

NATIONAL HEALTH SERVICE ACT 2006

Summarised Accounts of Strategic Health Authorities, Primary Care Trusts and NHS Trusts for the year ended 31 March 2007 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 742 of 2006-2007)

Presented pursuant to NHS Act 2006 Schedule 15 s. 7 (6) (b)

NHS (England) Summarised Accounts 2006-2007

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NHS (England) Summarised Accounts 2006-2007

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Annual Report

Introduction

1 Section 232 of schedule 15 of the National Health Service Act 2006 requires NHS organisations in England to prepare annual accounts and to transmit them to the Department of Health. The accounts must be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales.

2 Section 232 of schedule 15 of the Act also requires the Secretary of State to prepare summarised accounts from the individual accounts of the bodies and for the Accounting Officer to sign these accounts. The accounts are prepared in such form as the Treasury may direct, and are transmitted to the Comptroller and Auditor General (C&AG). The Act requires the C&AG to examine, certify and report on the summarised accounts and permits him to examine the accounts of the individual bodies, any records relating to them and any report of the auditors on them.

3 The Act removed the requirement for the Accounting Officer to prepare summarised accounts for all the special health authorities, hence no summarised accounts have been prepared for the special health authorities.

4 The summarised accounts have been prepared from the accounts of the individual health bodies, for the year ended 31 March 2007, of

- the 10 Strategic Health Authorities (SHAs)
- the 152 Primary Care Trusts in England (PCTs). This summarised account also includes audited figures for pharmaceutical services produced by the Prescription Pricing Division of the NHS Business Services Authority.
- the 210 NHS Trusts in England

5 During the year the 28 SHAs merged to produce 10 new larger SHAs and 226 of the 303 PCTs merged to produce 75 new PCTs with 77 remaining unchanged. Where mergers occurred in-year, the accounts for the 12 month period have been produced by the bodies in existence at 31 March 2007 to include the accounting entries for the dissolved bodies.

6 These summarised accounts are based on audited figures submitted by the individual organisations. The analyses in this annual report are based on all the submissions received.

7 In the financial year 2006-2007, 27 trusts became NHS Foundation Trusts (FTs) on 1 May 2006 through to 1 March 2007. Subsequent to the year-end, three applicants became FTs on 1 April 2007, three on 1 May 2007, two on 1 June 2007, three on 1 July 2007 and three on 1 August 2007 with others expected with establishment dates throughout 2007-2008. FTs are not subject to direction by the Secretary of State for Health but they are subject to directions from the Independent Regulator of NHS Foundation Trusts (Monitor) with the approval of Treasury and are accountable to their local community. Under the Health and Social Care (Community Health and Standards) Act 2003, FTs lay their accounts individually before Parliament and a consolidated account is prepared by Monitor and laid before Parliament.

8 The NHS Trust summarised account includes the accounting entries for the 27 NHS Foundation Trusts that achieved FT status during the year for the period they were NHS Trusts.

9 As far as the Accounting Officer is aware, there is no relevant audit information of which the auditors of the NHS Summarised Accounts are unaware.

10 The Accounting Officer has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors of the NHS Summarised Accounts are aware of that information.

11 The following sections provide background information on each of the accounts.

Format of the accounts

- 12 The formats of the summarised accounts follow those of the underlying accounts.
- 13 The Operating Cost Statement format is used for SHAs and PCTs as they receive the majority of their income direct from government.
- 14 NHS Trusts receive their funding mainly from 'trading' activities so produce income and expenditure accounts.
- 15 NHS bodies with more than 250 employees should include disclosures on their policy in relation to disabled employees and a description of action taken to maintain or develop the provision of information to, and consultation with, employees. This should contain any relevant information regarding health, safety and welfare at work. Where applicable these disclosures are included in the Annual Reports of the individual organisations.

Remuneration Report

- 16 The Treasury Financial Reporting Manual requires disclosure of the remuneration and pension entitlements of the most senior managers of the organisation. As the summarised accounts of SHAs, PCTs and NHS Trusts are aggregates of the underlying accounts, it is not practicable or reasonable to include the details of senior managers of the individual bodies in this annual report.

Overall NHS Performance

- 17 In aggregate the 2006-2007 final accounts for PCTs, NHS Trusts and SHAs indicate that the NHS recorded a revenue resource under-spend of £515m (2005-2006: £547m over-spend) and a capital resource under-spend of £503m (2005-2006: £551m under-spend).

Strategic Health Authorities

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

Financial Duties of Strategic Health Authorities

- 19 SHAs have three main financial duties
- a To contain expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
 - b To contain cash spend within approved limits (a statutory duty).
 - c To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).

Overall Financial Performance of Strategic Health Authorities in 2006-2007

- 20 In 2006-2007, all 10 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. The SHAs reported a £962m under-spend against the revenue resource limit (2005-2006: £526m under-spend) and a £71m under-spend against the capital resource limit (2005-2006: £100m under-spend).

Better Payment Practice Code Strategic Health Authorities

21 The percentage of bills paid in compliance with the better payment practice code in 2006-2007 is as follows

Table 1

Compliance Level	Number of Strategic Health Authorities			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	0	0	3	3
Between 85% and 94.9%	5	7	6	4
Between 75% and 84.9%	4	0	1	2
Less than 75%	1	3	0	1
Total	10	10	10	10
Overall Performance 2006-2007	81.5%	82.5%	91.4%	89.6%

22 In 2005-2006 SHAs paid 86.5% of their non-NHS bills and 88.4% of their NHS bills by number and 90.1% non-NHS bills and 94.3% NHS bills by value within 30 days/ contracted terms. Performance in 2006-2007 is in the context of SHAs processing and paying over 160,000 invoices per annum. Currently all Strategic Health Authorities must meet a Better Payment Practice Code target of paying 95% of bills within contract terms or 30 days where no terms have been agreed.

23 The Department of Health works with poor performing SHAs to achieve and maintain a level of payment performance consistent with Government Accounting regulations and the Better Payment Practice Code.

Primary Care Trusts

24 PCTs first came into existence in April 2000. They were established under the National Health Service Act 1977 as amended by the Health Act 1999. PCTs are responsible for the commissioning of health care on behalf of their resident population. Some PCTs are also responsible for providing community services to their population.

25 In 2002-2003, PCTs took over the full range of commissioning activities, the majority of which were previously undertaken by Health Authorities. Also, commitments relating to financial recovery plan arrangements entered into by predecessor Health Authorities were devolved to PCTs.

Financial Duties of Primary Care Trusts

26 PCTs have four main financial duties

- a To contain expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
- b To contain cash spend within approved limits (a statutory duty).
- c To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).
- d PCTs that have a provider function are required to recover the full cost of those functions (not a statutory duty but an accounting requirement).

Overall Financial Performance of Primary Care Trusts in 2006-2007

27 In 2006-2007 PCTs reported a revenue resource limit over-spend of £370m (2005-2006: £492m over-spend).

28 PCTs reported an aggregate under-spend of £230m on the capital resource limit, compared to £166m in 2005-2006.

29 The 2006-2007 revenue position is made up of 109 PCTs reporting an aggregate under-spend of £266m (£124m in 2005-2006) and 42 PCTs reporting an aggregate over-spend of £636m (£616m in 2005-2006). One PCT reported a balanced position.

30 On capital, 139 PCTs reported an aggregate under-spend of £230m with five PCTs reporting an aggregate over-spend of £0.3m (the aggregate under-spend was £166m in 2005-2006). Eight PCTs reported neither an under nor over-spend. The five PCTs which reported a capital over-spend failed this statutory duty (six in 2005-2006).

31 In 2006-2007 there were 12 PCTs (2005-2006: 21 PCTs) with provider functions that did not fully recover the cost of functions from income provided by commissioners as required.

Better Payment Practice Code – Primary Care Trusts

32 The percentage of bills paid in compliance with the better payment practice code in 2006-2007 is as follows

Table 2

Compliance Level	Number of Primary Care Trusts			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	25	15	41	79
Between 85% and 94.9%	58	33	54	51
Between 75% and 84.9%	36	25	27	12
Between 65% and 74.9%	26	26	22	6
Between 55% and 64.9%	5	32	7	1
Less than 55%	2	21	1	3
Total	152	152	152	152
Overall Performance 2006-2007	84.4%	73.3%	86.2%	92.4%

33 In 2005-2006 PCTs paid 85.4% of their non-NHS bills and 78.7% of their NHS bills by number and 87.2% of non-NHS bills and 93.3% of NHS bills when measured by value within 30 days/contracted terms. The 2006-2007 performance is in the context of PCTs processing and paying over 4.2 million invoices per annum. Currently all Primary Care Trusts must meet a Better Payment Practice Code target of paying 95% of bills within contract terms or 30 days where no terms have been agreed.

34 SHAs monitor the performance of individual PCTs and work with poor performing PCTs to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.

NHS Trusts

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

Financial Duties of NHS Trusts

36 NHS Trusts have five main financial duties, which are

- a To ensure that revenue is not less than sufficient, taking one year with another, to meet outgoings properly chargeable to the revenue account. This is the prime financial duty for NHS Trusts (a statutory duty).

This is known as the break-even duty and NHS Trusts normally plan to meet this duty by achieving a balanced position on their income and expenditure account each and every year. However, the duty is to break-even 'taking one financial year with another'. This provides a degree of flexibility about the time-scale for matching income with those costs whose incidence is uneven, such as early retirement and clinical negligence, and when managing the recovery of an NHS Trust with serious financial difficulties.

This duty is assumed to have been met if a material cumulative deficit position (arising after 1 April 1997) on the income and expenditure account is recovered over a three year period (starting and including the year that the NHS Trust first goes into material cumulative deficit). A deficit is regarded as material if it exceeds more than 0.5% of total annual turnover.

Exceptionally, and with the express agreement of the relevant SHA, the recovery period can be extended to five years, (starting and including the year that the NHS Trust first goes into material cumulative deficit).

- b A duty to break-even each and every year (a departmental/regulatory duty).
- c NHS Trusts are required to absorb the cost of capital at a rate of 3.5% of average relevant net assets (3.5% in 2005-2006) (a departmental/regulatory duty).
- d To remain within the External Financing Limit (EFL) set for each NHS Trust by the Department of Health (a departmental/regulatory duty).
- e To remain within the Capital Resource Limit (CRL) set for each NHS Trust by the Department of Health (a departmental/regulatory duty).

Overall Financial Performance of NHS Trusts in 2006-2007

37 In 2006-2007 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £77m compared to a £581m deficit in 2005-2006.

38 The 2006-2007 position is made up of 168 NHS Trusts reporting an aggregate surplus of £204m (£114m in 2005-2006) and 40 NHS Trusts reporting an aggregate deficit of £281m (£696m in 2005-2006), two trusts reported a balanced position.

39 While 40 NHS Trusts reported a deficit in 2006-2007, 15 Trusts are in their 5th year, or more, of recovery in 2006-2007 and have therefore breached their statutory financial duty to break-even 'taking one financial year with another'. 31 NHS Trusts in their 4th year or more of recovery in 2007-2008 have agreed extended periods of recovery with their SHA.

40 39 NHS Trusts out of the 210 were identified by the Department of Health as having significant financial difficulties at the end of 2006-2007 compared to 66 in 2005-2006.

41 A Trust is assessed as having a significant financial difficulty if the in-year deficit exceeds the lower of £1 million or 1% of total annual income.

42 Table 3 summarises the performance of NHS Trusts against the three other financial duties.

Table 3¹

	Number	Percentage
Total NHS Trusts	210	100%
<i>NHS Trusts achieving targets</i>		
Capital Absorption Rate		
Total achieving 3.5% or more	76	41.5%
After adjusting for immaterial results ²	168	91.8%
External Financing Limit		
Total meeting limit	198	94.3%
After adjusting for de minimis overshoots ³	198	94.3%
Capital Resource Limit		
Total meeting limit	200	95.2%
After adjusting for de minimum overshoots ⁴	202	96.2%

43 Analysis of the 2006-2007 results show that

- a 40 (71 in 2005-2006) had an income and expenditure deficit – 19% of all NHS Trusts (30% in 2005-2006).
- b 15 statutory break-even duty failures (12 in 2005-2006).
- c 107 did not make a 3.5% return on capital (110 in 2005-2006 did not make a 3.5% return on capital) – 58% of all NHS Trusts (47% in 2005-2006).
- d 12 (15 in 2005-2006) overshot their EFL – 6% of all NHS Trusts (6% in 2005-2006).
- e 10 (6 in 2005-2006) overshot their CRL – 5% of all NHS Trusts (3% in 2005-2006).

44 When non-material failures are discounted

- a 39 (70 in 2005-2006) had an income and expenditure deficit (a deficit of more than 0.5% of total annual income) – 19% of all NHS Trusts (30% in 2005-2006).
- b 15 (20 in 2005-2006) did not make a 3.5% return on capital – 8% of all NHS Trusts (9% in 2005-2006).
- c 12 (7 in 2005-2006) overshot their EFL – 5.7% of all NHS Trusts (3% in 2005-2006).
- d 8 (5 in 2005-2006) overshot their CRL – 3.8% of all NHS Trusts (2% in 2005-2006).

45 The 27 NHS Trusts that achieved Foundation Trust status part way through the year had the opportunity to set their EFL and CRL control totals to match the charge against the EFL and CRL incurred during the part of the year that they were NHS Trusts.

46 The achievement of the capital cost absorption duty is an annual measure. As a result the NHS Trusts that achieved Foundation Trust status part way through the year did not achieve 3.5% and have been excluded from the cost absorption figures in Table 3.

¹ Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2006-2007 by Department of Health.

² A shortfall on the rate of return duty of less than 0.5% is treated as immaterial. The 27 Trusts that achieved Foundation Trust status in 2006-2007 has been excluded from the Cost Absorption Rate analysis.

³ An EFL overshoot of less than £10,000 is treated as being within de minimis limits.

⁴ A CRL overshoot of less than £50,000 is treated as being within the de minimis limits..

Better Payment Practice Code – NHS Trusts

47 The percentage of bills paid in compliance with the better payment practice code in 2006-2007 is as follows

Table 4

Compliance Level	Number of Trusts			
	By Number of Bills		By Value of Bills	
	Non-NHS	NHS	Non-NHS	NHS
Between 95% and 100%	35	24	41	45
Between 85% and 94.9%	80	37	86	48
Between 75% and 84.9%	44	37	36	38
Between 65% and 74.9%	19	33	19	20
Between 55% and 64.9%	9	22	10	20
Less than 55%	23	57	18	39
Total	210	210	210	210
Overall Performance 2006-2007	79.1%	65.6%	81.0%	74.8%

48 In 2005-2006 NHS Trusts paid 77.5% of their non-NHS bills and 63.3% of their NHS bills by number and 79.5% of non-NHS bills and 72.3% of NHS bills when measured by value within 30 days/contracted terms. Performance in 2006-2007 is in the context of NHS Trusts processing and paying circa 9.3 million invoices per annum. Currently all NHS Trusts must meet a Better Payment Practice Code target of paying 95% of bills within contract terms or 30 days where no terms have been agreed.

49 SHAs monitor the performance of individual NHS Trusts and work with poor performing NHS Trusts to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.

Reasons for NHS bodies failing financial duties

50 The Department believes that NHS deficits have arisen for a variety of reasons and over a number of years. It is not possible to attribute deficits to any one factor taken in isolation. On the basis of reports by independent auditors, the PAC have agreed with our assessment that there is no single, simple cause of deficits, just as there are no single, simple solutions for eradicating them.

51 The Healthcare Commission Annual Healthcheck published on 18 October showed the NHS overall is improving. The NHS has come a long way over the last year to improve its finances – tackling deep-rooted problems and putting better transparency and rigour in the system. The NHS is now in surplus – it will be able to use this money to continue to improve services for patients in the context of a modern health service. This has allowed the NHS to end the year in its strongest financial position for many years, and to establish a firm and sustainable financial position for 2007-2008 and beyond.

52 We are pleased to see improvements in the overall numbers of NHS bodies demonstrating improved performance in their use of resources. Over and above this, we have seen more trusts gain foundation trust status – further highlighting good financial standing in the NHS. But there is room for further improvement. A small number of organisations continue to face significant financial challenges and we are working with SHAs to improve their financial performance.

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

53 Where analysis of an NHS body's financial performance leads the SHA to believe there is an underlying recurrent financial difficulty, the NHS body is required to prepare a recovery plan.

54 The appropriate SHA will agree the plan and monitor the results closely. This may involve monthly reporting to SHA, regular meetings with the NHS body's senior managers and the NHS body achieving specific milestones to ensure satisfactory progress is being made.

