

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973

NATIONAL HEALTH SERVICE ACT 1977

NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990

Summarised Accounts of Strategic Health Authorities, Primary Care Trusts and NHS Trusts, of the National Blood Authority, NHS Logistics and NHS Professionals, for the year ended 31 March 2006 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 1092-II of 2005-2006)

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

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# NHS (England) Summarised Accounts 2005-2006

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# NHS (England) Summarised Accounts 2005-2006

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# Annual Report

## General

- 1 Section 98(2) of the National Health Service Act 1977 requires NHS organisations in England to prepare annual accounts and to transmit them to the Department of Health. The accounts must be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales.
- 2 Section 98(4) of the Act also requires the Secretary of State to prepare summarised accounts from the individual accounts of the bodies 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 Government Resources and Accounts Act 2000 (Audit of Health Service Bodies) Statutory Instrument 2003 No.1324 changed the statutory auditors for the special health authorities and the Dental Practice Board from auditors appointed by the Audit Commission to the C&AG. This removed the dual audit requirement and reduced bureaucracy.
- 4 The Government Resources and Accounts Act 2000 (Summarised Accounts of Special Health Authorities) Statutory Instrument 2003 No.983 removed the requirement for the Secretary of State to prepare summarised accounts for existing Special Health Authorities where their accounts are consolidated into the Department of Health Resource Account or the Central Government Account.
- 5 The Government Resources and Accounts Act 2000 (Summarised Accounts of Special Health Authorities) Statutory Instrument 2004 No.1416 extended the exemption to produce summarised accounts to NHSU and the NHS Pensions Agency.
- 6 An Order under the Regulatory Reform Act was passed on 29 March 2005 to remove the dual accountability for the charitable funds held on trust by NHS bodies. From 2004-2005 NHS bodies are not required to submit charitable fund accounts to the Department of Health but only to the Charity Commission.
- 7 The Health Act 2006 removes the requirement for the Accounting Officer to prepare summarised accounts for all the special health authorities; hence this will be the last year summarised accounts are prepared for the special health authorities.
- 8 The summarised accounts have been prepared from the accounts of the individual health bodies, for the year ended 31 March 2006, of
  - the 28 Strategic Health Authorities (SHAs);
  - the 236 NHS Trusts in England;
  - the 303 Primary Care Trusts in England (PCTs). This summarised account also includes audited figures for pharmaceutical services produced by the Prescription Pricing Authority, general dental services produced by the Dental Practice Board and a statement of balances for the personal dental services account prepared by the Dental Practice Board; and
  - the 4 Special Health Authorities (SpHAs) not exempted by the relevant Statutory Instruments.
- 9 These summarised accounts are based on audited figures submitted by the individual organisations. The NHS Trust summarised account includes the unaudited submission for Whipps Cross University Hospital NHS Trust. The analyses in this annual report are based on all the submissions received.

- 10 In the financial year 2005-2006, six trusts became NHS Foundation Trusts (FTs) on 1 April 2005 and one on 1 June 2005. Subsequent to the year-end, three applicants became FTs on 1 May 2006, five on 1 June 2006 and eight on 1 August 2006 and others are expected with establishment dates throughout 2006-2007. 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.
- 11 The NHS Trust summarised account includes the accounting entries of Rotherham NHS Foundation Trust that achieved FT status on 1 June 2005 for the period it was an NHS Trust.
- 12 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.
- 13 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.
- 14 The following sections provide background information on each of the accounts.

### Format of the accounts

- 15 The formats of the summarised accounts follow those of the underlying accounts.
- 16 The Operating Cost Statement format is used for those public sector bodies which receive the majority of their income direct from government, i.e. SHAs and PCTs.
- 17 NHS Trusts, NHS Logistics Authority, NHS Professionals, NHS Direct and the NHS Blood and Transplant Authority receive their funding mainly from 'trading' activities and so produce income and expenditure accounts.
- 18 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

- 17 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. Remuneration reports are included with the accounts of each of the special health authorities as they are discrete organisations.

### Overall NHS Performance

- 18 In aggregate the 2005-2006 final accounts for PCTs, NHS Trusts and SHAs indicate that the NHS recorded a revenue resource over-spend of £547m (2004-2005: £221m overspend) and a capital resource underspend of £551m in 2005-2006 (2004-2005: £172m underspend).

## Strategic Health Authorities

- 19 SHAs are statutory bodies established on the 1 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

- 20 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 2005-2006

- 21 In 2005-2006, all 28 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. The SHAs reported a £526m underspend against the revenue resource limit (2004-2005: £373m underspend) and a £100m underspend against the capital resource limit (2004-2005: £22m underspend).

## Better Payment Practice Code – Strategic Health Authorities

- 22 The percentage of bills paid in compliance with the better payment practice code in 2005-2006 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%	5	4	12	15
Between 85% and 94.9%	12	12	5	9
Between 75% and 84.9%	5	9	8	2
Between 65% and 74.9%	6	2	2	2
Less than 65%	0	1	1	0
Total	28	28	28	28
Overall Performance 2005-2006	86.5%	88.4%	90.1%	94.3%

- 23 In 2005-2006 SHAs paid 86.5% (2004-2005: 84.8%) of their non-NHS bills and 88.4% of their NHS bills (90.1% of non-NHS (2004-2005: 91.7%) and 94.3% NHS bills when measured by value) within 30 days/contracted terms. This is in the context of SHAs processing and paying over 200,000 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.

- 24 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

- 25 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.
- 26 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

- 27 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); and
  - 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 2005-2006

- 28 In 2005-2006 PCTs reported a revenue resource limit over-spend of £492m (2004-2005: £272m over-spend).
- 29 PCTs reported an aggregate underspend of £166m on the capital resource limit, compared to £58m in 2004-2005.
- 30 The 2005-2006 revenue position is made up of 193 PCTs reporting an aggregate underspend of £124m (£70m in 2004-2005) and 108 PCTs reporting an aggregate over-spend of £616m (£342m in 2004-2005). two PCTs reported a balanced position.
- 31 On capital, 275 PCTs reported an aggregate underspend of £175m with six PCTs reporting an aggregate over-spend of £9m (the aggregate underspend was £58m in 2004-2005). 22 PCTs reported neither an under nor over-spend. The six PCTs which reported a capital over-spend failed this statutory duty (three in 2004-2005).
- 32 In 2005-2006 there were 21 PCTs (2004-2005: 29 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

33 The percentage of bills paid in compliance with the better payment practice code in 2005-2006 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%	50	29	99	152
Between 85% and 94.9%	125	71	95	95
Between 75% and 84.9%	75	65	62	29
Between 65% and 74.9%	36	59	30	11
Between 55% and 64.9%	15	50	15	5
Less than 55%	2	29	2	11
Total	303	303	303	303
Overall Performance 2005-2006	85.4%	78.7%	87.2%	93.3%

- 34 In 2005-2006 PCTs paid 85.4% (2004-2005: 85.0%) of their non-NHS bills and 78.7% of their NHS bills (87.2% (2004-2005: 89.0%) of non-NHS bills and 93.3% of NHS bills when measured by value) within 30 days/contracted terms. This is in the context of PCTs processing and paying over 4.6 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.
- 35 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

- 36 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

- 37 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 2004-2005) (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); and
- 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 2005-2006

- 38 In 2005-2006 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £581m compared to a £322m deficit in 2004-2005.
- 39 The 2005-2006 position is made up of 71 NHS Trusts reporting an aggregate deficit of £696m (£383m in 2004-2005), offset by 154 NHS Trusts reporting an aggregate surplus of £114m (£61m in 2004-2005). 11 trusts reported a balanced position.
- 40 While 71 NHS Trusts reported a deficit in 2005-2006, 12 Trusts are in their 5th year, or more, of recovery in 2005-2006 and have therefore breached their statutory financial duty to break-even 'taking one financial year with another'. 44 NHS Trusts in their 4th year or more of recovery in 2006-2007 have agreed extended periods of recovery with their SHA, with three others still in discussion. In addition, two trusts in their 4th year of recovery, or more, in 2006-2007, have not agreed extended periods of recovery as it is planned that these Trusts will merge with other organisations in 2006-2007. When a new NHS Trust is created it does not inherit the historic break-even performance of its predecessor organisations, as its cumulative break-even position is set to zero on its inception. There are also two organisations that have been excluded from these figures as they have breached their break-even duty for technical reasons, due to the impact of Prior Period Adjustments.
- 41 66 NHS Trusts out of the 236 were identified by the Department of Health as having significant financial difficulties at the end of 2005-2006 compared to 57 in 2004-2005.
- 42 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.
- 43 Table 3 summarises the performance of NHS Trusts against the three other financial duties.

**Table 3<sup>1</sup>**

	Number	Percentage
<b>Total NHS Trusts</b>	236	100%
<i>NHS Trusts achieving targets</i>		
<b>Capital Absorption Rate</b>		
Total achieving 3.5% or more	125	53%
After adjusting for immaterial results <sup>2</sup>	215	91%
<b>External Financing Limit</b>		
Total meeting limit	221	94%
After adjusting for de minimus overshoots <sup>3</sup>	229	97%
<b>Capital Resource Limit</b>		
Total meeting limit	230	97%
After adjusting for de minimum overshoots <sup>4</sup>	231	98%

1 Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2005-2006 by Department of Health.

2 A shortfall on the rate of return duty of less than 0.5% is treated as immaterial. The one Trust that achieved Foundation Trust status in 2005-2006 has been excluded from the Cost Absorption Rate analysis.

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

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

- 44 Analysis of the 2005-2006 results show that
- a 71 (68 in 2004-2005) had an income and expenditure deficit – 30% of all NHS Trusts (26% in 2004-2005).
  - b 12 statutory break-even duty failures (one in 2004-2005).
  - c 110 did not make a 3.5% return on capital (149 in 2004-2005 did not make a 3.5% return on capital) – 47% of all NHS Trusts (58% in 2004-2005).
  - d 15 (15 in 2004-2005) overshot their EFL – 6% of all NHS Trusts (6% in 2004-2005).
  - e Six (16 in 2004-2005) overshot their CRL – 3% of all NHS Trusts (6% in 2004-2005).
- 45 When non-material failures are discounted
- a 70 (60 in 2004-2005) had an income and expenditure deficit (a deficit of more than 0.5% of total annual income) – 30% of all NHS Trusts (23% in 2004-2005).
  - b 20 (40 in 2004-2005) did not make a 3.5% return on capital – 9% of all NHS Trusts (15% in 2004-2005).
  - c Seven (12 in 2004-2005) overshot their EFL – 3% of all NHS Trusts (5% in 2004-2005).
  - d Five (12 in 2004-2005) overshot their CRL – 2% of all NHS Trusts (5% in 2004-2005).
- 46 The NHS Trust that achieved Foundation Trust status part way through the year had the opportunity to set its EFL and CRL control totals to match the charge against the CRL and EFL incurred during the part of the year that it was an NHS Trust. The trust reported exactly meeting its CRL and EFL and has been included in CRL and EFL figures in Table 3.
- 47 The achievement of the capital cost absorption duty is an annual measure. As a result the NHS Trust that achieved Foundation Trust status part way through the year did not achieve 3.5% and has been excluded from the cost absorption figures in Table 3.

### Better Payment Practice Code – NHS Trusts

- 48 The percentage of bills paid in compliance with the better payment practice code in 2005-2006 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%	38	17	50	42
Between 85% and 94.9%	89	49	82	48
Between 75% and 84.9%	48	40	45	47
Between 65% and 74.9%	24	30	28	27
Between 55% and 64.9%	11	33	12	23
Less than 55%	26	67	19	49
Total	236	236	236	236
Overall Performance 2005-2006	77.5%	63.3%	79.5%	72.3%

- 49 In 2005-2006 NHS Trusts paid 77.3% of their non-NHS bills (2004-2005: 82.8%) and 63.3% of their NHS bills by number (79.4% (2004-2005: 83.9%) of non-NHS bills and 72.3% of NHS bills when measured by value) within 30 days/contracted terms. This is in the context of NHS Trusts processing and paying circa 10.6 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.

- 50 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

- 51 There is no single cause of financial problems. The provisional analysis shows that there is very little correlation between the size of deficits and any of the factors relating to funding – including allocations per head, and increases in allocation. Similarly, the analysis suggests there is no trade-off between managing within the budget and improving the quality of patient care. There appears to be no significant relationship between deficits and the Healthcare Commission ratings, and there is no evidence that organisations need to overspend to deliver improved access.
- 52 The concentration of deficits is largely in organisations that overspent in the previous year. This reflects the fact that organisations that get into financial difficulties, and do not address these immediately, find it increasingly difficult to pull back the position as they face income reductions to recover prior-year deficits.

### 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 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<sup>5</sup> 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 is 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 Following the initial assessment, a National Programme Office (NPO) for turnaround was set up in February 2006. The role of the NPO is to provide coordination, review, monitoring and scrutiny of all turnaround projects within the cohort. The turnaround organisations are now receiving tailored and specific support, as appropriate to their requirements. The work of the turnaround teams is ongoing and the Department continues to work closely with those parts of the country that continue to forecast large deficits and through a combination of turnaround and performance management help to reduce the financial risk and reduce the number of organisations still forecasting a deficit.

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5 There are 102 (48 Trusts and 54 PCTs) statutory organisations within the Turnaround cohort but Ipswich PCT and Suffolk Coastal are under joint management and are treated as one organisation, as are Fareham & Gosport PCT and East Hampshire PCT, and three Cumbrian PCT's.

## Special Health Authorities

### NHS Blood and Transplant Authority

59 NHS Blood and Transplant (NHSBT) was established by Statutory Instruments 2005 No. 2529 and No. 2531 on 1 October 2005. The Authority was formed from the merger of the National Blood Authority (NBA) and UK Transplant (UKT). Consequently this is the first summarised account to be prepared for NHSBT, and covers the six month period from 1 October 2005 to 31 March 2006.

60 Comparatives are stated for consolidated closing balances at 30 September 2005, and income and expenditure of the NBA and UKT for the period for the six months ended 30 September 2005. As the accounts for the period ended 30 September 2005 were prepared on a resource accounting basis for UKT, the comparatives have been restated to an income and expenditure basis in line with the NBA and NHSBT.

61 The statutory duties of NHSBT are set out in the Statutory Instruments and include

- a collecting, screening, analysing, processing and supplying blood, blood products, plasma, stem cells and other tissues to the health service;
- b the preparation of blood components and reagents; and
- c facilitating, providing and securing the provision of services to assist tissue and organ transplantation.

62 Core Purpose: NHSBT exists to meet the National Health Service's need for blood and tissue products in England and Wales, and for solid organs and corneas in the United Kingdom, as safely, efficiently, and effectively as practical.

63 The National Blood Service Operating Division

During the six month period the NBS collected 994,600 (April to September 2005: 1,044,400) units of whole blood, from which 946,000 (April to September 2005: 933,300) issuable red cell units were produced. This equated to 95.1% of donations collected. The number of red cells units actually issued was 953,000 (April to September 2005: 987,900), which represented 100% of the number of red cell units requested by hospitals. The difference between issued and produced units is reflected in a reduction in stock during the period.

During the period 110,200 (April to September 2005: 110,300) units of platelets and 192,900 (April to September 2005: 987,900) units of frozen blood component were issued.

64 UK Transplant Operating Division

In the six month period from 1 October 2005 to 31 March 2006, a total of 1,368 solid organ transplants were performed in the UK, 0.7% fewer than in the corresponding period in 2004-2005. A total of 939 patients received a new kidney, a 4% increase on the number in the corresponding six month period in 2004-2005. Of these, 34% received a transplant from a living donor and 10% from a non-heartbeating donor, representing increases of 22% and 33% respectively on 2004-2005.

- A total of 292 patients received a liver transplant, 11% lower than in the same six month period of 2004-2005.
- 130 patients received a cardiothoracic transplant, 12% lower than in same six month period of 2004-2005.
- The number of pancreas transplants increased by 47% to 69 between October 2005 and March 2006.
- A total of 1,193 people had their sight restored by a cornea transplant, an increase of 5% on the same period in 2004-2005.

65 Bio Products Laboratory Operating Division

During the six month period BPL increased overall sales by £6.3m or 24% above the preceding period. In the UK BPL increased IVIg sales by 40% above the preceding period, increasing market share of IVIg by 6% to 54% and its selling price by 12.5%, bringing UK IVIg prices closer to world prices. In Export markets BPL made record sales of coagulation factors, increasing sales by 127% above the preceding six months.

66 Approved or planned future developments

The NHSBT Business Plan 2006-2007 was agreed by the Department of Health on 31 March 2006. That inaugural Plan details the high-level Corporate and Divisional Objectives for the 2006-2007 Business year. The Plan has been generated in parallel with the formulation of the Authority's Outline Strategic Plan. The Authority has agreed, with its Departmental Sponsors, to undertake a review of the Business Plan by October 2006 and realign activities where necessary to the Authority's new Strategic Plan.

67 The Authority recorded a £4,397,000 surplus (6 months to September 2005: £3,765,000 deficit) on an income of £225,989,000 (6 months to September 2005: £212,456,000).

### NHS Logistics Authority

68 The National Health Service Logistics Authority was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977 on 1 April 2000. It evolved from NHS Supplies wholesaling division with a remit to develop from a wholesale operation into the chain of supply operation for the NHS.

69 The role and activities of NHS Logistics remains critical to the NHS, these are

- a to provide the main supply channel for consumable healthcare products to the English NHS;
- b to provide a range of modern supply chain services;
- c to support the delivery of quality health care; and
- d to support the development of a world-class supply chain across the NHS.

70 On the dissolution of the NHS Logistics Authority on 31 March 2006, the functions, responsibilities, assets and employees transferred to the NHS Business Services Authority. From 1 April, the NHS Logistics' business continues to operate as a division of the NHS Business Services Authority. In March 2006, Ministers accepted that there was, subject to final negotiations with the preferred bidder, a compelling case for outsourcing. The final contract was awarded with the contracting out of business activities to DHL in the summer of 2006. The contract will be managed by a newly formed Supply Chain Management Division, a small informed buyer/contract management body, within the NHS Business Services Authority.

71 The Authority achieved a surplus of £1,429,000 (2004-2005: £722,000) on turnover of £783,050,000 (2004-2005: £730,309,000). All revenue income was derived from sales or fees, with £800,000 received from the Department for capital from Request for Resources 1.

### NHS Professionals

72 This body was constituted as a Special Health Authority on 1 January 2004 under section 11 of the National Health Service Act 1977 by SI 2003 No 3059. The Authority became fully operational on 1 April 2004.

73 The Authority was established to manage and recruit a flexible workforce in the National Health Service in an efficient and cost effective way.

74 For 2005-2006 NHS Professionals' priority has been to improve delivery standards, whilst supporting the implementation of new and harmonised processes. The organisation has been pursuing the objectives of its first year business plan, while delivering a high quality and valued service to a growing base of customers. These objectives include

- Improving competence and delivery standards, whilst supporting the implementation of new and harmonised processes;
  - Making internal and external stakeholders aware of how NHS Professionals is changing and growing and potentially what is in it for them;
  - Building a robust base of people practices and competent staff that will enable sustainable growth and a consistently high performing service;
  - Implementing planned estate changes that will deliver cost efficiency and customer satisfaction;
  - Implementing technology infrastructure changes that deliver a platform for sustainable growth and a consistently high performing service from 2006 onwards; and
  - Establishing a working capital mechanism and exploring options for an organisational status appropriate to NHS Professionals, plans for development and growth.
- 75 The Authority achieved a surplus of £20,653,000 (2004-2005: £1,267,000) on turnover of £272,696,000 (2004-2005: £229,327,000). The financial position included revenue grant-in-aid of £23 million from the Department of Health to fund additional working capital requirements.

## NHS Direct

- 76 NHS Direct was established as a special health authority on 1 April 2004 under section 11 of the National Health Service Act 1977 by SI 2004 No 569. The Authority was established to provide such functions in connection with the provision of health related information and advice, and such other functions, as the Secretary of State may direct.
- 77 NHS Direct is also ready to offer a wider range of enhanced services which can help meet local health objectives through deepening relationships with NHS commissioners. In doing so, they recognise that those services must be cost effective, demonstrate clear value and genuinely respond to local need. As a result the business plan for the next three years reflects the following strategic objectives
- to improve access to NHS Direct through all channels including the achievement of all national operational performance targets;
  - to deliver high quality services which are safe, fair, responsive to need and clinically effective;
  - to develop services in line with the opportunities offered by the Our health, our care, our say White Paper for reshaping access to health and social care, including the launch of Health Direct;
  - to position NHS Direct as THE digital portal for health information;
  - to increase the contribution made to the delivery of local health and social care objectives through the delivery of a range of enhanced services to support both primary and secondary care;
  - to ensure effective financial control and balance;
  - to complete the refresh of NHS Direct's technology platforms to support future developments;
  - to deliver a national HR strategy that fully supports the operational needs of the service and addresses issues around skill mix; and
  - to deliver an effective organisational change programme which delivers significant improvements in productivity and unit costs and delivers the final recommendations of the review of arm's length bodies.
- 78 The Authority reported a surplus of £4,420,000 in 2005-2006 on turnover of £155,736,000 (2004-2005: Restated surplus of £2,829,000 on restated turnover of £150,180,000).



## Developments

- 79 A number of special health authorities were dissolved during the 2005-2006 financial year and on 31 March 2006 or merged with other special health authorities as a result of the review of the Department's arm's length bodies.
- 80 The following changes occurred on 31 March 2006: NHS Logistics, NHS Counter Fraud and Security Management Service, NHS Pensions Agency, the Dental Practice Board and the Prescription Pricing Authority were dissolved and established as the NHS Business Services Authority; the Dental Vocational Training Agency was dissolved. Further details can be found in *An Implementation Framework for Reconfiguring the DH Arm's Length Bodies*, November 2004.
- 81 In July 2005 a letter was sent to the NHS and local authorities building on the *NHS Improvement Plan* and *Creating a Patient-Led NHS* titled '*Commissioning a Patient-Led NHS*'. This included changes in function and consequential structure changes in order to deliver improvements in health and services. Following consultations, legislation has now been made to reduce the number of SHAs from 28 to 10 from 1 July 2006, the number of PCTs from 303 to 152 from 1 October 2006 and the number of Ambulance Trusts from 25 to 9.

*David Nicholson CBE*  
Accounting Officer

30 November 2006

# Summarised Account of the Strategic Health Authorities

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury.

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

In preparing the accounts the Accounting Officer is required to

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

The Treasury have appointed the 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 effective systems of internal control that support the achievement of their policies, aims and objectives and that they review the effectiveness of those systems.

### 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 2005-2006 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. I have issued guidance to SHAs describing the principles to be applied to the identification, evaluation and control of risk. For 2005-2006 all SHAs were required to have in place Assurance Frameworks that set out the strategic and high level directorate risks 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.

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 2006 all 28 SHAs were providing evidence that a system of internal control was in place and that SHAs have maintained the significant improvements achieved in 2004-2005.

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	Distribution of gaps in assurance
Financial controls	32%	39%
Organisational controls	42%	39%
Clinical controls	26%	21%
	100%	100% <sup>1</sup>

The Department performance managed the ongoing development of the SHAs' Assurance Frameworks and the actions taken to address significant gaps in control or assurance.

### 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 two SHAs' SICs where they had not specifically 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. I am aware that the appointed auditors of a number of SHAs issued public interest reports in respect of the financial position within the local health economy.

My review also noted that one SHA's accounts were qualified on regularity as it had made a loan to another NHS body in the absence of statutory powers to do so.

<sup>1</sup> Percentages do not add to 100 because of rounding.

### Significant control issues

No significant control issues were disclosed by any SHA for their own organisation but two SHAs identified issues in their local health economy.

### Conclusion

The ongoing development of Assurance Frameworks, with all 28 SHAs assessed as having systems of internal control in place, has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are managing their risks. SHAs were able to demonstrate they have maintained the significant progress made in 2004-2005.

*David Nicholson CBE*  
Accounting Officer

30 November 2006

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

I certify that I have audited the financial statements of the Strategic Health Authorities for the year ended 31 March 2006 under the National Health Services Act 1977. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 section 98 (4) of the National Health Service Act 1977 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 they have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and HM Treasury directions made thereunder. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages A3 to A5 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to 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

### In my opinion

- the financial statements give a true and fair view, in accordance with section 98 (4) of the National Health Service Act 1977 and directions made thereunder by HM Treasury, of the state of the affairs of the Strategic Health Authorities as at 31 March 2006 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 section 98 (4) of the National Health Service Act 1977 and HM Treasury directions issued thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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



## Operating Cost Statement for the year ended 31 March 2006

### Continuing operations

	Notes	<b>2005-2006</b> £000	2004-2005 £000
Authority operating costs	2.1	<b>4,011,533</b>	3,799,202
Operating income	3	<b>(172,032)</b>	(112,306)
<b>Net operating costs</b>		<b><u>3,839,501</u></b>	<u>3,686,896</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2006

		<b>2005-2006</b> £000	2004-2005 £000
Unrealised surplus on the revaluation of fixed assets	11	<b>1,513</b>	12,558
Net transfer to NHS bodies and Department of Health	12	<b>(16,352)</b>	(7,659)
<b>Recognised (losses) and gains for the financial year</b>		<b><u>(14,839)</u></b>	<u>4,899</u>

*The notes at pages A11 to A23 form part of this account*

## Balance Sheet as at 31 March 2006

	Notes	<b>31 March 2006 £000</b>	31 March 2005 £000
<b>Fixed assets</b>			
Intangible assets	4.1	<b>266</b>	327
Tangible assets	4.2	<b>44,404</b>	62,572
		<b>44,670</b>	62,899
<b>Current assets</b>			
Debtors	5	<b>132,375</b>	106,066
Cash at bank and in hand	14	<b>537</b>	256
		<b>132,912</b>	106,322
<b>Creditors: amounts falling due within one year</b>	6	<b>(214,018)</b>	(173,038)
<b>Net current (liabilities)</b>		<b>(81,106)</b>	(66,716)
<b>Total assets less current liabilities</b>		<b>(36,436)</b>	(3,817)
<b>Creditors: amounts falling due after more than one year</b>	7	<b>(492)</b>	(1,504)
<b>Provisions for liabilities and charges</b>	8	<b>(15,524)</b>	(23,067)
		<b>(52,452)</b>	(28,388)
<b>Taxpayers' equity</b>			
General Fund	12	<b>(71,037)</b>	(52,516)
Revaluation reserve	11	<b>18,585</b>	24,128
		<b>(52,452)</b>	(28,388)

*The notes at pages A11 to A23 form part of this account*

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year Ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
<b>Net cash (outflow) from operating activities</b>	15	<b>(3,834,620)</b>	(3,616,193)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire fixed assets		(1,429)	(1,577)
Receipts from the sale of fixed assets		4,216	8,887
<b>Net cash inflow from investing activities</b>		<b>2,787</b>	7,310
<b>Net cash (outflow) before financing</b>		<b>(3,831,833)</b>	(3,608,883)
<b>Analysis of Financing</b>			
Net Parliamentary Funding	12	3,831,948	3,608,810
<b>Increase/(decrease) in cash</b>	14	<b>115</b>	(73)

*The notes at pages A11 to A23 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 2005-2006 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 2005-2006 was 3.5% (2004-2005: 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; and

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

b Valuation

*Intangible fixed assets*

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

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

*Tangible fixed assets*

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

i Land 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; and
  - 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; and
- v Each equipment asset is depreciated evenly over the expected useful life.

