The effective date is for accounting periods beginning on, or after 1 June 2012.
- IAS 19 Employee Benefits: the amendments will improve the recognition and disclosure requirements for defined benefit plans and modify the accounting for termination benefits. The new requirements are effective for accounting periods beginning on or after 1 January 2013.
- IAS 32 Offsetting Financial Assets and Financial Liabilities amendments to clarify the application of offsetting requirements. The amendments are effective for accounting periods beginning on, or after 1 January 2014.

None of these new or amended standards and interpretations are likely to be applicable or are anticipated to have future material impact on the financial statements of the Board Authority.

10. Other financial commitments

The Board Authority has entered into a contract relating to the provision of accounting services commencing on 29 March 2012 for a period of six years with a break clause after four years. The total cost of the contract for the initial four years is £61.2m. The NHS Commissioning Board will take over this contractual liability when it comes into existence in October 2012.

	2011/12
	£000
Amount payable within one year	15,300
Amount payable after one year but within five years	45,900
Amount payable after five years	0
Total	<u>61,200</u>



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