55 SHAs will focus on the NHS bodies which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans in place appear not to be producing the designed results.

Turnaround teams

56 In 2005-2006 the Department commissioned an independent baseline assessment by KPMG of 98 organisations with significant deficits, and in need of financial turnaround. Following this assessment the Department announced in December 2005 that teams of financial and management specialists would be sent into the minority of NHS organisations forecasting financial challenges to help them provide more cost-effective services for patients.

57 The turnaround teams remit was to support the NHS in identifying opportunities to deliver services with greater cost-effectiveness and to make financial savings and to help the local NHS ensure that the NHS delivers both its key targets and financial balance.

58 Dedicated Turnaround Directors were appointed by each Strategic Health Authority and a National Programme Office was set up within the Department in February 2006. Its remit was to centrally manage the turnaround process by providing independent reviewing, monitoring, and scrutiny. While the overall turnaround process was centrally driven and monitored by the National Programme Office, turnaround plans were developed and owned by the individual trusts which commissioned and funded the support they required. Although the turnaround programme formally ended on 31 March 2007, the bodies included within the programme have continued to make progress to recover their financial deficits.

David Nicholson
Accounting Officer

23 November 2007

Summarised Account of the Strategic Health Authorities

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

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare summarised accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of strategic health authorities at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of the strategic health authorities. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on Internal Control

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

Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring SHAs maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The extent to which SHAs had these processes in place during the financial year 2006-2007 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

Capacity to handle risk

SHAs provided effective leadership and management of risk processes within their organisations through board ownership and delegation of responsibilities to lead directors supported by governance, audit, risk management and other sub-committees. Additionally they have wider responsibilities for ensuring NHS trusts and PCTs have effective risk management arrangements in place.

SHAs made staff aware of their responsibilities through establishing clear policies and procedures and incorporating risk responsibilities into individuals' personal objectives related to the SHA business objectives. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

The risk and control framework

To help me fulfil my responsibilities as set out above, I appointed the Chief Executive of each SHA as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. Guidance has been issued to SHAs describing the principles to be applied to the identification, evaluation and control of risk. For 2006-2007 all SHAs were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process SHAs were required to identify gaps in controls and or assurance arrangements and provide evidence that these had been or were being addressed.

SHAs described their own Assurance Frameworks in their Statements on Internal Control (SICs) and provided comments on their risk management processes in planning and across all activities and how they had developed a risk management culture and shared information across the local health economy and with other agencies.

A major reorganisation saw a reduction in the number of SHAs from 28 to 10 from 1 July 2006 and as a result SHAs have had to develop new systems of internal control during 2006-2007. I made an assessment of the quality of the Assurance Frameworks against a number of criteria and by taking into consideration the SHA Head of Internal Audit opinions. This showed that at 31 March 2007 seven SHAs were providing evidence that a system of internal control was in place and three had made considerable progress in developing a system.

SHAs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. Where organisations did report gaps, they showed the following

Area	Distribution of gaps in control ¹	Distribution of gaps in assurance ¹
Financial controls	28%	29%
Organisational controls	39%	36%
Clinical controls	33%	36%
	100%	100% ¹

Review of effectiveness

I draw my major source of assurance on the SHAs' systems of internal control from SICs signed by Accountable Officers in support of the accounts for each SHA.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have gained further assurance by examining the SHAs' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, to determine whether they are fit for purpose. I have also identified any inconsistencies between each SHA SIC and

- the external audit opinion; and
- the SHA Head of Internal Audit opinion.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;
- other internal reviewers, for example clinical auditors;
- external reviewers; and
- audit committees, risk management committees, governance committees and other board committees.

Inconsistencies were identified in three SHAs' SICs where they had not disclosed controls and assurance gaps identified in the Assurance Frameworks. SHAs have been reminded of the need to make appropriate disclosures.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies, the national reports made by the National Audit Office on NHS issues, and reports made by the Healthcare Commission.

Significant control issues

No significant control issues were disclosed by any SHA.

¹ Percentages may not add to 100 because of rounding.

Conclusion

17 Following major reorganisation in 2006-2007, SHAs have had to develop new systems of internal controls. With seven SHAs assessed as having systems of internal control in place and three with systems in the latter stages of development there is a substantially sound structure and consistency across SHAs for the public assurances about how they are managing their risks.

David Nicholson
Accounting Officer

23 November 2007

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

I certify that I have audited the summarised financial statements of the Strategic Health Authorities for the year ended 31 March 2007 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Secretary of State's and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises an Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of Strategic Health Authorities; and Better Payment Practice Code for Strategic Health Authorities, is consistent with the financial statements.

I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Strategic Health Authorities, or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

Audit opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of affairs of the Strategic Health Authorities as at 31 March 2007 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises: Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of Strategic Health Authorities; and Better Payment Practice Code for Strategic Health Authorities, is consistent with the financial statements.

Audit 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.

Report

Please see my report on these financial statements at HC 129-I.

John Bourn
Comptroller and Auditor General

4 December 2007

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

Operating Cost Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Continuing operations			
Authority operating costs	2.1	4,126,608	4,011,533
Operating income	3	(146,727)	(172,032)
Net operating costs		<u>3,979,881</u>	<u>3,839,501</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2007

		2006-2007 £000	2005-2006 £000
Unrealised surplus on the revaluation of fixed assets	11	2,216	1,513
Net transfer to NHS bodies and Department of Health	12	(13,109)	(16,352)
Recognised (losses) for the financial year		<u>(10,893)</u>	<u>(14,839)</u>

The notes at pages A11 to A24 form part of this account

Balance Sheet as at 31 March 2007

	Notes	31 March 2007 £000	31 March 2006 £000
Fixed assets			
Intangible assets	4.1	380	266
Tangible assets	4.2	34,359	44,404
		34,739	44,670
Current assets			
Debtors	5	160,479	132,375
Cash at bank and in hand	14	21,978	537
		182,457	132,912
Creditors: amounts falling due within one year	6	(197,721)	(214,018)
Net current (liabilities)		(15,264)	(81,106)
Total assets less current liabilities		19,475	(36,436)
Creditors: amounts falling due after more than one year	7	(617)	(492)
Provisions for liabilities and charges	8	(50,838)	(15,524)
		(31,980)	(52,452)
Taxpayers' equity			
General Fund	12	(43,831)	(71,037)
Revaluation reserve	11	11,851	18,585
		(31,980)	(52,452)

The notes at pages A11 to A24 form part of this account

David Nicholson
Accounting Officer

23 November 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007	2005-2006
		£000	£000
Net cash (outflow) from operating activities	15	(3,987,882)	(3,834,620)
Capital expenditure and financial investment			
(Payments) to acquire fixed assets		(4,471)	(1,429)
Receipts from the sale of fixed assets		864	4,216
Net cash (outflow)/inflow from investing activities		(3,607)	2,787
Net cash (outflow) before financing		(3,991,489)	(3,831,833)
Analysis of financing			
Net Parliamentary Funding	12	4,013,113	3,831,948
Increase in cash	14	21,624	115

The notes at pages A11 to A24 form part of this account

Notes to the Account

1 Accounting policies

The Department of Health has directed that the financial statements of Strategic Health Authorities shall meet the accounting requirements of the Strategic Health Authority Manual for Accounts, which has been agreed with HM Treasury. Consequently, the underlying and summarised financial statements have been prepared in accordance with the 2006-2007 Manual for Accounts, issued by the department. The accounting policies contained in the manual follow UK generally accepted accounting practices for companies (UK GAAP) and HM Treasury's Government Financial Reporting Manual to the extent that they are meaningful and appropriate to the NHS.

1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs. This is in accordance with directions issued by HM Treasury.

Acquisitions and discontinued operations

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

1.2 Operating income

The main source of funding for strategic health authorities is allocations from the Department of Health within an approved cash limit, which is credited to the General Fund.

Operating income is income which relates directly to the operating activities of the strategic health authorities. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Request for Resources 1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.

1.3 Taxation

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

1.4 Capital charges

A charge, reflecting the cost of capital utilised by strategic health authorities, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2006-2007 was 3.5% (2005-2006: 3.5%) on all assets less liabilities, except for cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

1.5 Fixed assets

a Capitalisation

All assets falling into the following categories are capitalised

- i Intangible assets which can be valued, are capable of being used for more than one year and have a cost equal to or greater than £5,000.
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.

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

b Valuation

Intangible fixed assets

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

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

Tangible fixed assets

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

i Land and buildings

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five-yearly intervals in accordance with FRS15. Between valuations price indices appropriate to the category of asset are applied to arrive at the current value. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied as at 31 March 2005.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

To meet the underlying objectives established by the Department of Health the following accepted variations of the RICS Appraisal and Valuation Manual have been required

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
 - no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
 - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.

- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
 - iv All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.
- c Depreciation

Depreciation is charged on each individual tangible fixed asset as follows

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

All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

1.6 Losses and special payments

Losses and special payments are charged to the relevant functional headings on an accruals basis, including losses which would have been made good through insurance cover had strategic health authorities not been bearing their own risks (with insurance premiums then being included as normal relevant expenditure). However Note 19 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.7 Clinical negligence costs

From 1 April 2000, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all ELS cases unsettled at that date and from 1 April 2002 all CNST cases. Provisions for these are included in the accounts of the NHSLA. Although the NHSLA is administratively responsible for all cases from 1 April 2000, the legal liability remains with the strategic health authority. The value of provisions of the strategic health authority carried by the NHSLA is disclosed in Note 8.

1.8 Pensions costs

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

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employer's contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Services Authority Pensions Division website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employer's contributions are set at 14% of pensionable pay with effect from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

SHAs are directed by the Secretary of State to charge employer's pension costs contributions to operating expenses as and when they become due.

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

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

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

1.9 Leases

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. Rentals under operating leases are charged on a straight line basis over the lease term.

1.10 Foreign exchange

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

1.11 Research and development

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

1.12 Provisions

Strategic health authorities provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% (2005-2006 2.2%) in real terms.

1.13 SHA reorganisation

The 28 SHAs in existence on 1 April 2006 were reorganised to 10 new SHAs on 1 July 2006. This reorganisation has incurred costs in the current year but a further unquantified amount will be charged to expenditure in 2007-2008.

2.1 Authority operating costs

	Notes	2006-2007 £000	2005-2006 £000
<i>The expenses of the authorities were</i>			
Non-executive members' remuneration		1,155	1,675
Other staff costs		229,093	236,173
Premises and fixed plant		31,526	53,460
Establishment costs		16,803	26,036
Training costs		3,381,052	3,520,763
Transport and moveable plant		1,607	829
External contractors		16,275	20,764
Capital: Depreciation	4.2	2,628	2,789
Amortisation	4.1	95	196
Impairments	4.2	659	4
Capital charge interest		(1,867)	(1,672)
Loss/(profit) on disposal of fixed assets		362	(4)
		1,877	1,313
Auditors' remuneration – Audit fee ¹		3,865	2,294
Auditors' remuneration – Other fees		42	206
Interest payable		22	82
Unwinding of discount on provisions	8	126	173
Change in the discount rate		0	563
Redundancies		98,185	0
Miscellaneous ²		344,980	146,202
		4,126,608	4,011,533

1 The audit fee represents the cost for the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included within the audit fee disclosed within the Department of Health Resource Account.

2 The increase in miscellaneous spend is due to a change in the funding arrangements for projects such as the electronic staff record and NHS Direct. Funding for these projects has now been devolved to SHAs.

The Late Payment of Commercial Debts (Interest) Act 1998

£NIL was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2005-2006: £2,000). No compensation was paid to cover debt recovery costs under this legislation (2005-2006: £NIL).

Hire and operating rentals included in expenses

	2006-2007 £000	2005-2006 £000
Hire of plant and machinery	534	555
Other operating leases	12,555	11,065
	13,089	11,620

Executive members and staff costs

	2006-2007 Total £000	Permanently employed £000	Other £000	2005-2006 Total £000
Salaries and wages	183,902	150,412	33,490	195,778
Social security costs	15,455	14,897	558	16,579
Employer contributions to NHS Pensions Agency	20,789	19,974	815	23,369
Other pension costs	8,947	8,947	0	447
	229,093	194,230	34,863	236,173

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

	2006-2007 Total Number	Permanently employed Number	Other Number	2005-2006 Total Number
Total	3,949	3,281	668	4,596

Retirements due to ill-health

During the year, three employees retired due to ill health (2005-2006: 5). The additional pension liability for these staff is estimated at £347,000 (2005-2006: £300,000) (calculated on an average basis and borne by the NHS Pension Scheme).

Employee benefits

The amount spent on employee benefits during the year totalled £327,000 (2005-2006: £353,000).

2.2 Segmental reporting

	SHA Activities £000	WDC £000	Other £000	Total £000
Net operating costs	412,126	3,412,366	155,389	3,979,881
Net assets at 31 March 2007	(8,740)	(22,882)	(357)	(31,979)

Workforce Development Confederations (WDC) fund the education and training of staff throughout the NHS.

2.3 Performance against Revenue Resource Limit

	2006-2007 £000	2005-2006 £000
Net operating costs	3,979,881	3,839,501
Revenue resource limit	4,941,644	4,365,742
Underspend against revenue resource limit	961,763	526,241

3 Operating income

	2006-2007 £000	2005-2006 £000
Fees and charges	12,389	11,906
Other	134,338	160,126
	146,727	172,032

4 Fixed assets**4.1 Intangible fixed assets**

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

	Software Licences £000
Gross cost at 31 March 2006	613
Additions – purchased	209
Gross cost at 31 March 2007	822
Accumulated amortisation at 31 March 2006	347
Charged in year	95
Accumulated amortisation at 31 March 2007	442
Net book value at 31 March 2006	266
Net book value at 31 March 2007	380

4.2 Tangible fixed assets

	Total	Land	Buildings	Assets under exc construction dwellings or payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation 31 March 2006	51,271	15,464	24,803	0	323	170	8,384	2,127
Transfers (to) NHS bodies/ NHS Estates	(13,349)	(5,017)	(8,164)	0	0	0	(168)	0
Additions - purchased	4,526	0	33	124	0	0	1,973	2,396
Reclassification	0	0	(32)	(3)	0	0	0	35
Indexation	2,429	789	1,587	0	1	4	0	48
Other in-year revaluation	(41)	5	(46)	0	0	0	0	0
Disposals	(1,058)	0	(161)	0	(20)	0	(763)	(114)
Gross cost at 31 March 2007	43,778	11,241	18,020	121	304	174	9,426	4,492
Accumulated depreciation at 31 March 2006	6,867	0	0	0	242	166	5,478	981
Transfers to NHS bodies	(241)	0	(73)	0	0	0	(168)	0
Charged in year	2,628	0	991	0	30	2	1,374	231
Indexation	21	0	5		1	4	0	11
Impairments	659	0	406	0	0	0	119	134
Other in year revaluation	151	0	151	0	0	0	0	0
Disposals	(666)	0	(7)	0	(14)	0	(555)	(90)
Accumulated depreciation at 31 March 2007	9,419	0	1,473	0	259	172	6,248	1,267
Net book value at 31 March 2006	44,404	15,464	24,803	0	81	4	2,906	1,146
Net book value at 31 March 2007	34,359	11,241	16,547	121	45	2	3,178	3,225

There were no dwellings in the reporting period.

The net book value of land and buildings at 31 March 2007 comprised

	2006-2007 £000	2005-2006 £000
Freehold	26,761	38,627
Long leasehold	719	582
Short leasehold	308	1,058
	27,788	40,267

No assets in 2006-2007 or 2005-2006 were held under finance leases or acquired under hire purchase agreements.

There was no depreciation charged to the operating cost statement in respect of assets held under finance leases and hire purchase contracts in 2006-2007 or 2005-2006.