	Years
<i>Plant and machinery</i>	
Moveable engineering plant and equipment and long life medical equipment	15
Furniture and medium life medical equipment	10
Short life medical and other equipment	5
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology	5
Transport equipment	7
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7

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 a cash 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).

## 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 the Secretary of State, in England and Wales. As a consequence it is not possible for the strategic health authority to identify its share of the underlying scheme liabilities. 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 total employer contribution payable in 2005-2006 was £23,369,000 (2004-2005 £19,949,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. It was recommended that employers' contributions remain at 7% of pensionable pay until 31 March 2003 and then be increased to 14% of pensionable pay with effect from 1 April 2003. These contributions are currently being reviewed as part of the investigation at 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities on an annual basis. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

NHS bodies are directed by the Secretary of State to charge employers' pension costs contributions to operating expenses as and when they become due. Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates from 2004-2005 were set at 14% of pensionable pay (2003-2004 14%).

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

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

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

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

## 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% (2004-2005 3.5%) in real terms.

## 2.1 Authority operating costs

	Notes	2005-2006 £000	2004-2005 £000
<i>The expenses of the authorities were</i>			
Non-executive members' remuneration		<b>1,675</b>	1,761
Other staff costs		<b>236,173</b>	206,170
Premises and fixed plant		<b>53,460</b>	31,597
Establishment costs		<b>26,036</b>	23,987
Training costs		<b>3,520,763</b>	3,411,093
Transport and moveable plant		<b>829</b>	671
External contractors		<b>20,764</b>	15,107
Capital: Depreciation	4.1, 4.2	<b>2,985</b>	2,233
Impairments	4.1	<b>4</b>	375
Capital charge interest		<b>(1,672)</b>	159
(Profit) on disposal of fixed assets		<b>(4)</b>	(8)
		<b>1,313</b>	2,759
Auditors' remuneration - Audit fee <sup>1</sup>		<b>3,294</b>	2,955
Auditors' remuneration - Other fees		<b>206</b>	187
Interest payable		<b>82</b>	68
Unwinding of discount on provisions	8	<b>173</b>	309
Change in the discount rate	8	<b>563</b>	0
Miscellaneous		<b>146,202</b>	102,538
		<b>4,011,533</b>	3,799,202

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 Late Payment of Commercial Debts (Interest) Act 1998*

£2,000 was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2004-2005: £1,000). No compensation was paid to cover debt recovery costs under this legislation (2004-2005: £NIL).

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
<i>Hire and operating rentals included in expenses</i>		
Hire of plant and machinery	<b>555</b>	535
Other operating leases	<b>11,065</b>	11,184
	<b>11,620</b>	11,719

*Executive members and staff costs*

	<b>2005-2006</b>	<b>Permanently</b>	<b>Other</b>	2004-2005
	<b>Total</b>	<b>employed</b>	<b>£000</b>	Total
	<b>£000</b>	<b>£000</b>	<b>£000</b>	£000
Salaries and wages	<b>195,778</b>	<b>157,309</b>	<b>38,469</b>	171,662
Social security costs	<b>16,579</b>	<b>15,639</b>	<b>940</b>	14,557
Employer contributions to NHS Pensions Agency	<b>23,369</b>	<b>22,114</b>	<b>1,255</b>	19,949
Other pension costs	<b>447</b>	<b>447</b>	<b>0</b>	2
	<b>236,173</b>	<b>195,509</b>	<b>40,664</b>	206,170

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

	<b>2005-2006</b>	<b>Permanently</b>	<b>Other</b>	2004-2005
	<b>Total</b>	<b>employed</b>	<b>Number</b>	Total
	<b>Number</b>	<b>Number</b>	<b>Number</b>	Number
Total	<b>4,596</b>	<b>3,931</b>	<b>665</b>	4,499

**Retirements due to ill-health**

During the year, five employees retired due to ill health (2004-2005: 13). The additional pension liabilities for these staff is estimated at £300,000 (2004-2005: £870,000) (calculated on an average basis and borne by the NHS Pension Scheme).

**Employee benefits**

The amount spent on employee benefits during the year totalled £353,000 (2004-2005: £322,000).

**2.2 Segmental reporting**

	SHA Activities	WDC	Other	Total
	£000	£000	£000	£000
Net operating costs	239,714	3,553,137	46,650	3,839,501
Net assets at 31 March 2006	23,624	(70,868)	(5,208)	(52,452)

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

**2.3 Performance against Revenue Resource Limit**

	<b>2005-2006</b> <b>£000</b>	2004-2005 £000
Net operating costs	<b>3,839,501</b>	3,686,896
Revenue resource limit	<b>4,365,742</b>	4,059,632
Underspend against revenue resource limit	<b><u>526,241</u></b>	<u>372,736</u>

**3 Operating income**

	<b>2005-2006</b> <b>£000</b>	2004-2005 £000
Fees and charges	<b>11,906</b>	6,399
Other	<b>160,126</b>	105,907
	<b><u>172,032</u></b>	<u>112,306</u>

**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 2005	474
Additions purchased	139
<b>Gross cost at 31 March 2006</b>	<b><u>613</u></b>
Accumulated amortisation at 31 March 2005	147
Charged in year	196
Impairments	4
<b>Accumulated amortisation at 31 March 2006</b>	<b><u>347</u></b>
Net book value at 31 March 2005	<u>327</u>
<b>Net book value at 31 March 2006</b>	<b><u>266</u></b>

**4.2 Tangible fixed assets**

	<b>Total</b>	Land	Buildings exc dwellings	Dwellings	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000	£000	£000
Cost or valuation 31 March 2005	<b>68,435</b>	29,326	28,242	111	277	167	8,225	2,087
Transfers (to) NHS bodies/ NHS Estates	<b>(16,369)</b>	(14,887)	(1,364)	(113)	0	0	(5)	0
Additions - purchased	<b>1,146</b>	0	235	0	7	0	886	18
Reclassification	<b>0</b>	0	0	0	37	0	(39)	2
Indexation	<b>2,009</b>	1,463	498	2	2	3	0	41
Other in-year revaluation	<b>(469)</b>	(77)	(392)	0	0	0	0	0
Disposals	<b>(2,401)</b>	(361)	(1,336)	0	0	0	(683)	(21)
<b>Gross cost at 31 March 2006</b>	<b>52,351</b>	<b>15,464</b>	<b>25,883</b>	<b>0</b>	<b>323</b>	<b>170</b>	<b>8,384</b>	<b>2,127</b>
Accumulated depreciation at 31 March 2005	<b>5,863</b>	0	0	0	207	159	4,906	591
Transfers to NHS bodies/NHS Estates	<b>(19)</b>	0	(9)	(5)	0	0	(5)	0
Charged in year	<b>2,789</b>	0	1,083	5	27	4	1,268	402
Reclassification	<b>0</b>	0	0	0	8	0	(8)	0
Indexation	<b>27</b>	0	15	0	0	3	0	9
Disposals	<b>(713)</b>	0	(9)	0	0	0	(683)	(21)
<b>Accumulated depreciation at 31 March 2006</b>	<b>7,947</b>	<b>0</b>	<b>1,080</b>	<b>0</b>	<b>242</b>	<b>166</b>	<b>5,478</b>	<b>981</b>
Net book value at 31 March 2005	<b>62,572</b>	29,326	28,242	111	70	8	3,319	1,496
<b>Net book value at 31 March 2006</b>	<b>44,404</b>	<b>15,464</b>	<b>24,803</b>	<b>0</b>	<b>81</b>	<b>4</b>	<b>2,906</b>	<b>1,146</b>

There were no assets under construction or payments on account in the reporting period.

*The net book value of land and buildings at 31 March 2006 comprised*

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Freehold	<b>38,627</b>	56,504
Long leasehold	<b>582</b>	656
Short leasehold	<b>1,058</b>	519
	<b>40,267</b>	57,679

No assets in 2005-2006 or 2004-2005 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 2005-2006 or 2004-2005.

**5 Debtors**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
NHS debtors	<b>84,203</b>	51,596
Prepayments	<b>18,498</b>	26,022
Accrued income	<b>1,592</b>	1,950
Provision for irrecoverable debts	<b>(133)</b>	(259)
Capital debtors	<b>834</b>	3,358
Other debtors	<b>27,381</b>	23,399
	<b>132,375</b>	106,066

**6 Creditors: Amounts falling due within one year**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Bank overdrafts	<b>183</b>	17
NHS creditors	<b>127,399</b>	103,965
Non-NHS trade creditors	<b>50,307</b>	32,480
Payments received on account	<b>318</b>	1,270
Income tax and social security	<b>3,838</b>	3,052
Capital creditors	<b>29</b>	172
Rentals due under operating leases	<b>28</b>	0
Pensions – relating to former directors	<b>237</b>	325
– relating to other staff	<b>1,437</b>	1,965
Other creditors	<b>30,242</b>	29,792
	<b>214,018</b>	173,038

**7 Creditors: Amounts falling due after more than one year**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Pensions relating to former directors	<b>19</b>	296
Pensions relating to other staff	<b>473</b>	1,183
Other	<b>0</b>	25
	<b>492</b>	1,504

**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	<b>Total £000</b>
At 31 March 2005	2,541	7,940	385	2,646	9,555	<b>23,067</b>
Arising during the year	22	623	1,818	311	2,747	<b>5,521</b>
Utilised during the year	(327)	(1,275)	(461)	(995)	(6,740)	<b>(9,798)</b>
Reversal unused	(146)	573	(51)	(607)	(2,625)	<b>4002</b>
Unwinding of discount	60	96	0	10	7	<b>173</b>
Change in the discount rate	191	370	0	0	2	<b>563</b>
<b>At 31 March 2006</b>	<b>2,341</b>	<b>7,181</b>	<b>1,691</b>	<b>1,365</b>	<b>2,946</b>	<b>15,524</b>

*Expected timing of cashflows*

Within one year	307	1,715	1,690	648	2,132	<b>6,492</b>
Within one to five years	1,338	2,368	0	0	350	<b>4,056</b>
Over five years	696	3,098	1	717	464	<b>4,976</b>

£754,777,000 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**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
<b>Commitments under non-cancellable operating leases which expire</b>		
<i>Land and buildings</i>		
Within one year	<b>1,205</b>	1,650
Between one and five years	<b>5,484</b>	5,878
After five years	<b>11,452</b>	8,127
	<b>18,141</b>	15,655
Other leases		
<b>Commitments under non-cancellable operating leases which expire</b>		
Within one year	<b>467</b>	227
Between one and five years	<b>1,088</b>	1,207
After five years	<b>0</b>	0
	<b>1,555</b>	1,434

**11 Revaluation reserve**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>24,128</b>	14,857
Revaluations and indexation	<b>1,513</b>	12,558
Transfers to General Fund – realised elements	<b>(7,056)</b>	(3,287)
<b>Balance at 31 March</b>	<b>18,585</b>	24,128

**12 General Fund**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>(52,516)</b>	29,783
Net operating cost for the year	<b>(3,839,501)</b>	(3,686,896)
Net Parliamentary funding	<b>3,831,948</b>	3,608,810
Transfer to NHS bodies/NHS Estates	<b>(16,352)</b>	(7,659)
Transfers from Revaluation Reserve	<b>7,056</b>	3,287
Capital charges interest	<b>(1,672)</b>	159
<b>Balance at 31 March</b>	<b>(71,037)</b>	(52,516)

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
(Increase)/decrease in debtors	<b>(28,833)</b>	29,742
Increase in creditors	<b>39,944</b>	34,250
<b>Net decrease in working capital other than cash</b>	<b>11,111</b>	63,992

**14 Analysis of changes in net debt**

	As at 31 March 2005 £000	Cash flows £000	As at 31 March 2006 £000
Cash at OPG	237	286	<b>523</b>
Cash at commercial bank and in hand	19	(5)	<b>14</b>
Bank overdraft	(17)	(166)	<b>(183)</b>
	<u>239</u>	<u>115</u>	<u>354</u>
Debt due within one year	0	0	<b>0</b>
Debt due after one year	0	0	<b>0</b>
	<u>239</u>	<u>115</u>	<u><b>354</b></u>

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

	Notes	2005-2006 £000	2004-2005 £000
Net operating cost		<b>(3,839,501)</b>	(3,686,896)
Adjustment for non-cash transactions		<b>3,568</b>	2,759
Adjustment for movements in working capital other than cash	13	<b>11,111</b>	63,992
Use of provisions	8	<b>(9,798)</b>	3,952
<b>Net cash (outflow) from operating activities</b>		<b><u>(3,834,620)</u></b>	<u>(3,616,193)</u>

**16 Contingent liabilities**

	31 March 2006 £000	31 March 2005 £000
Authorities reported contingent liabilities as follows		
Contingent liabilities	<b>(4)</b>	(1,188)
Amounts recoverable	<b>0</b>	0
	<u><b>(4)</b></u>	<u>(1,188)</u>

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

**17 Capital commitments**

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

	31 March 2006 £000	31 March 2005 £000
Contracted	<b>0</b>	4
Authorised but not contracted	<b>67</b>	211
	<u><b>67</b></u>	<u>215</u>

**18 Other commitments**

Strategic health authorities have not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2006 (2004-2005: £nil).

## **19 Losses and special payments**

There were 84 cases of losses and special payments (2004-2005: 79 cases) totalling £897,000 (2004-2005: £696,000) approved during 2005-2006. There were no individual cases where the net payment exceeded £250,000 (2004-2005: 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 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 28 underlying NHS bodies. It is within the underlying accounts of these 28 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**

The 28 strategic health authorities were dissolved on 30 June 2006 and 10 new larger strategic health authorities established on 1 July 2006.

**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	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
<b>At 31 March 2006</b>	<b>153,896</b>	<b>0</b>	<b>214,018</b>	<b>492</b>
	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	22,723	0	19,868	177
Balances with local authorities	572	0	164	0
Balances with NHS Trusts	38,960	2,740	87,626	0
Balances with public corporations and trading funds	1,533	0	1,888	484
Balances with bodies external to government	39,538	0	63,492	843
At 31 March 2005	<b>103,326</b>	<b>2,740</b>	<b>173,038</b>	<b>1,504</b>





# Summarised Account of Primary Care Trusts

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of Primary Care Trusts at the year end and their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

The Treasury have appointed the 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 effective systems of internal control that support the achievement of their policies, aims and objectives and that they review the effectiveness of those systems.

### 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 2005-2006 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 are assigned to clinical directors and financial risks to the finance director. A number of the PCTs recorded that they 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's guidance describes the principles to be applied to the identification, evaluation and control of risk. For 2005-2006 all PCTs were required to have in place Assurance Frameworks that set out the strategic and high level directorate risks 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.

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 that at 31 March 2006

- 299 (99%) of PCTs were providing evidence that a system of internal control was in place; and
- four (1%) of PCTs were not providing evidence that a sufficiently complete system of internal control was in place at 31 March 2006.

The numbers represent an improvement on the 2003-2004 and 2004-2005 year end positions where, respectively, 12 and 13 PCTs did not have a sufficiently complete system of internal control 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

Area	Distribution of gaps in control	Distribution of gaps in assurance
Financial controls	30%	26%
Organisational controls	47%	50%
Clinical controls	23%	24%
	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 PCTs 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 small number of PCTs had not included HOIA limited assurance opinion in some specific audit areas 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 mainly in respect of the PCTs' financial situation.

My review also drew on the Auditors' Local Evaluation 2005-2006 assessments coordinated by the Audit Commission. This assesses how well NHS trusts and PCTs managed and used their financial resources. The assessment shows that 63% of PCTs demonstrated adequate or more than adequate performance in their use of resources, while 37% failed to meet the minimum requirements. The main cause of this was the number of PCTs assessed as having inadequate financial standing (a direct consequence of the number of deficits incurred in 2005-2006).

My review also noted that 110 PCTs' accounts were qualified on regularity for breaches of statutory duty. Of these, 109 were solely in respect of spending in excess of resource limits.

### Significant control issues

My review of effectiveness concluded that there were no significant control issues excepting those related to PCTs' financial position and the need to improve PCT financial management processes. 54 PCTs disclosed 89 significant control issues in their SICs and, of these, about sixty percent were concerned with the financial position of the PCT. The Department has established a centrally managed turnaround programme to support a number of PCTs to ensure delivery of key targets and financial balance.

### Performance management by SHAS

SHAs will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by PCTs to provide the structured evidence to support statements for 2006-2007.

### Conclusion

The ongoing development of Assurance Frameworks, with 99% being assessed by SHAs (96% in 2004-2005) as having systems of internal control in place, has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are controlling their business and risks to it. PCTs have made further progress on last years high levels.

*David Nicholson CBE*  
Accounting Officer

30 November 2006

# 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 Primary Care Trusts for the year ended 31 March 2006 under the National Health Service Act 1977. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 section 98 (4) of the National Health Service Act 1977 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 they have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and HM Treasury directions made thereunder. 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. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages B3 to B5 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover all risks and controls, or to 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

In my opinion

- the financial statements give a true and fair view, in accordance with section 98 (4) of the National Health Service Act 1977 and directions made thereunder by HM Treasury of the state of affairs of the Primary Care Trusts as at 31 March 2006 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 section 98 (4) of the National Health Service Act 1977 and HM Treasury directions issued thereunder; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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



## Operating Cost Statement for the year ended 31 March 2006

### Continuing operations

	Notes	2005-2006 £000	2004-2005 £000
Programme costs	2.1	<b>67,782,030</b>	62,769,808
Operating income	4	<b>(2,818,349)</b>	(2,886,285)
<b>Net operating cost for the financial year</b>		<b><u>64,963,681</u></b>	<u>59,883,523</u>

## Statement of Recognised Gains and Losses for the year ended 31 March 2006

		2005-2006 £000	2004-2005 £000
Unrealised surplus on the indexation and revaluation of fixed assets	13.2 – 13.4	<b>156,977</b>	1,054,303
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	13.3, 13.4	<b>13,942</b>	14,464
Net increase in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	13.1	<b>41,611</b>	30,061
Increase in the donated asset reserve and Government grant reserve due to transfer of assets from NHS bodies	13.3	<b>43</b>	0
Fixed asset impairment losses	13.2	<b>(29,937)</b>	(26,608)
(Reductions) to other reserves	13.2 – 13.5	<b>(1,233)</b>	(28,502)
<b>Recognised gains for the financial year</b>		<b><u>181,403</u></b>	<u>1,043,718</u>

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

## Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
<b>Fixed assets</b>			
Intangible assets	6.1	<b>8,560</b>	6,321
Tangible assets	6.2	<b>5,981,118</b>	5,690,721
Investments	6.5	<b>18,596</b>	13,464
		<b>6,008,274</b>	5,710,506
<b>Current assets</b>			
Stocks and work in progress	7	<b>22,492</b>	19,820
Debtors	8	<b>1,143,342</b>	1,077,374
Cash at bank and in hand	9	<b>22,277</b>	7,515
		<b>1,188,111</b>	1,104,709
<b>Creditors: amounts falling due within one year</b>	10.1	<b>(5,298,699)</b>	(4,630,097)
<b>Net current (liabilities)</b>		<b>(4,110,588)</b>	(3,525,388)
<b>Total assets less current liabilities</b>		<b>1,897,686</b>	2,185,118
Creditors: amounts falling due after more than one year	10.2	<b>(109,916)</b>	(45,164)
Provisions for liabilities and charges	11	<b>(558,103)</b>	(688,156)
		<b>1,229,667</b>	1,451,798
<b>Taxpayers' equity</b>			
General Fund	13.1	<b>(867,757)</b>	(542,298)
Revaluation reserve	13.2	<b>1,966,809</b>	1,876,255
Donated asset reserve	13.3	<b>100,900</b>	98,195
Government grant reserve	13.4	<b>30,766</b>	21,550
Other reserves	13.5	<b>(1,051)</b>	(1,904)
		<b>1,229,667</b>	1,451,798

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

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
<b>Net cash (outflow) from operating activities</b>	14	<b>(64,183,074)</b>	(58,850,817)
<b>Servicing of finance</b>			
Interest received		292	2
Interest (paid)		(904)	0
Interest element of finance leases		(3,072)	(1,618)
Net cash (outflow) from servicing of finance		(3,684)	(1,616)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		(6,948)	(3,398)
Receipts from sale of intangible fixed assets		127	0
(Payments) to acquire tangible fixed assets		(459,125)	(443,464)
Receipts from disposal of tangible fixed assets		139,756	165,984
(Payments) to acquire fixed asset investments		(6,889)	(9,568)
Receipts from disposal of fixed asset investments		2,944	42
<b>Net cash (outflow) from investing activities</b>		<b>(330,135)</b>	(290,404)
<b>Net cash (outflow) before financing</b>		<b>(64,516,893)</b>	(59,142,837)
<b>Financing</b>			
Net Parliamentary funding		64,509,682	59,112,898
Capital grants received		16,484	9,118
Capital element of finance leases		(567)	(519)
Other capital receipts surrendered		(150)	(22)
Cash transfers from other NHS bodies		1,785	475
<b>Increase/(decrease) in cash in the period</b>	9	<b>10,341</b>	(20,887)

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 2005-2006 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 2005-2006 was 3.5% (2004-2005 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 are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer.

Leaseholds are depreciated over the primary lease term.

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

	Years
<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology equipment	5
<i>Transport equipment</i>	7
<i>Plant and machinery</i>	
Moveable engineering plant and long life medical equipment	15
Medium life medical equipment	10
Short life medical and other equipment	5

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

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 costs to their value in existing use when they become operational. This may lead to a negative revaluation reserve in certain circumstances

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 a cash 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).

### 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 primary care trusts to identify their share of the underlying scheme 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 total employer contribution payable in 2005-2006 was £641,225,000 (2004-2005 £565,322,000). Employees pay contributions of 6% (manual staff 5%) of their pensionable pay.

The notional surplus of the scheme is £1.1 billion as per the last scheme valuation by the Government Actuary for the period 1 April 1994 to 31 March 1999. The conclusion of the valuation was that the scheme continues to operate on a sound financial basis. Employers' contribution rates are 14%, these contributions are currently being reviewed as part of the investigation as at 31 March 2004.

The Scheme is subject to a full valuation every four years. The last valuation took place as at 31 March 2003. Between valuations, the Government Actuary provides an update of the scheme liabilities. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhspa.gov.uk](http://www.nhspa.gov.uk). Copies can also be obtained from The Stationery Office.

Employer contribution rates are reviewed every four years following a scheme valuation carried out by the Government Actuary. On advice from the actuary the contribution may be varied from time to time to reflect changes in the scheme's liabilities. At the last valuation on which contribution rates were based (31 March 1999) employer contribution rates from 2003-2004 were set at 14% of pensionable pay.

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

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

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

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

## **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 SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. 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 (2004-2005: 3.5%).

### **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 NSHLA on behalf of primary care trusts is disclosed in 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 General Dental Services and Personal Dental Services by the Dental Practice Board, and Pharmaceutical Services by the Prescription Pricing Authority. These three 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.

**2.1 Programme costs**

	Notes	2005-2006 £000	2004-2005 £000
Goods and services from NHS bodies		<b>30,651,980</b>	30,535,930
Goods and services from NHS Foundation Trusts		<b>5,479,561</b>	3,454,588
Staff costs		<b>6,190,404</b>	5,571,300
Board members	2.2	<b>193,904</b>	182,615
Capital: Depreciation and amortisation	6.1, 6.2	<b>211,748</b>	189,762
Impairments and reversals	6.1, 6.2	<b>18,930</b>	22,389
Capital charges interest		<b>55,657</b>	40,395
(Profit) on disposal	6.7	<b>(28,557)</b>	(4,411)
		<b>257,778</b>	248,135
Premises and fixed plant		<b>509,586</b>	435,081
Establishment expenses		<b>403,357</b>	407,383
Transport and moveable plant		<b>41,108</b>	36,520
Supplies and services – clinical		<b>448,888</b>	404,766
Supplies and services – general		<b>150,141</b>	144,327
Prescribing costs		<b>7,463,658</b>	7,375,763
GMS, PMS, APMS and PCTMS		<b>6,772,754</b>	6,003,060
Personal dental services (PDS) pilots		<b>788,896</b>	225,285
Non-GMS services from GPs		<b>34,415</b>	38,121
Pharmaceutical services		<b>1,161,048</b>	989,215
General dental services		<b>1,446,890</b>	1,671,374
General ophthalmic services		<b>360,120</b>	340,756
Expenditure on drugs action teams		<b>236,349</b>	194,726
Social care from independent providers		<b>302,586</b>	288,301
Purchase of healthcare from non-NHS bodies		<b>4,091,792</b>	3,353,031
Expenditure on NHS trust impairments		<b>103,277</b>	89,041
Interest payable		<b>4,008</b>	1,876
Other finance costs – unwinding of discount		<b>10,171</b>	13,843
Other finance costs – change in the discount rate		<b>47,697</b>	0
Auditor's remuneration: Audit Fees <sup>1</sup>		<b>35,079</b>	32,945
Auditor's remuneration: Other Fees		<b>2,209</b>	3,064
Miscellaneous		<b>594,374</b>	728,762
		<b>67,782,030</b>	62,769,808

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 Late Payment of Commercial Debts (Interest) Act 1998

	2005-2006 £000	2004-2005 £000
Amounts included within interest payable arising from claims made under this legislation	<b>24</b>	18
Compensation paid to cover debt recovery costs under this legislation	<b>2</b>	1

**2.2 Board members' remuneration**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
PCT Board members' remuneration	<b>160,119</b>	149,100
Non-officer members' remuneration	<b>33,785</b>	33,515
Total remuneration	<b>193,904</b>	182,615

**2.3 Staff costs**

Executive members' remuneration and staff costs

	<b>2005-2006</b>		<b>Other</b>	2004-2005
	<b>Total</b>	<b>Permanently</b>		<b>Total</b>
	<b>£000</b>	<b>employed</b>	<b>£000</b>	<b>£000</b>
		<b>£000</b>		
Salaries and wages	<b>5,479,659</b>	<b>5,049,054</b>	<b>430,605</b>	4,659,880
Social security costs	<b>390,723</b>	<b>385,224</b>	<b>5,499</b>	335,700
Employer contributions to NHSPA	<b>641,225</b>	<b>633,137</b>	<b>8,088</b>	565,322
Other pension costs	<b>12,051</b>	<b>11,834</b>	<b>217</b>	10,398
	<b>6,523,658</b>	<b>6,079,249</b>	<b>444,409</b>	5,571,300

The total staff costs will not agree with the figures in Note 2.1 as an element of staff expenditure is included in board member costs and in GMS, PMS, APMS and PCTMS expenditure.