5 Debtors

	2006-2007	2005-2006
	£000	£000
NHS Debtors	51,999	84,203
Prepayments	67,874	18,498
Accrued income	1,385	1,592
Provision for irrecoverable debts	(274)	(133)
Capital debtors	0	834
Other debtors	39,495	27,381
	160,479	132,375

6 Creditors: Amounts falling due within one year

	2006-2007	2005-2006
	£000	£000
Bank overdrafts	0	183
NHS creditors	110,586	127,399
Non-NHS trade creditors	50,037	50,307
Payments received on account	100	318
Income tax and social security	4,496	3,838
Capital creditors	294	29
Rentals due under operating leases	0	28
Pensions – relating to former directors	3,446	237
– relating to other staff	5,073	1,437
Other creditors	23,689	30,242
	197,721	214,018

7 Creditors: Amounts falling due after more than one year

	2006-2007	2005-2006
	£000	£000
Pensions relating to former directors	0	19
Pensions relating to other staff	384	473
Other	233	0
	617	492

8 Provisions for liabilities and charges

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Restruct- uring £000	Other £000	Total £000
At 31 March 2006	2,341	7,181	1,691	1,365	2,946	15,524
Arising during the year	2,849	5,176	4,074	22,958	12,194	47,251
Utilised during the year	(380)	(1,063)	(546)	(7,312)	(2,115)	(11,416)
Reversal unused	0	(177)	(362)	0	(108)	(647)
Unwinding of discount	45	86	0	0	(5)	126
At 31 March 2007	4,855	11,203	4,857	17,011	12,912	50,838

Expected timing of cashflows

Within one year	363	1,323	2,638	16,435	12,521	33,280
Within 1 to 5 years	1,268	1,997	2,200	33	391	5,889
Over 5 years	3,224	7,883	19	543	0	11,669

£817,236,000 is included in the accounts of the NHSLA for ELS liabilities in strategic health authorities. The figure above represents provisions held in respect of formal legal claims only, and so is prepared on a different basis to those reported by health authorities in previous periods. The NHSLA accounts for provisions arising other than for current legal claims separately, determining these nationally on an actuarial basis. Certain of these liabilities would, in previous periods, have been included in strategic health authorities' gross clinical negligence provisions.

9 Finance lease obligations

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

10 Operating lease commitments

	2006-2007 £000	2005-2006 £000
<i>Land and buildings</i>		
Commitments under non-cancellable operating leases which expire		
Within one year	1,710	1,205
Between one and five years	3,133	5,484
After five years	11,145	11,452
	15,988	18,141
<i>Other leases</i>		
Commitments under non-cancellable operating leases which expire		
Within one year	369	467
Between one and five years	720	1,088
After five years	0	0
	1,089	1,555

11 Revaluation reserve

	2006-2007 £000	2005-2006 £000
Balance at 1 April	18,585	24,128
Revaluations and indexation	2,216	1,513
Transfers to General Fund – realised elements	(8,950)	(7,056)
Balance at 31 March	11,851	18,585

12 General Fund

	2006-2007 £000	2005-2006 £000
Balance at 1 April	(71,037)	(52,516)
Net operating cost for the year	(3,979,881)	(3,839,501)
Net Parliamentary funding	4,013,113	3,831,948
Transfer to NHS bodies	(13,109)	(16,352)
Transfers from Revaluation Reserve	8,950	7,056
Capital charges interest	(1,867)	(1,672)
Balance at 31 March	(43,831)	(71,037)

13 Movements in working capital other than cash

	2006-2007 £000	2005-2006 £000
(Increase) in debtors	(28,938)	(28,833)
(Decrease)/increase in creditors	(16,254)	39,944
Net change in working capital other than cash	(45,192)	11,111

14 Analysis of changes in net debt

	As at 31 March 2006 £000	Cash flows £000	As at 31 March 2007 £000
Cash at OPG	523	21,445	21,968
Cash at commercial bank and in hand	14	(4)	10
Bank overdraft	(183)	183	0
	0	21,624	0
Debt due within one year	0	0	0
Debt due after one year	0	0	0
	354	21,624	21,978

15 Reconciliation of operating cost to operating cash flows

	Notes	2006-2007 £000	2005-2006 £000
Net operating cost		(3,979,881)	(3,839,501)
Adjustment for non-cash transactions		48,607	3,568
Adjustment for movements in working capital other than cash	13	(45,192)	11,111
Use of provisions	8	(11,416)	(9,798)
Net cash (outflow) from operating activities		(3,987,882)	(3,834,620)

16 Contingent liabilities

	31 March 2007 £000	31 March 2006 £000
Authorities reported contingent liabilities as follows		
Contingent liabilities	(7,499)	(4)
Amounts recoverable	0	0
	(7,499)	(4)

These contingent liabilities have not been accrued in this account due to uncertainty over the ultimate outcome. The liabilities are mainly for redundancies or early retirements following the restructuring of the strategic health authorities on 1 July 2006.

17 Capital commitments

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

	31 March 2007 £000	31 March 2006 £000
Contracted	534	0
Authorised but not contracted	290	67
	824	67

18 Other commitments

Strategic health authorities have not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2007 (2005-2006: £nil)

19 Losses and special payments

There were 45 cases of losses and special payments (2005-2006: 84 cases) totalling £513,000 (2005-2006: £897,000) approved during 2006-2007. There were no individual cases where the net payment exceeded £250,000 (2005-2006: no cases).

20 Related party transactions

Strategic health authorities are bodies corporate established by order of the Secretary of State for Health. The Department of Health is regarded as a controlling related party. During the year strategic health authorities had a significant number of material transactions with the Department and potentially with other entities for which the Department is regarded as the parent Department, i.e. all NHS Trusts, all NHS Foundation Trusts, all NHS agencies, all Primary Care Trusts and all special health authorities.

In addition strategic health authorities had a significant number of material transactions with other Government Departments and other central and local Government bodies.

Details of all the strategic health authorities' related party transactions are shown in the individual strategic health authority accounts.

21 Financial instruments

The strategic health authority summarised account includes the accounts of ten underlying NHS bodies. It is within the underlying accounts of these ten NHS bodies that detailed FRS 13 disclosures have been made. The following paragraphs provide an overview of the major financial risks for strategic health authorities and how they are managed at the individual level.

Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of strategic health authority activities and the way in which they are financed, the strategic health authorities are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. Strategic health authorities have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing strategic health authorities in undertaking their activities.

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The fair values of financial assets and financial liabilities for strategic health authorities approximates to their book values.

22 Post balance sheet events

There are no post balance sheet events to report. These accounts were authorised for issue on 10 December 2007.

23 Intra-government balances

	Debtors Amounts falling due within one year £000	Debtors Amounts falling due after more than one year £000	Creditors Amounts falling due within one year £000	Creditors Amounts falling due after more than one year £000
Balances with other central government bodies	41,422	0	49,305	0
Balances with local authorities	240	0	686	0
Balances with NHS Trusts	23,223	0	65,907	0
Balances with public corporations and trading funds	2,920	0	1,188	0
Balances with bodies external to government	92,675	0	80,635	617
At 31 March 2007	160,480	0	197,721	617
	Debtors Amounts falling due within one year £000	Debtors Amounts falling due after more than one year £000	Creditors Amounts falling due within one year £000	Creditors Amounts falling due after more than one year £000
Balances with other central government bodies	65,973	0	30,470	0
Balances with local authorities	3,658	0	560	0
Balances with NHS Trusts	57,240	0	98,912	0
Balances with public corporations and trading funds	642	0	407	32
Balances with bodies external to government	26,383	0	83,669	460
At 31 March 2006	153,896	0	214,018	492

Summarised Account of Primary Care Trusts

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

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare summarised accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of Primary Care Trusts at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of Primary Care Trusts. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on Internal Control

This statement is given in respect of the Summarised Account for National Health Service Primary Care Trusts (PCTs).

Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring PCTs maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The extent to which PCTs had these processes in place during the financial year 2006-2007 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

Capacity to handle risk

PCTs provided effective leadership and management of risk processes within their organisations in ways that varied with the organisations' management structures.

Some PCTs identified a lead director with overarching responsibility across all the organisation's activities, whereas others had opted for an approach whereby areas of responsibility were allocated across a number of directors. For example, the leadership responsibilities for clinical risks assigned to clinical directors and financial risks to the finance director. Some PCTs had appointed specialist risk managers to support the function.

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

PCTs made staff aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

The risk and control framework

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

The Department guidance describes the principles to be applied to the identification, evaluation and control of risk. For 2006-2007 all PCTs were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process PCTs were required to identify gaps in controls and or assurance arrangements and provide evidence that these had been or were being addressed.

PCTs described their own Assurance Frameworks in their Statements on Internal Control (SICs). They also provided a range of comments on their risk management processes in planning and across all activities, developing a risk management culture and how they share information across the local health economy and with other agencies.

A major reorganisation saw a reduction in the number of PCTs from 303 to 152 from 1 October 2006 and as a result the majority of PCTs have had to develop systems of internal control in 2006-2007. Strategic Health Authorities (SHAs) made an independent assessment of the quality and embedding of the PCT Assurance Frameworks against a number of criteria and this showed at 31 March 2007

- 146 (96%) of PCTs were providing evidence that a system of internal control was in place;
- five (3%) of PCTs were not providing evidence that a sufficiently complete system of internal control was in place; and
- one PCT had a system of internal control in development because of reorganisation.

This represents a small change compared with the 2005-2006 position when 99% of PCTs provided evidence that a system of internal control was in place.

PCTs were also asked to provide an indication at a generic level where they had identified gaps in control or assurance. Where organisations did report gaps, they showed the following at 31 March

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	33%	24%
Organisational controls	45%	51%
Clinical controls	22%	25%
	100%	100%

SHAs performance managed the ongoing development of the PCTs Assurance Frameworks and the actions taken by the PCTs to address any significant gaps in control or assurance.

Review of effectiveness

I draw my major source of assurance on the PCT's systems of internal control from SICs, signed by Accountable Officers in support of the accounts for each PCT, that have been summarised by the SHAs.

I have gained further assurance from reports from SHA Chief Executives that confirm whether the PCTs' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, are fit for purpose. The SHA Chief Executives also report if there are inconsistencies between each PCT SIC and

- the external audit opinion;
- evidence from the SHA performance management reviews; and
- the PCT Head of Internal Audit opinion.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have carried out sample checks of the analysis of the PCTs' Assurance Frameworks and SICs prepared by the SHAs. I am satisfied that these reflect the underlying position.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;
- other internal reviewers, for example clinical auditors;
- external reviewers including the Healthcare Commission and external audit; and
- audit committees, risk management committees, governance committees and other board committees.

The SHA Chief Executives' reports recorded the following inconsistencies

- a small number of PCTs had not included some control and assurance gaps identified in their assurance frameworks in their SICs;
- a number of PCTs had not included gaps in compliance with Standards for Better Health in their SICs; and
- a small number of PCTs where routine performance management identified inconsistencies with the SIC.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies, and the national reports made by the National Audit Office on NHS issues. I am aware that the appointed auditors for a number of PCTs issued reports in the public interest in respect of the PCTs' financial situation.

My review also drew on the Auditors' Local Evaluation 2006-2007 assessments coordinated by the Audit Commission. This assesses how well NHS trusts and PCTs managed and used their financial resources. The assessment showed that 97 per cent of PCTs demonstrated adequate or more than adequate performance in their implementation of their systems of internal control, while three per cent failed to meet the minimum requirements. The main cause of this was a failure by the PCT to manage its significant business risks.

My review also noted that 43 PCTs' accounts were qualified on regularity for breaches of statutory duty. All of these were solely in respect of spending in excess of resource limits.

Significant control issues

My review of effectiveness concluded that there were few significant control issues excepting those related to PCTs' financial position and full compliance with Standards for Better Health. 55 PCTs disclosed a total of 72 significant control issues in their SICs and, of these, about 47 per cent were concerned with the financial position of the PCT and 36 per cent with compliance with Standards for Better Health. The Department has maintained a centrally managed turnaround programme to support a number of PCTs to ensure delivery of key targets and financial balance and PCTs have or are taking action to comply with Standards for Better Health.

Conclusion

The maintenance of Assurance Frameworks, with 96% being assessed by SHAs as having systems of internal control in place, has provided a robust structure and consistency across PCTs for the public assurances about how they are managing their risks.

David Nicholson CBE
Accounting Officer

23 November 2007

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

I certify that I have audited the summarised financial statements of Primary Care Trusts for the year ended 31 March 2007 under the National Health Service Act 2006. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. These responsibilities are set out in the Statement of Secretary of State's and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises an Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of Primary Care Trusts; and Better Payment Practice Code for Primary Care Trusts, is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or the Primary Care Trusts, or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinions

Audit opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of affairs of the Primary Care Trusts as at 31 March 2007 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises: Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of Primary Care Trusts; and Better Payment Practice Code for Primary Care Trusts, is consistent with the financial statements.

Audit 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.

Report

Please see my report on these financial statements at HC 129-I.

John Bourn
Comptroller and Auditor General

4 December 2007

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

Operating Cost Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Continuing operations			
Programme costs	2.1	69,898,585	67,782,030
Operating income	4	(2,871,565)	(2,818,349)
Net operating cost for the financial year		<u>67,027,020</u>	<u>64,963,681</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2007

		2006-2007 £000	2005-2006 £000
Unrealised surplus on the indexation and revaluation of fixed assets	13.2 – 13.4	312,238	156,977
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	13.3, 13.4	12,643	13,942
Net increase in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	13.1	78,859	41,611
Increase in the donated asset reserve and Government grant reserve due to transfer of assets from NHS bodies	13.3, 13.4	864	43
Fixed asset impairment losses	13.2	(19,290)	(29,937)
(Reductions) to other reserves	13.2 – 13.5	(83,982)	(1,233)
Recognised gains relating to the year		<u>301,332</u>	<u>181,403</u>
Prior period adjustments		(36,532)	0
Recognised gains for the financial year		<u>264,800</u>	<u>181,403</u>

The notes at pages B11 to B31 form part of this account.

Balance Sheet as at 31 March 2007

	Notes	31 March 2007 £000	Restated 31 March 2006 £000
Fixed assets			
Intangible assets	6.1	9,297	15,735
Tangible assets	6.2	6,420,811	5,981,118
Investments	6.5	26,446	18,596
		6,456,554	6,015,449
Current assets			
Stocks and work in progress	7	27,232	22,492
Debtors	8	1,408,084	1,136,167
Cash at bank and in hand	9	18,278	22,277
		1,453,594	1,180,936
Creditors: amounts falling due within one year	10.1	(5,515,464)	(5,335,231)
Net current (liabilities)		(4,061,870)	(4,154,295)
Total assets less current liabilities		2,394,684	1,861,154
Creditors: amounts falling due after more than one year	10.2	(191,662)	(109,916)
Provisions for liabilities and charges	11	(568,796)	(558,103)
		1,634,226	1,193,135
Taxpayers' equity			
General Fund	13.1	(682,904)	(904,289)
Revaluation reserve	13.2	2,174,348	1,966,809
Donated asset reserve	13.3	102,461	100,900
Government grant reserve	13.4	40,104	30,766
Other reserves	13.5	217	(1,051)
		1,634,226	1,193,135

The notes at pages B11 to B31 form part of this account.

David Nicholson CBE
Accounting Officer

23 November 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Net cash (outflow) from operating activities	14	(66,629,083)	(64,183,074)
Servicing of finance			
Interest received		837	292
Interest (paid)		(1,748)	(904)
Interest element of finance leases		(6,028)	(3,072)
		<hr/>	<hr/>
Net cash (outflow) from servicing of finance		(6,939)	(3,684)
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(3,818)	(6,948)
Receipts from sale of intangible fixed assets		0	127
(Payments) to acquire tangible fixed assets		(528,927)	(459,125)
Receipts from disposal of tangible fixed assets		175,800	139,756
(Payments) to acquire fixed asset investments		(8,007)	(6,889)
Receipts from disposal of fixed asset investments		180	2,944
		<hr/>	<hr/>
Net cash (outflow) from investing activities		(364,772)	(330,135)
Net cash (outflow) before financing		(67,000,794)	(64,516,893)
Financing			
Net Parliamentary funding		66,995,083	64,509,682
Capital grants received		6,274	16,484
Capital element of finance leases		(2,036)	(567)
Other capital receipts surrendered		0	(150)
Cash transfers from other NHS bodies		(310)	1,785
		<hr/>	<hr/>
Increase/(decrease) in cash in the period	9	(1,783)	10,341

The notes at pages B11 to B31 form part of this account.

Notes to the Account

1 Accounting policies

The Department of Health has directed that the financial statements of Primary Care Trusts shall meet the accounting requirements of the Primary Care Trust Manual for Accounts, which has been agreed with HM Treasury. Consequently, the underlying and summarised financial statements have been prepared in accordance with the 2006-2007 Manual for Accounts, issued by the department.

The accounting policies contained in the manual follow UK generally accepted accounting practices for companies (UK GAAP) and the Government Financial Reporting Manual (FRM) to the extent that they are meaningful and appropriate to the NHS.

1.1 Accounting convention

This account has been prepared under the historical cost convention, modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs. This is in accordance with directions issued by HM Treasury.

Acquisitions and discontinued operations

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

1.2 Operating income

The main source of funding for primary care trusts is allocations from the Department of Health within an approved cash limit, which is credited to the General Fund.

Operating income is income which relates directly to the operating activities of the primary care trusts. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Request for Resources 1 and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.

1.3 Taxation

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

1.4 Capital charges

A charge, reflecting the cost of capital utilised by primary care trusts, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2006-2007 was 3.5% (2005-2006 3.5%) on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

1.5 Fixed assets

a Capitalisation

All assets falling into the following categories are capitalised

- i Intangible assets which can be valued, are capable of being used for more than one year and have a cost equal to or greater than £5,000.

Intangible fixed assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

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

b Valuation

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

Land and buildings

Land and buildings are restated at current cost using professional valuations every five years and appropriate indices in intervening years. The buildings indexation is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building and land values reported in the Property Market Report published by the Valuation Office and included in the Manual for Accounts. Valuations are carried out by the District Valuers of the Inland Revenue Government Department at five-yearly intervals. A five-yearly revaluation was carried out as at 1 April 2005.

The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and have been applied as at 31 March 2005.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property.

In respect of non-operational properties, including surplus land, the valuations have been carried out at Open Market Value. The value of land for existing use purposes is assessed to Existing Use Value. Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

Additional Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

All adjustments arising from indexation and five-yearly revaluations are taken to the revaluation reserve. All impairments resulting from price changes are charged to the statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Fixed asset investments

Fixed asset investments are recorded at Market Value and revalued annually as at 31 March. Any increase in value is taken in full to the revaluation reserve. Any impairment in value is charged, initially, to the revaluation reserve to the extent that there is a balance in the reserve in respect of this asset, with the remainder then charged to operating expenditure.

Equipment

Equipment surplus to requirements is valued at net recoverable amount and assets held under finance leases are capitalised at the fair value of the asset. With those exceptions, equipment is valued at estimated net current replacement cost through annual uplift by the change in the value of the GDP deflator.

Assets in the course of construction

Assets in the course of construction are valued at current cost using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.

Residual interests in off-balance sheet Private Finance Initiative (PFI) properties

Residual interests in off-balance sheet PFI properties are included in tangible fixed assets under 'assets under construction and payments on account' where the PFI contract specifies the amount at which the asset will be transferred to the primary care trust at the end of the contract. The residual interest is built up during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance.

c Depreciation and amortisation

Depreciation is charged on a straight-line basis on each main class of fixed asset as follows

Freehold land and land and buildings surplus to requirements are not depreciated. Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the primary care trust, respectively.

Buildings, installations and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset.

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

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

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

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

d Second hand assets

From 2003-2004, the method for accounting for second hand assets on acquisition was changed from disclosing gross costs and accumulated depreciation to disclosing net acquisition costs.

e Donated assets

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

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

1.6 Stocks and work-in-progress

Stocks comprise raw materials and consumables and are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as Work-in-Progress.

1.7 Losses and special payments

Losses and special payments are charged to the relevant functional headings on an accruals basis, including losses which would have been made good through insurance cover had the primary care trust not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However note 19 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.8 Pension costs

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

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employer's contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Services Authority Pensions Division website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employer's contributions are set at 14% of pensionable pay with effect from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

PCTs are directed by the Secretary of State to charge employer's pension costs contributions to operating expenses as and when they become due.

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

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

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

1.9 Research and development

Expenditure on research is not capitalised. Expenditure on development in connection with a product or service which is to be supplied on a full cost recovery basis is capitalised if it meets those criteria specified in SSAP13. Other development expenditure is capitalised if it meets the criteria specified in the FReM which are adapted from SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Primary care trusts are unable to disclose the total amount of research and development expenditure charged to the Operating Cost Statement because some research and development activity cannot be separated from patient care activity. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.10 Foreign exchange

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

1.11 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by a primary care trust, the asset is recorded as a tangible fixed asset and a debt recorded to the lessor of the minimum lease payment discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Operating Costs Statement on a straight line basis over the terms of the lease.

1.12 Provisions

Primary care trusts provide for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms (2005-2006: 2.2%).

1.13 Clinical negligence costs

From 1 April 2002 the NHS Litigation Authority (NHSLA) took over full financial responsibility for all primary care trust clinical negligence claims unsettled at that date and is responsible for any new cases. Provisions for these are included in the accounts of the NHSLA and not the primary care trusts. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with primary care trusts.

The total value of clinical negligence provisions carried by the NHSLA on behalf of primary care trusts is disclosed at Note 11.

1.14 Non-clinical risk pooling

Most primary care trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. The schemes commenced on 1 April 1999. Both are risk pooling schemes under which primary care trusts pay an annual contribution to the NHSLA and in return receive assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses as and when they become due.

1.15 Third party assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since primary care trusts have no beneficial interest in them. Details of third party assets are given in Note 22 to the accounts.

1.16 Inclusion of Dental Services and Pharmaceutical Services Account Figures

Accounts are prepared for Pharmaceutical Services expenditure and for the residual liabilities of the General Dental Services by the NHS Business Services Authority. These two accounts are included within this primary care trust summarised account.

1.17 Private Finance Initiative (PFI) Schemes

The NHS follows HM Treasury's 'Technical Note 1 (Revised) How to Account for PFI transactions' which provides practical guidance for the application of the FRS 5 Amendment and the guidance 'Land and Buildings in PFI Schemes (version 2)'. PFI schemes are schemes under which premises and facilities are constructed and run by private sector organisations in return for annual payments from primary care trusts for the services provided at those premises or facilities.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense. Where primary care trusts have contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Operating Cost Statement. Where, at the end of a PFI contract, a property reverts to the primary care trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset. Where the balance of risks and rewards of ownership of the PFI property are borne by the primary care trusts, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge. Disclosures are included within Note 18.

1.18 Pooled budgets

A number of PCTs have entered into a pooled budget with Local Authorities. Under the arrangement funds are pooled under S31 of the Health Act 1999 for joint activities and a memorandum note provided in the underlying accounts of all the relevant bodies which provides details of the joint income and expenditure.

1.19 Prior period adjustment (PPA)

A number of providers have reported a prior period adjustment to recognise income for partially completed spells of treatment. Where providers have included the PPA, commissioners have also included a PPA by increasing NHS creditors and reducing the brought forward general fund balance. The total adjustment disclosed is £36,532,000.

1.20 NHS Reorganisation

As at 1 October 2006, 226 PCTs were reorganised to form 75 new PCTs, with 77 PCTs unaffected. This account has been prepared from the 12 month audited submissions of the 152 PCTs in existence at the year end, with merged PCTs including accounting entries for the former dissolved PCTs. This reorganisation has incurred costs in the current year but a further unquantified amount will be charged to expenditure in 2007-2008.

2.1 Programme costs

	Notes	2006-2007 £000	2005-2006 £000
Goods and services from NHS bodies		28,626,899	30,651,980
Goods and services from NHS Foundation Trusts		7,956,497	5,479,561
Staff costs		6,394,574	6,190,404
Board members	2.2	171,190	193,904
Capital: Depreciation	6.2	244,893	209,730
Amortisation	6.1	2,710	2,018
Impairments and reversals	6.1, 6.2	50,469	18,930
Capital charges interest		54,269	55,657
(Profit) on disposal	6.7	(34,299)	(28,557)
		318,042	257,778
Premises and fixed plant		600,214	509,586
Establishment expenses		382,486	403,357
Transport and moveable plant		42,047	41,108
Supplies and services – clinical		475,581	448,888
Supplies and services – general		152,845	150,141
Prescribing costs		7,590,004	7,463,658
GMS, PMS, APMS and PCTMS		6,937,544	6,772,754
Personal dental services (PDS) pilots		0	788,896
Contractor led GDS and PDS		2,131,360	0
Trust led GDS and PDS		49,105	0
General dental services		26,328	1,446,890
Non-GMS services from GPs		25,733	34,415
Pharmaceutical services		1,141,135	1,161,048
New Pharmacy Contract		224,491	0
General ophthalmic services		380,874	360,120
Expenditure on drugs action teams		292,852	236,349
Social care from independent providers		262,555	302,586
Purchase of healthcare from non-NHS bodies		4,685,111	4,091,792
Expenditure on NHS trust impairments		259,851	103,277
Interest payable		8,364	4,008
Other finance costs – unwinding of discount		10,544	10,171
Other finance costs – change in the discount rate		0	47,697
Auditor's remuneration: Audit Fees ¹		43,981	35,079
Auditor's remuneration: Other Fees		2,712	2,209
Redundancies		84,517	0
Miscellaneous		621,149	594,374
		69,898,585	67,782,030

1 The audit fee represents the cost of the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included within the audit fee disclosed within the Department of Health Resource Account.

The Late Payment of Commercial Debts (Interest) Act 1998

	2006-2007	2005-2006
	£000	£000
Amounts included within interest payable arising from claims made under this legislation	16	24
Compensation paid to cover debt recovery costs under this legislation	0	2

2.2 Board members' remuneration

	2006-2007	2005-2006
	£000	£000
PCT Board members' remuneration	144,575	160,119
Non-officer members' remuneration	26,615	33,785
Total remuneration	171,190	193,904

2.3 Staff costs

Executive members' remuneration and staff costs

	2006-2007			2005-2006
	Total	Permanently employed	Other	Total
	£000	£000	£000	£000
Salaries and wages	5,553,571	5,164,293	389,278	5,479,659
Social security costs	398,556	392,850	5,706	390,723
Employer contributions to NHSPA	664,806	656,924	7,882	641,225
Other pension costs	19,712	19,099	613	12,051
	6,636,645	6,233,166	403,479	6,523,658

The total staff costs will not agree with the figures in Note 2.1 as expenditure for executive directors is disclosed in board member costs in Note 2.1. An element of staff costs is also included in the GMS, etc spend on Note 2.1.

2.4 Employee benefits

The amount spent on employee benefits during the year totalled £959,000 (2005-2006: £1,121,000).

2.5 Retirements due to ill-health

During 2006-2007 there were 361 early retirements from PCTs on the grounds of ill-health (2005-2006: 396). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £18,294,000 (2005-2006: £20,927,000).

2.6 Average number of persons employed

	2006-2007			2005-2006
	Total	Permanently employed	Other	Total
	000	000	000	000
Medical and dental	5,954	5,325	629	6,046
Administration and estates	59,839	55,855	3,984	61,199
Healthcare assistants and other support staff	19,117	17,946	1,171	18,450
Nursing, midwifery and health visiting staff	75,900	72,875	3,025	78,207
Nursing, midwifery and health visiting learners	3,559	3,347	212	3,452
Scientific, therapeutic and technical staff	29,433	28,385	1,048	29,662
Social care staff	2,921	2,746	175	2,395
Other (including Ambulance staff)	2,948	2,603	345	4,068
	199,671	189,082	10,589	203,479

3 Healthcare and related services commissioned

3.1 Primary healthcare commissioned by primary care trusts

	2006-2007 £000	2005-2006 £000
GMS, PMS, APMS and PCTMS	6,943,367	6,786,611
Prescribing costs	7,593,010	7,466,319
Pharmaceutical services	1,147,483	1,162,429
New Pharmacy Contract	220,195	0
General dental services	26,328	1,447,713
PDS pilots	0	758,710
Contractor led GDS and PDS	2,097,745	0
Trust led GDS and PDS	80,633	0
General ophthalmic services	378,975	358,705
Department of Health initiative funding	4,282	9,543
Non-GMS services from GPs	24,907	40,794
Other	113,873	121,880
Total primary healthcare commissioned	18,630,798	18,152,704

3.2 Secondary healthcare commissioned by PCTs

	2006-2007 £000	2005-2006 £000
Learning difficulties	2,048,645	1,999,137
Mental illness	6,578,788	6,422,017
Maternity	1,616,777	1,671,974
General and acute	27,468,216	27,412,874
Accident and emergency	1,697,302	1,688,364
Community Health Services	5,583,591	5,408,481
Other	1,859,365	1,796,161
Total secondary healthcare commissioned	46,852,684	46,399,008
Impairments and depreciation for Trusts	251,974	94,227
Revenue grants to fund capital projects – GMS	20,398	45,223
Revenue grants to fund capital projects – LAs	71,306	43,337
Revenue grants to fund capital projects – private sector	42,108	21,001
Revenue grants to fund capital projects – other	22,879	0
Revenue grants to fund capital projects – GDS/PDS	5,092	0
Total Healthcare commissioned by primary care trusts	65,897,239	64,755,500
Social Care from independent providers	256,658	310,343

4 Operating income

Operating income analysed by activity, is as follows

	2006-2007 £000	2005-2006 £000
Fees and charges to external customers	104,438	105,520
Prescription charge income	433,531	426,856
Dental Services income	479,485	409,827
Income from Local Authorities	687,998	605,060
Income from NHS bodies and Department of Health	623,983	633,777
Other	542,130	637,309
Total	<u>2,871,565</u>	<u>2,818,349</u>

5 Performance against revenue resource limit

	2006-2007 £000	2005-2006 £000
Net operating costs	67,027,020	64,963,681
Adjustment for non discretionary expenditure	(1,055,681)	(2,196,937)
Net operating cost attributable to PCTs	65,971,339	62,766,744
Revenue resource limit	65,601,608	62,274,685
(Over)spend against revenue resource limit	<u>(369,731)</u>	<u>(492,059)</u>

6.1 Intangible fixed assets

	Total £000	Software Licences £000	Licences and trademarks £000	Development Expenditure £000
Gross cost at 31 March 2006	21,456	13,949	140	7,367
Transfers (to)/from NHS bodies	193	147	46	0
Additions – purchased	3,537	3,537	0	0
Additions – Government Granted	45	45	0	0
Reclassifications	210	210	0	0
Other revaluation	(40)	2	(42)	0
Disposals	(669)	(665)	(4)	0
Gross cost at 31 March 2007	24,732	17,225	140	7,367
Accumulated amortisation at 31 March 2006	5,721	5,550	96	75
Reclassifications	28	28	0	0
Impairments	7,198	23	0	7,175
Charged in year	2,710	2,686	0	24
Disposals	(222)	(222)	0	0
Accumulated amortisation at 31 March 2007	15,435	8,065	96	7,274
Net book value				
Purchased at 31 March 2006	15,684	8,348	44	7,292
Donated at 31 March 2006	1	1	0	0
Government Granted at 31 March 2006	50	50	0	0
Net book value at 31 March 2006	15,735	8,399	44	7,292
Net book value				
Purchased at 31 March 2007	9,217	9,080	44	93
Donated at 31 March 2007	1	1	0	0
Government Granted at 31 March 2007	79	79	0	0
Net book value at 31 March 2007	9,297	9,160	44	93

6.2 Tangible fixed assets

	Total	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2006	6,226,367	2,201,339	3,266,353	29,441	136,015	204,845	15,447	296,587	76,340
Transfers (to)/from NHS bodies	159,254	18,521	123,610	(61)	(827)	13,016	447	90	4,458
Additions – purchased	518,384	74,698	227,696	3,801	101,976	32,235	614	57,189	20,175
Additions – donated	3,978	0	1,381	0	1,513	640	66	80	298
Additions – Government granted	8,674	2,231	3,972	0	2,221	0	0	7	243
Reclassifications	1,509	393	112,510	859	(133,720)	10,514	84	8,068	2,801
Impairments	(19,290)	(1,995)	(17,292)	0	0	0	(3)	0	0
Indexation	412,971	124,293	270,516	2,479	7,481	5,834	437	0	1,931
Other in year revaluations	(96,395)	(51,645)	(44,192)	(21)	(653)	173	(54)	(15)	12
Disposals	(288,455)	(136,389)	(119,711)	(4,637)	(5,171)	(10,091)	(1,698)	(8,621)	(2,137)
Gross cost at 31 March 2007	6,926,997	2,231,446	3,824,843	31,861	108,835	257,166	15,340	353,385	104,121
Accumulated depreciation at 31 March 2006	245,249	0	0	0	0	97,085	11,037	106,789	30,338
Reclassifications	2,458	0	(215)	0	0	3,652	63	24	(1,066)
Impairments and reversals	43,271	8,807	34,200	133	0	107	0	23	1
Indexation	3,186	0	0	0	0	2,322	303	0	561
Other in year revaluation	1,157	0	1,074	11	0	127	(54)	(1)	0
Charged in year	244,893	0	152,838	933	0	24,401	1,328	56,165	9,228
Disposals	(34,028)	0	(15,244)	0	0	(7,703)	(1,533)	(7,760)	(1,788)
Accumulated depreciation at 31 March 2007	506,186	8,807	172,653	1,077	0	119,991	11,144	155,240	37,274
Net book value									
Purchased at 31 March 2006	5,849,503	2,184,671	3,164,684	29,430	131,258	100,754	4,045	189,587	45,074
Donated at 31 March 2006	100,899	14,551	77,494	11	1,319	6,377	253	16	878
Government granted at 31 March 2006	30,716	2,117	24,175	0	3,438	629	112	195	50
Net book value at 31 March 2006	5,981,118	2,201,339	3,266,353	29,441	136,015	107,760	4,410	189,798	46,002
Net book value									
Purchased at 31 March 2007	6,278,325	2,207,010	3,540,573	30,773	102,499	130,502	3,573	197,893	65,502
Donated at 31 March 2007	102,461	11,565	80,775	11	2,285	6,368	288	102	1,067
Government granted at 31 March 2007	40,025	4,064	30,842	0	4,051	305	335	150	278
Net book value at 31 March 2007	6,420,811	2,222,639	3,652,190	30,784	108,835	137,175	4,196	198,145	66,847

Net book value of assets held under finance leases and hire purchase contracts at the balance sheet date are as follows

158,795	3,568	132,675	1,170	0	17,562	0	130	3,690
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The total amount of depreciation charged in the operating cost statement in respect of assets held under finance leases and hire purchase contracts

6,800	0	4,199	84	0	2,267	0	70	180
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Hull PCT has reclassified items previously held in assets to long term debt and Herefordshire PCT has reclassified a prepayment to intangible fixed assets. This means that the reclassifications will not net to zero.