**2.4 Employee benefits**

The amount spent on employee benefits during the year totalled £1,121,000 (2004-2005: £856,000).

**2.5 Retirements due to ill-health**

During 2005-2006 there were 396 early retirements from PCTs on the grounds of ill-health (2004-2005: 527). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £20,927,000 (2004-2005: £28,195,000).

**2.6 Average number of persons employed**

	<b>2005-2006</b>		<b>Other</b>	2004-2005
	<b>Total</b>	<b>Permanently</b>		<b>Total</b>
	<b>£000</b>	<b>employed</b>	<b>£000</b>	<b>£000</b>
		<b>£000</b>		
Medical and dental	<b>6,046</b>	<b>5,306</b>	<b>740</b>	5,887
Administration and estates	<b>61,199</b>	<b>56,805</b>	<b>4,394</b>	57,621
Healthcare assistants and other support staff	<b>18,450</b>	<b>17,232</b>	<b>1,218</b>	17,094
Nursing, midwifery and health visiting staff	<b>78,207</b>	<b>74,165</b>	<b>4,042</b>	75,324
Nursing, midwifery and health visiting learners	<b>3,452</b>	<b>3,243</b>	<b>209</b>	3,967
Scientific, therapeutic and technical staff	<b>29,662</b>	<b>28,053</b>	<b>1,609</b>	28,185
Social care staff	<b>2,395</b>	<b>2,147</b>	<b>248</b>	2,157
Other	<b>4,068</b>	<b>3,762</b>	<b>306</b>	3,699
	<b>203,479</b>	<b>190,713</b>	<b>12,766</b>	193,934

### 3 Healthcare and related services commissioned

#### 3.1 Primary healthcare commissioned by primary care trusts

	<b>2005-2006</b> <b>£000</b>	2004-2005 £000
GMS, PMS, APMS and PCTMS	<b>6,786,611</b>	5,904,621
Prescribing costs	<b>7,466,319</b>	7,375,763
Pharmaceutical services	<b>1,162,429</b>	965,623
General dental services	<b>1,447,713</b>	1,671,374
General ophthalmic services	<b>358,705</b>	340,756
Department of Health initiative funding	<b>9,543</b>	11,673
PDS pilots	<b>758,710</b>	195,825
Non-GMS services from GPs	<b>40,794</b>	38,121
Other	<b>121,880</b>	95,091
<b>Total primary healthcare commissioned</b>	<b><u>18,152,704</u></b>	<u>16,598,847</u>

#### 3.2 Secondary healthcare commissioned by PCTs

	<b>2005-2006</b> <b>£000</b>	Restated 2004-2005 £000
Learning difficulties	<b>1,999,137</b>	1,682,349
Mental illness	<b>6,422,017</b>	6,123,108
Maternity	<b>1,671,974</b>	1,541,912
General and acute	<b>27,412,874</b>	25,572,177
Accident and emergency	<b>1,688,364</b>	1,433,617
Community Health Services	<b>5,408,481</b>	4,929,813
Other	<b>1,796,161</b>	1,648,883
<b>Total secondary healthcare commissioned</b>	<b><u>46,399,008</u></b>	<u>42,931,859</u>
Impairments and depreciation for Trusts	<b>94,227</b>	89,041
Revenue grants to fund capital projects – GMS	<b>45,223</b>	29,899
Revenue grants to fund capital projects – outside bodies	<b>64,338</b>	88,405
<b>Total Healthcare commissioned by primary care trusts</b>	<b><u>64,755,500</u></b>	<u>59,738,051</u>
Social Care from independent providers	<b>310,343</b>	288,301

Guidance on the analysis of the commissioning of healthcare has been clarified in 2005-2006 so that only expenditure on the PCT's own patients is included. The commissioning of secondary healthcare in 2004-2005 has been restated to provide better comparability between years.

**4 Operating income**

Operating income analysed by activity, is as follows

	<b>2005-2006</b>	Restated 2004-2005
	<b>£000</b>	£000
Fees and charges to external customers	<b>105,520</b>	108,549
Prescription charge income	<b>426,856</b>	424,580
General Dental Services income	<b>300,271</b>	425,871
Personal Dental Services income	<b>109,556</b>	0
Income from Local Authorities	<b>605,060</b>	592,692
Income from NHS bodies and Department of Health	<b>633,777</b>	763,666
Other	<b>637,309</b>	570,927
<b>Total</b>	<b><u>2,818,349</u></b>	<u>2,886,285</u>

PDS income was not separately identified in 2004-2005. 2004-2005 income from NHS bodies and 'Other' has been re-analysed to promote consistency.

**5 Performance against revenue resource limit**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Net operating costs	<b>64,963,681</b>	59,883,523
Adjustment for non discretionary, GDS and PhS expenditure	<b>(2,196,937)</b>	(2,169,010)
Net operating cost attributable to PCTs	<b>62,766,744</b>	57,714,513
Revenue resource limit	<b>62,274,685</b>	57,442,121
(Over)spend against revenue resource limit	<b><u>(492,059)</u></b>	<u>(272,392)</u>

**6.1 Intangible fixed assets**

	<b>Total £000</b>	Software Licences £000	Licences and trademarks £000	Development Expenditure £000
Gross cost at 31 March 2005	<b>10,447</b>	10,088	167	192
Additions – purchased	<b>4,449</b>	4,449	0	0
Reclassifications	<b>(162)</b>	(135)	(27)	0
Other revaluation	<b>(20)</b>	(20)	0	0
Disposals	<b>(433)</b>	(433)	0	0
<b>Gross cost at 31 March 2006</b>	<b>14,281</b>	<b>13,949</b>	<b>140</b>	<b>192</b>
Accumulated amortisation at 31 March 2005	<b>4,126</b>	3,981	93	52
Reclassifications	<b>(6)</b>	(1)	(5)	0
Other revaluations	<b>(11)</b>	(11)	0	0
Charged in year	<b>2,018</b>	1,987	8	23
Disposals	<b>(406)</b>	(406)	0	0
<b>Accumulated amortisation at 31 March 2006</b>	<b>5,721</b>	<b>5,550</b>	<b>96</b>	<b>75</b>
<b>Net book value</b>				
Purchased at 31 March 2005	<b>6,257</b>	6,043	74	140
Donated at 31 March 2005	<b>1</b>	1	0	0
Government granted at 31 March 2005	<b>63</b>	63	0	0
Net book value at 31 March 2005	<b>6,321</b>	6,107	74	140
<b>Net book value</b>				
<b>Purchased at 31 March 2006</b>	<b>8,509</b>	8,348	44	117
<b>Donated at 31 March 2006</b>	<b>1</b>	1	0	0
<b>Government granted at 31 March 2006</b>	<b>50</b>	50	0	0
<b>Net book value at 31 March 2006</b>	<b>8,560</b>	<b>8,399</b>	<b>44</b>	<b>117</b>

**6.2 Tangible fixed assets**

	<b>Total</b>	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	<b>£000</b>	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2005	<b>5,880,790</b>	2,118,791	3,167,138	31,767	115,471	166,246	15,653	211,120	54,604
Transfers (to)/from NHS bodies	<b>38,455</b>	21,951	17,152	0	(580)	(27)	8	(49)	0
Additions – purchased	<b>468,314</b>	32,948	173,418	300	125,326	35,488	654	82,058	18,122
Additions – donated	<b>3,947</b>	0	2,547	0	747	529	0	3	121
Additions – Government granted	<b>8,653</b>	969	4,363	0	3,211	0	27	83	0
Reclassifications	<b>136</b>	6,190	84,049	1,777	(107,609)	3,789	464	7,561	3,915
Impairments	<b>(29,937)</b>	(13,495)	(16,481)	(7)	(73)	0	119	0	0
Indexation	<b>171,617</b>	105,300	59,722	544	1,491	3,248	298	0	1,014
Other in year revaluations	<b>(12,319)</b>	26,070	(38,108)	1,299	(1,022)	(267)	(17)	(162)	(112)
Disposals	<b>(141,481)</b>	(91,094)	(32,861)	(5,308)	(947)	(4,161)	(1,759)	(4,027)	(1,324)
<b>Gross cost at 31 March 2006</b>	<b>6,388,175</b>	2,207,630	3,420,939	30,372	136,015	204,845	15,447	296,587	76,340
Accumulated depreciation at 31 March 2005	<b>190,069</b>	0	0	0	0	82,270	11,049	71,813	24,937
Reclassifications	<b>(20)</b>	0	301	0	0	(648)	207	204	(84)
Impairments and reversals	<b>18,930</b>	6,291	12,567	72	0	0	0	0	0
Indexation	<b>1,937</b>	0	0	0	0	1,339	197	0	401
Other in year revaluation	<b>171</b>	0	780	0	0	(255)	(19)	(286)	(49)
Charged in year	<b>209,730</b>	0	144,858	871	0	17,705	1,309	38,622	6,365
Disposals	<b>(13,760)</b>	0	(3,920)	(12)	0	(3,326)	(1,706)	(3,564)	(1,232)
<b>Accumulated depreciation at 31 March 2006</b>	<b>407,057</b>	6,291	154,586	931	0	97,085	11,037	106,789	30,338
Net book value Purchased at 31 March 2005	<b>5,571,040</b>	2,104,115	3,074,267	31,755	112,363	76,163	4,131	139,106	29,140
Donated at 31 March 2005	<b>98,194</b>	13,583	75,135	12	1,353	7,186	357	62	506
Government granted at 31 March 2005	<b>21,487</b>	1,093	17,736	0	1,755	627	116	139	21
Net book value at 31 March 2005	<b>5,690,721</b>	2,118,791	3,167,138	31,767	115,471	83,976	4,604	139,307	29,667
<b>Net book value Purchased at 31 March 2006</b>	<b>5,849,503</b>	2,184,671	3,164,684	29,430	131,258	100,754	4,045	189,587	45,074
<b>Donated at 31 March 2006</b>	<b>100,899</b>	14,551	77,494	11	1,319	6,377	253	16	878
<b>Government granted at 31 March 2006</b>	<b>30,716</b>	2,117	24,175	0	3,438	629	112	195	50
<b>Net book value at 31 March 2006</b>	<b>5,981,118</b>	2,201,339	3,266,353	29,441	136,015	107,760	4,410	189,798	46,002

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

<b>63,468</b>	1,981	53,786	1,160	32	6,140	0	0	369
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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

<b>2,724</b>	0	2,129	77	0	518	0	0	0
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**6.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2006 comprises**

	Purchased £000	Donated £000	Government Granted £000	<b>2005-2006 Total £000</b>	2004-2005 Total £000
Freehold	5,235,470	83,831	22,042	5,341,343	5,176,891
Long leasehold	135,886	6,973	2,457	145,316	132,414
Short leasehold	10,479	0	0	10,479	8,391
	<u>5,381,835</u>	<u>90,804</u>	<u>24,499</u>	<u>5,497,138</u>	<u>5,317,696</u>

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

	<b>2005-2006 £000</b>	2004-2005 £000
Land	<b>1,981</b>	2,394
Buildings including dwellings	<b>54,946</b>	27,863
Assets under construction	<b>32</b>	0
Plant and machinery	<b>6,140</b>	13
Information technology	<b>0</b>	3
Furniture and fittings	<b>369</b>	631
	<u><b>63,468</b></u>	<u>30,904</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £2,724,000 (2004-2005: £1,520,000).

**6.5 Investments**

	Equity Shareholding £000	Loan stock £000	<b>Total £000</b>
Balance at 1 April 2005	5,232	8,232	<b>13,464</b>
Additions	2,180	5,813	<b>7,993</b>
Revaluations	0	84	<b>84</b>
Disposals	(2,896)	(49)	<b>(2,945)</b>
<b>Balance at 31 March 2006</b>	<u>4,516</u>	<u>14,080</u>	<u><b>18,596</b></u>

**6.6 Summary of fixed assets**

	Purchased £000	Donated £000	Government granted £000	<b>2005-2006 Total £000</b>	2004-2005 Total £000
Net book value					
Intangible fixed assets	8,509	1	50	<b>8,560</b>	6,321
Land	2,184,671	14,551	2,117	<b>2,201,339</b>	2,118,791
Buildings	3,164,684	77,494	24,175	<b>3,266,353</b>	3,167,138
Dwellings	29,430	11	0	<b>29,441</b>	31,767
Assets under construction	131,258	1,319	3,438	<b>136,015</b>	115,471
Plant and machinery	100,754	6,377	629	<b>107,760</b>	83,976
Transport equipment	4,045	253	112	<b>4,410</b>	4,604
Information technology	189,587	16	195	<b>189,798</b>	139,307
Furniture and fittings	45,074	878	50	<b>46,002</b>	29,667
Investments	18,596	0	0	<b>18,596</b>	13,464
	<u>5,876,608</u>	<u>100,900</u>	<u>30,766</u>	<u><b>6,008,274</b></u>	<u>5,710,506</u>



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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
(Loss) on disposal of intangible fixed assets	<b>(3)</b>	(2)
Profit on disposal of land and buildings	<b>31,640</b>	7,510
(Loss) on disposal of land and buildings	<b>(2,514)</b>	(2,904)
Profit on disposal of plant and equipment	<b>35</b>	43
(Loss) on disposal of plant and equipment	<b>(601)</b>	(236)
	<b>28,557</b>	4,411

**7 Stocks and work in progress**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Raw materials and consumables	<b>16,070</b>	15,042
Work in progress	<b>92</b>	0
Finished processed goods	<b>6,330</b>	4,778
	<b>22,492</b>	19,820

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
NHS debtors	<b>391,500</b>	421,575
Provision for irrecoverable debts	<b>(15,822)</b>	(12,651)
Prepayments and accrued income	<b>176,936</b>	154,540
Capital debtors	<b>33,955</b>	18,747
Other debtors	<b>516,912</b>	457,376
	<b>1,103,481</b>	1,039,587

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

NHS debtors	<b>4,859</b>	9,198
Prepayments and accrued income	<b>18,774</b>	14,166
Provisions for irrecoverable debts	<b>(6)</b>	(19)
Capital debtors	<b>269</b>	716
Other debtors	<b>15,965</b>	13,726
	<b>39,861</b>	37,787
<b>Total debtors</b>	<b>1,143,342</b>	1,077,374

**9 Analysis of changes in debt**

	At 31 March 2005 £000	Non-cash changes £000	Change during the year £000	At 31 March 2006 £000
Cash at OPG	7,253	0	8,107	<b>15,360</b>
Cash at commercial banks and in hand	262	0	6,655	<b>6,917</b>
Bank overdrafts	(6,340)	0	(4,421)	<b>(10,761)</b>
	1,175		10,341	<b>11,516</b>
Finance leases due within one year	(1,293)	(2,818)	71	<b>(4,040)</b>
Finance leases due after one year	(23,634)	(52,980)	127	<b>(76,487)</b>
	(23,752)	(55,798)	10,539	<b>(69,011)</b>

**10.1 Creditors: Amounts falling due within one year**

	2005-2006 £000	2004-2005 £000
Bank overdrafts	<b>10,761</b>	6,340
NHS creditors	<b>1,411,729</b>	1,203,308
FHS contractors	<b>1,725,317</b>	1,362,392
Non-NHS trade creditors – revenue	<b>819,196</b>	836,656
Non-NHS trade creditors – capital	<b>48,717</b>	51,964
Tax and social security	<b>117,395</b>	90,597
Payments received on account	<b>6,258</b>	6,704
Obligations under finance leases and HP contracts	<b>4,040</b>	1,293
Other creditors	<b>326,936</b>	342,310
Accruals and deferred income	<b>828,350</b>	728,533
	<b>5,298,699</b>	4,630,097

**10.2 Creditors: Amounts falling due after more than one year**

NHS creditors	<b>17,650</b>	9,885
Obligations under finance leases and HP contracts	<b>76,487</b>	23,634
Other creditors	<b>15,779</b>	11,645
	<b>109,916</b>	45,164

**10.3 Finance lease obligations**

	2005-2006 £000	2004-2005 £000
<i>Leases payable</i>		
Within one year	<b>4,040</b>	2,227
Between one and five years	<b>67,663</b>	15,972
After five years	<b>38,603</b>	37,666
Finance charges allocated to future periods	<b>(29,779)</b>	(30,938)
	<b>80,527</b>	24,927

**11 Provisions for liabilities and charges**

	Pensions for former members £000	Pensions to other staff £000	Legal claims £000	Restruct- urings £000	Other £000	<b>Total £000</b>
1 April 2005	14,285	360,381	55,597	8,713	249,180	<b>688,156</b>
Transfers (to)/from other NHS bodies	(727)	1,386	(509)	(150)	1,109	<b>1,109</b>
Arising during the year	338	17,618	10,575	1,301	54,273	<b>84,105</b>
Utilised during the year	(2,523)	(50,883)	(15,628)	(3,326)	(135,781)	<b>(208,141)</b>
Reversed unused	(903)	(9,995)	(10,425)	(580)	(43,091)	<b>(64,994)</b>
Unwinding of discount	237	8,318	539	24	1,053	<b>10,171</b>
Change in the discount rate	1,268	33,876	4,526	314	7,713	<b>47,697</b>
<b>At 31 March 2006</b>	<b>11,975</b>	<b>360,701</b>	<b>44,675</b>	<b>6,296</b>	<b>134,456</b>	<b>558,103</b>

*Expected timing of cash flows*

Within one year	1,344	34,768	14,761	2,275	63,426	<b>116,574</b>
One to five years	4,834	139,805	14,127	1,015	31,892	<b>191,673</b>
After five years	5,797	186,128	15,787	3,006	39,138	<b>249,856</b>

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of primary care trusts is £29,423,000 (2004-2005: £26,374,000).

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

	<b>2005-2006 £000</b>	2004-2005 £000
(Increase) in stocks	<b>(2,672)</b>	(3,355)
(Increase)/decrease in revenue debtors	<b>(51,207)</b>	83,458
Increase in revenue creditors	<b>732,180</b>	778,713
Transfer of balances to/(from) NHS bodies	<b>1,787</b>	1,640
Financing transactions	<b>(22,756)</b>	(23,975)
	<b>657,332</b>	836,481

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

	<b>2005-2006 £000</b>	2004-2005 £000
Balance at 1 April	<b>(542,298)</b>	108,833
Net operating costs for the year	<b>(64,963,681)</b>	(59,883,523)
Net Parliamentary funding	<b>64,509,682</b>	59,112,898
Transfer of realised profits	<b>31,237</b>	30,112
<b>Non-cash items</b>		
Capital charge interest	<b>55,657</b>	40,395
Transfers from other NHS bodies	<b>41,611</b>	30,061
Other movements	<b>35</b>	18,926
<b>Balance at 31 March</b>	<b>(867,757)</b>	(542,298)

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>1,876,255</b>	909,560
Impairments	<b>(29,623)</b>	(26,608)
Revaluation/indexation of fixed assets	<b>154,811</b>	1,044,312
Other movements	<b>(3,418)</b>	(21,298)
Transfer to General Fund: realised revaluation	<b>(31,216)</b>	(29,711)
<b>Balance at 31 March</b>	<b><u>1,966,809</u></b>	<u>1,876,255</u>

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>98,195</b>	89,757
Impairments	<b>(314)</b>	(260)
Transfers from NHS bodies	<b>43</b>	0
Other revaluation/indexation of fixed assets	<b>1,549</b>	9,976
Receipt of donated assets	<b>4,248</b>	6,472
Depreciation of donated assets	<b>(4,327)</b>	(5,158)
Transfer of realised profits	<b>(21)</b>	(1)
Other movements	<b>1,527</b>	(2,591)
<b>Balance at 31 March</b>	<b><u>100,900</u></b>	<u>98,195</u>

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>21,550</b>	13,300
Other revaluation/indexation of fixed assets	<b>617</b>	15
Transfer of realised profits	<b>0</b>	(400)
Receipt of Government granted assets	<b>9,694</b>	7,992
Depreciation of Government granted assets	<b>(900)</b>	(474)
Other movements	<b>(195)</b>	1,117
<b>Balance at 31 March</b>	<b><u>30,766</u></b>	<u>21,550</u>

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April	<b>(1,904)</b>	3,826
Other movements	<b>853</b>	(5,730)
<b>Balance at 31 March</b>	<b><u>(1,051)</u></b>	<u>(1,904)</u>

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

	Notes	2005-2006 £000	2004-2005 £000
Net operating cost for the year		<b>(64,963,681)</b>	(59,883,523)
Adjust for non-cash transactions		<b>335,866</b>	248,135
Adjust for movements in working capital other than cash	12	<b>657,332</b>	836,481
Use of provisions	11	<b>(208,141)</b>	(44,607)
Transfer from donated asset reserve		<b>(4,327)</b>	(7,305)
Transfer from Government grant reserve		<b>(900)</b>	(474)
Other		<b>777</b>	476
<b>Net cash (outflow) from operating activities</b>		<b><u>(64,183,074)</u></b>	<b><u>(58,850,817)</u></b>

**15 Contingent liabilities**

At 31 March 2006, there were net contingent liabilities of £128,782,000 (2004-2005: £86,336,000). The large increase is due to the inclusion of an estimate of contingent liabilities for the GDS. Other contingencies are for continuing care and agenda for change. Primary care trusts have provided for these 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.

**16 Capital commitments**

At 31 March 2006 the value of contracted capital commitments was £56,932,000 (2004-2005: £110,342,000).

**17 Commitments under operating leases**

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

	2005-2006 £000	2004-2005 £000
Hire of plant and machinery	<b>7,571</b>	7,054
Other operating leases	<b>124,734</b>	86,685
	<b><u>132,305</u></b>	<u>93,739</u>

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

	2005-2006		2004-2005	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	<b>8,899</b>	<b>9,594</b>	7,706	9,160
Between one and five years	<b>23,188</b>	<b>24,658</b>	22,966	23,200
After five years	<b>91,203</b>	<b>40</b>	50,652	214
	<b><u>123,290</u></b>	<b><u>34,292</u></b>	<u>81,324</u>	<u>32,574</u>

## 18 Commitments under PFI contracts

18.1 In this financial year, 31 PCTs reported off balance sheet PFI schemes over £1 million (2004-2005: 21 PCTs). The estimated capital value of these schemes over £1 million is £348.8 million (2004-2005: £195.6 million). The amount included within operating expenses for these schemes is £28.0 million (2004-2005: £14.0 million).

PCTs are committed to make the following payments under off balance sheet PFI contracts during 2006-2007, analysed by the period during which the commitment expires

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Within one year	<b>0</b>	0
2 to 5 years (inclusive)	<b>0</b>	357
6 to 10 years (inclusive)	<b>0</b>	0
11 to 15 years (inclusive)	<b>382</b>	357
16 to 20 years (inclusive)	<b>2,448</b>	1,805
21 to 25 years (inclusive)	<b>15,769</b>	10,072
26 to 30 years (inclusive)	<b>32,773</b>	16,189
31 to 35 years (inclusive)	<b>2,421</b>	2,396
36 years and beyond	<b>3,877</b>	3,774
	<b>57,670</b>	34,950

18.2 Teignbridge 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 £2.0 million (2004-2005: £2.1 million) and the amount included within operating expenses is £280,000 (2004-2005: £268,000).

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Rentals due within 1 year	<b>300</b>	300
Rentals due within 2 to 5 years	<b>1,259</b>	1,219
Rentals due thereafter	<b>7,300</b>	7,641
	<b>8,859</b>	9,160
Less interest element	<b>(3,938)</b>	(4,381)
	<b>4,921</b>	4,779

## 19 Losses and special payments

There were 9,943 cases of losses totalling £4,225,000 and 1,180 cases of special payments totalling £2,715,000 approved during 2005-2006. Total losses and special payments in 2004-2005 were 19,142 cases totalling £8,493,000. There was one case of loss of cash over £250,000 totalling £267,000 in 2005-2006 (2004-2005: no cases). The loss of £267,000 relates to the legal costs paid in respect of a long running claim against an appliance contractor which was lost on appeal. Central Liverpool PCT is continuing to pursue this claim through the disciplinary mechanisms.

## **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 306 underlying NHS bodies. It is within the underlying accounts of these 306 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 £2,886,000 (31 March 2005: £3,621,000). 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**

On 30 September 2006 222 PCTs dissolved and were re-established as 71 new PCTs from 1 October 2006. From 1 October there are 152 PCTs.

**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	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	1,423,858	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
<b>At 31 March 2006</b>	<b><u>1,103,666</u></b>	<b><u>39,676</u></b>	<b><u>5,298,699</u></b>	<b><u>109,916</u></b>
	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	41,847	24,444	939,691	3,700
Balances with local authorities	126,667	1,306	161,516	226
Balances with NHS Trusts	477,299	1,560	1,240,400	18,325
Balances with public corporations and trading funds	17,547	0	36,079	0
Balances with bodies external to government	376,227	10,477	2,252,411	22,913
<b>At 31 March 2005</b>	<b><u>1,039,587</u></b>	<b><u>37,787</u></b>	<b><u>4,630,097</u></b>	<b><u>45,164</u></b>





# Summarised Account of NHS Trusts

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and must give a true and fair view of the state of affairs of NHS Trusts at the year end and their income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

The Treasury have appointed the 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

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 effective systems of internal control that support the achievement of their policies, aims and objectives and that they review the effectiveness of those systems.

## 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 2005-2006 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. A number of the NHS trusts recorded that they 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. I have issued guidance 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 2005-2006 all NHS trusts were required to have in place Assurance Frameworks that set out the strategic and high level directorate risks 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 2006

231 (98%) of NHS trusts were providing evidence that a system of internal control was in place;

Four (2%) of NHS trusts were not providing evidence that a sufficiently complete system of internal control was in place at 31 March 2006.

One NHS Trust had not established an assurance framework.

The numbers represent a continuing improvement on the 2003-2004 and 2004-2005 end year positions where, respectively, 12 and 11 NHS trusts did not have a sufficiently complete system of internal control 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	33%	32%
Organisational controls	43%	44%
Clinical controls	24%	24%
	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 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 small number of NHS trusts had not included HOIA limited assurance opinion in some specific audit areas 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 2005-2006 assessments coordinated by the Audit Commission. This assesses how well NHS trusts and Primary Care Trusts managed and used their financial resources. The assessment show that 59% of NHS trusts demonstrated adequate or more than adequate performance in their use of resources, while 41% failed to meet the minimum requirements. The main cause of this was the number of NHS trusts assessed as having inadequate financial standing (a direct consequence of the number of deficits incurred in 2005-2006).

### Significant control issues

My review of effectiveness concluded that there were no significant control issues excepting those related to trusts' financial position and the need to improve trusts' financial management processes. 51 NHS trusts disclosed 76 significant control issues in their SICs and, of these, about sixty percent were concerned with the financial position of the trust. The Department has established a centrally managed programme to support a number of NHS trusts to ensure that they deliver key targets and financial balance.

### Conclusion

The ongoing development of Assurance Frameworks with 98% of NHS trusts being assessed by SHAs (96% in 2004-2005) as having systems of internal control in place has provided a robust structure and greater consistency across the NHS for the public assurances about how organisations are controlling their business and the risks to it. Trusts have made further progress on last year's high levels.

*David Nicholson CBE*  
Accounting Officer

30 November 2006

# 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 NHS Trusts for the year ended 31 March 2006 under the National Health Service Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total 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 section 98 (4) of the National Health Service Act 1977 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 the financial statements have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and HM Treasury directions made thereunder. I also report to you if, in my opinion, the Annual Report is not consistent with the financial statements, if the entity 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 relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages C3 to C5 reflects the Department's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's statements on internal control cover 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 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 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.

## Opinions

In my opinion

- the financial statements give a true and fair view, in accordance with section 98 (4) of the National Health Service Act 1977 and directions made thereunder by HM Treasury, of the state of affairs of NHS Trusts as at 31 March 2006 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and HM Treasury directions made thereunder.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General  
21 December 2006

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



## Income and Expenditure Account for the year ended 31 March 2006

### Continuing operations

	Notes	2005-2006 £000	2004-2005 £000
<b>Operating activities</b>			
Income from activities	2	<b>31,856,942</b>	31,423,977
Other operating income	3	<b>4,110,533</b>	4,140,501
Operating expenses	4.1	<b>(35,683,250)</b>	(35,124,554)
<b>Operating surplus</b>		<b>284,225</b>	439,924
Cost of fundamental reorganisation/restructuring		<b>(3,500)</b>	0
Profit on disposal of fixed assets	6	<b>55,926</b>	34,002
<b>Surplus before interest</b>		<b>336,651</b>	473,926
Interest receivable		<b>69,009</b>	63,101
Interest payable	7	<b>(29,127)</b>	(27,678)
Other finance costs – unwinding of discount	14	<b>(9,367)</b>	(13,591)
Other finance costs – change in discount rate on provisions	14	<b>(41,498)</b>	0
<b>Surplus on ordinary activities</b>		<b>325,668</b>	495,758
Public dividend capital dividends payable		<b>(907,107)</b>	(817,584)
<b>Retained (deficit) for the year</b>		<b>(581,439)</b>	321,826)
<b>Capital cost absorption rate</b>	8	<b>3.5%</b>	3.2%

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	2005-2006 £000	Restated 2004-2005 £000
Surplus on ordinary activities for the financial year		<b>325,668</b>	495,758
Fixed asset impairment losses	16.1 – 16.3	<b>(274,917)</b>	(120,674)
Unrealised surplus on fixed asset revaluations/indexation	16.1 – 16.3	<b>579,185</b>	4,242,626
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	<b>89,459</b>	131,336
Addition to other reserves	16.4	<b>(738)</b>	267
<b>Total recognised gains for the financial year</b>		<b>718,657</b>	4,749,313*

\* The total recognised gains for the financial year differs by £84,778 (previous year £4,664,535) due to the removal of the 'Reduction in the donated asset/government grant reserve due to depreciation, impairment and/or disposal of donated/government granted assets' line.

The notes at pages C11 to C31 form part of this account.

## Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
<b>Fixed assets</b>			
Intangible fixed assets	9	<b>47,994</b>	38,112
Tangible fixed assets	10.1	<b>27,883,703</b>	28,490,477
		<b>27,931,697</b>	28,528,589
<b>Current assets</b>			
Stocks and work in progress		<b>490,852</b>	475,933
Debtors - amounts falling due within one year	11.1	<b>2,475,282</b>	2,215,148
after more than one year	11.2	<b>891,193</b>	621,962
Investments	12	<b>63</b>	0
Cash at bank and in hand	19	<b>112,443</b>	110,629
		<b>3,969,833</b>	3,423,672
<b>Creditors (amounts falling due within one year)</b>	13.1	<b>(3,276,450)</b>	(3,094,059)
<b>Net current assets</b>		<b>693,383</b>	329,613
<b>Total assets less current liabilities</b>		<b>28,625,080</b>	28,858,202
<b>Creditors (amounts falling due after more than one year)</b>	13.2	<b>(344,747)</b>	(318,233)
<b>Provisions for liabilities and charges</b>	14	<b>(704,840)</b>	(844,545)
		<b>27,575,493</b>	27,695,424
<b>Financed by</b>			
<i>Taxpayers equity</i>			
Public dividend capital	15	<b>17,570,974</b>	16,981,531
Revaluation reserve	16.1	<b>9,375,173</b>	9,691,608
Donated asset reserve	16.2	<b>889,652</b>	963,645
Government grant reserve	16.3	<b>18,120</b>	21,598
Other reserves	16.4	<b>181,138</b>	148,866
Income and expenditure reserve	16.5	<b>(459,564)</b>	(111,824)
		<b>27,575,493</b>	27,695,424

The notes at pages C11 to C31 form part of this account.

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
<b>Operating activities</b>			
Net cash inflow from operating activities	17	<b>1,272,393</b>	1,617,589
<b>Returns on investments and servicing of finance</b>			
Interest received		<b>65,853</b>	57,666
Interest paid		<b>(523)</b>	(897)
Interest element of finance lease rental payments		<b>(24,959)</b>	(24,727)
<b>Net cash inflow from returns on investments and servicing of finance</b>		<b>40,371</b>	32,042
<b>Capital expenditure</b>			
(Payments) to acquire tangible fixed assets		<b>(1,856,263)</b>	(2,078,176)
Receipts from sale of tangible fixed assets		<b>303,503</b>	280,754
(Payments) to acquire intangible fixed assets		<b>(13,225)</b>	(10,873)
Receipts from sale of intangible fixed assets		<b>32</b>	32
<b>Net cash (outflow) from capital expenditure</b>		<b>(1,565,953)</b>	(1,808,263)
<b>Dividends paid</b>		<b>(906,999)</b>	(803,446)
<b>Net cash (outflow) before management of liquid resources and financing</b>		<b>(1,160,188)</b>	(962,078)
<b>Management of liquid resources</b>			
(Payments) to acquire investments		<b>(1,989,250)</b>	(1,740,197)
Receipts from sale of investments		<b>1,989,250</b>	1,738,200
<b>Net cash (outflow) from management of liquid resources</b>		<b>0</b>	(1,997)
<b>Net cash (outflow) before financing</b>		<b>(1,160,188)</b>	(964,075)
<b>Financing</b>			
New Public Dividend Capital issued		<b>1,765,461</b>	1,788,279
Repayment of Public Dividend Capital		<b>(654,364)</b>	(858,068)
Loans received		<b>120</b>	0
Repayments of amounts borrowed		<b>(19)</b>	(33,315)
Other capital receipts		<b>61,592</b>	97,141
Capital element of finance lease rental payments		<b>(2,453)</b>	(2,316)
Cash transferred to Foundation Trusts		<b>180</b>	(22,807)
<b>Net cash inflow from financing</b>		<b>1,170,517</b>	968,914
<b>Increase in cash</b>	19	<b>10,329</b>	4,839

The notes at pages C11 to C31 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 2005-2006 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 using the following lives

<i>Furniture and fittings</i>	
Furniture	10
Soft furnishings	7
<i>Information technology</i>	
Mainframe information technology installations	8
Office information technology equipment	5
<i>Transport equipment</i>	
<i>Plant and machinery</i>	
Moveable engineering plant and long life medical equipment	15
Medium life medical equipment	10
Short life medical and other equipment	5

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. This is a change from the rate of 3.5% applied in 2004-2005 and earlier. The effect of the change is to increase the carrying value of the provision and this is shown in the Income and Expenditure Account and at Note 14.

#### 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 2005-2006 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. The latest assessment of the liabilities of the Scheme is contained in the Scheme Actuary report, which forms part of the NHS Pension Scheme (England and Wales) Resource Account, published annually. These accounts can be viewed on the NHS Pensions Agency website at [www.nhs.gov.uk](http://www.nhs.gov.uk). Copies can also be obtained from The Stationery Office.

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 employers' 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 employers' 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 year's 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 year's 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**

With effect from 1 April 2005 three NHS Trusts were involved in reconfigurations. The three NHS Trusts merged to form one 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 26 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).

### **1.21 Foundation Trusts**

Six NHS Trusts achieved Foundation Trust status on the 1 April 2005. 1 April 2005 opening figures have been restated and adjusted to eliminate balances relating to these Trusts. 1 NHS Trust achieved Foundation Trust status in-year. Where the balance sheet notes show the movement in year, i.e. fixed asset note, balances have been adjusted using 'transfer to Foundation Trust in-year' line. Where the notes include balances at year end, i.e. 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.

**2 Income from activities**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Strategic Health Authorities	<b>108,208</b>	108,488
Primary Care Trusts	<b>29,909,997</b>	29,980,371
Foundation Trusts	<b>54,055</b>	39,203
Local Authorities	<b>578,152</b>	464,332
Department of Health	<b>558,527</b>	177,084
NHS Other	<b>45,064</b>	28,751
Non-NHS – private patients	<b>295,454</b>	302,965
– overseas patients (non-reciprocal)	<b>13,088</b>	10,835
– Road Traffic Act	<b>99,038</b>	106,873
– other	<b>195,359</b>	205,075
	<b><u>31,856,942</u></b>	<u>31,423,977</u>
Income recognised to offset impairments and accelerated depreciation	<b>128,268</b>	128,321

**3 Other operating income**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Patient transport services	<b>5,982</b>	5,664
Education, training and research	<b>2,156,339</b>	2,177,825
Charitable and other contributions to expenditure	<b>81,412</b>	87,921
Transfers from the donated asset reserve in respect of depreciation on donated assets	<b>85,796</b>	83,740
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	<b>3,091</b>	1,038
Non-patient care services to other bodies	<b>678,336</b>	629,935
Income generation *	<b>339,640</b>	0
Other income from activities	<b>759,937</b>	1,154,378
	<b><u>4,110,533</u></b>	<u>4,140,501</u>

\* Income generation was included in 'other income from activities' in 2004-2005.

## 4 Operating expenses

### 4.1 Operating expenses comprise

	Notes	2005-2006 £000	2004-2005 £000
Contracts with other NHS bodies		<b>466,750</b>	460,383
Contracts with Foundation Trusts		<b>94,850</b>	72,783
Purchase of healthcare from non-NHS bodies		<b>344,338</b>	328,925
Directors' costs		<b>177,158</b>	173,619
Staff costs <sup>1</sup>	5.1	<b>24,153,558</b>	23,878,172
Supplies and services – clinical		<b>4,618,674</b>	4,548,322
Supplies and services – general		<b>729,334</b>	743,271
Establishment		<b>592,466</b>	630,239
Transport		<b>275,811</b>	254,819
Premises		<b>1,597,578</b>	1,458,041
Write off and movement in bad debt provisions		<b>32,430</b>	22,699
Depreciation and amortisation	9,10	<b>1,238,166</b>	1,270,958
Fixed asset impairments and reversals		<b>74,349</b>	50,772
Auditors' remuneration: Audit fees <sup>2</sup>		<b>34,188</b>	33,926
Auditors' remuneration: Other remuneration		<b>2,233</b>	2,935
Clinical negligence		<b>386,289</b>	347,389
Other		<b>865,078</b>	847,301
		<b>35,683,250</b>	35,124,554

- 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.

### 4.2 Hire and operating lease rentals

	2005-2006 £000	2004-2005 £000
Hire of plant and machinery	<b>61,564</b>	55,616
Other operating leases	<b>290,520</b>	231,281
	<b>352,084</b>	286,897

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
<i>Land and buildings</i>		
Expiring within one year	<b>8,943</b>	6,901
Expiring between one and five years	<b>17,806</b>	19,449
Expiring after five years	<b>211,735</b>	172,154
	<b>238,484</b>	198,504
<i>Other leases</i>		
Expiring within one year	<b>34,555</b>	35,947
Expiring between one and five years	<b>104,622</b>	97,074
Expiring after five years	<b>32,178</b>	25,230
	<b>171,355</b>	158,251

## 5 Staff costs and numbers

### 5.1 Staff costs

	Permanently employed £000	Other £000	<b>2005-2006</b> <b>Total</b> <b>£000</b>	2004-2005 Total £000
Salaries and wages	19,390,129	1,192,393	<b>20,582,522</b>	20,403,736
Social security costs	1,554,748	19,104	<b>1,573,852</b>	1,518,132
Pension costs	2,175,872	13,512	<b>2,189,384</b>	2,115,274
Other pension costs	8,240	540	<b>8,780</b>	10,280
	<b>23,128,989</b>	<b>1,225,549</b>	<b>24,354,538</b>	<b>24,047,422</b>

### 5.2 Average number of persons employed

	Permanently employed Number	Other Number	<b>2005-2006</b> <b>Total</b> <b>Number</b>	2004-2005 Total Number
Medical and dental	64,985	5,938	<b>70,923</b>	77,037
Ambulance staff	23,103	120	<b>23,223</b>	22,473
Administration and estates	142,146	6,978	<b>149,124</b>	163,463
Healthcare assistants and other support staff	76,349	4,196	<b>80,545</b>	89,585
Nursing, midwifery and health visiting staff	250,236	15,948	<b>266,184</b>	294,050
Nursing, midwifery and health visiting learners	5,166	473	<b>5,639</b>	5,177
Scientific, therapeutic and technical staff	88,427	3,159	<b>91,586</b>	102,877
Social care staff	2,880	1,103	<b>3,983</b>	3,877
Other	6,081	424	<b>6,505</b>	9,339
	<b>659,373</b>	<b>38,339</b>	<b>697,712</b>	<b>767,878</b>

### 5.3 Staff benefits

The amount spent on staff benefits during the year totalled £1,066,000 (2004-2005: £1,089,000).

#### 5.4 Retirements due to ill health

During 2005-2006 there were 1,253 early retirements from NHS Trusts on the grounds of ill-health (2004-2005: 1,617). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £72,348,000 (2004-2005: £87,526,000).

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Net profit/(loss) on disposal of intangible fixed assets	<b>29</b>	(25)
Net profit on disposal of land and buildings	<b>61,792</b>	38,440
Net (loss) on disposal of plant and equipment	<b>(5,895)</b>	(4,413)
	<b>55,926</b>	34,002

#### 7 Interest payable and similar charges

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Interest payable is in respect of the following		
Finance leases	<b>28,846</b>	27,454
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	<b>128</b>	70
Other interest	<b>153</b>	154
	<b>29,127</b>	27,678

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was £9,000 (2004-2005: Nil).

#### 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 £907 million, bears to the average relevant net assets of £26,161 million, that is 3.5% (2004-2005: 3.2%).

**9 Intangible fixed assets**

	Software Licences £000	Licences and Trademarks £000	Development Expenditure £000	<b>Total £000</b>
Gross cost at 1 April 2005	74,524	100	4,318	<b>78,942</b>
Transferred to Foundation Trust on 1 April 2005	(3,350)	0	0	<b>(3,350)</b>
Adjustment for Trust Mergers at 1 April 2005	(182)	0	0	<b>(182)</b>
Restated gross cost at 1 April 2005	70,992	100	4,318	<b>75,410</b>
Indexation	0	0	51	<b>51</b>
Impairments	(5)	0	0	<b>(5)</b>
Reclassifications	2,425	4	(137)	<b>2,292</b>
Other revaluation	809	103	261	<b>1,173</b>
Additions – purchased	17,416	48	1,665	<b>19,129</b>
Additions – donated	197	0	0	<b>197</b>
Additions – government granted	700	1,690	923	<b>3,313</b>
Disposals	(2,271)	(600)	(116)	<b>(2,987)</b>
Transferred to Foundation Trusts in-year	(626)	0	0	<b>(626)</b>
<b>Gross cost at 31 March 2006</b>	<b>89,637</b>	<b>1,345</b>	<b>6,965</b>	<b>97,947</b>
Amortisation at 1 April 2005	37,249	12	3,569	<b>40,830</b>
Transferred to Foundation Trust on 1 April 2005	(1,660)	0	0	<b>(1,660)</b>
Adjustment for Trust Mergers at 1 April 2005	(182)	0	0	<b>(182)</b>
Restated amortisation at 1 April 2005	35,407	12	3,569	<b>38,988</b>
Indexation	0	0	39	<b>39</b>
Impairments	52	0	0	<b>52</b>
Reclassifications	224	0	0	<b>224</b>
Charged during the year	12,498	90	486	<b>13,074</b>
Disposals	(2,009)	0	0	<b>(2,009)</b>
Transferred to Foundation Trusts in-year	(415)	0	0	<b>(415)</b>
<b>Amortisation at 31 March 2006</b>	<b>45,757</b>	<b>102</b>	<b>4,094</b>	<b>49,953</b>
<b>Net book value</b>				
Purchased at 1 April 2005	36,718	88	749	<b>37,555</b>
Donated at 1 April 2005	509	0	0	<b>509</b>
Government granted at 1 April 2005	48	0	0	<b>48</b>
Total at 1 April 2005	37,275	88	749	<b>38,112</b>
<b>Purchased at 31 March 2006</b>	<b>42,838</b>	<b>226</b>	<b>2,088</b>	<b>45,152</b>
<b>Donated at 31 March 2006</b>	<b>536</b>	<b>0</b>	<b>0</b>	<b>536</b>
<b>Government granted at 31 March 2006</b>	<b>506</b>	<b>1,017</b>	<b>783</b>	<b>2,306</b>
<b>Total at 31 March 2006</b>	<b>43,880</b>	<b>1,243</b>	<b>2,871</b>	<b>47,994</b>

## 10 Tangible fixed assets

### 10.1

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	on account £000	£000	£000	£000	£000
Cost or valuation at 1 April 2005	7,495,523	17,065,889	515,767	1,165,599	4,565,156	312,044	1,066,842	317,659	<b>32,504,479</b>
Transferred to Foundation Trust on 1 April 2005	(151,999)	(530,885)	(8,802)	(13,984)	(122,546)	(1,203)	(33,544)	(9,739)	<b>(872,702)</b>
Adjustment for Trust Mergers at 1 April 2005	(19,444)	(1,754)	0	0	(5,887)	(326)	(1,589)	(658)	<b>(29,658)</b>
Restated gross cost at 1 April 2005	7,324,080	16,533,250	506,965	1,151,615	4,436,723	310,515	1,031,709	307,262	<b>31,602,119</b>
Additions - purchased	43,004	438,167	2,563	870,434	265,711	32,203	122,357	17,346	<b>1,791,785</b>
Additions - donated	0	24,730	30	16,209	37,952	339	1,672	1,285	<b>82,217</b>
Additions - government granted	0	2,007	0	945	719	20	27	14	<b>3,732</b>
Impairments	(21,044)	(247,442)	(3,247)	(3,172)	(7)	0	0	0	<b>(274,912)</b>
Reclassifications	6,567	922,236	(4,936)	(1,057,599)	95,118	(6,282)	38,665	10,611	<b>4,380</b>
Indexation	361,258	307,427	9,283	19,350	88,893	5,680	0	5,748	<b>797,639</b>
Other in-year revaluations	(25,446)	(116,686)	(8,364)	(100)	(2,132)	(63)	(359)	(2,104)	<b>(155,254)</b>
Disposals	(141,158)	(400,046)	(25,163)	(7,948)	(196,900)	(31,026)	(32,975)	(7,102)	<b>(842,318)</b>
Transferred to Foundation Trusts in-year	(18,320)	(67,611)	0	(1,388)	(14,701)	(131)	(541)	(2,655)	<b>(105,347)</b>
<b>Cost or valuation at 31 March 2006</b>	<b>7,528,941</b>	<b>17,396,032</b>	<b>477,131</b>	<b>988,346</b>	<b>4,711,376</b>	<b>311,255</b>	<b>1,160,555</b>	<b>330,405</b>	<b>32,904,041</b>
Depreciation at 1 April 2005	0	0	0	0	2,956,706	205,895	668,335	183,066	<b>4,014,002</b>
Transferred to Foundation Trust on 1 April 2005	0	0	0	0	(68,887)	(967)	(19,485)	(6,078)	<b>(95,417)</b>
Adjustment for Trust Mergers at 1 April 2005	0	0	0	0	(5,823)	(328)	(1,655)	(657)	<b>(8,463)</b>
Restated depreciation at 1 April 2005	0	0	0	0	2,881,996	204,600	647,195	176,331	<b>3,910,122</b>
Charged during the year	101	717,996	19,625	0	324,867	28,533	110,865	23,105	<b>1,225,092</b>
Impairments	3,975	67,370	3,200	2,552	952	621	835	123	<b>79,628</b>
Reversal of impairments	0	(5,331)	0	0	0	0	0	0	<b>(5,331)</b>
Reclassifications	0	20	(58)	0	15,458	(11,892)	3,186	(266)	<b>6,448</b>
Indexation	2	4,408	202	0	56,054	3,562	0	3,059	<b>67,287</b>
Other in-year revaluations	0	0	0	0	(2,475)	(63)	(332)	(31)	<b>(2,901)</b>
Disposals	(37)	(8,787)	(151)	0	(174,267)	(27,858)	(31,851)	(5,984)	<b>(248,935)</b>
Transferred to Foundation Trusts in-year	0	(374)	0	0	(8,331)	(70)	(416)	(1,881)	<b>(11,072)</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>4,041</b>	<b>775,302</b>	<b>22,818</b>	<b>2,552</b>	<b>3,094,254</b>	<b>197,433</b>	<b>729,482</b>	<b>194,456</b>	<b>5,020,338</b>

### 10.2 Net book value

Purchased at 1 April 2005	7,461,598	16,467,167	512,072	1,080,991	1,366,558	103,262	392,038	129,194	<b>27,512,880</b>
Donated at 1 April 2005	33,925	583,709	3,695	84,600	237,955	2,880	5,722	5,175	<b>957,661</b>
Government Granted 1 April 2005	0	15,013	0	8	3,937	7	747	224	<b>19,936</b>
Total at 1 April 2005	<b>7,495,523</b>	<b>17,065,889</b>	<b>515,767</b>	<b>1,165,599</b>	<b>1,608,450</b>	<b>106,149</b>	<b>398,507</b>	<b>134,593</b>	<b>28,490,477</b>
<b>Purchased at 31 March 2006</b>	<b>7,487,004</b>	<b>16,026,184</b>	<b>450,707</b>	<b>962,076</b>	<b>1,387,778</b>	<b>112,273</b>	<b>424,470</b>	<b>129,703</b>	<b>26,980,195</b>
<b>Donated at 31 March 2006</b>	<b>37,896</b>	<b>582,406</b>	<b>3,606</b>	<b>22,773</b>	<b>226,757</b>	<b>1,522</b>	<b>6,071</b>	<b>6,032</b>	<b>887,063</b>
<b>Government Granted at 31 March 2006</b>	<b>0</b>	<b>12,140</b>	<b>0</b>	<b>945</b>	<b>2,587</b>	<b>27</b>	<b>532</b>	<b>214</b>	<b>16,445</b>
<b>Total at 31 March 2006</b>	<b>7,524,900</b>	<b>16,620,730</b>	<b>454,313</b>	<b>985,794</b>	<b>1,617,122</b>	<b>113,822</b>	<b>431,073</b>	<b>135,949</b>	<b>27,883,703</b>

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

8,876	247,306	5,042	0	610	0	117	0	261,951
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £6,849,000 (2004-2005: £8,448,000).



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

	<b>31 March 2006 £000</b>	31 March 2005 £000
Freehold	<b>24,167,191</b>	24,560,312
Long leasehold	<b>424,493</b>	510,098
Short leasehold	<b>8,259</b>	6,769
	<b><u>24,599,943</u></b>	<u>25,077,179</u>

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

	<b>31 March 2006 £000</b>	31 March 2005 £000
National Health Service debtors	<b>1,414,616</b>	1,239,949
Provision for irrecoverable debts	<b>(74,758)</b>	(65,147)
Other prepayments and accrued income	<b>326,838</b>	313,180
Other debtors	<b>808,586</b>	727,166
	<b><u>2,475,282</u></b>	<u>2,215,148</u>

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

National Health Service debtors	<b>136,629</b>	207,478
Provision for irrecoverable debts	<b>(3,451)</b>	(2,874)
Other prepayments and accrued income	<b>598,127</b>	307,045
Other	<b>159,888</b>	110,313
	<b><u>891,193</u></b>	<u>621,962</u>

**Total debtors**

	<b><u>3,366,475</u></b>	<u>2,837,110</u>
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**12 Short-term investments**

Short term investments held at the balance sheet date amounted to £63,000 (2004-2005: Nil). The analysis of these is held within the individual NHS Trust accounts.