6.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2007 comprises

	Purchased	Donated	Government Granted	2006-2007 Total	2005-2006 Total
	£000	£000	£000	£000	£000
Freehold	5,568,962	90,614	32,369	5,691,945	5,341,343
Long leasehold	191,655	849	2,537	195,041	145,316
Short leasehold	18,691	0	0	18,691	10,479
	<u>5,779,308</u>	<u>91,463</u>	<u>34,906</u>	<u>5,905,677</u>	<u>5,497,138</u>

6.4 Net book value of assets held under finance leases and hire purchase contracts comprise

	2006-2007 £000	2005-2006 £000
Land	3,568	1,981
Buildings including dwellings	133,845	54,946
Assets under construction	0	32
Plant and machinery	17,562	6,140
Information technology	130	0
Furniture and fittings	3,690	369
	<u>158,795</u>	<u>63,468</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £6,800,000 (2005-2006: £2,724,000).

6.5 Investments

	Equity Shareholding £000	Loan stock £000	Total £000
Balance at 1 April 2006	4,516	14,080	18,596
Additions	1,300	6,710	8,010
Revaluations	28	17	45
Disposals	0	(205)	(205)
Balance at 31 March 2007	<u>5,844</u>	<u>20,602</u>	<u>26,446</u>

6.6 Summary of fixed assets

	Purchased	Donated	Government granted	2006-2007 Total	2005-2006 Total
	£000	£000	£000	£000	£000
Net book value					
Intangible fixed assets	9,217	1	79	9,297	8,560
Land	2,207,010	11,565	4,064	2,222,639	2,201,339
Buildings	3,540,573	80,775	30,842	3,652,190	3,266,353
Dwellings	30,773	11	0	30,784	29,441
Assets under construction	102,499	2,285	4,051	108,835	136,015
Plant and machinery	130,502	6,368	305	137,175	107,760
Transport equipment	3,573	288	335	4,196	4,410
Information technology	197,893	102	150	198,145	189,798
Furniture and fittings	65,502	1,067	278	66,847	46,002
Investments	26,446	0	0	26,446	18,596
	<u>6,313,988</u>	<u>102,462</u>	<u>40,104</u>	<u>6,456,554</u>	<u>6,008,274</u>

6.7 Profit and loss on disposal of fixed assets

	2006-2007 £000	2005-2006 £000
(Loss) on disposal of intangible fixed assets	0	(3)
Profit on disposal of land and buildings	38,039	31,640
(Loss) on disposal of land and buildings	(3,267)	(2,514)
Profit on disposal of plant and equipment	47	35
(Loss) on disposal of plant and equipment	(520)	(601)
	34,299	28,557

7 Stocks and work in progress

	2006-2007 £000	2005-2006 £000
Raw materials and consumables	18,489	16,070
Work in progress	87	92
Finished processed goods	8,656	6,330
	27,232	22,492

8 Debtors**8.1 Amounts falling due within one year**

	2006-2007 £000	Restated 2005-2006 £000
NHS debtors	383,659	391,500
Provision for irrecoverable debts	(21,669)	(15,822)
Prepayments and accrued income	287,441	169,761
Capital debtors	142,888	33,955
Other debtors	559,095	516,912
	1,351,414	1,096,306

8.2 Amounts falling due after more than one year

NHS debtors	3,953	4,859
Prepayments and accrued income	10,156	18,774
Provisions for irrecoverable debts	(16)	(6)
Capital debtors	20,114	269
Other debtors	22,463	15,965
	56,670	39,861
Total debtors	1,408,084	1,136,167

9 Analysis of changes in debt

	At 31 March 2006 £000	Non-cash changes £000	Change during the year £000	At 31 March 2007 £000
Cash at OPG	15,360	0	1,060	16,420
Cash at commercial banks and in hand	6,917	0	(5,059)	1,858
Bank overdrafts	(10,761)	0	2,216	(8,545)
	11,516	0	(1,783)	9,733
Finance leases due within one year	(4,040)	(2,713)	(659)	(7,412)
Finance leases due after one year	(76,487)	(84,891)	(5,401)	(166,779)
	(69,011)	(87,604)	(7,843)	(164,458)

10.1 Creditors: Amounts falling due within one year

	2006-2007 £000	Restated 2005-2006 £000
Bank overdrafts	8,545	10,761
NHS creditors	1,765,359	1,448,261
FHS contractors	1,650,926	1,725,317
Non-NHS trade creditors – revenue	768,429	819,196
Non-NHS trade creditors – capital	35,602	48,717
Tax and social security	0	117,395
Tax	39,794	0
Social security	35,651	0
Payments received on account	2,466	6,258
Obligations under finance leases and HP contracts	7,412	4,040
Other creditors	241,455	326,936
Accruals and deferred income	959,825	828,350
	5,515,464	5,335,231

10.2 Creditors: Amounts falling due after more than one year

NHS creditors	11,590	17,650
Obligations under finance leases and HP contracts	166,779	76,487
Other creditors	13,293	15,779
	191,662	109,916

10.3 Finance lease obligations

	2006-2007 £000	2005-2006 £000
<i>Leases payable</i>		
Within one year	7,412	4,040
Between one and five years	128,957	67,663
After five years	70,391	38,603
Finance charges allocated to future periods	(32,569)	(29,779)
	174,191	80,527

11 Provisions for liabilities and charges

	Pensions for former members £000	Pensions to other staff £000	Legal claims £000	Restruct- urings £000	Other £000	Total £000
1 April 2006	11,975	360,701	44,675	6,296	134,456	558,103
Transfers (to)/from other NHS bodies	(969)	5,861	1,578	180	(9,780)	(3,130)
Arising during the year	7,775	23,600	13,529	37,278	59,042	141,224
Utilised during the year	(2,101)	(41,537)	(11,025)	(4,118)	(51,464)	(110,245)
Reversed unused	(489)	(3,773)	(5,046)	(341)	(18,051)	(27,700)
Unwinding of discount	224	8,925	499	36	860	10,544
At 31 March 2007	16,415	353,777	44,210	39,331	115,063	568,796

Expected timing of cash flows

Within one year	5,843	36,678	15,045	34,351	56,590	148,507
One to five years	3,487	128,380	13,628	2,360	34,484	182,339
After five years	7,085	188,719	15,537	2,620	23,989	237,950

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of primary care trusts is £46,104,000 (2005-2006: £29,423,000).

12 Movements in working capital other than cash

	2006-2007 £000	2005-2006 £000
(Increase) in stocks	(4,740)	(2,672)
(Increase) in revenue debtors	(143,139)	(51,207)
Increase in revenue creditors	277,310	732,180
Transfer of balances to/(from) NHS bodies	(61,184)	1,787
Financing transactions	7,779	(22,756)
	76,026	657,332

13 Reserves**13.1 The movement on the General Fund in the year comprised**

	2006-2007 £000	Restated 2005-2006 £000
Balance at 1 April	(904,289)	(542,298)
Net operating costs for the year	(67,027,020)	(64,963,681)
Net Parliamentary funding	66,995,083	64,509,682
Transfer of realised profits	46,151	31,237
Non-cash items		
Capital charge interest	54,269	55,657
Transfers from other NHS bodies	78,859	41,611
Other movements	74,043	35
Balance at 31 March	(682,904)	(867,757)
Prior period adjustment	0	(36,532)
Revised balance at 31 March	(682,904)	(904,289)

13.2 The movement on the revaluation reserve in the year comprised

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	1,966,809	1,876,255
Impairments	(19,290)	(29,623)
Transfers from NHS bodies	50,948	0
Revaluation/indexation of fixed assets	305,905	154,811
Other movements	(83,873)	(3,418)
Transfer to General Fund: realised revaluation	(46,151)	(31,216)
Balance at 31 March	<u>2,174,348</u>	<u>1,966,809</u>

13.3 The movement on the donated asset reserve in the year comprised

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	100,900	98,195
Impairments	0	(314)
Transfers from NHS bodies	686	43
Other revaluation/indexation of fixed assets	4,208	1,549
Receipt of donated assets	3,924	4,248
Depreciation of donated assets	(4,723)	(4,327)
Transfer of realised profits	(1,515)	(21)
Other movements	(1,019)	1,527
Balance at 31 March	<u>102,461</u>	<u>100,900</u>

13.4 The movement on the Government grant reserve in the year comprised

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	30,766	21,550
Other revaluation/indexation of fixed assets	2,125	617
Transfer from NHS bodies	178	0
Receipt of Government granted assets	8,719	9,694
Depreciation of Government granted assets	(1,326)	(900)
Other movements	(358)	(195)
Balance at 31 March	<u>40,104</u>	<u>30,766</u>

13.5 The movement on other reserves in the year comprised

	2006-2007	2005-2006
	£000	£000
Balance at 1 April	(1,051)	(1,904)
Other movements	1,268	853
Balance at 31 March	<u>217</u>	<u>(1,051)</u>

14 Reconciliation of operating cost to operating cash flows

	Notes	2006-2007 £000	2005-2006 £000
Net operating cost for the year		(67,027,020)	(64,963,681)
Adjust for non-cash transactions		438,980	335,866
Adjust for movements in working capital other than cash	12	76,026	657,332
Use of provisions	11	(110,245)	(208,141)
Transfer from donated asset reserve	13.3	(6,238)	(4,327)
Transfer from Government grant reserve	13.4	(1,326)	(900)
Other		740	777
Net cash (outflow) from operating activities		<u>(66,629,083)</u>	<u>(64,183,074)</u>

15 Contingent liabilities

At 31 March 2007, there were net contingent liabilities of £79,623,000 (2005-2006: £128,782,000). Primary care trusts have provided for liabilities in Note 11 where they can reasonably estimate the likely value of potential claims received. Where these obligations cannot be reliably estimated a contingent liability has been recorded. These include potential liabilities for continuing care, PCT reorganisation, equal pay, LIFT and data challenges to providers.

16 Capital commitments

At 31 March 2007 the value of contracted capital commitments was £51,976,000 (2005-2006: £56,932,000).

17 Commitments under operating leases

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

	2006-2007 £000	2005-2006 £000
Hire of plant and machinery	9,202	7,571
Other operating leases	166,359	124,734
	<u>175,561</u>	<u>132,305</u>

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

	2006-2007		2005-2006	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	10,984	11,939	8,899	9,594
Between one and five years	22,464	22,855	23,188	24,658
After five years	132,012	1,138	91,203	40
	<u>165,460</u>	<u>35,932</u>	<u>123,290</u>	<u>34,292</u>

18 Commitments under PFI contracts

18.1 In this financial year, 30 PCTs reported off balance sheet PFI schemes over £1 million (2005-2006: 31 PCTs). The estimated capital value of these schemes over £1 million is £422.7 million (2005-2006: £348.8 million). The amount included within operating expenses for these schemes is £49.6 million (2005-2006: £28.0 million).

PCTs are committed to make the following payments under off-balance sheet PFI contracts during 2007-2008, analysed by the period during which the commitment expires:

	2006-2007	2005-2006
	£000	£000
Within one year	0	0
2 to 5 years (inclusive)	0	0
6 to 10 years (inclusive)	0	0
11 to 15 years (inclusive)	399	382
16 to 20 years (inclusive)	1,032	2,448
21 to 25 years (inclusive)	22,791	15,769
26 to 30 years (inclusive)	35,098	32,773
31 to 35 years (inclusive)	5,617	2,421
36 years and beyond	0	3,877
	64,937	57,670

18.2 Devon PCT has entered into an on-balance sheet PFI contract. The asset is treated as an asset of the PCT. The substance of the contract is the PCT has a finance lease and payments comprise an imputed finance lease charge and a service charge. The value of assets brought onto the balance sheet in respect of this scheme is £3.5 million (2005-2006: £2.0 million) and the amount included within operating expenses is £275,000 (2005-2006: £280,000).

	2006-2007	2005-2006
	£000	£000
Rentals due within one year	300	300
Rentals due within two to five years	1,321	1,259
Rentals due thereafter	6,939	7,300
	8,560	8,859
Less interest element	(3,729)	(3,938)
	4,831	4,921

19 Losses and special payments

There were 17,796 cases of losses totalling £4,244,000 and 1,412 cases of special payments totalling £2,735,000 approved during 2006-2007. Total losses and special payments in 2005-2006 were 11,123 cases totalling £6,940,000. There were two cases of loss or special payments over £250,000 in 2006-2007 (2005-2006: one case loss of cash £267,000).

Western Cheshire PCT reported an accounts payable fraud with a gross value of £339,100 detected in February 2007. The majority of the loss was recovered in 2007-2008 with a net loss of £4,000.

20 Related parties

Primary care trusts are bodies corporate established by order of the Secretary of State for Health.

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

All strategic health authorities, all NHS trusts, all NHS Foundation Trusts, all NHS agencies and all special health authorities.

In addition primary care trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.

Primary care trusts also had some transactions with a number of charitable funds, certain trustees for which are also members of the primary care trust board.

Details of all the primary care trusts' related party transactions are shown in the individual primary care trust accounts.

21 Financial Instruments

The PCT summarised account includes the accounts of 154 underlying NHS bodies. It is within the underlying accounts of these 154 NHS bodies that detailed FRS 13 disclosures have been made. The following paragraphs provide an overview of the major financial risks for PCTs and how they are managed at the individual level.

Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of PCT activities and the way in which they are financed, the PCTs are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. PCTs have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing PCTs in undertaking their activities.

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The fair values of financial assets and financial liabilities for PCTs approximates to their book values.

22 Third party assets

The balance of patients money held within the PCT bank accounts at the Balance Sheet date was £2,159,000 (31 March 2006: £2,886,000). This has been excluded from the Balance Sheet as they are not assets of the PCTs but are held on trust on behalf of patients.

23 Post balance sheet events

There are no post balance sheet events to report. These accounts were authorised for issue on 10 December 2007.

24 Intra-government balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central government bodies	73,061	3,544	169,947	37,912
Balances with local authorities	225,795	5,132	243,806	5,283
Balances with NHS Trusts	314,575	409	1,761,964	24,031
Balances with public corporations and trading funds	14,139	0	14,547	6
Balances with bodies external to government	723,844	47,585	3,325,200	124,430
At 31 March 2007	1,351,414	56,670	5,515,464	191,662
	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Restated Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central government bodies	66,792	6,278	184,142	3,228
Balances with local authorities	178,095	7,610	225,443	7,488
Balances with NHS Trusts	304,294	1,186	1,460,390	17,570
Balances with public corporations and trading funds	18,611	37	44,915	7,110
Balances with bodies external to government	535,874	24,565	3,420,341	74,520
At 31 March 2006	1,103,666	39,676	5,335,231	109,916

Summarised Account of NHS Trusts

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

Section 232 of schedule 15 of the National Health Service Act 2006 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of NHS Trusts at the year end and their income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

- observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to do so.

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of NHS Trusts. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in 'Government Accounting'.

Statement on Internal Control 2006-2007

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

Scope of responsibility

As Accounting Officer for the Department of Health Request for Resources 1, I acknowledge my personal overall responsibility for ensuring NHS trusts maintain an effective system of internal control that supports the achievement of their policies, aims and objectives and that they review the effectiveness of that system.

Purpose of the system of internal control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. The extent to which NHS trusts had these processes in place during the financial year 2006-2007 and up to the dates of the approval of their annual reports and accounts is set out in the analysis below.