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

	<b>31 March 2006 £000</b>	31 March 2005 £000
Overdrafts	<b>23,066</b>	30,042
Current instalments due on loans	<b>12</b>	2,372
Interest payable	<b>6,354</b>	2,595
Payments received on account	<b>44,524</b>	37,673
National Health Service creditors	<b>581,251</b>	563,033
Non-NHS trade creditors – revenue	<b>681,378</b>	668,212
Non-NHS trade creditors – capital	<b>251,416</b>	257,424
Payroll and related creditors	<b>424,401</b>	399,239
Obligations under finance leases and hire purchase contracts	<b>4,079</b>	3,770
Other creditors	<b>433,821</b>	342,060
Accruals and deferred income	<b>826,148</b>	787,639
	<b><u>3,276,450</u></b>	<u>3,094,059</u>

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

	<b>31 March 2006 £000</b>	31 March 2005 £000
Long term loans	<b>89</b>	0
Obligations under finance leases and hire purchase contracts	<b>285,971</b>	283,110
National Health Service creditors	<b>3,508</b>	7,362
Other	<b>55,179</b>	27,761
	<b>344,747</b>	318,233

**13.3 Finance lease obligations**

	<b>31 March 2006 £000</b>	31 March 2005 £000
<i>Leases payable</i>		
Within one year	<b>31,087</b>	30,413
Between one and five years	<b>126,049</b>	122,464
After five years	<b>1,951,839</b>	1,928,684
Finance charges allocated to future periods	<b>(1,818,925)</b>	(1,794,681)
	<b>290,050</b>	286,880

**14 Provisions for liabilities and charges**

	Pensions relating to former Directors £000	Pensions relating to other staff £000	Other Legal claims £000	Restruct- urings £000	Other* £000	<b>Total £000</b>
At 1 April 2005	5,298	302,721	126,451	8,608	401,467	<b>844,545</b>
Transfers to Foundation Trusts 1 April 2005	0	(2,134)	(504)	0	(6,026)	<b>(8,664)</b>
Transfers between classes	(263)	409	(1,664)	0	1,518	<b>0</b>
Restated at 1 April 2005	5,035	300,996	124,283	8,608	396,959	<b>835,881</b>
Change in discount rate	517	30,217	1,918	343	8,503	<b>41,498</b>
Arising during the year	1,435	21,825	21,567	7,338	179,003	<b>231,168</b>
Utilised during the year	(871)	(29,238)	(65,181)	(4,292)	(249,714)	<b>(349,296)</b>
Reversed unused	(180)	(5,375)	(24,350)	(608)	(32,129)	<b>(62,642)</b>
Unwinding of discount	102	7,103	449	97	1,616	<b>9,367</b>
Transferred to Foundation Trusts in-year	0	(613)	0	0	(523)	<b>(1,136)</b>
<b>At 31 March 2006</b>	<b>6,038</b>	<b>324,915</b>	<b>58,686</b>	<b>11,486</b>	<b>303,715</b>	<b>704,840</b>
<i>Expected timing of cashflows</i>						
Within 1 year	1,531	28,072	31,666	7,553	235,328	<b>304,150</b>
1-5 years	1,993	103,659	14,450	2,490	22,502	<b>145,094</b>
Over 5 years	2,514	193,184	12,570	1,443	45,885	<b>255,596</b>

£1,614,315,582 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**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>16,981,531</b>	18,415,722
Transferred to Foundation Trusts 1 April 2005	<b>(518,274)</b>	(719,722)
Adjustment for Trust Mergers at 1 April 2005	<b>133,351</b>	0
Restated at 1 April 2005	<b>16,596,608</b>	17,696,000
New public dividend capital received (including transfers from dissolved NHS Trusts)	<b>1,741,573</b>	1,752,102
Public dividend capital repaid in year	<b>(610,850)</b>	(760,223)
Public dividend capital repayable (creditor)	<b>(91,374)</b>	(36,421)
Public dividend capital transferred to Foundation Trusts	<b>(64,119)</b>	(1,683,057)
Other movements in public dividend capital in year	<b>(864)</b>	13,130
<b>As at 31 March 2006</b>	<b>17,570,974</b>	16,981,531

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>9,691,608</b>	6,976,011
Transferred to Foundation Trusts 1 April 2005	<b>(225,944)</b>	(296,827)
Write off for Trust Mergers at 1 April 2005	<b>(146,549)</b>	0
Restated at 1 April 2005	<b>9,319,115</b>	6,679,184
Impairments	<b>(271,610)</b>	(117,572)
Other revaluations/indexation of fixed assets	<b>570,886</b>	4,209,969
Transfer of realised profits to I&E reserve	<b>(97,741)</b>	(89,694)
Other transfers between reserves	<b>(132,549)</b>	(168,490)
Other in year movements	<b>6,430</b>	0
Transferred to Foundation Trusts in-year	<b>(19,358)</b>	(821,789)
<b>As at 31 March 2006</b>	<b>9,375,173</b>	9,691,608

**16.2 Donated asset reserve**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>963,645</b>	1,276,100
Transferred to Foundation Trusts 1 April 2005	<b>(23,066)</b>	(59,989)
Adjustment for Trust Mergers at 1 April 2005	<b>3</b>	0
Restated at 1 April 2005	<b>940,582</b>	1,216,111
Impairments	<b>(3,307)</b>	(3,102)
Other revaluations/indexation of fixed assets	<b>7,853</b>	32,634
Transfer of realised profits to I&E reserve	<b>(5,976)</b>	(1,752)
Receipt of donated assets	<b>82,414</b>	123,030
Depreciation, impairment and disposal of donated assets	<b>(85,796)</b>	(83,740)
Other transfers between reserves	<b>(30,922)</b>	(1,094)
Other in year movements	<b>(14,107)</b>	0
Transferred to Foundation Trusts in-year	<b>(1,089)</b>	(318,442)
<b>As at 31 March 2006</b>	<b>889,652</b>	963,645

**16.3 Government grant reserve**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>21,598</b>	16,671
Transferred to Foundation Trusts 1 April 2005	<b>(1,801)</b>	(1,163)
Restated at 1 April 2005	<b>19,797</b>	15,508
Surplus on other revaluation/indexation of fixed assets	<b>446</b>	23
Transfer of realised profits to Income and Expenditure reserve	<b>(3,776)</b>	0
Receipt of Government granted assets	<b>7,045</b>	8,306
Depreciation, impairment and disposal of Government granted assets	<b>(3,091)</b>	(1,038)
Other transfers between reserves	<b>(2,188)</b>	(169)
Other in-year movements	<b>(113)</b>	0
Transferred to Foundation Trusts in-year	<b>0</b>	(1,032)
<b>As at 31 March 2006</b>	<b>18,120</b>	21,598

**16.4 Other reserves**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>148,866</b>	156,909
Transferred to Foundation Trusts 1 April 2005	<b>0</b>	(2,721)
Write off for Trust Mergers at 1 April 2005	<b>(684)</b>	0
Restated at 1 April 2005	<b>148,182</b>	154,188
Transfers between reserves	<b>34,180</b>	(1,121)
Other movements on reserves	<b>(738)</b>	267
Transferred to Foundation Trusts in-year	<b>(486)</b>	(4,468)
<b>As at 31 March 2006</b>	<b>181,138</b>	148,866

**16.5 Income and Expenditure reserve**

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
At 1 April 2005	<b>(111,824)</b>	22,298
Transferred to Foundation Trusts 1 April 2005	<b>11,189</b>	(25,266)
Write off for Trust Mergers at 1 April 2005	<b>(7,317)</b>	0
Restated as at 1 April 2005	<b>(107,952)</b>	(2,968)
Transfer from income and expenditure account	<b>(581,439)</b>	(321,826)
Transfers of realised profits	<b>107,493</b>	91,446
Other transfers between reserves	<b>131,479</b>	170,874
Other in year movements	<b>(3,286)</b>	0
Transferred to Foundation Trusts in-year	<b>(5,859)</b>	(49,350)
<b>As at 31 March 2006</b>	<b>(459,564)</b>	(111,824)

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Operating Surplus	<b>284,225</b>	439,924
Depreciation and amortisation	<b>1,238,166</b>	1,270,958
Impairments	<b>74,349</b>	50,772
Transfer from donated asset reserve in respect of depreciation on donated assets	<b>(85,796)</b>	(83,740)
Transfer from the Government grant reserve	<b>(3,091)</b>	(1,038)
(Increase) in stocks	<b>(27,656)</b>	(40,076)
(Increase) in debtors	<b>(227,264)</b>	(395,393)
Increase in creditors	<b>204,393</b>	210,915
(Decrease) in provisions for liabilities and charges	<b>(181,433)</b>	165,267
Payments in respect of fundamental reorganisation/restructuring	<b>(3,500)</b>	0
Net cash inflow from operating activities	<b><u>1,272,393</u></b>	<u>1,617,589</u>

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

	<b>£000</b>	£000
Net debt at 1 April 2005		(208,667)
Transferred to Foundation Trusts 1 April 2005		(1,312)
Adjustment for Trust Mergers at 1 April 2005		39
Restated at 1 April 2005		<u>(209,940)</u>
Increase in cash in year	<b>10,329</b>	
Cash inflow from new debt	<b>(120)</b>	
Cash outflow from debt repaid and finance lease capital payments	<b>2,472</b>	
Changes in net debt resulting from cash flows		<b>12,681</b>
Non-cash changes in debt		<b><u>(3,513)</u></b>
<b>Net debt at 31 March 2006</b>		<b><u>(200,773)</u></b>

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

	1 April 2005	Transferred to Foundation Trusts at 1 April 2005	Adjustment for Trust Mergers at 1 April 2005	<b>Restated 1 April 2005</b>	Transferred to Foundation Trusts in- year/cash transferred (to)/from other NHS Bodies	Cash changes in year	Non-cash changes in year/ other movements	<b>31 March 2006</b>
	£000	£000	£000	<b>£000</b>	£000	£000	£000	<b>£000</b>
OPG cash at bank	108,051	(4,119)	39	<b>103,971</b>	(1,043)	10,707		<b>113,635</b>
Commercial cash at bank and in hand	2,578	1,418	(39)	<b>3,957</b>	(9)	(5,140)		<b>(1,192)</b>
Bank overdrafts	(30,042)	1,125	39	<b>(28,878)</b>	1,232	4,582		<b>(23,065)</b>
					<u>180</u>	<u>10,149</u>		89,378
Debt due within one year	(2,372)			<b>(2,372)</b>		(12)	2,372	<b>(12)</b>
Debt due within after one year	0			<b>0</b>		(89)	0	<b>(89)</b>
Finance leases	(286,882)	264		<b>(286,618)</b>		2,453	(5,885)	<b>(290,050)</b>
	<u>(208,667)</u>	<u>(1,312)</u>	<u>39</u>	<u>(209,940)</u>	<u>180</u>	<u>12,501</u>	<u>(3,513)</u>	<b><u>(200,773)</u></b>

**20 Capital commitments**

	<b>31 March 2006 £000</b>	31 March 2005 £000
Contracted at the balance sheet date	<b>520,774</b>	556,347

**21 Contingent liabilities**

Potential net contingent liabilities totalling £65,727,000 (2004-2005: £81,844,000) have not been accrued as the outcome of these cases is uncertain. These do not include cases of clinical litigation which are accounted for by the NHS Litigation Authority.

**22 Commitments under PFI contracts**

22.1 In this financial year 74 NHS Trusts reported off balance sheet PFI schemes (2004-2005: 71). The estimated capital value of these schemes is £4.709 billion (2004-2005: £2.605 billion). The amount included within operating expenses for these schemes is £463 million (2004-2005: £396 million).

NHS Trusts are committed to make the following payments under off balance sheet PFI contracts during 2006-2007, analysed by the period during which the commitment expires:

	<b>2005-2006 £000</b>	2004-2005 £000
Within 1 year	<b>7,329</b>	19,073
2nd to 5th years (inclusive)	<b>36,497</b>	53,520
6th to 10th years (inclusive)	<b>42,741</b>	64,055
11th to 15th years (inclusive)	<b>43,144</b>	63,473
16th to 20th years (inclusive)	<b>38,492</b>	62,792
21st to 25th years (inclusive)	<b>144,064</b>	104,059
26th to 30th years (inclusive)	<b>168,384</b>	179,261
31st to 35th years (inclusive)	<b>186,825</b>	86,928
36th year and beyond	<b>204,657</b>	53,199

22.2 In this financial year, five NHS Trusts (2004-2005: 5) reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £246 million (2004-2005 (Restated): £234 million) and the amount included within operating expenses is £56 million (2004-2005: £51 million).

NHS Trusts are committed to make the following payments under off balance sheet PFI contracts during 2006-2007, analysed by the period during which the commitment expires

	<b>2005-2006 £000</b>	2004-2005 £000
Within 1 year	<b>0</b>	0
2nd to 5th years (inclusive)	<b>0</b>	0
6th to 10th years (inclusive)	<b>0</b>	0
11th to 15th years (inclusive)	<b>0</b>	0
16th to 20th years (inclusive)	<b>0</b>	0
21st to 25th years (inclusive)	<b>0</b>	0
26th to 30th years (inclusive)	<b>17,408</b>	16,589
31st to 35th years (inclusive)	<b>0</b>	0
36th year and beyond	<b>9,417</b>	9,163

## **23 Losses and special payments**

There were 57,964 (2004-2005: 60,482) cases of losses and special payments totalling £30,244,328 (2004-2005: £31,239,496) during 2005-2006. These included 1 case of damage to buildings and property of £458,000 (2004-2005: 0 cases), 1 ex gratia payments case of £365,196 (2004-2005: 0 cases) where payments exceeded £250,000.

## **24 Related party transactions**

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

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

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

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

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

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

## **25 Post balance sheet events**

As at 31 March 2006 there were 235 NHS Trusts (including five Care Trusts). With effect from 1 April 2006, 14 NHS Trusts were involved in reconfigurations to form six NHS Trusts and one Trust was dissolved. With effect from 1 July 2006, 25 NHS Trusts were involved in reconfigurations to form nine NHS Trusts. With effect from 1 May 2006, three NHS Trusts became Foundation Trusts and a further five NHS Trusts obtained Foundation Trust status on 1 June 2006, with a further eight NHS Trusts obtaining Foundation Trust status on the 1 August 2006. This will result in a net decrease of 41 NHS Trusts to 194 (189 NHS Trusts and five NHS Trust Care Trusts). It is expected that further NHS Trusts will achieve Foundation Trust status in 2006-2007.

The value of post balance sheet events disclosed in the individual NHS Trust accounts represented a net increase in expenditure of £39,608,000.

## **26 Financial instruments**

The NHS Trust summarised account includes the accounts of 236 underlying NHS Trusts. It is within the underlying accounts of these 236 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 £13,927,000 (31 March 2005: £9,562,000). 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	1,120,231	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
<b>At 31 March 2006</b>	<b><u>2,475,282</u></b>	<b><u>891,193</u></b>	<b><u>3,276,450</u></b>	<b><u>344,747</u></b>
	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	783,196	168,835	604,935	5,096
Balances with Local Authorities	68,756	749	16,482	137
Balances with NHS Trusts and Foundation Trusts	446,274	49,000	213,981	2,733
Balances with Public Corporations and Trading Funds	50,797	6,674	139,829	623
Balances with bodies external to government	866,125	396,704	2,118,832	309,644
At 31 March 2005	<u>2,215,148</u>	<u>621,962</u>	<u>3,094,059</u>	<u>318,233</u>





# Summarised Account of the NHS Blood and Transplant Authority

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of the National Health Service Blood and Transplant Authority at the year end, its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

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

## Statement on Internal Control

This statement is given in respect of the Summarised Account for the NHS Blood and Transplant Special Health Authority (the Authority).

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the Authority maintains a sound system of internal control that supports the achievement of the Authority's policies, aim and objectives and that the Authority reviews the effectiveness of those systems.

The Chief Executive of the Authority has been appointed as Accounting Officer of the Authority. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the Authority.

### Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Authority for the period ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

I draw my assurance on the Authority's capacity to handle risk from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### The risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board of the Authority for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. I draw my assurance on the adequacy of this framework from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### Review of effectiveness

As Accounting Officer for the Department of Health, I have responsibility for reviewing the effectiveness of the system of internal control at the Authority. I draw my major source of assurance from the Chief Executive as Accounting Officer of the Authority who provides his statement on internal control made on behalf of the Authority. This is included in the annual financial statements and is subject to review by the Comptroller and Auditor General. The Chief Executive, as Accounting Officer, gains assurances from the work of the internal auditors, the executive managers within the Authority who have responsibility for the development and maintenance of the internal control framework, the Audit Committee, and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department of Health who are accountable for the oversight of the relationship with the Authority.

The system of internal control has been in place for the period ended 31 March 2006, but the internal control assurance framework was not fully in place from the outset. Action was taken on a number of improvement activities identified during 2005-2006, and a plan to address further improvements identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

The underlying accounts are laid before Parliament.<sup>1</sup>

*David Nicholson CBE*  
Accounting Officer

30 November 2006

1 HC1261

# Remuneration Report

## a Remuneration

Name and title	6 months to 31 March 2006		Benefits in kind (rounded to the nearest £00)
	Salary in £5000 bands	Other remuneration in £5000 bands	
	£000	£000	£00
Mr B Fullagar (Chairman)	0	25-30	0
Dr D Walford (NED)	0	0-5	0
Mrs E Buggins (NED)	0	0-5	0
Mrs J Gubbins (NED)	0	0-5	0
Mr D Greggains (NED)	0	0-5	0
Mr G Jenkins (NED)	0	0-5	0
Mr J Forsythe (NED)	0	0-5	0
Mr M Gorham OBE (Chief Executive)	90-95	0	0
Dr A Robinson (Medical Director)	105-110	0	60
Mr B Savery (Director of Finance)	55-60	0	41
Mr T Male (Director of Planning and Organisational Development)	50-55	0	23
Mr P Garwood (Managing Director NBS)	60-65	0	30
Mr C Ronaldson (Managing Director BPL)	45-50	0	25
Mr C Rudge (Managing Director UKT)	60-65	0	0
Mrs E Reynolds (Director of Communication and Corporate Affairs)	50-55	0	16

NED = Non-Executive Director

Benefits in kind were in relation to the provision of cars and are stated in round £100's not £1000's.

## b Pension benefits

Name	Real increase in pension at age 60 (bands of £2,500)*	Real increase in lump sum at age 60 (bands of £2,500)*	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000)	Lump sum at age 60 related to accrued pension at 31 March 2006 (bands of £5,000)	Cash equivalent transfer value at 31 March 2006	Cash equivalent transfer value at 31 March 2005	Real increase in cash equivalent transfer value*
	£000	£000	£000	£000	£000	£000	£000
Mr M Gorham OBE	7.5-10	25-27.5	70-75	210-215	1,299	848	150
Dr A Robinson	5-7.5	20-22.5	80-85	245-250	0	0	0
Mr B Savery	0-2.5	2.5-5	25-30	75-80	0	0	0
Mr T Male	0-2.5	5-7.5	30-35	95-100	515	422	29
Mr P Garwood	2.5-5	12.5-15	45-50	140-145	799	618	58
Mr C Ronaldson	0-2.5	2.5-5	20-25	60-65	372	311	19
Mr C Rudge	5-7.5	17.5-20	50-55	160-165	967	699	87
Mrs E Reynolds	0-2.5	2.5-5	10-15	30-35	155	115	13

\* The real increase in pension, lump sum and CETV relates to the period 1 October 2005 to 31 March 2006.

There were no employer contributions to stakeholder pensions.

### **Cash equivalent transfer value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figure and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### **Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of period.

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

I certify that I have audited the financial statements of NHS Blood and Transplant for the period ended 31 March 2006 under the National Health Service Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 the preparation of the financial statements and the Remuneration Report in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with approval of the Treasury and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts.

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

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and with the directions made thereunder by the Secretary of State with the approval of the Treasury. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages D3 to D4 reflects the Department of Health's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Authority, consistently applied and adequately disclosed.

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



## Opinion

### In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, of the state of affairs of NHS Blood and Transplant at 31 March 2006 and of the surplus, total recognised gains and losses and cash flows for the period then ended;
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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

## Income and Expenditure Account for the year ended 31 March 2006

### Continuing operations

	<b>6 months to 31 March 2006 £000</b>	6 months to 30 September 2005 £000
Income		
Department of Health funding	<b>24,287</b>	13,441
Operating income	2.2 <b>201,702</b>	199,015
Expenditure		
Operating expenses	3.1 <b>(221,417)</b>	(215,656)
<b>Surplus/(deficit) for the period before interest</b>	<b>4,572</b>	(3,200)
Interest payable	<b>(175)</b>	(565)
<b>Surplus/(deficit) for the period</b>	<b>4,397</b>	(3,765)

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	<b>6 months to 31 March 2006 £000</b>	6 months to 30 September 2005 £000
Surplus/(deficit) for the period	<b>4,397</b>	(3,765)
Unrealised (loss) on the revaluation of fixed assets	12.2 <b>(1,028)</b>	(7,214)
Unrealised gain on the indexation of fixed assets	12.2 <b>0</b>	6,030
<b>Total recognised gains/(losses) for the period</b>	<b>3,369</b>	(4,949)

*The notes at pages D12 to D26 form part of this account.*

Comparative figures represent the (restated) figures for the National Blood Authority and UK Transplant which merged to form NHS Blood and Transplant on 1 October 2005.

## Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	30 September 2005 £000
<b>Fixed assets</b>			
Intangible assets	5.1	3,477	3,647
Tangible assets	5.2	282,001	276,211
		<b>285,478</b>	279,858
<b>Current assets</b>			
Stocks and work in progress	6	58,379	56,740
Debtors	7	30,416	30,117
Cash at bank and in hand	8	86	1,580
		<b>88,881</b>	88,437
<b>Creditors: amounts falling due within one year</b>	9	<b>(26,079)</b>	(27,546)
<b>Net current assets</b>		<b>62,802</b>	60,891
<b>Total assets less current liabilities</b>		<b>348,280</b>	340,749
<b>Provisions for liabilities and charges</b>	10	<b>(11,033)</b>	(13,519)
		<b>337,247</b>	327,230
<b>Capital and reserves</b>			
Capital account	12.1	185,137	174,951
Revaluation reserve	12.2	100,180	104,736
Donated asset reserve	12.3	161	171
Income and expenditure reserve	12.4	51,769	47,372
		<b>337,247</b>	327,230

*The notes at pages D12 to D26 form part of this account.*

Comparative figures represent the (restated) figures for the National Blood Authority and UK Transplant which merged to form NHS Blood and Transplant on 1 October 2005.

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year ended 31 March 2006

	<b>6 months to 31 March 2006</b>	6 months to 30 September 2005
Notes	<b>£000</b>	£000
<b>Net cash (outflow)/inflow from operating activities</b>	13 <b>(681)</b>	2,046
<b>Servicing of finance</b>		
Interest element of finance leases	<u>(175)</u>	<u>(565)</u>
<b>Net cash (outflow) from servicing of finance</b>	<u>(175)</u>	<u>(565)</u>
<b>Capital expenditure and financial investment</b>		
(Payments) to acquire intangible fixed assets	<b>(568)</b>	(337)
(Payments) to acquire tangible fixed assets	<b>(17,897)</b>	(6,159)
Receipts from disposal of tangible fixed assets	<b>52</b>	8
<b>Net cash (outflow) from investing activities</b>	<u>(18,413)</u>	<u>(6,488)</u>
<b>Net cash (outflow) before financing</b>	<u>(19,269)</u>	<u>(5,007)</u>
<b>Financing</b>		
Net Parliamentary funding	<b>17,750</b>	6,419
Capital element of finance leases	<b>25</b>	69
<b>(Decrease)/increase in cash in the period</b>	8 <u>(1,494)</u>	<u>1,481</u>

Comparative figures represent the (restated) figures for the National Blood Authority and UK Transplant which merged to form NHS Blood and Transplant on 1 October 2005.

*The notes at pages D12 to D26 form part of this account.*

# Notes to the Account

## 1 Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets and stock where material, at their value to the business by reference to current cost. 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 Income

Operating income is income which relates directly to the operating activities of the Authority. It principally comprises fees and charges for services provided on a full-cost basis to the NHS and external customers.

Income is accounted for applying the accruals convention. The main sources of funding for the Authority are income from sales to the NHS and Parliamentary grant from the Department of Health from Request for Resources 1 (RfR1) within an approved cash limit, which is credited to the income and expenditure account. Parliamentary funding is recognised in the financial period in which it is received. The products and services provided to the NHS include Coagulation Factors, Albumin and Immunoglobins from the Bio Products Laboratory (BPL) and blood components and services from Blood Centres, and the provision of transplant services by UK Transplant operating division. Other income includes such services as ante-natal screening, tissue typing for transplants and overseas trade by the BPL.

It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.3 Taxation

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

### 1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2005-2006 was 3.5% (2004-2005: 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 where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred.
  - iii Tangible assets which are capable of being used for more than one year, and they
    - individually have a cost equal to or greater than £5,000;
    - collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
    - form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.
  - iv Donated fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.
- b Valuation

#### *Intangible fixed assets*

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

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

#### *Tangible fixed assets*

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

#### i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. Between valuations price indices appropriate to the category of asset 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.

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 or equipment as appropriate. These assets include any existing land or buildings under the control of a contractor.
  - iv Subsequent revaluations to donated fixed assets are taken to the donated asset reserve.
  - v All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.
- c Depreciation and amortisation

Depreciation is charged on each individual fixed asset as follows

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets.
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives.
- iii Land and assets in the course of construction are not depreciated.
- iv Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer (in the range of 5 to 89 years). Leaseholds are depreciated over the primary lease term.
- v Each equipment asset is depreciated evenly over the expected useful life which is assessed by individual asset.

### **1.6 Donated fixed assets**

Donated fixed assets are capitalised at their current value on receipt and this value is credited to the Donated Asset Reserve. Donated fixed assets are valued and depreciated as described above for purchased assets. Gains and losses on revaluations are also taken to the Donated Asset Reserve and, each year, an amount equal to the depreciation charge on the asset is released from the Donated Asset Reserve to the 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 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 Stocks and work in progress**

Stocks and work in progress are valued as follows

- i raw materials, finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they cannot or will not be used;
- ii work in progress is valued at the lower of cost and net realisable value.

### **1.8 Losses and special payments**

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

## 1.9 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme 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 FRS17 purposes every four years. The last valuation on this basis took place as at 31 March 2004. The Scheme is subject to a full valuation by the Government Actuary every four years which is followed by a review of the employer contribution rates. The last valuation took place as at 31 March 2003 and has yet to be finalised. The last published valuation 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 NHS Pensions Agency website at [www.nhspa.gov.uk](http://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 employers' contributions be set at 14% of pensionable pay 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 bodies are directed by the Secretary of State to charge employers' 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. 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 Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

## 1.10 Research and development

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



### 1.11 Foreign exchange

Transactions which are denominated in a foreign currency are translated into sterling at the exchange rate ruling on the date of each transaction, except where rates do not fluctuate significantly, in which case an average rate for a period is used. Bio Products Laboratory values its plasma and the plasma element of its goods for resale at the lower of the average price paid, or if significantly different, net replacement cost.

### 1.12 Leases

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

### 1.13 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms (2004-2005: 3.5%).

## 2.1 Reconciliation of cashflow statement to Parliamentary funding

		<b>6 months to 31 March 2006 £000</b>	6 months to 30 September 2005 £000
	Notes		
Net cash (outflow)/inflow from operating activities	13	<b>(681)</b>	2,046
Expenditure	3.1	<b>221,417</b>	215,656
Operating Income	2.2	<b>(201,702)</b>	(199,015)
Movement in working capital		<b>5,253</b>	(5,010)
Capital funding (net)		<b>17,750</b>	6,419
Capital charges adjustment		<b>600</b>	774
Total Parliamentary funding		<b><u>42,637</u></b>	<u>20,870</u>

## 2.2 Operating income

*Operating income analysed by activity, is as follows*

	<b>6 months to 31 March 2006 £000</b>	6 months to 30 September 2005 £000
Blood Product Income	<b>153,010</b>	156,634
BPL Product Sales	<b>31,908</b>	25,568
UKT – Income from Scottish Parliament	<b>482</b>	473
UKT – Income from National Assembly for Wales	<b>281</b>	276
UKT – Income from Northern Ireland Assembly	<b>144</b>	142
Other income	<b>15,877</b>	15,922
Total	<b><u>201,702</u></b>	<u>199,015</u>

### 3.1 Expenditure

	Notes	6 months to 31 March 2006 £000	6 months to 31 March 2006 £000	6 months to 30 September 2005 £000
Salaries and wages	3.2		<b>92,606</b>	93,480
Other staff costs			<b>6,520</b>	5,937
Consumable supplies			<b>61,458</b>	59,943
Maintenance of buildings, plant and equipment			<b>9,426</b>	7,078
Rent and rates			<b>5,814</b>	5,464
Rates rebate			<b>(2,500)</b>	0
Transport costs			<b>3,674</b>	3,655
External contractors			<b>5,814</b>	4,302
Purchase and lease of equipment and furniture			<b>2,771</b>	1,780
Utilities and telecommunications			<b>5,359</b>	4,217
UKT Scheme Payments			<b>2,726</b>	2,581
Media advertising			<b>1,063</b>	1,775
<i>Capital</i>				
Depreciation and amortisation	5.1, 5.2	<b>11,092</b>		11,113
Loss on disposal	5.4	<b>317</b>		162
Capital charges interest		<b>5,799</b>		5,760
			<b>17,208</b>	17,035
<i>Other finance costs</i>				
unwinding of discount			<b>0</b>	58
change in discount rate			<b>0</b>	116
Auditor's remuneration: Audit Fees			<b>120</b>	130
Foreign exchange (gain)			<b>(259)</b>	(317)
Miscellaneous			<b>9,617</b>	8,422
			<b>221,417</b>	215,656

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

The rates rebate relates to part of the Bio Products Laboratory site and to the period April 2000 to March 2006.

### 3.2 Staff numbers and related costs

	6 months to 31 March 2006 Total £000	Permanently employed Staff £000	Other £000	6 months to 30 September 2005 £000
Salaries and wages	<b>78,264</b>	<b>73,546</b>	<b>4,718</b>	79,342
Social security costs	<b>5,359</b>	<b>5,214</b>	<b>145</b>	5,287
Employer contributions to NHSPA	<b>8,983</b>	<b>8,801</b>	<b>182</b>	8,851
	<b>92,606</b>	<b>87,561</b>	<b>5,045</b>	93,480

The average number of employees during the period was

	6 months to 31 March 2006 total Number	Permanently employed staff Number	Other Number	6 months to 30 September 2005 Number
Total	<b>5,986</b>	<b>5,679</b>	<b>307</b>	6,104

**Expenditure on staff benefits**

The amount spent on staff benefits during the period is estimated at £514,000 (6 months to 30 September 2005: £403,000).

**Retirements due to ill-health**

During the period there were three early retirements from the NHS Blood and Transplant on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £562,000. (Period to 30 September 2005: five early retirements at a cost of £243,000).

**4 Better payment practice code – measure of compliance**

	Number	£000
Total non-NHS bills paid in the 6 month period to 31 March 2006	56,426	121,596
Total non-NHS bills paid within target	49,498	111,950
Percentage of non-NHS bills paid within target	87.7%	92.1%
	Number	£000
Total NHS bills paid in the 6 month period to 31 March 2006	5,472	2,995
Total NHS bills paid within target	5,155	2,547
Percentage of NHS bills paid within target	94.2%	85.0%

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

(Period to 30 September 2005: £Nil). No compensation payments were made under this legislation (Period to 30 September 2005: £Nil).

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

	Software licences £000	Development expenditure £000	<b>Total £000</b>
Gross cost at 30 September 2005	11,298	1,525	<b>12,823</b>
Additions – purchased	117	463	<b>580</b>
Disposals	(123)	0	<b>(123)</b>
<b>Gross cost at 31 March 2006</b>	<b>11,292</b>	<b>1,988</b>	<b>13,280</b>
<b>Accumulated amortisation at 30 September 2005</b>	<b>9,176</b>	<b>0</b>	<b>9,176</b>
Charged in the period	712	0	<b>712</b>
Disposals	(85)	0	<b>(85)</b>
Accumulated amortisation at 31 March 2006	9,803	0	<b>9,803</b>
Net book value at 30 September 2005	2,122	1,525	<b>3,647</b>
<b>Net book value at 31 March 2006</b>	<b>1,489</b>	<b>1,988</b>	<b>3,477</b>

No indexation has been applied in the reporting period, as NHS bodies are required to apply indexation on 1 April of each financial year. Consequently indexation for April 2005 was applied in the previous published accounts of the National Blood Authority and UK Transplant.

## 5.2 Tangible fixed assets

	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation at 30 September 2005	29,637	193,121	2,114	11,070	74,970	10,326	21,587	3,529	<b>346,354</b>
Additions - purchased	6,351	249	0	7,386	3,047	320	176	0	<b>17,529</b>
Reclassification	718	446	0	(2,550)	1,327	0	59	0	<b>0</b>
Other in year revaluations	0	(1,016)	0	(12)	0	0	0	0	<b>(1,028)</b>
Disposals	0	0	0	0	(2,012)	(1,199)	(6,358)	0	<b>(9,569)</b>
<b>Gross cost at 31 March 2006</b>	<b>36,706</b>	<b>192,800</b>	<b>2,114</b>	<b>15,894</b>	<b>77,332</b>	<b>9,447</b>	<b>15,464</b>	<b>3,529</b>	<b>353,286</b>
Accumulated depreciation at 30 September 2005	0	0	0	0	41,276	7,866	17,541	3,460	<b>70,143</b>
Charged in year	0	4,920	23	0	3,768	459	1,202	8	<b>10,380</b>
Disposals	0	0	0	0	(1,779)	(1,151)	(6,308)	0	<b>(9,238)</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>0</b>	<b>4,920</b>	<b>23</b>	<b>0</b>	<b>43,265</b>	<b>7,174</b>	<b>12,435</b>	<b>3,468</b>	<b>71,285</b>
<b>Net book value</b>									
Purchased at 30 September 2005	29,637	193,121	2,114	11,070	33,523	2,460	4,046	69	<b>276,040</b>
Donated at 30 September 2005	0	0	0	0	171	0	0	0	<b>171</b>
Total at 30 September 2005	29,637	193,121	2,114	11,070	33,694	2,460	4,046	69	<b>276,211</b>
<b>Net book value</b>									
<b>Purchased at 31 March 2006</b>	<b>36,706</b>	<b>187,880</b>	<b>2,091</b>	<b>15,894</b>	<b>33,906</b>	<b>2,273</b>	<b>3,029</b>	<b>61</b>	<b>281,840</b>
<b>Donated at 31 March 2006</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>161</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>161</b>
<b>Total at 31 March 2006</b>	<b>36,706</b>	<b>187,880</b>	<b>2,091</b>	<b>15,894</b>	<b>34,067</b>	<b>2,273</b>	<b>3,029</b>	<b>61</b>	<b>282,001</b>

No indexation has been applied in the reporting period, as NHS bodies are required to apply indexation on 1 April of each financial year. Consequently indexation for April 2005 was applied in the previous published accounts of the National Blood Authority and UK Transplant.

The net book assets held under finance leases and hire purchase contracts at the balance sheet date are as follows

30 September 2005	0	14,476	0	0	0	0	0	0	14,476
<b>31 March 2006</b>	<b>0</b>	<b>14,172</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>14,172</b>

The total amount of depreciation charged in the income and expenditure account in respect of assets held under finance leases and hire purchase contracts

6 month period to 30 September 2005	0	0	0	0	0	0	0	0	0
<b>6 month period to 31 March 2006</b>	<b>0</b>	<b>304</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>304</b>

## 5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2006 comprises

	<b>31 March 2006 £000</b>	30 September 2005 £000
Freehold	<b>200,712</b>	198,165
Long leasehold	<b>25,965</b>	26,707
<b>Total</b>	<b>226,677</b>	224,872

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

	<b>31 March 2006 £000</b>	30 September 2005 £000
(Loss) on disposal of intangible fixed assets	<b>(38)</b>	0
(Loss) on disposal of plant and equipment	<b>(279)</b>	(162)
	<b><u>(317)</u></b>	<u>(162)</u>

**6 Stocks and work in progress**

	<b>31 March 2006 £000</b>	30 September 2005 £000
Raw materials and consumables	<b>24,556</b>	21,259
Work in progress	<b>10,548</b>	10,718
Finished processed goods	<b>23,275</b>	24,763
	<b><u>58,379</u></b>	<u>56,740</u>

Plasma stock of £2,186,000, included within raw materials and consumables, is held at collection centres of Diagnostics Chemistries Inc. (DCI), NHSB&T's United States supplier. DCI is wholly owned by Plasma Resources UK Ltd, a company wholly owned by the Department of Health.

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

	<b>31 March 2006 £000</b>	30 September 2005 £000
NHS debtors	<b>15,391</b>	14,732
Provision for irrecoverable debts	<b>(851)</b>	(267)
Prepayments	<b>5,518</b>	6,201
Accrued income	<b>1,205</b>	651
Capital debtors	<b>579</b>	428
Other debtors	<b>8,574</b>	8,349
	<b><u>30,416</u></b>	<u>30,094</u>

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

	<b>31 March 2006 £000</b>	30 September 2005 £000
Prepayments	<b>0</b>	23
	<b><u>0</u></b>	<u>23</u>
<b>Total debtors</b>	<b><u>30,416</u></b>	<u>30,117</u>

**8 Analysis of changes in cash**

	At 30 September 2005 £000	<b>Change during the period £000</b>	<b>At 31 March 2006 £000</b>
Cash at OPG	1,407	<b>(1,350)</b>	<b>57</b>
Cash at commercial banks and in hand	173	<b>(144)</b>	<b>29</b>
	<u>1,580</u>	<u><b>(1,494)</b></u>	<u><b>86</b></u>

**9 Creditors****9.1 Amounts falling due within one year**

	<b>31 March 2006 £000</b>	30 September 2005 £000
NHS creditors	<b>2,592</b>	7,121
Capital creditors	<b>484</b>	971
Tax and social security	<b>7</b>	3,103
Other creditors	<b>6,157</b>	4,155
Accruals	<b>16,501</b>	11,801
Deferred income	<b>338</b>	395
	<u><b>26,079</b></u>	<u>27,546</u>

**9.2 Finance lease obligations**

	<b>31 March 2006 £000</b>	30 September 2005 £000
<i>Leases payable</i>		
Within one year	<b>423</b>	423
Between one and five years	<b>1,692</b>	1,692
After five years	<b>7,614</b>	7,825
Gross obligation	<b>9,729</b>	9,940
Finance charges allocated to future periods	<b>(5,624)</b>	(5,810)
Net obligations	<u><b>4,105</b></u>	<u>4,130</u>

The finance lease creditor of £4,105,000 relates to the Liverpool Speke building and is included in capital reserves.

**10 Provisions for liabilities and charges**

	Pensions for former staff £000	Product £000	Other Liability £000	<b>Total £000</b>
At 30 September 2005	0	1,993	11,526	<b>13,519</b>
Arising during the year	225	20	3,362	<b>3,607</b>
Utilised during the year	0	(27)	(5,026)	<b>(5,053)</b>
Reversed unused	0	(38)	(1,002)	<b>(1,040)</b>
<b>At 31 March 2006</b>	<b>225</b>	<b>1,948</b>	<b>8,860</b>	<b>11,033</b>

*Expected timing of cash flows*

Within one year	225	388	8,464	<b>9,077</b>
One to five years	0	1,560	77	<b>1,637</b>
Over five years	0	0	319	<b>319</b>

No unwinding of discount has been applied in the reporting period, as NHS bodies are required to apply the calculation on 1 April of each financial year. Consequently the unwinding of discount for April 2005 was applied in the previous published accounts of the National Blood Authority and UK Transplant.

Product liability provisions relate to legal actions brought against the Authority through the use of Authority products by individuals, mainly Hepatitis C cases. Provisions for the settlement of Hepatitis C cases amounting to £1,707,000 (30 September 2005: £1,752,000) have been brought under an action for product liability, and are included in the above Product Liability provision total of £1,948,000 (30 September 2005: £1,993,000).

Included within the 'Other' category are provisions relating to legal claims for personal injury and donor claims, provisions for stock, redundancy payments, provisions under Agenda for Change and provisions for injury benefits.

£120,000 (30 September 2005: £104,000) is included in the provisions of the NHS Litigation Authority at 31 March 2006 in respect of clinical negligence liabilities of the NHSBT Authority. There is a provision of £5,000 in respect of the existing liabilities scheme (30 September 2005: £3,000).

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

	<b>31 March 2006 £000</b>	30 September 2005 £000
(Increase)/decrease in stocks	<b>(1,639)</b>	4,881
(Increase) in revenue debtors	<b>(148)</b>	(3,219)
(Decrease) in revenue creditors	<b>(980)</b>	(402)
Net (decrease)/increase in working capital other than cash	<b>(2,767)</b>	1,260

**12 Movements on reserves****12.1 Capital reserve**

	<b>31 March 2006 £000</b>	30 September 2005 £000
Balance at 1 October 2005	<b>174,951</b>	175,839
Additions	<b>18,109</b>	10,442
Reclassification	<b>3,451</b>	4
Disposals	<b>(292)</b>	(69)
Depreciation	<b>(11,082)</b>	(11,265)
<b>Balance at 31 March 2006</b>	<b><u>185,137</u></b>	<u>174,951</u>

**12.2 Revaluation reserve**

	<b>31 March 2006 £000</b>	30 September 2005 £000
Balance at 1 October 2005	<b>104,736</b>	106,025
Indexation of fixed assets	<b>0</b>	6,030
Revaluation of fixed assets	<b>(1,028)</b>	(7,214)
Reclassification	<b>(3,451)</b>	(4)
Disposals	<b>(77)</b>	(101)
<b>Balance at 31 March 2006</b>	<b><u>100,180</u></b>	<u>104,736</u>

**12.3 Donated asset reserve**

	<b>31 March 2006 £000</b>	30 September 2005 £000
Balance at 1 October 2005	<b>171</b>	181
Depreciation of donated assets	<b>(10)</b>	(10)
<b>Balance at 31 March 2006</b>	<b><u>161</u></b>	<u>171</u>

**12.4 Income and Expenditure reserve**

	<b>31 March 2006 £000</b>	30 September 2005 £000
Balance at 1 October 2005	<b>47,372</b>	50,901
Adjust for non-cash transactions	<b>0</b>	236
Transfer from the Income and Expenditure Account	<b>4,397</b>	(3,765)
<b>Balance at 31 March 2006</b>	<b><u>51,769</u></b>	<u>47,372</u>



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

		<b>31 March</b>	30 September
		<b>2006</b>	2005
	Notes	<b>£000</b>	£000
Surplus/(deficit) for period before interest		<b>4,572</b>	(3,200)
Adjust for non-cash transactions		<b>0</b>	236
Adjust for movements in working capital other than cash	11	<b>(2,767)</b>	1,260
(Decrease)/increase in provisions	10	<b>(2,486)</b>	3,750
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(681)</b>	2,046

**14 Contingent liabilities**

A contingent liability of £535,000 (30 September 2005: £511,000) relates to potential costs associated with donor claims, personal injury claims, and non Hepatitis C product liability claims. The related provisions are included under 'Product liability' and 'Other' in Note 10.

A contingent liability of £243,000 (30 September 2005: £260,000) relates to Hepatitis C cases brought under an action for product liability.

Due to the nature of the contingent liabilities it is difficult to predict with any degree of accuracy the final amounts due and when they will crystallise.

**15 Capital commitments**

At 31 March 2006 the value of contracted capital commitments was £5,976,000 (30 September 2005: £3,840,000).

**16 Commitments under operating leases**

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

	<b>6 months to</b>	6 months to
	<b>31 March</b>	30 September
	<b>2006</b>	2005
	<b>£000</b>	£000
Hire of plant and machinery	<b>257</b>	231
Other operating leases	<b>1,315</b>	1,295
	<b>1,572</b>	1,526
<b>Commitments under non-cancellable operating leases</b>		
	<b>£000</b>	£000
<i>Land and buildings</i>		
Operating leases which expire		
within one year	<b>2,486</b>	2,655
between one and five years	<b>4,784</b>	5,194
after five years	<b>1,866</b>	2,075
	<b>9,136</b>	9,924
<b>Other leases</b>		
Operating leases which expire		
within one year	<b>2,419</b>	2,157
between one and five years	<b>3,161</b>	2,977
after five years	<b>59</b>	57
	<b>5,639</b>	5,191

## 17 Other commitments

The Authority has entered into non-cancellable contracts (which are not operating leases) totalling £nil as at 31 March 2006 (30 September 2005: £nil).

## 18 Losses and special payments

There were 279 cases of losses and special payments totalling £336,000 approved in the period to 31 March 2006 (Period ended 30 September 2005: 351 cases totalling £1,207,000). There were no individual payments that exceeded £250,000 (Period ended 30 September 2005: 1 case totalling £870,000).

## 19 Related parties

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

The Department of Health is regarded as a controlling related party. During the period the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. the majority of NHS acute trusts. During the year these transactions were valued at £218 million of income (6 months to 30 September 2005: £193 million), including capital funding, and £6 million of expenditure (six months to 30 September 2005: £5 million), which represented trading with 240 separate organisations.

The following named members of the Board have registered interests in related parties as stated below

<b>Name and title</b>	<b>Registered interest(s)</b>
Mrs E Buggins (NED)	Birmingham and Black Country SHA (Chair)
Mr G Jenkins (NED)	East Kent Hospitals NHS Trust (Chair)
Mr M Gorham OBE (Chief Executive)	Spouse is Chief Executive of Waltham Forest PCT

NED = Non-Executive Director

NBA Transactions with Members' Registered Interests

	Income £000	Expenditure £000
Birmingham and Black Country SHA	9	Nil
East Kent Hospitals NHS Trust	1,285	1
Waltham Forest PCT	Nil	Nil

During the year none of the Authority Members or members of the key management staff or other related parties has undertaken any material transactions with the NHS Blood and Transplant Authority.

## 20 Post balance sheet events

The sale of Liverpool West Derby Street property to Liverpool and Broadgreen NHS Trust was completed in April 2006. The asset has been revalued to open market value in this account in anticipation of the sale. The loss has been taken to the revaluation reserve and shown in the Statement of Total Recognised Gains and Losses.

## 21 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way that Special Health Authorities are financed, the NHS Blood and Transplant Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Authority has no power to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Authority in undertaking its activities.

*Liquidity risk*

The Authority's net operating costs are mainly recovered through prices under annual service agreements with NHS Trusts and Primary Care Trusts, which are financed from resources voted annually by Parliament. A relatively small amount of income arises from export sales.

Capital expenditure costs are financed from resources voted annually by Parliament. The Authority is not, therefore, exposed to significant liquidity risks.

*Interest-rate risk*

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

*Foreign currency risk*

The NHS Blood and Transplant Authority has a relatively small amount of foreign currency income or expenditure. It buys forward currency for most of its foreign payments. It is not therefore exposed to significant foreign currency risk. Bio Products Laboratory enters into forward exchange contracts to purchase US dollars to pay for its plasma. It is therefore exposed to foreign currency risk should the US dollar/sterling exchange rate move significantly from the average rate in the contract.

*Fair values*

Fair values are not significantly different from book values and therefore no additional disclosure is required.

**22 Intra-government balances**

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	3,957	0	222	0
Balances with local authorities	1,299	0	18	0
Balances with NHS Trusts	15,349	0	2,231	0
Balances with public corporations and trading funds	0	0	218	0
Balances with bodies external to government	9,811	0	23,390	0
<b>At 31 March 2006</b>	<b>30,416</b>	<b>0</b>	<b>26,079</b>	<b>0</b>
	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	2,374	0	3,653	0
Balances with local authorities	741	0	24	0
Balances with NHS Trusts	14,738	0	6,980	0
Balances with public corporations and trading funds	0	0	224	0
Balances with bodies external to government	12,241	23	16,665	0
At 1 October 2005	30,094	23	27,546	0

# Summarised Account of the NHS Direct Special Health Authority

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of the NHS Direct Special Health Authority at the year end, its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

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

## Statement on Internal Control

This statement is given in respect of the Summarised Account for the NHS Direct Special Health Authority (the Authority).

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the Authority maintains a sound system of internal control that supports the achievement of the Authority's policies, aim and objectives and that the Authority reviews the effectiveness of those systems.

The Chief Executive of the Authority has been appointed as Accounting Officer of the Authority. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the Authority.

### Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control was in place in the Authority from 31 October 2005 up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

I draw my assurance on the Authority's capacity to handle risk from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### The risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board of the Authority for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. I draw my assurance on the adequacy of this framework from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### Review of effectiveness

As Accounting Officer for the Department of Health, I have responsibility for reviewing the effectiveness of the system of internal control at the Authority. I draw my major source of assurance from the Chief Executive as Accounting Officer of the Authority who provides his statement on internal control made on behalf of the Authority. This is included in the annual financial statements and is subject to review by the Comptroller and Auditor General. The Chief Executive, as Accounting Officer, gains assurances from the work of the internal auditors, the executive managers within the Authority who have responsibility for the development and maintenance of the internal control framework, the Audit Committee, and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department of Health who are accountable for the oversight of the relationship with the Authority.

I have also noted the Comptroller and Auditor General's qualification of his opinion on the Authority's accounts for the year to 31 March 2005.<sup>1</sup>

The system of internal control has been in place from 1 October 2005 and up to the date of approval of the annual report and accounts. The Chief Executive has put in place a programme of action to address the control weaknesses identified last year, and is continuing to embed an appropriate control environment, particularly in respect of payroll arrangements.

The underlying accounts are laid before Parliament.<sup>2</sup>

*David Nicholson CBE*  
Accounting Officer

30 November 2006

- 1 HC 484 2005-2006
- 2 HC 1263 2005-2006

# Remuneration Report

## a Remuneration

Name and title	2005-2006			2004-2005		
	Salary in £5,000 bands £000	Other remuneration in £5,000 bands £000	Benefits in kind (rounded to the nearest £00) £00	Salary in £5,000 bands £000	Other remuneration in £5,000 bands £000	Benefits in kind (rounded to the nearest £00) £00
P Catchpole (Non Executive Director)	n/a	5-10	0	0	5-10	0
D Edmonds (Non Executive Chairman)	n/a	20-25	0	0	20-25	0
D Evans (Non Executive Director)	n/a	5-10	0	0	5-10	0
J Mallalieu (Non Executive Director)	n/a	5-10	0	0	5-10	0
D Newman (Non Executive Director)	n/a	5-10	0	0	5-10	0
J Shaw (Non Executive Director)	n/a	5-10	0	0	5-10	0
M Bain (Director of ICT)	95-100	0	4	55-60	0	0
P Jenkins (Director of Service Development)	105-110	0	0	80-85	0	0
E Lester (Chief Executive)	165-170	0	1	155-160	0	0
M Munt (Director of Finance)	105-110	0	4	50-55*	0	1
A Raynor (HR Director)	95-100	0	0	50-55*	0	0
M Sadler (Medical Director)	105-110	0	6	40-45*	0	1
R Sage (Transformation Director)	125-130	0	5	75-80*	0	1
J Treanor (Director of Communications and Corporate Affairs) to 3 March 2006	80-85*	0	3	5-10*	0	0
S White (Chief Operating Officer) to 27 February 2006	105-110*	0	0	25-30*	0	0
H Young (Nursing Director)	95-100	0	5	30-35*	0	1

\* Part year only

## b Pension benefits

	Real increase in pension at age 60 (bands of £2,500) £000	Lump sum at age 60 related to real increase in pension (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31 March 2006 (bands of £5,000) £000	Cash equivalent transfer value at 31 March 2006 £000	Cash equivalent transfer value at 31 March 2005 £000	Real increase in cash equivalent transfer value £000
M Bain (Director of ICT)	17.5-20	52.5-55	40-45	130-135	677	403	184
E Lester (Chief Executive)	0-2.5	2.5-5	0-5	5-10	49	21	19
P Jenkins (Director of Service Development)	0-2.5	2.5-5	0-5	0-5	15	0	11
M Munt (Director of Finance)	0-2.5	5-7.5	0-5	5-10	33	7	18
A Raynor (HR Director)	2.5-5	12.5-15	20-25	60-65	236	176	39
M Sadler (Medical Director)	5-7.5	15-17.5	20-25	70-75	309	235	48
R Sage (Transformation Director)	0-2.5	2.5-5	0-5	5-10	32	10	15
S White (Chief Operating Officer) to 27 February 2006	0-2.5	2.5-5	0-5	0-5	16	3	8
J Treanor (Director of Communications and Corporate Affairs) to 3 March 2006	5-7.5	15-17.5	5-10	15-20	67	0	43
H Young (Nursing Director)	0-2.5	0-2.5	15-20	55-60	193	184	3

Non-Executive members do not receive pensionable remuneration.

No Employer's contributions to stakeholder pensions were made in the year.



### **Cash equivalent transfer value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figure and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### **Real Increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of period.

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

I have audited the financial statements of NHS Direct for the year ended 31 March 2006 under the National Health Service Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 the preparation of the financial statements and the Remuneration Report in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with approval of the Treasury and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts.

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

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and with the directions made thereunder by the Secretary of State with the approval of the Treasury. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages E3 to E4 reflects the Department of Health's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Authority, consistently applied and adequately disclosed.

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

## Opinion

### In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, of the state of affairs of NHS Direct at 31 March 2006 and of the surplus, total recognised gains and losses and cash flows for the year then ended;
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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

## Income and Expenditure Account for the year ended 31 March 2006

### Continuing operations

	Notes	<b>2005-2006</b> <b>£000</b>	Restated 2004-2005 £000
Operating income	4	155,736	150,180
Expenditure	2.1	(151,316)	(147,351)
<b>Operating surplus</b>		<u>4,420</u>	<u>2,829</u>

All income and expenditure is derived from continuing operations.

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	<b>2005-2006</b> <b>£000</b>	Restated 2004-2005 £000
Operating surplus		4,420	2,829
Unrealised surplus on the indexation of fixed assets	12.2	77	747
Unrealised (deficit) on the revaluation of fixed assets	12.2	0	(182)
<b>Recognised gains for the financial year</b>		<u>4,497</u>	<u>3,394</u>

*The notes at pages E12 to E25 form part of this account.*

## Balance Sheet as at 31 March 2006

	Notes	<b>31 March 2006 £000</b>	Restated 31 March 2005 £000
<b>Fixed assets</b>			
Tangible assets	5.2	<b>11,419</b>	9,217
		<b>11,419</b>	9,217
<b>Current assets</b>			
Debtors	7.1	<b>20,798</b>	30,342
Cash at bank and in hand	8	<b>20,596</b>	2,419
		<b>41,394</b>	32,761
<b>Creditors: amounts falling due within one year</b>	9.1	<b>(21,575)</b>	(25,850)
<b>Net current assets</b>		<b>19,819</b>	6,911
<b>Total assets less current liabilities</b>		<b>31,238</b>	16,128
Provisions for liabilities and charges	10	<b>(12,254)</b>	(3,927)
		<b>18,984</b>	12,201
<b>Taxpayers' equity</b>			
Income and expenditure reserve	12.1	<b>7,566</b>	2,984
Capital reserve	12.2	<b>11,418</b>	9,217
		<b>18,984</b>	12,201

*The notes at pages E12 to E25 form part of this account.*

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-2006 £000	Restated 2004-2005 £000
<b>Net cash inflow from operating activities</b>	13	<b>21,898</b>	3,676
<b>Servicing of finance</b>			
Interest paid		0	0
Interest elements of finance leases		0	0
<b>Net cash inflow/(outflow) from servicing of finance</b>		<b>0</b>	0
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire tangible fixed assets		(4,122)	(6,077)
Receipts from disposal of tangible fixed assets		0	0
<b>Net cash (outflow) from investing activities</b>		<b>(4,122)</b>	(6,077)
<b>Net cash inflow/(outflow) before financing</b>		<b>17,776</b>	(2,401)
<b>Financing</b>			
Capital funding		401	4,820
<b>Increase in cash in the period</b>	8	<b>18,177</b>	2,419

The notes at pages E12 to E25 form part of this account.