Capacity to handle risk

NHS trusts provided effective leadership and management of risk processes within their organisations in ways that varied with the size and complexity of the organisations and management structures.

Some NHS trusts identified a lead director with overarching responsibility across all the organisation's activities, whereas others had opted for an approach whereby areas of responsibility were allocated across a number of directors. For example, the leadership responsibilities for clinical risks assigned to clinical directors and financial risks to the finance director. Some NHS trusts had appointed specialist risk managers to support the function.

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

NHS trusts made staff aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also provided training on risk, in some instances mandatory, with an emphasis placed on continuing professional development.

The risk and control framework

To help me fulfil my responsibilities set out above, I appointed the Chief Executive of each NHS trust as an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. Guidance has been issued to each Accountable Officer regarding corporate governance, risk management, internal control and on the Assurance Framework.

The guidance describes the principles to be applied to the identification, evaluation and control of risk. For 2006-2007 all NHS trusts were required to have in place Assurance Frameworks that set out the strategic and high level directorate objectives mapped to the key risks, the controls in place to manage them and to describe how the board has gained assurance that the controls are effective. As part of this process NHS trusts were required to identify gaps in controls and or assurance arrangements and provide evidence that these had been or were being addressed.

NHS trusts described their own Assurance Frameworks in their Statements on Internal Control (SICs). They also provided a range of comments on their risk management processes in planning and across all activities, developing a risk management culture and how they share information across the local health economy.

Strategic Health Authorities (SHAs) made an independent assessment of the quality of the NHS Trust Assurance Frameworks against a number of criteria and this showed that at 31 March 2007

172 (94%) of NHS trusts were providing evidence that a system of internal control was in place

10 (5%) of NHS trusts were not providing evidence that a sufficiently complete system of internal control was in place

one NHS Trust had not established an assurance framework

This represents a small change compared with the 2005-2006 position when 98% of NHS trusts provided evidence that system of internal control was in place.

NHS trusts were also asked to provide an indication at a generic level where they had identified gaps in control or assurance which nevertheless did not necessarily impact on the overall assessment of the control framework. Where organisations did report gaps, they showed the following

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	32%	29%
Organisational controls	45%	46%
Clinical controls	23%	25%
	100%	100%

SHAs performance managed the ongoing development of NHS trusts' Assurance Frameworks and the actions taken by the NHS trusts to address any significant gaps in control or assurance.

Review of effectiveness

I draw my major source of assurance on the NHS trusts' systems of internal control from SICs, signed by Accountable Officers in support of the accounts for each NHS Trust, that have been summarised by the SHAs.

The SICs are subject to scrutiny by auditors appointed by the Audit Commission who comment if the statement is misleading or inconsistent with other information of which they are aware from their audit.

I have gained further assurance from reports from SHA Chief Executives that confirm whether NHS trusts' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, are fit for purpose. The SHA Chief Executives also reported if there were inconsistencies between each NHS trust SIC and

- the external audit opinion;
- evidence from the SHA performance management reviews; and
- the opinion NHS Trust Head of Internal Audit opinion.

I have carried out sample checks of the analysis of the NHS trusts' Assurance Frameworks and SICs prepared by the SHAs. I am satisfied that these reflect the underlying position.

Accountable Officers gain their assurances from a range of sources. These include

- executive managers who have responsibility for the development and maintenance of the system of internal control;
- the work of their internal auditors, who work to the NHS internal audit standards;

- other internal reviewers, for example clinical auditors;
- external reviewers including the Healthcare Commission and external audit; and
- audit committees, risk management committees, governance committees and other board committees.

The SHA Chief Executives' reports recorded the following inconsistencies

- a small number of NHS trusts had not included some control and assurance gaps identified in their assurance frameworks in their SICs;
- a number of NHS trusts had not included gaps in compliance with Standards for Better Health in their SICs; and
- a small number of NHS trusts where routine performance management identified inconsistencies with the SIC.

I also gain assurance from reports made by the Audit Commission on the work of the auditors they have appointed at NHS bodies and the national reports made by the National Audit Office on NHS issues. I am aware that the appointed auditors for a number of NHS trusts issued reports in the public interest mainly in respect of the trusts' financial situation.

My review also drew on the Auditors' Local Evaluation 2006 – 2007 assessments coordinated by the Audit Commission. This assesses how well NHS trusts and Primary Care Trusts managed and used their financial resources. The assessment showed that 94 per cent of NHS trusts demonstrated adequate or more than adequate performance in their implementation of their systems of internal control, while six per cent failed to meet the minimum requirements. The main cause of this was failure by NHS Trusts to manage their significant business risks.

Significant control issues

My review of effectiveness concluded that there were few significant control issues excepting those related to trusts' financial position and full compliance with the Standards for Better Health. 78 NHS trusts disclosed a total of 127 significant control issues in their SICs and, of these, about 31 per cent were concerned with the financial position of the trust and 43 per cent with compliance with the Standards for Better Health. The Department has maintained a centrally managed programme to support a number of NHS trusts to ensure that they deliver key targets and financial balance and trusts have taken or are taking action to comply with the Standards for Better Health.

Conclusion

The maintenance of Assurance Frameworks with 94% of NHS trusts being assessed by SHAs as having systems of internal control in place has provided a robust structure and consistency across NHS trusts for the public assurances about how they are managing their risks.

David Nicholson CBE
Accounting Officer

23 November 2007

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

I certify that I have audited the summarised financial statements of NHS Trusts for the year ended 31 March 2007 under the National Health Service Act 2006. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and Auditor

The Accounting Officer, on behalf of the Secretary of State, is responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. These responsibilities are set out in the Statement of Secretary of State's and Accounting Officer's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether they have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises an Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of NHS Trusts; and Better Payment Practice Code for NHS Trusts, is consistent with the financial statements.

In addition, I report to you if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal Control reflects the Department's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the corporate governance procedures of either the Department or NHS Trusts, or their risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, and disclosures of evidence relevant to the amounts and disclosures included in the financial statements included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the circumstances of the NHS Trusts, consistently applied and adequately disclosed.

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

Audit opinion

In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 2006 and directions made thereunder by HM Treasury, of the state of affairs of the NHS Trusts as at 31 March 2007 and of the deficit, recognised gains and losses and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the National Health Service Act 2006 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises: Introduction; Format of the Accounts; Overall NHS Performance and Financial Duties and Performance of NHS Trusts; and Better Payment Practice Code for NHS Trusts, is consistent with the financial statements.

Report

Please see my report on these financial statements at HC 129-I.

John Bourn
Comptroller and Auditor General

4 December 2007

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

Income and Expenditure Account for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Continuing operations			
Operating activities			
Income from activities	2	31,518,298	31,856,942
Other operating income	3	3,659,198	4,110,533
Operating expenses	4.1	(34,502,759)	(35,683,250)
Operating surplus		674,737	284,225
Cost of fundamental reorganisation/restructuring		0	(3,500)
Profit on disposal of fixed assets	6	60,318	55,926
Surplus before interest		735,055	336,651
Interest receivable		82,233	69,009
Interest payable	7	(25,020)	(29,127)
Other finance costs – unwinding of discount	14	(9,193)	(9,367)
Other finance costs – change in discount rate on provisions		0	(41,498)
Surplus on ordinary activities		783,075	325,668
Public dividend capital dividends payable		(860,486)	907,107
Retained (deficit) for the year		(77,411)	(581,439)
Capital cost absorption rate	8	3.3%	3.5%

Statement of Total Recognised Gains and Losses for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Surplus on ordinary activities for the financial year		783,075	325,668
Fixed asset impairment losses	16.1 - 16.3	(136,685)	(274,917)
Unrealised surplus on fixed asset revaluations/indexation	16.1 - 16.3	1,601,613	579,185
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	74,412	89,459
Addition to other reserves	16.4	44,616	(738)
Total recognised gains for the financial year		2,367,031	718,657

The notes at pages C11 to C33 form part of this account

Balance Sheet as at 31 March 2007

	Notes	31 March 2007 £000	31 March 2006 £000
Fixed assets			
Intangible fixed assets	9	78,077	47,994
Tangible fixed assets	10.1	25,786,626	27,883,703
		25,864,703	27,931,697
Current assets			
Stocks and work in progress		422,124	490,852
Debtors – amounts falling due within one year	11.1	2,665,225	2,475,282
after more than one year	11.2	853,090	891,193
Investments	12	6,792	63
Cash at bank and in hand	19	143,784	112,443
		4,091,015	3,969,833
Creditors – amounts falling due within one year	13.1	(2,922,942)	(3,276,450)
		1,168,073	693,383
Net current assets			
		27,032,776	28,625,080
Total assets less current liabilities			
Creditors - amounts falling due after more than one year	13.2	(903,401)	(344,747)
Provisions for liabilities and charges	14	(575,797)	(704,840)
		25,553,578	27,575,493
Financed by			
<i>Taxpayers Equity</i>			
Public Dividend Capital	15	16,268,363	17,570,974
Revaluation reserve	16.1	8,594,766	9,375,173
Donated asset reserve	16.2	800,144	889,652
Government grant reserve	16.3	20,856	18,120
Other reserves	16.4	224,647	181,138
Income and expenditure reserve	16.5	(355,198)	(459,564)
		25,553,578	27,575,493

The notes at pages C11 to C33 form part of this account

David Nicholson CBE
Accounting Officer

23 November 2007

Cash Flow Statement for the year ended 31 March 2007

	Notes	2006-2007 £000	2005-2006 £000
Operating activities			
Net cash inflow from operating activities	17	1,555,448	1,272,393
Returns on investments and servicing of finance			
Interest received		80,517	65,853
Interest paid		(1,472)	(523)
Interest element of finance lease rental payments		(22,980)	(24,959)
Net cash inflow from returns on investments and servicing of finance		56,065	40,371
Capital expenditure			
(Payments) to acquire tangible fixed assets		(1,988,776)	(1,856,263)
Receipts from sale of tangible fixed assets		399,239	303,503
(Payments) to acquire intangible fixed assets		(37,584)	(13,225)
Receipts from sale of intangible fixed assets		20	32
Receipt from fixed asset investments		3	0
Net cash (outflow) from capital expenditure		(1,627,098)	(1,565,953)
Dividends paid		(841,002)	(906,999)
Net cash (outflow) before management of liquid resources and financing		(856,587)	(1,160,188)
Management of liquid resources			
(Payments) to acquire investments		(3,663,915)	(1,989,250)
Receipts from sale of investments		3,641,510	1,989,250
Net cash (outflow) from management of liquid resources		(22,405)	0
Net cash (outflow) before financing		(878,992)	(1,160,188)
Financing			
New Public Dividend Capital issued		2,004,426	1,765,461
Repayment of Public Dividend Capital		(1,751,929)	(654,364)
Loans received		775,910	120
Repayments of amounts borrowed		(485)	(19)
Other capital receipts		25,807	61,592
Capital element of finance lease rental payments		(2,698)	(2,453)
Cash transferred to Foundation Trusts		(135,897)	180
Net cash inflow from financing		915,134	1,170,517
Increase in cash	18	36,142	10,329

The notes at pages C11 to C33 form part of this account

Notes to the Account

1 Accounting policies

The Secretary of State for Health has directed that the financial statements of NHS Trusts shall meet the accounting requirements of the NHS Trust Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2006-2007 NHS Trust Manual for Accounts issued by the Department of Health. The accounting policies contained in the Manual follow UK generally accepted accounting practice for companies (UK GAAP) and HM Treasury's Financial Reporting Manual to the extent they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting conventions

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and stocks where material, at their value to the business by reference to their current costs. This is in accordance with directions issued by HM Treasury.

1.2 Acquisitions and discontinued operations

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

1.3 Income recognition

Income is accounted for applying the accruals convention. The main source of income for NHS Trusts is from commissioners in respect of healthcare services provided under local agreements. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

1.4 Fixed assets

i Capitalisation

Tangible assets are capitalised if they are capable of being used for a period which exceeds one year and they

- individually have a cost of at least £5,000; or
- collectively have a cost of at least £5,000, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial setting-up cost of a new building, irrespective of their individual or collective cost.

Expenditure on digital hearing aids in the year ended 31 March 2004 (but not in earlier years) was treated as capital expenditure, in accordance with the amendment to the Capital Accounting Manual issued in July 2003, giving rise to an increase in fixed assets regardless of the cost of the individual hearing aids. Subsequent purchases of digital hearing aids are capitalised only when the total value is greater than £5,000. Where small numbers of appliances are purchased the costs are expensed as incurred.

ii Valuation

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

All land and buildings are restated to current value using professional valuations in accordance with FRS15 every five years and in the intervening years by the use of indices. The buildings index is based on the All in Tender Price Index published by the Building Cost Information Service (BCIS). The land index is based on the residential building land values reported in the Property Market Report published by the Valuation Office.

Professional valuations are carried out by the District Valuers of the Inland Revenue Government Department. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and agreed requirements of the Department of Health and HM Treasury. In accordance with the Valuation Manual insofar as these terms are consistent with the requirements of the Department of Health, the last asset valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied on the 31 March 2005.

The valuations are carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property. The value of land for existing use purposes is assessed at Existing Use Value. For non-operational properties including surplus land, the valuations are carried out at Open Market Value.

Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Assets in the course of construction are valued at current cost using the indexes as for land and buildings, as above. These assets include any existing land or buildings under the control of a contractor.

Residual interests in off-balance sheet Private Finance Initiative properties are included in tangible fixed assets as 'assets under construction and payments on account' where the PFI contract specifies the amount, or a nil value, at which the assets will be transferred to the Trust at the end of the contract. The residual interest is built up, on an actuarial basis, during the life of the contract by capitalising part of the unitary charge so that at the end of the contract the balance sheet value of the residual value plus the specified amount equal the expected fair value of the residual asset at the end of the contract. The estimated fair value of the asset on reversion is determined by the District Valuer based on Department of Health guidance. The District Valuer should provide an estimate of the anticipated fair value of the assets on the same basis as the District Valuer values the NHS Trust estate.

Operational equipment other than IT equipment, which is considered to have nil inflation, is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.

iii Depreciation, amortisation and impairments

Tangible fixed assets are depreciated at rates calculated to write them down to estimated residual value on a straight-line basis over their estimated useful lives. No depreciation is provided on freehold land, assets in the course of construction and assets surplus to requirements.

Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to the Trust, respectively.

Buildings and dwellings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer. Leaseholds are depreciated over the primary lease term.

Equipment is depreciated on current cost evenly over the estimated life of the asset.

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

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

Where, under FRS11, a fixed asset impairment is charged to the Income and Expenditure Account, offsetting income may be paid by the Trust's main commissioner using funding provided by the NHS Bank.

The income is used to repay Public Dividend Capital.

1.5 Intangible fixed assets

Intangible assets are capitalised when they are capable of being used in a trust's activities for more than one year; they can be valued; and they have a cost of at least £5,000.

Intangible fixed assets held for operational use are valued at historical cost and are amortised over the estimated life of the asset on a straight line basis, except capitalised Research and Development which is revalued using an appropriate index figure. The carrying value of intangible assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

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

1.6 Donated assets

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the Donated Asset Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Donated Assets Reserve to the Income and Expenditure Account. Similarly, any impairment on donated assets charged to the Income and Expenditure Account is matched by a transfer from the Donated Asset Reserve. On the sale of donated assets, the value of the sale proceeds is transferred from the Donated Asset Reserve to the Income and Expenditure Reserve.

1.7 Government grants

Government grants are grants from government bodies other than funds from NHS bodies or funds awarded by Parliamentary Vote. The Government Grants Reserve is maintained at a level equal to the net book value of the assets which it has financed. Gains and losses on revaluations are also taken to the Government Grant Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Government Grant Reserve to the Income and Expenditure Account. Similarly, any impairment on grant funded assets charged to the Income and Expenditure Account is matched by a transfer from the Government Grant Reserve. On the sale of government granted assets, the value of the sale proceeds is transferred from the Government Grant Reserve to the Income and Expenditure Reserve.

1.8 Stocks

Stocks comprise raw materials and consumables and are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.9 Leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the NHS Trust, the asset is recorded as a tangible fixed asset and a debt is recorded to the lessor of the minimum lease payments discounted by the interest rate implicit in the lease, or at a rate of 3.5% plus the current inflation rate where this is not known. The interest element of the finance lease payment is charged to the Income and Expenditure account over the period of the lease at a constant rate in relation to the balance outstanding. Other leases are regarded as operating leases and the rentals are charged to the Income and Expenditure Account on a straight-line basis over the term of the lease.