# Notes to the Account

## 1 Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets and stock where material, at their value to the business by reference to current cost. 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 Income

Operating income is income which relates directly to the operating activities of the Authority.

The main source of funding for the Authority is income for call centre services provided to NHS Primary Care Trusts. Additional income is derived mainly from development initiatives funded by the Department of Health.

Income is accounted for applying the accruals convention. Where income is derived from a specific activity which is to be delivered in the following financial year, that income is deferred.

### 1.3 Taxation

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

### 1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2005-2006 was 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 where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000;
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred; and
- iii Tangible assets which are capable of being used for more than one year, and they

- individually have a cost equal to or greater than £5,000;
- collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- form part of the initial equipping and setting-up cost of a new building or unit irrespective of their individual or collective cost.

b Valuation

*Intangible fixed assets*

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

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

*Tangible fixed assets*

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

i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. Between valuations price indices appropriate to the category of asset 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.

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

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

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
  - no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
  - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.



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

c Depreciation and Amortisation

Depreciation is charged on each individual fixed asset as follows

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

	Years
Plant and machinery	5–15
Information, communications and technology	5–8
Furniture and fittings	10

### 1.6 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work in progress comprises goods in intermediate stages of production.

### 1.7 Losses and special payments

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

### 1.8 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for NHS Direct to identify its share of the underlying scheme 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 total employer contributions payable in 2005-2006 was £9,873,000 (2004-2005: £9,312,000).

The Scheme is subject to a full valuation for FRS17 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 employers contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation 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 NHS Pensions Agency website at [www.nhspa.gov.uk](http://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 employers' contributions are set at 14% of pensionable pay 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 bodies are directed by the Secretary of State to charge employers 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. 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 Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement is payable.

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

## **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the 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 is calculated on the same basis as used for depreciation i.e. on a quarterly basis.

## **1.10 Foreign exchange**

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

## **1.11 Leases**

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

## **1.12 Provisions**

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms (2004-2005: 3.5%).

**2.1 Authority programme expenditure**

	Notes	2005-2006 £000	Restated 2004-2005 £000
Non-executive members' remuneration		<b>53</b>	53
Other salaries and wages	2.2	<b>106,622</b>	93,946
Supplies and services – general		<b>103</b>	88
Establishment expenses		<b>3,069</b>	3,810
Health Information services		<b>1,889</b>	1,914
Telecommunications		<b>8,300</b>	9,971
Transport		<b>230</b>	380
Premises and Fixed Plant		<b>8,422</b>	8,549
IT contracts		<b>16,177</b>	18,389
Service Level Agreement support provided by previous Host Trusts [a]		<b>892</b>	2,258
Miscellaneous [b]		<b>3,186</b>	2,314
Depreciation and amortisation	5.2	<b>1,963</b>	3,113
Capital charges interest		<b>162</b>	155
Capital charges interest – paid to previous host trusts [c]		<b>0</b>	358
Impairment of fixed assets		<b>0</b>	1,877
Loss on disposal of fixed assets		<b>54</b>	0
		<b>2,179</b>	5,503
Other finance costs – unwinding of discount	10	<b>3</b>	7
Other finance costs – change in discount rate	10	<b>21</b>	0
Auditor's remuneration: Audit Fees [d]		<b>110</b>	140
Internal Audit Fees		<b>60</b>	29
		<b>151,316</b>	147,351

[a] Service Level Agreement support provided by previous Host Trusts include services such as finance, estates, ICT and HR.

[b] Significant items included in miscellaneous are interpreting services £144,000 (2004-2005: £381,000), consultancy £1,387,000 (2004-2005: £768,000) and insurance including CNST £94,000 (2004-2005: £136,000). Other items include staff training, and occupational health.

[c] Reimbursement to previous Host Trusts of capital charge interest on assets not transferred during the financial year.

[d] The Authority did not make any payments to Auditors for non audit work.

Note: The Prior Year Figures have been restated to eliminate the purchase and associated indexation, revaluation and depreciation of the freehold property used by the Authority on the Mayday Healthcare NHS Trust in Croydon, which it has been agreed it is not appropriate to transfer to the ownership of the Authority. The associated capital liability, capital grant receipt and capital grant debtor have been eliminated. The Authority's occupation of the property has instead been treated as that of a tenant, with a consequent adjustment to the Prior Year Figures for depreciation, rent paid and Capital Grant release.

## 2.2 Staff numbers and related costs

	2005-2006 Total £000	Permanently employed staff £000	Other £000	2004-2005 £000
Salaries and wages	90,778	87,136	3,642	79,174
Social security costs	5,971	5,971	0	5,460
Employer contributions to NHSPA	9,873	9,873	0	9,312
	<u>106,622</u>	<u>102,980</u>	<u>3,642</u>	<u>93,946</u>

The average number of employees during the year was

	2005-2006 Total Number	Permanently employed staff Number	Other Number	2004-2005 Number
<b>Total</b>	<u>3,154</u>	<u>3,042</u>	<u>112</u>	<u>2,931</u>

### Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £224,000 (2004-2005: £205,000).

### Retirements due to ill-health

There were four retirements from the Authority on the grounds of ill-health (2004-2005: Nil), at an additional cost of £404,000. This information has been supplied by NHS Pensions.

## 2.3 Better payment practice code – measure of compliance

	Number	£000
Total non NHS bills paid 2005-2006	22,401	50,145
Total non NHS bills paid within target	<u>14,968</u>	<u>34,620</u>
Percentage of non NHS bills paid within target	<u>66.8%</u>	<u>69.0%</u>
	Number	£000
Total NHS bills paid 2005-2006	516	4,030
Total NHS bills paid within target	<u>195</u>	<u>1,635</u>
Percentage of NHS bills paid within target	<u>37.8%</u>	<u>40.6%</u>

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

The Better Payment Practice Code requires the Authority to aim to pay all valid invoices by the due date or within 30 days of receipt of goods or a valid invoice whichever is later. No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998 and no compensation was paid to cover debt recovery costs under this legislation (2004-2005: £Nil).

**3 Reconciliation of gross capital expenditure to capital grant**

	<b>2005-2006</b>	Restated 2004-2005
	<b>£000</b>	£000
Gross capital expenditure	<b>4,142</b>	13,642
Capital grants	<b>402</b>	5,352
(Over)spend against budget	<b><u>(3,740)</u></b>	<u>(8,290)</u>

£8,290,000 of funding due to be provided in 2005-2006 to complete the purchase of fixed assets from previous host trusts was not provided, and as a consequence the completion of the purchase did not occur. The additional funding was paid after the 2005-2006 year end.

**4 Operating income**

Operating income analysed by classification and activity, is as follows

	<b>2005-2006</b>	Restated 2004-2005
	<b>£000</b>	£000
Primary Care Trusts	<b>145,450</b>	124,201
Department of Health	<b>7,296</b>	20,430
Other NHS	<b>548</b>	506
Other	<b>424</b>	53
Release of Government Capital Grant from Capital Reserve	<b>2,018</b>	4,990
Total	<b><u>155,736</u></b>	<u>150,180</u>

Note: The prior year figures have been restated to include the release of £1,877,000 from the Capital Reserve to match the impairment charge incurred on the Authority's property in Nottingham.

**5.1 Intangible fixed assets**

There were no intangible fixed assets at the year end.

## 5.2 Tangible fixed assets

	Land	Non Residential buildings	Assets under construction	Plant and machinery	Information technology	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000	£000
Restated cost or valuation at 31 March 2005	1,000	6,463	0	32	2,549	769	<b>10,813</b>
Additions	0	115	3,297	0	730	0	<b>4,142</b>
Indexation	0	89	0	1	0	16	<b>106</b>
Disposals	0	0	0	(32)	(312)	(34)	<b>(378)</b>
<b>Gross cost at 31 March 2006</b>	<b>1,000</b>	<b>6,667</b>	<b>3,297</b>	<b>1</b>	<b>2,967</b>	<b>751</b>	<b>14,683</b>
Accumulated depreciation at 31 March 2005	0	0	0	26	1,423	147	<b>1,596</b>
Charged in year	0	744	0	2	1,069	148	<b>1,963</b>
Indexation	0	26	0	0	0	3	<b>29</b>
Disposals	0	0	0	(28)	(286)	(10)	<b>(324)</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>0</b>	<b>770</b>	<b>0</b>	<b>0</b>	<b>2,206</b>	<b>288</b>	<b>3,264</b>
Net book value at 31 March 2005	1,000	6,463	0	6	1,126	622	<b>9,217</b>
<b>Net book value at 31 March 2006</b>	<b>1,000</b>	<b>5,897</b>	<b>3,297</b>	<b>1</b>	<b>761</b>	<b>463</b>	<b>11,419</b>

Note: The prior year figures have been restated to eliminate the purchase and associated indexation, revaluation and depreciation of the freehold property used by the Authority on the Mayday Healthcare NHS Trust in Croydon, which it has been agreed it is not appropriate to transfer to the ownership of the Authority. The associated capital liability, capital grant receipt and capital grant debtor have also been eliminated. The Authority's occupation of the property has instead been treated as that of a tenant, with a consequent adjustment to the Prior Year Figures for depreciation, rent paid and Capital Grant release.

There were no assets held under finance leases and hire purchase contracts at the balance sheet dates and no depreciation was payable.

## 5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2006 comprises

	31 March 2006 £000	Restated 31 March 2005 £000
Freehold	<b>2,958</b>	3,000
Improvements to long leasehold buildings	<b>2,063</b>	2,506
Improvements to short leasehold buildings	<b>876</b>	957
Long leasehold land	<b>1,000</b>	1,000
	<b>6,897</b>	7,463

**6 Stock and work in progress**

There were no stocks and work in progress at either the current or previous year end.

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

	<b>31 March 2006 £000</b>	Restated 31 March 2005 £000
NHS debtors	<b>6,379</b>	16,761
Non-NHS trade debtors	<b>392</b>	113
Prepayments	<b>326</b>	494
Accrued income	<b>0</b>	2,191
NHS Capital Debtors	<b>12,563</b>	8,822
Other debtors	<b>42</b>	4
Recoverable VAT	<b>1,096</b>	1,957
	<b><u>20,798</u></b>	<u>30,342</u>

The capital grant debtor has been eliminated in the prior year figures owing to the clarification of the ownership of property at the Mayday Healthcare NHS Trust site.

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

There were no amounts falling due after more than one year at the year end.

**8 Analysis of changes in cash**

	At 31 March 2005 £000	Change during the year £000	<b>At 31 March 2006 £000</b>
Cash at OPG	2,419	18,177	<b>20,596</b>
	<u>2,419</u>	<u>18,177</u>	<u><b>20,596</b></u>

**9 Creditors****9.1 Amounts falling due within one year**

	<b>31 March 2006 £000</b>	Restated 31 March 2005 £000
NHS creditors	<b>4,575</b>	5,220
Non-NHS trade creditors	<b>3,102</b>	8,140
NHS Capital creditors	<b>7,540</b>	7,540
Capital creditors	<b>45</b>	25
Tax and social security	<b>1,898</b>	1,496
Other creditors	<b>15</b>	15
Accruals	<b>3,111</b>	3,147
Deferred income	<b>1,289</b>	267
	<b><u>21,575</u></b>	<u>25,850</u>

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

There were no amounts falling due after more than one year at the year end.

**10 Provisions for liabilities and charges**

	Pensions for former staff £000	Other £000	<b>Total £000</b>
At 31 March 2005	113	3,814	<b>3,927</b>
Arising during the year	0	8,309	<b>8,309</b>
Utilised during the year	(6)	0	<b>(6)</b>
Change in discount rate	21	0	<b>21</b>
Unwinding of discount	3	0	<b>3</b>
<b>At 31 March 2006</b>	<b>131</b>	<b>12,123</b>	<b>12,254</b>
<b>Expected timing of cash flows</b>			
Within one year	6	12,123	<b>12,129</b>
One to five years	21	0	<b>21</b>
Over five years	104	0	<b>104</b>

Included in the provisions for liabilities and charges is an amount of £12,084,000 (31 March 2005: £3,643,000) to cover the implications of the costs associated with the implementation of Agenda for Change. Amounts owed to staff will be backdated to 1 October 2004 for the assimilation to new salary scales and to 1 December 2004 in respect of changes in contractual hours.

There are no provisions included in the accounts of the NHS Litigation Authority at 31 March 2006 (31 March 2005: £Nil) in respect of clinical negligence liabilities relating to NHS Direct.

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

	<b>2005-2006 £000</b>	2004-2005 £000
(Decrease)/increase in debtors	<b>(13,285)</b>	21,520
Decrease/(increase) in creditors	<b>4,295</b>	(18,285)
	<b>(8,990)</b>	3,235

**12 Movements on reserves****12.1 Income and expenditure reserve**

	<b>31 March 2006 £000</b>	Restated 31 March 2005 £000
Balance at 31 March 2005	<b>2,984</b>	0
Retained surplus for the year	<b>4,420</b>	2,829
Non-cash items: Capital Charges Interest	<b>162</b>	155
<b>Balance at 31 March 2006</b>	<b>7,566</b>	2,984



**12.2 Capital reserve**

	<b>31 March 2006 £000</b>	Restated 31 March 2005 £000
Balance at 31 March 2005	<b>9,217</b>	0
Government Grant received	<b>4,142</b>	13,642
Indexation of fixed assets	<b>77</b>	747
Revaluation of fixed assets	<b>0</b>	(182)
Transfer of depreciation to Income and Expenditure Account	<b>(1,963)</b>	(3,113)
Transfer of loss on disposal to Income and Expenditure Account	<b>(55)</b>	0
Transfer of impairment to Income and Expenditure Account	<b>0</b>	(1,877)
<b>Balance at 31 March 2006</b>	<b><u>11,418</u></b>	<u>9,217</u>

Note: The prior year figures have been restated to include the release of £1,877,000 to income to match the impairment charge incurred on the Authority's property in Nottingham.

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

	Notes	<b>2005-2006 £000</b>	Restated 2004-2005 £000
Net operating surplus for the year		<b>4,420</b>	2,829
Adjust for non-cash transactions		<b>2,179</b>	5,145
Adjust for movements in working capital other than cash	11	<b>8,990</b>	(3,235)
Increase in provisions	10	<b>8,327</b>	3,927
Transfer from reserves	12.2	<b>(2,018)</b>	(4,990)
<b>Net cash inflow from operating activities</b>		<b><u>21,898</u></b>	<u>3,676</u>

**14 Contingent liabilities**

There were no known contingent liabilities at either the current or previous year end.

**15 Capital commitments**

Outstanding commitments under capital expenditure contracts at the balance sheet date were £1,957,000 (2004-2005: £Nil). Capital expenditure approved but not contracted at the balance sheet date totalled £2,132,000 (2004-2005: £Nil). Included in the above totals are £1,430,000 of contractual commitments in respect of the completion of the replacement of the telephony, voice recording and switch equipment and £793,000 of approved but not committed expenditure. In addition, approval has been given for the development of Choose and Book facilities of which £526,000 was contracted but outstanding and £1,339,000 had not been contractually committed at the balance sheet date.

**16 Commitments under operating leases**

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Hire of plant and machinery	<b>85</b>	110
Other operating leases	<b>4,595</b>	3,794
	<b>4,680</b>	3,904
	<b>£000</b>	£000

**Commitments under non-cancellable operating leases***Land and buildings*

Operating leases which expire within one year	<b>2,480</b>	2,172
between one and five years	<b>298</b>	496
after five years	<b>1,817</b>	1,126
	<b>4,595</b>	3,794

*Other leases*

Operating leases which expire within one year	<b>42</b>	43
between one and five years	<b>43</b>	67
after five years	<b>0</b>	0
	<b>85</b>	110

**17 Other commitments**

The Authority had no non-cancellable contracts (which are not operating leases) at either the current or previous year end.

**18 Losses and special payments**

During the year there were eight cases (2004-2005: Nil) of losses and special payments totalling £5,000 (2004-2005: £Nil).

**19 Related parties**

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

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. call handling services to Primary Care Trusts valued at £146 million which represented trading with 303 individual organisations.

In particular the Department of Health provided grant in aid funding of £6,973,000 during the year.

In addition the Authority had material transactions with the following organisations of an income or expenditure nature exceeding £750,000 in value

	£000		£000
Heart of Birmingham Teaching PCT	2,613	Eastbourne Downs PCT	812
Ealing PCT	1,251	Coventry PCT	803
Northumberland Care Trust	1,160	Bedfordshire Heartlands PCT	798
Nottingham City PCT	1,072	Southwark PCT	788
Croydon PCT	1,047	Havering PCT	786
Sutton & Merton PCT	1,008	Enfield PCT	785
Brent Teaching PCT	1,000	North Somerset PCT	782
Burnley, Pendle & Rossendale PCT	947	Oldham PCT	782
Shropshire County PCT	942	Sheffield West PCT	779
Central Cheshire PCT	934	Westminster PCT	776
Barnet PCT	922	Walsall Teaching PCT	775
Hillingdon PCT	917	Bromley PCT	770
South Birmingham PCT	857	Morecambe Bay PCT	769
Hounslow PCT	830	NHS Professionals SpHA	765
Stockport PCT	819	Ashton, Leigh & Wigan PCT	758
Amber Valley PCT	812	Wolverhampton City PCT	755

During the year, none of the Authority's members or members of the key management staff or other related parties had undertaken any material transactions with the Authority.

## 20 Post balance sheet events

There are no post balance sheet events that require disclosure.

## 21 Financial instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, NHS Direct is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. NHS Direct has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Special Health Authority in undertaking its activities.

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

### *Liquidity risk*

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

### *Interest-rate risk*

100% of the Authority's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. NHS Direct is not, therefore, exposed to significant interest-rate risk.

*Foreign currency risk*

NHS Direct has no foreign currency income or expenditure.

*Fair values*

Fair values are not significantly different from book values and therefore no additional disclosure is required.

**22 Intra-government balances**

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	16,146	0	1,705	0
Balances with local authorities	4	0	95	0
Balances with NHS Trusts	3,895	0	13,886	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	753	0	5,889	0
<b>At 31 March 2006</b>	<b>20,798</b>	<b>0</b>	<b>21,575</b>	<b>0</b>
	Restated 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	11,958	0	1,496	0
Balances with local authorities	0	0	134	0
Balances with NHS Trusts	18,279	0	13,098	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	105	0	11,122	0
At 31 March 2005	30,342	0	25,850	0



# Summarised Account of the NHS Logistics Special Health Authority

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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of NHS Logistics at the year end, its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

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

## Statement on Internal Control

This statement is given in respect of the Summarised Account for the NHS Logistics Special Health Authority (the Authority).

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the Authority maintains a sound system of internal control that supports the achievement of the Authority's policies, aim and objectives and that the Authority reviews the effectiveness of those systems.

The Chief Executive of the Authority has been appointed as Accounting Officer of the Authority. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the Authority.

### Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Authority for the period ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

I draw my assurance on the Authority's capacity to handle risk from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### The risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board of the Authority for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. I draw my assurance on the adequacy of this framework from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### Review of effectiveness

As Accounting Officer for the Department of Health, I have responsibility for reviewing the effectiveness of the system of internal control at the Authority. I draw my major source of assurance from the Chief Executive as Accounting Officer of the Authority who provides his statement on internal control made on behalf of the Authority. This is included in the annual financial statements and is subject to review by the Comptroller and Auditor General. The Chief Executive, as Accounting Officer, gains assurances from the work of the internal auditors, the executive managers within the Authority who have responsibility for the development and maintenance of the internal control framework, the Audit Committee, and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department of Health who are accountable for the oversight of the relationship with the Authority.



The system of internal control has been in place for the period ended 31 March 2006. The NHS Logistics Authority ceased to exist on 31 March 2006, and the Chief Executive and Accounting Officer of NHS Business Services Authority is accountable for preparing the final accounts of the NHS Logistics Authority.

The underlying accounts are laid before Parliament.<sup>1</sup>

*David Nicholson CBE*  
Accounting Officer

30 November 2006

1 HC 1265

## Remuneration Report

This report for year ended 31 March 2006 is produced by the Board on the recommendation of the Remuneration Committee and deals with the remuneration of the Chair, Chief Executive, Board Members and Executive Directors who have influence over the decisions of the Authority as a whole.

### Remuneration policy

The Director's terms and conditions were approved by the Remuneration and Terms of Service Committee in 2001. Salary levels are maintained within the ranges for NHS senior managers and all posts are evaluated by Hay with salaries set in accordance with market rates for posts of the same size. All Director's job descriptions are reviewed annually and salary levels assessed against market information.

### Performance review

Executive Directors are set objectives for each year, based on the achievement of the organisation's business plan. Performance against these objectives is reviewed regularly by the Chief Executive and annually by the Chairman and Non Executive Directors.

### Policy on contracts

Non Executive Directors are appointed by the Secretary of State in accordance with the terms and conditions of the Appointments Commission. Executive Director appointments are made on permanent contracts, with a standard notice period of six months. (The policy prior to 2001 was for notice periods to be 12 months, this applies to two individuals appointed prior to 2001). Contracts of employment allow for termination by way of payment in lieu of notice but there are no other provisions for termination payments.

### Contract details

<b>Name</b>	<b>Date appointed as Director</b>	<b>Notice period</b>
Barry Mellor	1 July 2001	6 months
Steven Horsley	26 July 1999	12 months
Melanie Hall	1 June 2003	6 months
Linda Garnett	24 July 2000	12 months
Colin Farmer	7 February 2006	6 months
Michael Wood	1 April 2003	6 months

**a Remuneration**

Name and title	2005-2006			2004-2005		
	Salary (bands of £5,000) £000	Other remuneration (bands of £5,000) £000	Benefits in kind (rounded to the nearest £00) £00	Salary (bands of £5,000) £000	Other remuneration (bands of £5,000) £000	Benefits in kind (rounded to the nearest £00) £00
P Zadora, (NED)	0	5-10	N/A	0	5-10	N/A
S Earnshaw, (NED)	0	5-10	N/A	0	5-10	N/A
S Reiter, (NED)	0	5-10	N/A	0	5-10	N/A
J Spittle (NED)	0	5-10	N/A	0	5-10	N/A
D Hatherall, (NED)	0	5-10	N/A	0	5-10	N/A
P Champ, (Chairman)	0	20-25	N/A	0	20-25	N/A
L Garnett, (Director of HR)	75-80	0	50	70-75	0	46
B Mellor, (Chief Executive)	110-115	0	59	100-105	0	55
S Horsley, (Director of Operations)	90-95	0	63	85-90	0	65
G Harris, (Director of Finance and Information Services) (to 27 May 2005)	15-20	0	10	85-90	0	44
C Farmer (Director of Finance) (from 23 May 2005)	60-65	0	19	N/A	N/A	N/A
M Hall, (Director of Customer and Service Development)	80-85	0	56	70-75	0	53
M Wood, (Director of Supply Chain and Corporate Services)	75-80	0	36	70-75	0	33

**b Pension benefits**

	Real increase in pension at age 60 (bands of £2,500) £000	Lump sum at age 60 related to real increase in pension (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000) £000	Lump sum at age 60 related to accrued pension at 31 March 2006 (bands of £5,000) £000	Cash equivalent transfer value at 31 March 2006 £000	Cash equivalent transfer value at 31 March 2005 £000	Real increase in cash equivalent transfer value £000
L Garnett	0-2.5	2.5-5.0	15-20	55-60	227	201	14
B Mellor	0-2.5	2.5-5.0	5-10	15-20	110	82	18
S Horsley	0-2.5	2.5-5.0	5-10	20-25	120	96	15
C Farmer	0-2.5	2.5-5.0	5-10	20-25	89	(see note below *)	
M Hall	0-2.5	5.0-7.5	5-10	25-30	114	87	18
M Wood	0-2.5	5.0-7.5	25-30	75-80	390	321	43

As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive members.

NED = Non Executive Director

Benefits in kind are monetary benefits for the provision of lease cars.

There were no 'golden hello' or compensation payments for loss of office.

There were no employer's contributions to stakeholder pensions.

**Cash equivalent transfer value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figures and the other pension details include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETV are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

**Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of period.

**Directors standing down and appointed during the year**

Glenn Harris stood down as a Director on 27 May 2005. There were no notable increases in pension benefits, other than those arising from regular contributions, requiring disclosure.

- \* Colin Farmer was appointed with effect from 23 May 2005; therefore balances as at 31 March 2005 are not applicable. Where possible, estimated reliable increases have been disclosed for the period in office, on a pro rata basis.

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

I certify that I have audited the financial statements of NHS Logistics for the year ended 31 March 2006 under the National Health Service Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 the preparation of the financial statements and the Remuneration Report in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with approval of the Treasury and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts.

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

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and with the directions made thereunder by the Secretary of State with the approval of the Treasury. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages F3 to F4 reflects Department of Health's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK & 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Authority, consistently applied and adequately disclosed.

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

## Opinion

### In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, of the state of affairs of NHS Logistics at 31 March 2006 and of the surplus, total recognised gains and losses and cash flows for the year then ended;
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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

## Income and Expenditure Account for the year ended 31 March 2006

### Continuing operations

	Notes	<b>2005-2006</b> £000	2004-2005 £000
Operating income	4	<b>783,050</b>	730,309
<b>Expenditure</b>			
Cost of sales	2.1	<b>(704,716)</b>	(658,951)
Staff costs and administration expenses	2.1	<b>(76,614)</b>	(70,245)
<b>Operating surplus</b>		<b>1,720</b>	1,113
<b>Cost of fundamental reorganisation or restructuring on continuing operations</b>		<b>(291)</b>	(391)
<b>Surplus for the financial year</b>		<b>1,429</b>	722

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	<b>2005-2006</b> £000	2004-2005 £000
Surplus for the financial year		<b>1,429</b>	722
Unrealised surplus on the indexation of fixed assets	12.3	<b>889</b>	2,584
Fixed asset impairment losses	12.2, 12.3	<b>0</b>	(2,987)
<b>Total recognised gains for the financial year</b>		<b>2,318</b>	319

*The notes at pages F13 to F25 form part of this account.*

## Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
<b>Fixed assets</b>			
Intangible assets	5.1	71	90
Tangible assets	5.2	33,501	32,882
		<b>33,572</b>	32,972
<b>Current assets</b>			
Stocks	6	41,722	47,418
Debtors	7	63,338	61,023
Cash at bank and in hand	8	63	41
		<b>105,123</b>	108,482
<b>Creditors: amounts falling due within one year</b>	9	<b>(38,147)</b>	(43,225)
<b>Net current assets</b>		<b>66,976</b>	65,257
<b>Total assets less current liabilities</b>		<b>100,548</b>	98,229
Provisions for liabilities and charges	10	(5,280)	(4,990)
		<b>95,268</b>	93,239
<b>Taxpayers' equity</b>			
Income and expenditure reserve	12.1	61,696	60,267
Capital reserve	12.2	25,996	26,177
Revaluation reserve	12.3	7,576	6,795
		<b>95,268</b>	93,239

*The notes at pages F13 to F25 form part of this account.*

David Nicholson CBE  
Accounting Officer

30 November 2006



## Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
<b>Net cash (outflow) from operating activities</b>	13	<b>(15)</b>	(606)
<b>Servicing of finance</b>			
Interest paid		0	0
Interest elements of finance leases		0	0
<b>Net cash (outflow) from servicing finance</b>		<b>0</b>	0
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		(5)	(53)
(Payments) to acquire tangible fixed assets		(945)	(2,170)
Receipts from disposal of tangible fixed assets		187	3,096
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(763)</b>	873
<b>Net cash (outflow)/inflow before financing</b>		<b>(778)</b>	267
<b>Financing</b>			
Net parliamentary funding		800	2,735
Surrender of capital receipts		0	(3,096)
<b>Increase/(decrease) in cash in the period</b>	8	<b>22</b>	(94)

The notes at pages F13 to F25 form part of this account.