1.10 Research and development

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

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

Expenditure so deferred is limited to the value of future benefits and is amortised through the Income and Expenditure Account on a systematic basis over the period expected to benefit from the project. It is revalued on the basis of current cost. The amortisation charge is calculated on the same basis as used for depreciation i.e. on a quarterly basis. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. NHS Trusts are unable to disclose the total amount of research and development expenditure charged in the Income and Expenditure Account because some research and development activity cannot be separated from patient care activity.

Fixed assets acquired for use in research and development are amortised over the life of the associated project.

1.11 Provisions

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

Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which NHS Trusts pay an annual contribution to the NHSLA which in return settles all clinical negligence claims. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with NHS Trusts. The total value of clinical negligence provisions carried by the NHSLA on behalf of NHS Trusts is disclosed at note 14.

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2006-2007 relates to the NHS Trusts contributions to the Clinical Negligence Scheme for Trusts.

Non-clinical risk pooling

Most NHS Trusts participate in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. The schemes commenced on 1 April 1999. Both are risk pooling schemes under which NHS Trusts pay an annual contribution to the NHS Litigation Authority and in return receive assistance with the costs of claims arising. The annual membership contributions, and any 'excesses' payable in respect of particular claims are charged to operating expenses as and when they become due.

1.12 Pension costs

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

The Scheme is subject to a full valuation for FRS 17 purposes every four years. The last valuation on this basis took place as at 31 March 2003. The scheme is also subject to a full valuation by the Government Actuary to assess the scheme's assets and liabilities to allow a review of the employer's contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation on which contributions are based covered the period 1 April 1994 to 31 March 1999. Between valuations the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the Business Services Authority Pensions Division website at www.nhspa.gov.uk. Copies can also be obtained from The Stationery Office.

The conclusion of the 1999 valuation was that the scheme continues to operate on a sound financial basis and the notional surplus of the scheme is £1.1 billion. It was recommended that employer's contributions are set at 14% of pensionable pay with effect from 1 April 2003. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

NHS Trusts are directed by the Secretary of State to charge employer's pension costs contributions to operating expenses as and when they become due.

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

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final years pensionable pay for death in service, and up to five times their annual pension, less pension already paid, subject to a maximum amount equal to twice the member's final years pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

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

1.13 Liquid resources

Deposits and other investments that are readily convertible into known amounts of cash at or close to their carrying amounts are treated as liquid resources in the cashflow statement. NHS Trusts do not hold any investments with maturity dates exceeding one year from the date of purchase.

1.14 Trust reorganisations

On 1 April 2006 15 NHS Trusts merged to form seven new NHS Trusts; on 1 July 2006 27 NHS Trusts merged to form nine new NHS Trusts. One NHS Trust was dissolved on 1 October 2006 and the assets were merged with a new PCT. Also on the 1 October the mental health areas of four PCTs were merged to form a new NHS Trust.

1.15 Private Finance Initiative (PFI) Schemes

The NHS follows HM Treasury's Technical Note 1 (Revised) 'How to Account for PFI transactions' which provides definitive guidance for the application of the Application Note F to FRS 5 and the guidance 'Land and Buildings in PFI schemes Version 2'.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI obligations are recorded as an operating expense. Where the trust has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the Income and Expenditure Account. Where, at the end of the PFI contract, a property reverts to the Trust, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up over the life of the contract by capitalising part of the unitary charge each year, as a tangible fixed asset.

Where the balance of risks and rewards of ownership of the PFI property are borne by the Trust, it is recognised as a fixed asset along with the liability to pay for it which is accounted for as a finance lease. Contract payments are apportioned between an imputed finance lease charge and a service charge.

1.16 Value Added Tax

Most of the activities of the trusts are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.17 Foreign Exchange

Transactions that are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. Resulting exchange gains and losses are taken to the Income and Expenditure account.

1.18 Third party assets

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Trust has no beneficial interest in them. Details of third party assets are given in Note 27 to the accounts.

1.19 Public Dividend Capital (PDC) and PDC Dividend

Public Dividend Capital represents the outstanding public debt of an NHS Trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the NHS Trust.

A charge, reflecting the forecast cost of capital utilised by the NHS Trust, is paid over as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the forecast average carrying amount of all assets less liabilities, except for donated assets and cash with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets. Note 8 to the accounts discloses the rate that the dividend represents as a percentage of the actual average carrying amount of assets less liabilities in the year.

1.20 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 on an accruals basis, including losses which would have been made good through insurance cover had NHS Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However note 23 is compiled directly from the losses and compensations register which is prepared on a cash basis.

1.21 Foundation Trusts

27 NHS Trusts achieved Foundation Trust status in-year. Where the balance sheet notes show the movement in year, e.g. fixed asset note, balances have been adjusted using 'transfer to Foundation Trust in-year' line. Where the notes include balances at year end, e.g. creditors, balances for those NHS Trusts that obtained Foundation Trust status in-year are not included.

1.22 Pooled budgets

A number of NHS Trusts have entered into a pooled budget with Local Authorities. Under the arrangement funds are pooled under S31 of the Health Act 1999 for joint activities and a memorandum note provided in the underlying accounts of all the relevant bodies which provides details of the joint income and expenditure.

1.23 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as Government granted current asset investments, valued at open market value. As the NHS Trust makes emissions a provision is recognised with an offsetting transfer from the Government Grant Reserve. The provision is settled on surrender of the allowances. The current asset investment, provision and Government Grant Reserve are valued at current market value at the balance sheet date.

2 Income from activities

	2006-2007 £000	2005-2006 £000
Strategic Health Authorities	41,109	108,208
Primary Care Trusts	28,310,707	29,909,997
Foundation Trusts	73,677	54,055
Local Authorities	537,651	578,152
Department of Health	1,914,577	558,527
NHS Other	12,342	45,064
Non-NHS – private patients	280,704	295,454
– overseas patients (non-reciprocal)	15,138	13,088
– Road Traffic Act	91,158	99,038
– injury cost recovery	2,657	0
– other	238,578	195,359
	31,518,298	31,856,942
Income recognised to offset impairments and accelerated depreciation	528,789	128,268

3 Other operating income

	2006-2007 £000	2005-2006 £000
Patient transport services	9,213	5,982
Education, training and research	1,915,099	2,156,339
Charitable and other contributions to expenditure	72,901	81,412
'Transfers from the donated asset reserve in respect of depreciation on donated assets'	78,541	85,796
'Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets'	1,291	3,091
Non-patient care services to other bodies	631,232	678,336
Income Generation	333,840	339,640
Other income from activities	617,081	759,937
	3,659,198	4,110,533

4 Operating expenses

4.1 Operating Expenses comprise

	Notes	2006-2007 £000	2005-2006 £000
Contracts with other NHS bodies		314,335	466,750
Contracts with Foundation Trusts		79,423	94,850
Purchase of healthcare from non-NHS bodies		297,440	344,338
Directors' costs		167,968	177,158
Staff costs ¹	5.1	22,964,584	24,153,558
Supplies and services – clinical		4,567,305	4,618,674
Supplies and services – general		719,832	729,334
Establishment		532,976	592,466
Transport		282,507	275,811
Premises		1,645,365	1,597,578
Write off and movement in bad debt provisions		39,626	32,430
Depreciation	10	1,188,051	1,225,092
Amortisation	9	14,106	13,074
Fixed asset impairments and reversals		265,160	74,349
Auditors' remuneration: Audit fees ²		33,515	34,188
Auditors' remuneration: Other remuneration		3,505	2,233
Clinical negligence		355,084	386,289
Redundancy ³		86,596	0
Other		945,381	865,078
		34,502,759	35,683,250

4.2 Hire and operating lease rentals

	2006-2007 £000	2005-2006 £000
Hire of plant and machinery	66,461	61,564
Other operating leases	310,922	290,520
	377,383	352,084

1 Staff costs do not equal the figures disclosed in Note 5.1 as the latter includes expenditure relating to executive directors.

2 The audit fee represents the cost for the audit of the underlying financial statements and other performance work carried out by auditors appointed by the Audit Commission. The audit fee for the Summarised Accounts is included within the audit fee disclosed within the Department of Health Resource Account.

3 Redundancy costs were included in Other in 2005-06 and can not be separately disclosed.

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

	2006-2007 £000	2005-2006 £000
<i>Land and buildings</i>		
Expiring within 1 year	7,150	8,943
Expiring between 1 and 5 years	21,837	17,806
Expiring after 5 years	203,831	211,735
	232,818	238,484
<i>Other leases</i>		
Expiring within 1 year	32,239	34,555
Expiring between 1 and 5 years	99,534	104,622
Expiring after 5 years	25,319	32,178
	157,092	171,355

5 Staff costs and numbers

5.1 Staff costs

	Permanently employed £000	Other £000	2006-2007 Total £000	2005-2006 Total £000
Salaries and wages	18,612,068	878,312	19,490,380	20,582,522
Social security costs	1,528,557	14,083	1,542,640	1,573,852
NHS Pension Agency pension costs	2,119,731	9,831	2,129,562	2,189,384
Other pension costs	15,568	594	16,162	8,780
	22,275,924	902,820	23,178,744	24,354,538

5.2 Average number of persons employed

	Permanently employed Number	Other Number	2006-2007 Total Number	2005-2006 Total Number
Medical and dental	67,859	4,379	72,238	70,923
Ambulance staff	23,209	55	23,264	23,223
Administration and estates	138,596	5,976	144,572	149,124
Healthcare assistants and other support staff	75,675	4,209	79,884	80,545
Nursing, midwifery and health visiting staff	249,652	11,492	261,144	266,184
Nursing, midwifery and health visiting learners	4,713	66	4,779	5,639
Scientific, therapeutic and technical staff	88,434	2,223	90,657	91,586
Social Care Staff	2,138	971	3,109	3,983
Other	5,199	390	5,589	6,505
	655,475	29,761	685,236	697,712

5.3 Staff benefits

The amount spent on staff benefits during the year totalled £1,100,000 (2005-2006: £1,066,000).

5.4 Retirements due to ill health

During 2006-2007 there were 1,181 early retirements from NHS Trusts on the grounds of ill-health (2005-2006: 1,253). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £72,444,000 (2005-2006: £72,348,000).

6 Profit/(loss) on disposal of fixed assets

	2006-2007	2005-2006
	£000	£000
Profit on disposal of fixed asset investments	5	0
Net (loss)/profit on disposal of intangible fixed assets	(102)	29
Net profit on disposal of land and buildings	66,815	61,792
Net (loss) on disposal of plant and equipment	(6,400)	(5,895)
	60,318	55,926

7 Interest payable and similar charges

	2006-2007	2005-2006
	£000	£000
Interest payable is in respect of the following		
Finance leases	22,990	28,846
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	189	128
Loans	826	0
Other interest	1,015	153
	25,020	29,127

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £6,000 (2005-2006: £9,000).

8 Capital cost absorption rate

NHS Trusts are required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £841 million, bears to the average relevant net assets of £25,505 million, that is 3.3% (2005-2006: 3.5%).

9 Intangible fixed assets

	Software licences £000	Licences and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2006	89,637	1,345		6,965	97,947
Adjustment for Trust Mergers at 1 April 2006	(1,070)	(46)			(1,116)
Restated gross cost at 1 April 2006	88,567	1,299	0	6,965	96,831
Indexation				185	185
Reclassifications	6,035	(46)		253	6,242
Other revaluation	593				593
Additions – purchased	45,474		12	3,308	48,794
Additions – donated	131				131
Additions – government granted				(2)	(2)
Disposals	(2,302)	(1,247)		(777)	(4,326)
Transferred to Foundation Trusts in-year	(13,709)			(611)	(14,320)
Gross cost at 31 March 2007	124,789	6	12	9,321	134,128
Amortisation at 1 April 2006	45,757	102		4,094	49,953
Adjustment for Trust Mergers at 1 April 2006	(763)				(763)
Restated amortisation at 1 April 2006	44,994	102	0	4,094	49,190
Indexation				93	93
Impairments	51				51
Reclassifications	832				832
Charged during the year	13,744	2	2	358	14,106
Disposals	(1,441)	(100)			(1,541)
Transferred to Foundation Trusts in-year	(6,608)			(72)	(6,680)
Amortisation at 31 March 2007	51,572	4	2	4,473	56,051
Net book value					
Purchased at 1 April 2006	42,838	226		2,088	45,152
Donated at 1 April 2006	536			0	536
Government granted at 1 April 2006	506	1,017		783	2,306
Total at 1 April 2006	43,880	1,243	0	2,871	47,994
Purchased at 31 March 2007	72,726	2	10	4,844	77,582
Donated at 31 March 2007	462				462
Government granted at 31 March 2007	29			4	33
Total at 31 March 2007	73,217	2	10	4,848	78,077

10 Tangible fixed assets

10.1

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments	Plant and machinery on account	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2006	7,524,900	16,620,730	454,313	985,794	4,711,376	311,255	1,160,555	330,405	32,099,328
Adjustment for Trust Mergers at 1 April 2006	(34,753)	(113,525)	(3,907)	(969)	(13,559)	(1,897)	(7,259)	(3,144)	(179,013)
Restated gross cost at 1 April 2006	7,490,147	16,507,205	450,406	984,825	4,697,817	309,358	1,153,296	327,261	31,920,315
Additions – purchased	113,782	603,238	8,285	852,627	330,505	16,005	194,068	24,166	2,142,676
Additions – donated	158	19,009	14	10,630	31,215	53	1,917	951	63,947
Additions – government granted	117	2,020	0	5,962	20	0	24	27	8,170
Impairments	(9,377)	(114,385)	(1,170)	(10,476)	(1,269)	(6)	(1)	(1)	(136,685)
Reclassifications	39,149	636,566	(3,821)	(799,806)	57,675	7,144	49,884	7,844	(5,365)
Indexation	409,960	1,316,630	33,965	65,311	119,565	7,764	0	9,955	1,963,150
Other in-year revaluations	(54,199)	(150,737)	(11,712)	(20,457)	(11,061)	209	92	695	(247,170)
Disposals	(269,870)	(324,120)	(20,544)	(8,359)	(256,885)	(33,819)	(47,001)	(7,292)	(967,890)
Transferred to Foundation Trusts in-year	(866,688)	(2,221,454)	(45,240)	(158,335)	(684,326)	(7,798)	(148,714)	(34,179)	(4,166,734)
Cost or valuation at 31 March 2007	6,853,179	16,273,972	410,183	921,922	4,283,256	298,910	1,203,565	329,427	30,574,414
Depreciation at 1 April 2006	0	0	0	0	3,094,254	197,433	729,482	194,456	4,215,625
Adjustment for Trust Mergers at 1 April 2006					(7,886)	(1,445)	(5,672)	(1,320)	(16,323)
Restated gross cost at 1 April 2006	0	0	0	0	3,086,368	195,988	723,810	193,136	4,199,302
Charged during the year	84	684,145	16,233	0	310,896	29,707	123,780	23,206	1,188,051
Impairments	27,937	209,740	12,700	5,542	7,842	56	1,878	911	266,606
Reversal of impairments	0	(747)	0	(750)	0	0	0	0	(1,497)
Reclassifications	0	220	(23)	0	(3,574)	(1,672)	(3,384)	(887)	(9,320)
Indexation	787	33,121	1,101	0	76,394	5,080	0	4,934	121,417
Other in-year revaluations	0	0	0	0	(8,593)	9	151	3	(8,430)
Disposals	0	(82,051)	(1,596)	0	(224,114)	(32,708)	(45,669)	(6,862)	(393,000)
Transferred to Foundation Trusts in-year	(2)	(17,723)	(626)	(2,093)	(430,095)	(6,231)	(98,088)	(20,481)	(575,339)
Accumulated depreciation at 31 March 2007	28,806	826,705	27,789	2,699	2,815,124	190,229	702,478	193,960	4,787,790
Net book value									
Purchased at 1 April 2006	7,487,004	16,026,184	450,707	962,076	1,387,778	112,273	424,470	129,703	26,980,195
Donated at 1 April 2006	37,896	582,406	3,606	22,773	226,757	1,522	6,071	6,032	887,063
Government Granted 1 April 2006	0	12,140	0	945	2,587	27	532	214	16,445
Total at 1 April 2006	7,524,900	16,620,730	454,313	985,794	1,617,122	113,822	431,073	135,949	27,883,703
Purchased at 31 March 2007	6,786,905	14,889,850	379,534	898,285	1,281,634	107,733	495,181	129,499	24,968,621
Donated at 31 March 2007	37,351	544,880	2,860	15,983	184,377	926	5,541	5,765	797,683
Government granted at 31 March 2007	117	12,538	0	4,955	2,122	22	365	203	20,322
Total at 31 March 2007	6,824,373	15,447,268	382,394	919,223	1,468,133	108,681	501,087	135,467	25,786,626

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

3,962	233,951	697	0	1,503	0	0	0	240,113
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £6,374,000 (2005-06: £6,849,000).

10.3 The net book value of land, buildings and dwellings comprises

	31 March 2007 £000	31 March 2006 £000
Freehold	22,226,297	24,167,191
Long leasehold	408,572	424,493
Short leasehold	19,166	8,259
	<u>22,654,035</u>	<u>24,599,943</u>

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

	31 March 2007 £000	31 March 2006 £000
National Health Service debtors	1,568,354	1,414,616
Provision for irrecoverable debts	(83,803)	(74,758)
Other prepayments and accrued income	370,903	326,838
Other debtors	809,771	808,586
	<u>2,665,225</u>	<u>2,475,282</u>

11.2 Amounts due after more than one year

National Health Service debtors	110,614	136,629
Provision for irrecoverable debts	(3,202)	(3,451)
Other prepayments and accrued income	551,908	598,127
Other	193,770	159,888
	<u>853,090</u>	<u>891,193</u>
Total Debtors	<u>3,518,315</u>	<u>3,366,475</u>

12 Short-term investments

Short term investments held at the balance sheet date amounted to £6,792,000 (2005-2006: £63,000). The analysis of these is held within the individual NHS Trust accounts.

13 Creditors

13.1 Amounts falling due within one year

	31 March 2007 £000	31 March 2006 £000
Overdrafts	16,038	23,066
Current instalments due on loans	151,227	12
Interest payable	1,236	6,354
Payments received on account	33,366	44,524
National Health Service creditors	448,570	581,251
Non-NHS trade creditors – revenue	531,931	681,378
Non-NHS trade creditors – capital	372,167	251,416
Payroll and related creditors	258,795	424,401
Obligations under finance leases and hire purchase contracts	3,591	4,079
Other creditors	306,173	433,821
Accruals and deferred income	799,848	826,148
	<u>2,922,942</u>	<u>3,276,450</u>

13.2 Amounts falling due after more than one year

Long term loans	627,135	89
Obligations under finance leases and hire purchase contracts	226,675	285,971
National Health Service creditors	1,801	3,508
Other	47,790	55,179
	<u>903,401</u>	<u>344,747</u>

13.3 Finance lease obligations

	31 March 2007 £000	31 March 2006 £000
<i>Leases payable</i>		
Within one year	24,848	31,087
Between one and five years	100,191	126,049
After five years	633,853	1,951,839
Finance charges allocated to future periods	(528,626)	(1,818,925)
	<u>230,266</u>	<u>290,050</u>

14 Provisions for liabilities and charges

	Pensions relating to former Directors £000	Pensions relating to other staff £000	Other Legal claims £000	Restruct- urings £000	Other* £000	Total £000
At 1 April 2006	6,038	324,915	58,686	11,486	303,715	704,840
Adjustment for Trust Mergers at 1 April 2006		(2,876)	(148)	(1)	(918)	(3,943)
Restated gross cost at 1 April 2006	6,038	322,039	58,538	11,485	302,797	700,897
Arising during the year	3,344	35,051	25,600	13,939	130,086	208,020
Utilised during the year	(1,718)	(25,762)	(16,032)	(5,081)	(157,893)	(206,486)
Reversed unused	(13)	(4,210)	(10,524)	(3,507)	(31,252)	(49,506)
Unwinding of discount	121	7,142	461	57	1,412	9,193
Transferred to Foundation Trusts in-year	(228)	(44,414)	(8,651)	(387)	(32,641)	(86,321)
At 31 March 2007	<u>7,544</u>	<u>289,846</u>	<u>49,392</u>	<u>16,506</u>	<u>212,509</u>	<u>575,797</u>
Expected timing of cashflows						
Within 1 year	1,151	26,858	27,953	13,406	135,017	204,385
1-5 years	2,774	96,632	7,923	892	28,732	136,953
Over 5 years	3,619	166,356	13,516	2,208	48,760	234,459

£1,668,002,544 is included in the accounts of the NHS Litigation Authority (NHSLA) for clinical negligence liabilities in NHS Trusts.

* The main components of 'other' relate to provisions for Agenda for Change, non-clinical liability cases, injury benefits and equal pay claims.

15 Public dividend capital

	2006-2007 £000	2005-2006 £000
At 1 April 2006	17,570,974	16,981,531
Transferred to Foundation Trusts 1 April 2006	0	(518,274)
Adjustment for Trust Mergers at 1 April 2006	(112,626)	133,351
Restated at 1 April 2006	17,458,348	16,596,608
New public dividend capital received (including transfers from dissolved NHS Trusts)	2,623,744	1,741,573
Public dividend capital repaid in year	(1,643,796)	(610,850)
Public dividend capital repayable (creditor)	0	(91,374)
Public dividend capital transferred to Foundation Trusts	(2,163,969)	(64,119)
Other movements in public dividend capital in year	(5,964)	(864)
As at 31 March 2007	<u>16,268,363</u>	<u>17,570,974</u>

16 Movement on reserves**16.1 Revaluation reserve**

	2006-2007	2005-2006
	£000	£000
At 1 April 2006	9,375,173	9,691,608
Transferred to Foundation Trusts 1 April 2006	0	(225,944)
Adjustment for Trust Mergers at 1 April 2006	(71,058)	(146,549)
Restated at 1 April 2006	9,304,115	9,319,115
Impairments	(134,021)	(271,610)
Other revaluations/indexation of fixed assets	1,542,670	570,886
Transfer of realised profits to Income and Expenditure reserve	(201,883)	(97,741)
Other transfers between reserves	(194,215)	(132,549)
Other in-year movements	(572,754)	6,430
Transferred to Foundation Trusts in-year	(1,149,146)	(19,358)
As at 31 March 2007	8,594,766	9,375,173

16.2 Donated asset reserve

	2006-2007	2005-2006
	£000	£000
At 1 April 2006	889,652	963,645
Transferred to Foundation Trusts 1 April 2006	0	(23,066)
Adjustment for Trust Mergers at 1 April 2006	(2,192)	3
Restated at 1 April 2006	887,460	940,582
Impairments	(2,660)	(3,307)
Other revaluations/indexation of fixed assets	60,015	7,853
Transfer of realised profits to Income and Expenditure reserve	(1,828)	(5,976)
Receipt of donated assets	64,078	82,414
Depreciation, impairment and disposal of donated assets	(78,541)	(85,796)
Other transfers between reserves	(191)	(30,922)
Other in year movements	532	(14,107)
Transferred to Foundation Trusts in-year	(128,721)	(1,089)
As at 31 March 2007	800,144	889,652

16.3 Government grant reserve

	2006-2007	2005-2006
	£000	£000
At 1 April 2006	18,120	21,598
Transferred to Foundation Trusts 1 April 2006	0	(1,801)
Adjustment for Trust Mergers at 1 April 2006	(244)	0
Restated at 1 April 2006	17,876	19,797
Impairments	(4)	0
Surplus on other revaluation/indexation of fixed assets	(1,072)	446
Transfer of realised profits to Income and Expenditure reserve	(188)	(3,776)
Receipt of Government granted assets	10,334	7,045
Depreciation, impairment and disposal of Government granted assets	(1,291)	(3,091)
Other transfers between reserves	(1,306)	(2,188)
Other in year movements	0	(113)
Transferred to Foundation Trusts in-year	(3,493)	0
As at 31 March 2007	20,856	18,120

16.4 Other reserves

	2006-2007	2005-2006
	£000	£000
At 1 April 2006	181,138	148,866
Adjustment for Trust Mergers at 1 April 2006	0	(684)
Restated at 1 April 2006	181,138	148,182
Transfers between reserves	(1,618)	34,180
Other movements on reserves	44,616	(738)
Transferred to Foundation Trusts in-year	511	(486)
As at 31 March 2007	224,647	181,138

16.5 Income and Expenditure Reserve

	2006-2007	2005-2006
	£000	£00
At 1 April 2006	(459,564)	(111,824)
Transferred to Foundation Trusts 1 April 2006	0	11,189
Write off for Trust Mergers at 1 April 2006	2,605	(7,317)
Restated as at 1 April 2006	(456,959)	(107,952)
Transfer from income and expenditure account	(77,411)	(581,439)
Transfers of realised profits	203,898	107,493
Other transfers between reserves	197,330	131,479
Other in year movements	(74,727)	(3,286)
Transferred to Foundation Trusts in-year	(147,329)	(5,859)
As at 31 March 2007	(355,198)	(459,564)

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

	2006-2007	2005-2006
	£000	£00
Operating Surplus	674,737	284,225
Depreciation and amortisation	1,202,157	1,238,166
Impairments	265,160	74,349
'Transfer from donated asset reserve in respect of depreciation on donated assets'	(78,541)	(85,796)
Transfer from the Government grant reserve	(1,291)	(3,091)
(Increase) in stocks	(4,170)	(27,656)
(Increase) in debtors	(398,001)	(227,264)
(decrease)/increase in creditors	(52,984)	204,393
(Decrease) in provisions for liabilities and charges	(51,833)	(181,433)
Payments in respect of fundamental reorganisation/restructuring	214	(3,500)
Net cash inflow from operating activities	1,555,448	1,272,393

18 Reconciliation of net cash flows to movement in net debt

	£000	£00
Net debt at 1 April 2006		(200,773)
Adjustment for Trust Mergers at 1 April 2006		(484)
		(201,257)
Increase in cash in year	36,142	
Cash inflow from new debt	(775,910)	
Cash outflow from debt repaid and finance lease capital payments	3,183	
Cash outflow from increase in liquid resources	22,405	
Changes in net debt resulting from cash flows		(714,180)
Non-cash changes in debt		18,993
Transferred to Foundation Trusts in-year		22,355
Net debt at 31 March 2007		(874,089)

19 Analysis of the change in net debt

	1 April 2006	Adjustment for Trust Mergers at 1 April 2006	Restated 1 April 2006	Transferred to Foundation Trusts in- year/cash transferred (to)/from other NHS Bodies	Other cash changes in year	Non-cash changes in year/ other movements	31 March 2007
	£000	£000	£000	£000	£000	£000	£000
OPG cash at bank	113,635	(333)	113,302	(132,503)	150,059		130,858
Commercial cash at bank and in hand	(1,192)	(151)	(1,343)	(5,365)	19,634		12,926
Bank overdrafts	(23,065)		(23,065)	1,971	5,057		(16,037)
		(484)		(135,897)	174,750		
Debt due within one year	(12)		(12)	6,995	(157,685)	(525)	(151,227)
Debt due after one year	(89)		(89)	3,883	(620,456)	(10,473)	(627,135)
Finance leases	(290,050)		(290,050)	27,977	2,703	29,104	(230,266)
Current Asset Investments	0		0	(16,500)	22,405	887	6,792
	<u>(200,773)</u>	<u>(484)</u>	<u>(201,257)</u>	<u>(113,542)</u>	<u>(578,283)</u>	<u>18,993</u>	<u>(874,089)</u>

20 Capital commitments

	31 March 2007 £000	31 March 2006 £000
Contracted at the balance sheet date	538,877	520,774

21 Contingent liabilities

Potential net contingent liabilities totalling £38,832,000 (2005-2006: £65,727,000) have not been accrued as the outcome of these cases is uncertain. These contingent liabilities include agenda for change, equal pay and personal injury. These do not include cases of clinical litigation which are accounted for by the NHS Litigation Authority.

22 Commitments under PFI contracts

22.1 In this financial year 87 NHS Trusts reported off-balance sheet PFI schemes (2005-2006: 74). The estimated capital value of these schemes is £4.711 billion (2005-2006: £4.709 billion). The amount included within operating expenses for these schemes is £615 million (2005-2006: £463 million).

NHS Trusts are committed to make the following payments under off balance sheet PFI contracts during 2007-2008, analysed by the period during which the commitment expires

	2006-2007 £000	2005-2006 £000
Within 1 year	14,201	7,329
2nd to 5th years (inclusive)	26,542	36,497
6th to 10th years (inclusive)	36,672	42,741
11th to 15th years (inclusive)	39,720	43,144
16th to 20th years (inclusive)	32,076	38,492
21st to 25th years (inclusive)	149,456	144,064
26th to 30th years (inclusive)	166,616	168,384
31st to 35th years (inclusive)	201,605	186,825
36th year and beyond	201,368	204,657

22.2 In this financial year, 5 NHS Trusts (2005-2006: 5) reported on-balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £206 million (2005-2006: £246 million) and the amount included within operating expenses is £50 million (2005-2006: £56 million).

	2006-2007	2005-2006
	£000	£000
<i>Imputed Finance Lease obligations comprise</i>		
Rentals due within one year	20,326	22,370
Rentals due between one and five years	81,306	90,046
Rentals due after five years	488,293	567,449
Finance charges allocated to future periods	(454,221)	(519,723)
	135,704	160,142

NHS Trusts are committed to make the following payments under on balance sheet PFI contracts during 2007-2008, analysed by the period during which the commitment expires

	2006-2007	2005-2006
	£000	£000
Within 1 year	0	0
2nd to 5th years (inclusive)	0	0
6th to 10th years (inclusive)	0	0
11th to 15th years (inclusive)	0	0
16th to 20th years (inclusive)	0	0
21st to 25th years (inclusive)	13,995	0
26th to 30th years (inclusive)	5,712	17,408
31st to 35th years (inclusive)	9,117	0
36th year and beyond	182	9,417

23 Losses and special payments

There were 49,617 (2005-2006: 57,964) cases of losses and special payments totalling £55,716,769 (2005-2006: £30,244,328) during 2006-2007. These included 1 fruitless payment of £434,099 West Hertfordshire Hospitals NHS Trust, 1 case of compensation under legal obligation of £10,637,000 University Hospital of North Staffordshire NHS Trust and 1 payment of extra contractual payment to contractors of £14,515,068 Dudley Group of Hospitals NHS Trust where payments exceeded £250,000. (2005-2006: one case of damage to buildings and property of £458,000, one ex gratia payments case of £365,196).

24 Related party transactions

NHS Trusts are bodies corporate established by order of the Secretary of State for Health.

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

All strategic health authorities, primary care trusts, all NHS agencies and all special health authorities.

In addition NHS Trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.

NHS Trusts also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the NHS Trust Boards.

Details of all the NHS Trust related party transactions are shown in the individual NHS Trust accounts.

25 Post balance sheet events

As at 31 March 2007 there were 183 NHS Trusts (including 5 Care Trusts). It is expected that further NHS Trusts will achieve Foundation Trust status in 2007-2008.

These accounts were authorised for issue on 10 December 2007.

26 Financial instruments

The NHS Trust summarised account includes the accounts of 210 underlying NHS Trusts. It is within the underlying accounts of these 210 NHS Trusts that detailed FRS 13 disclosures have been made. The following paragraphs provide an overview of the major financial risks for NHS Trusts and how they are managed at the individual level.

Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of NHS Trusts' activities and the way in which they are financed, the NHS Trusts are not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. NHS Trusts have limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing NHS Trusts in undertaking their activities.

Liquidity risk

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

Interest rate risk

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

Foreign currency risk

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

Fair values

The fair values of financial assets and financial liabilities for NHS Trusts approximates to their book values.

27 Third party assets

The balance of patients' money held within the NHS Trusts' bank accounts at the Balance Sheet date was £19,116,000 (31 March 2006: £13,927,000). This has been excluded from the Balance Sheet as they are not assets of the NHS Trusts but are held on trust on behalf of patients.

28 Intra-government balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other Central Government Bodies	1,257,315	102,356	636,960	472,495
Balances with Local Authorities	83,474	0	11,133	58
Balances with NHS Trusts and Foundation Trusts	365,573	15,011	116,321	0
Balances with Public Corporations and Trading Funds	8,718	2,753	35,624	608
Balances with bodies external to government	950,145	732,970	2,122,904	430,240
At 31 March 2007	<u>2,665,225</u>	<u>853,090</u>	<u>2,922,942</u>	<u>903,401</u>
	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other Central Government Bodies	1,120,231	107,866	721,547	3,736
Balances with Local Authorities	91,029	2,181	26,862	57
Balances with NHS Trusts and Foundation Trusts	335,383	40,932	142,463	153
Balances with Public Corporations and Trading Funds	25,996	5,240	123,824	1,131
Balances with bodies external to government	902,643	734,974	2,261,754	339,670
At 31 March 2006	<u>2,475,282</u>	<u>891,193</u>	<u>3,276,450</u>	<u>344,747</u>

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