# Notes to the Account

## 1 Accounting policies

The financial statements have been prepared in accordance with the Government Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting conventions

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

#### *Acquisitions and discontinued operations*

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

### 1.2 Going concern

NHS Logistics Authority was dissolved on 31 March 2006 with its assets, liabilities and staff transferring to the NHS Business Services Authority on 1 April 2006. As this transfer of activities is within NHS bodies, they are not 'discontinued' and it has been considered appropriate to adopt the going concern basis for the preparation of the final summarised account for the Authority.

### 1.3 Income

Operating income is income which relates directly to the operating activities of the Authority. The main source of funding for the Authority is income from sales to the NHS (£782.1 million of the £783.1 million operating income comprises sales to customers). The additional income comprises fees such as those received from the Department of Health for services provided.

### 1.4 Taxation

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

### 1.5 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2005-2006 was 3.5% (2004-2005 3.5%) on all assets less liabilities, except for cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

### 1.6 Fixed assets

#### a Capitalisation

All assets falling into the following categories are capitalised

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

- iii Tangible assets which are capable of being used for more than one year, and they
  - individually have a cost equal to or greater than £5,000;
  - collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
  - form part of the initial equipping and setting-up cost of a new building, irrespective of their individual or collective cost.

b Valuation

*Intangible fixed assets*

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount.

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

*Tangible fixed assets*

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

i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. Between valuations price indices appropriate to the category of asset 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.

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

Depreciation is charged on each individual fixed asset as follows

- i Intangible assets are amortised, on a straight line basis, over the estimated lives of the assets;
- ii Purchased computer software licences are amortised over the shorter of the term of the licence and their useful economic lives;
- iii Land and assets in the course of construction are not depreciated;
- iv Buildings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer (in the range of 35 to 46 years). Leaseholds are depreciated over the primary lease term; and
- v Each equipment asset is depreciated evenly over the expected useful life.

	Years
Plant and machinery	5–15
Information, communications and technology	5–8

### 1.7 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks.

### 1.8 Losses and special payments

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

### 1.9 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme 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 total employer contributions payable in 2005-2006 was £3,002,000 (2004-2005: £2,879,000).

The Scheme is subject to a full valuation for FRS17 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 employers' contribution rates, this valuation took place as at 31 March 2004 and has yet to be finalised. The last published valuation 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 NHS Pensions Agency website at [www.nhs.gov.uk](http://www.nhs.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 employers' 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.

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. Additional pension liabilities arising from early retirement are not funded by the Scheme, the full amount of the liability for the additional costs is charged to the Income and Expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

### **1.10 Foreign exchange**

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

### **1.11 Leases**

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

### **1.12 Provisions**

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2 per cent in real terms (2004-2005: 3.5%).

**2.1 Cost of sales and administration**

	Notes	2005-2006 £000	2004-2005 £000
Cost of sales		<b>704,716</b>	658,951
Non-executive members' remuneration		<b>50</b>	52
Other salaries and wages	2.2	<b>34,165</b>	32,291
Maintenance		<b>1,006</b>	1,084
Transport main contract		<b>17,042</b>	15,965
Transport other		<b>285</b>	265
Bridgewater distribution centre contract		<b>5,755</b>	5,452
<i>Capital</i>			
Depreciation and amortisation	5.1, 5.2	<b>1,084</b>	1,111
Impairments	5.1, 5.2	<b>0</b>	421
Capital charges interest		<b>3,424</b>	3,544
Loss/(profit) on disposal	5.4	<b>6</b>	(746)
		<b>4,514</b>	4,330
<i>Other finance costs</i>			
unwinding of discount	10	<b>105</b>	153
change in discount rate	10	<b>523</b>	0
Auditor's remuneration: Audit Fees *		<b>75</b>	75
Miscellaneous		<b>13,094</b>	10,578
		<b>781,330</b>	729,196

\* The authority did not make any payments to auditors for non-audit work

The cost of fundamental reorganisation or restructuring on continuous operations, totalling £291,000 (2004-2005: £391,000) include the redundancy and capitalised pension costs of in-year restructuring along with the inflationary increase to the pension provision for pre 1995 restructuring.

**2.2 Staff numbers and related costs**

	2005-2006 Total £000	Permanently employed Staff £000	Other Total £000	2004-2005 £000
Salaries and wages	<b>29,060</b>	<b>28,146</b>	<b>914</b>	27,489
Social security costs	<b>2,103</b>	<b>2,096</b>	<b>7</b>	1,923
Employer contributions to NHSPA	<b>3,002</b>	<b>2,998</b>	<b>4</b>	2,879
	<b>34,165</b>	<b>33,240</b>	<b>925</b>	32,291

The average number of employees during the year was

2005-2006 Total Number	Permanently employed staff Number	2004-2005 Total Number
<b>1,474</b>	1,474	1,385

### Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £127,820 (2004-2005: £121,472).

### Retirements due to ill-health

During 2005-2006 there were two (2004-2005: four) early retirements from the Special Health Authority on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £228,160 (2004-2005: £490,632).

### 2.3 Better payment practice code

	<b>2005-2006 Non NHS</b>	<b>2005-2006 NHS</b>	2004-2005 Total
Total Number of bills paid	<b>947,881</b>	<b>23</b>	570,164
Total number of bills paid within target	<b>742,799</b>	<b>17</b>	510,878
Percentage of bills paid within target	<b>78.4%</b>	<b>73.9%</b>	89.6%
	<b>£000</b>	<b>£000</b>	£000
Total value of bills paid	<b>760,570</b>	<b>258</b>	702,181
Total value of bills paid within target	<b>466,930</b>	<b>252</b>	573,804
Percentage value of bills paid within target	<b>61.4%</b>	<b>97.7%</b>	81.7%

No interest or compensation payments were made under the Late Payment of Commercial Debt (Interest Act 1998) (2004-2005: £Nil).

### 3 Reconciliation of gross capital expenditure to capital funding

	<b>2005-2006 £000</b>	2004-2005 £000
Gross capital expenditure	<b>988</b>	2,176
NBV of assets disposed	<b>(193)</b>	(2,350)
Loss/(gain) on disposal	<b>6</b>	(746)
Net capital funding outturn	<b>801</b>	(920)
Capital funding	<b>833</b>	2,209
Surrender of receipts	<b>0</b>	(3,096)
Remaining capital funding	<b>32</b>	33

### 4 Operating income

Operating income analysed by classification and activity, is as follows

	<b>2005-2006 £000</b>	2004-2005 £000
Sales to NHS customers	<b>763,689</b>	712,726
Fees	<b>957</b>	996
Sales to non-NHS customers	<b>18,404</b>	16,587
<b>Total</b>	<b>783,050</b>	730,309

### 5.1 Intangible fixed assets

The only intangible fixed assets held by the Authority are software licences

	Software Licences £000
Gross cost at 1 April 2005	99
Additions – purchased	5
<b>Gross cost at 31 March 2006</b>	<b>104</b>
Accumulated amortisation at 1 April 2005	9
Charged in year	24
<b>Accumulated amortisation at 31 March 2006</b>	<b>33</b>
Net book value at 31 March 2005	90
<b>Net book value at 31 March 2006</b>	<b>71</b>

### 5.2 Tangible fixed assets

	Land £000	Buildings excluding dwellings £000	Assets under construction and payments on account £000	Plant and machinery £000	Information technology £000	<b>Total £000</b>
Cost or Valuation at 1 April 2005	9,635	20,641	116	1,563	1,949	<b>33,904</b>
Additions - purchased	0	164	233	320	266	<b>983</b>
Reclassification	0	0	(116)	116	0	<b>0</b>
Indexation	485	379	0	35	0	<b>899</b>
Disposals	0	0	0	(89)	(250)	<b>(339)</b>
<b>Gross cost at 31 March 2006</b>	<b>10,120</b>	<b>21,184</b>	<b>233</b>	<b>1,945</b>	<b>1,965</b>	<b>35,447</b>
Accumulated depreciation at 1 April 2005	0	0	0	479	543	<b>1,022</b>
Charged in year	0	520	0	220	320	<b>1,060</b>
Indexation	0	0	0	10	0	<b>10</b>
Disposals	0	0	0	(88)	(58)	<b>(146)</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>0</b>	<b>520</b>	<b>0</b>	<b>621</b>	<b>805</b>	<b>1,946</b>
Net book value at 31 March 2005	9,635	20,641	116	1,084	1,406	<b>32,882</b>
<b>Net book value at 31 March 2006</b>	<b>10,120</b>	<b>20,664</b>	<b>233</b>	<b>1,324</b>	<b>1,160</b>	<b>33,501</b>

### 5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2006 comprises all freehold

	<b>31 March 2006 £000</b>	31 March 2005 £000
Freehold	<b>30,784</b>	30,276



**5.4 Profit/(loss) on disposal of fixed assets**

	<b>31 March 2006 £000</b>	31 March 2005 £000
Profit on disposal of land and buildings	<b>0</b>	748
(Loss) on disposal of plant and equipment	<b>(1)</b>	(2)
(Loss) on disposal of information technology	<b>(5)</b>	0
	<b>(6)</b>	746

**6 Stocks and work in progress**

	<b>31 March 2006 £000</b>	31 March 2005 £000
Fuel stocks	<b>99</b>	99
Finished processed goods	<b>41,623</b>	47,319
	<b>41,722</b>	47,418

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

	<b>31 March 2006 £000</b>	31 March 2005 £000
NHS debtors	<b>55,754</b>	54,212
Non-NHS debtors	<b>4,299</b>	3,180
Provision for irrecoverable debts	<b>(14)</b>	(9)
Prepayments	<b>2,023</b>	2,195
Accrued income	<b>14</b>	23
Other debtors	<b>1,262</b>	1,422
	<b>63,338</b>	61,023

**8 Analysis of changes in cash**

	At 31 March 2005 £000	<b>Change during the year £000</b>	At 31 March 2006 £000
Cash at OPG	41	<b>22</b>	<b>63</b>
Cash at commercial banks and in hand	0	<b>0</b>	<b>0</b>
	41	<b>22</b>	<b>63</b>

**9 Creditors****Amounts falling due within one year**

	<b>31 March 2006 £000</b>	31 March 2005 £000
NHS creditors	<b>97</b>	22
Non NHS Creditors	<b>16,447</b>	22,908
Capital creditors	<b>158</b>	121
Tax and social security	<b>21</b>	35
Other creditors	<b>70</b>	60
Accruals – non-stock	<b>1,427</b>	1,278
Accruals – stock	<b>19,916</b>	18,488
Deferred income	<b>11</b>	313
	<b><u>38,147</u></b>	<u>43,225</u>

**10 Provisions for liabilities and charges**

	Pensions for Former staff	Legal claims	Other	<b>Total</b>
	£000	£000	£000	<b>£000</b>
At 31 March 2005	4,660	218	112	<b>4,990</b>
Arising during the year	151	99	155	<b>405</b>
Utilised during the year	(393)	(47)	(208)	<b>(648)</b>
Reversed unused	(15)	(25)	(55)	<b>(95)</b>
Change in discount rate	523	0	0	<b>523</b>
Unwinding of discount	105	0	0	<b>105</b>
At 31 March 2006	<u>5,031</u>	<u>245</u>	<u>4</u>	<u><b>5,280</b></u>

**Expected timing of cash flows**

Within one year	390	245	4	<b>639</b>
ont to five years	1,561	0	0	<b>1,561</b>
Over five years	3,080	0	0	<b>3,080</b>

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

	<b>2005-2006 £000</b>	2004-2005 £000
Decrease/(increase) in stocks	<b>5,696</b>	(7,270)
(Increase) in debtors	<b>(2,315)</b>	(11,261)
(Decrease)/increase in creditors	<b>(5,115)</b>	21,736
Net (decrease)/increase in working capital other than cash	<b><u>(1,734)</u></b>	<u>3,205</u>

**12 Movements on reserves**

## 12.1 Income and expenditure reserve

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Balance at 1 April 2005	<b>60,267</b>	59,545
Surplus for the year	<b>1,429</b>	722
<b>Balance at 31 March 2006</b>	<b><u>61,696</u></b>	<u>60,267</u>

**12.2 Capital reserve**

	<b>£000</b>	£000
Balance at 1 April 2005	<b>26,177</b>	26,967
Net parliamentary funding	<b>988</b>	2,176
Depreciation	<b>(976)</b>	(917)
Disposals	<b>(193)</b>	(2,243)
Impairments	<b>0</b>	(421)
Transfer ex revaluation reserve current year	<b>0</b>	615
<b>Balance at 31 March 2006</b>	<b><u>25,996</u></b>	<u>26,177</u>

**12.3 Revaluation reserve**

	<b>£000</b>	£000
Balance at 1 April 2005	<b>6,795</b>	7,693
Impairments	<b>0</b>	(2,566)
Indexation of fixed assets	<b>889</b>	2,584
Depreciation	<b>(108)</b>	(194)
Disposals	<b>0</b>	(107)
Transfer to capital reserve: realised revaluation	<b>0</b>	(615)
<b>As at 31 March 2006</b>	<b><u>7,576</u></b>	<u>6,795</u>

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

	Notes	<b>2005-2006</b>	2004-2005
		<b>£000</b>	£000
Surplus for the year		<b>1,429</b>	722
Brushing for life funding		<b>0</b>	(535)
Adjust for movements in working capital other than cash	11	<b>(1,734)</b>	3,205
Increase/(decrease) in provisions	10	<b>290</b>	(3,998)
<b>Net cash (outflow) from operating activities</b>		<b><u>(15)</u></b>	<u>(606)</u>

**14 Contingent liabilities**

There are no contingent liabilities (2004-2005: £Nil).

**15 Capital commitments**

At 31 March 2006 the value of contracted capital commitments was £Nil (2004-2005 £Nil).

**16 Commitments under operating leases**

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Hire of plant and machinery	<b>1,211</b>	1,108
Other operating leases	<b>920</b>	940
	<b><u>2,131</u></b>	<u>2,048</u>

**Commitments under non-cancellable operating leases**

	<b>£000</b>	£000
<i>Land and buildings</i>		
Operating leases which expire		
within one year	<b>0</b>	0
between one and five years	<b>27</b>	27
after five years	<b>0</b>	0
	<b><u>27</u></b>	<u>27</u>
<b>Other leases</b>		
Operating leases which expire		
within one year	<b>26</b>	269
between one and five years	<b>1,216</b>	336
after five years	<b>0</b>	0
	<b><u>1,242</u></b>	<u>605</u>

**17 Other commitments**

The Authority has no other non-cancellable contracts as at 31 March 2006 (2004-2005: £Nil)

The Authority has two major service contracts

Bridgewater distribution centre contract:	Seven year contract commencing 17 December 2001, value 2005-2006 £5,755,000 (2004-2005: £5,452,000).
Transport main contract:	Five year contract commencing 1 July 2003, annualised value 2005-2006 £17,042,000 (2004-2005: £15,965,350).

**18 Losses and special payments**

Bad debts written off	£1,764	(2004-2005: £591)
Stock losses	£585,635	(2004-2005: £748,404)
Personal injury	£46,752	(2004-2005: £67,881)

There are no individual payments over £250,000 (2004-2005: Nil).

Bad debts written off comprise of nine Non-NHS debtor balances.

Personal injury claims consist of eight personal injury claims with advice.

*Stock losses consist of*

Write off past sell by date	£138,345	(2004-2005: £168,906)
Damaged in warehouse	£260,396	(2004-2005: £248,219)
Obsolete stock written off	£186,894	(2004-2005: £331,279)

**19 Related parties**

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

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department i.e. sales and services to other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £764 million which represented trading with 570 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £299,258, which represented trading with 13 individual organisations.

During the year, none of the Authority's members or members of the key management staff or other related parties has undertaken any material transactions with the Authority.

NHS Logistics made payments of £112 million on behalf of the Department of Health for the Childhood Immunisation Programme, £110 million for Civil Contingency stocks and £56 million for the National School Fruit and Vegetable Scheme. NHS Logistics acts as an Agent in these respects and the transactions do not form part of the NHS Logistics' accounts.

**20 Post balance sheet events**

The NHS Logistics Authority was dissolved as a legal entity on 31 March 2006 and the functions, responsibilities, assets and employees transferred to the NHS Business Services Authority. From 1 April, the NHS Logistics' business operated as a division of the NHS Business Services Authority.

The Department of Health market tested to assess whether the NHS Logistics' function should be outsourced to the private sector. This process has now been completed and contracts signed with DHL for the contracting out of business activities operational from 1 October 2006.

**21 Financial instruments**

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, the Special Health Authority is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Special Health Authority has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Special Health Authority in undertaking its activities.

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

#### *Liquidity risk*

The Special Health Authority's net operating costs are financed from charges made to the NHS for goods plus an amount to cover the operating costs of the Authority. The Special Health Authority largely finances its capital expenditure from funds made available from Government under an agreed borrowing limit. NHS Logistics Special Health Authority is, therefore, exposed to some liquidity risk as it needs to collect cash in order to pay its suppliers. Slow payment by trusts can result in loss of discounts and puts the achievement of paying suppliers within 30 days at risk.

#### *Interest-rate risk*

100% of the Authority's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. NHS Logistics Special Health Authority is not, therefore, exposed to significant interest-rate risk.

#### *Foreign currency risk*

The Authority has no foreign currency income or expenditure.

#### *Fair values*

Fair values are not significantly different from book values and therefore no additional disclosure is required.

## **22 Intra-government balances**

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	1,379	0	21	0
Balances with local authorities	0	0	5	0
Balances with NHS Trusts	55,550	0	144	0
Balances with public corporations and trading funds	204	0	0	0
Balances with bodies external to government	6,205	0	37,977	0
<b>At 31 March 2006</b>	<b>63,338</b>	<b>0</b>	<b>38,147</b>	<b>0</b>
	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	1,010	0	35	0
Balances with NHS Trusts	54,056	0	348	0
Balances with public corporations and trading funds	204	0	0	0
Balances with bodies external to government	5,753	0	42,842	0
<b>At 31 March 2005</b>	<b>61,023</b>	<b>0</b>	<b>43,225</b>	<b>0</b>



# Summarised Account of NHS Professionals



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

Section 98 (4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury.

The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on an accruals basis and present a true and fair view of the state of affairs of the NHS Professionals Special Health Authority at the year end, its income and expenditure, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to

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

The Treasury have appointed the Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of NHS Professionals. 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 the NHS Professionals Special Health Authority (the Authority).

### Scope of responsibility

As Accounting Officer for the Department of Health, I acknowledge my personal overall responsibility for ensuring that the Authority maintains a sound system of internal control that supports the achievement of the Authority's policies, aim and objectives and that the Authority reviews the effectiveness of those systems.

The Chief Executive of the Authority has been appointed as Accounting Officer of the Authority. The Chief Executive is held responsible for the maintenance and operation of the system of internal control in the Authority.

### Purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Authority for the year ended 31 March 2006 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

### Capacity to handle risk

I draw my assurance on the Authority's capacity to handle risk from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

### The risk and control framework

The Chief Executive, as Accounting Officer, is responsible with the Board of the Authority for maintaining a sound system of internal control that supports the achievement of the organisation's objectives, and for reviewing its effectiveness. I draw my assurance on the adequacy of this framework from the assurances given in the Chief Executive's own Statement on Internal Control, and from senior managers within the Department responsible for managing the relationship with the Authority. These confirm that appropriate arrangements are in place.

## Review of effectiveness

As Accounting Officer for the Department of Health, I have responsibility for reviewing the effectiveness of the system of internal control at the Authority. I draw my major source of assurance from the Chief Executive as Accounting Officer of the Authority who provides his statement on internal control made on behalf of the Authority. This is included in the annual financial statements and is subject to review by the Comptroller and Auditor General. The Chief Executive, as Accounting Officer, gains assurances from the work of the internal auditors, the executive managers within the Authority who have responsibility for the development and maintenance of the internal control framework, the Audit Committee, and from other reviewers, both internal and external and from management controls. I rely also on assurance from senior managers in the Department of Health who are accountable for the oversight of the relationship with the Authority. The system of internal control has been in place throughout the year ended 31 March 2006. Action was taken on a number of improvement activities identified during 2004-2005, and a plan to address further improvements identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

The underlying accounts are laid before Parliament.<sup>1</sup>

*David Nicholson CBE*  
Accounting Officer

30 November 2006

1 HC 1267

# Remuneration Report

## a Remuneration

Name and title	2005-2006			2004-2005		
	Salary in £5,000 bands £000	Other remuneration in £5,000 bands £000	Benefits in kind (rounded to the nearest £00) £00	Salary in £5,000 bands £000	Other remuneration in £5,000 bands £000	Benefits in kind (rounded to the nearest £00) £00
<b>Executive Team</b>						
Carmel Flatley (Chief Executive)	175-180	0	0	165-170	0	0
Ian Millar (Director of Finance) (left 12 August 2008)	50-55	0	0	105-110	0	0
Mike Pack (Director of Finance) (from 5 September 2006)	105-110	0	0	0	0	0
Jeffrey Lynch (Director of HR, Marketing and Communications)	95-100	0	0	75-80	0	0
Richard McMahon (Director of Clinical Governance)	90-95	0	0	50-55	0	0
Paul Roche (Director of Operations)	125-130	0	0	70-75	0	0
Naveed Younus (Director of IT) (left 6 May 2005)	10-15	0	0	85-90	0	0
<b>Non Executive Team</b>						
Richard Martin (Chairman)	0	50-55	0	0	55-60	0
Richard Bromberg	0	5-10	0	0	5-10	0
Fiona Eldridge	0	5-10	0	0	5-10	0
John Flook	0	5-10	0	0	5-10	0
Sue Hobbs	0	5-10	0	0	5-10	0
John King	0	5-10	0	0	5-10	0
Anthony McKeever	0	0-5	0	0	5-10	0
Carol Varlaam	0	5-10	0	0	5-10	0
Nilesh Goswami	0	5-10	0	0	5-10	0
Maggie Lee	0	5-10	0	0	0-5	0

## b Pension benefits

	Real increase in pension and related lump sum at age 60 (bands of £2,500) £000	Total accrued pension at 31 March and related lump sum (bands of £5,000) £000	Cash Equivalent Transfer value at 31 March 2006 £000	Cash Equivalent Transfer value at 31 March 2005 £000	Real increase in Cash Equivalent Transfer value £000	Employer's contribution to stakeholder pension (rounded to nearest £00) £00
Carmel Flatley (Chief Executive)	2.5-5	10-15	52	29	16	0
Ian Millar (Director of Finance) *	0	0	0	0	0	0
Mike Pack (Director of Finance)	0	0	0	0	0	0
Jeffrey Lynch (Director of HR, Marketing and Communications)	17.5-20	95-100	308	211	65	0
Richard McMahon (Director of Clinical Governance)	30-32.5	120-125	403	283	79	0
Paul Roche (Director of Operations)	2.5-5	5-10	28	10	12	0
Naveed Younas (Director of IT)	0-2.5	0-5	16	13	0	0

As Non-Executive members do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive members.

- \* Ian Miller left office on 12 August 2005 and having less than two years service will receive a full refund of contributions. This will clear Employer's liability in respect of his service, hence disclosure of the pension benefits is deemed misleading.

### **Cash Equivalent Transfer Value**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the members' accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefit accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The CETV figure and the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

### **Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another scheme or arrangement) and uses common market valuation factors for the start and end of period.

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

I have audited the financial statements of NHS Professionals for the year ended 31 March 2006 under the National Health Service Act 1977. These comprise the Income and Expenditure Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under 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 the preparation of the financial statements and the Remuneration Report in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with approval of the Treasury and for ensuring the regularity of financial transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts.

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

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and with the directions made thereunder by the Secretary of State with the approval of the Treasury. 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. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the statement on pages G3 and G4 reflects the Department of Health's compliance with HM Treasury's guidance on the Statement on Internal Control, and I report if it does not. I am not required to consider whether the Accounting Officer's Statement on Internal Control covers all risks and controls, or to form an opinion on the effectiveness of the corporate governance procedures of the Authority or the Department of Health, or of their risk and control procedures.

## Basis of audit opinion

I conducted my audit in accordance with International Standards of Auditing (UK & 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 and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Authority, consistently applied and adequately disclosed.

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

## Opinion

### In my opinion

- the financial statements give a true and fair view, in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury, of the state of affairs of NHS Professionals at 31 March 2006 and of the surplus, total recognised gains and losses and cash flows for the year then ended;
- The financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service Act 1977 and directions made thereunder by the Secretary of State with the approval of Treasury; and
- in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

I have no observations to make on these financial statements.

*John Bourn*  
Comptroller and Auditor General

21 December 2006

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

## Income and Expenditure Statement for the year ended 31 March 2006

	Notes	<b>2005-2006</b> <b>£000</b>	2004-2005 £000
Operating income	3	<b>272,696</b>	229,327
Operating expenditure	2.1	<b>(295,970)</b>	(259,592)
<b>Operating deficit</b>		<b>(23,274)</b>	(30,265)
Interest payable	2.3	<b>0</b>	(2)
Revenue Grant in Aid		<b>43,927</b>	31,534
<b>Net surplus for the financial year</b>		<b>20,653</b>	1,267

All income and expenditure is derived from continuing operations.

Revenue grant in aid includes an additional £23,000,000 allocated to fund additional working capital requirements within the organisation.

## Statement of Total Recognised Gains and Losses for the year ended 31 March 2006

	Notes	<b>2005-2006</b> <b>£000</b>	2004-2005 £000
Surplus for the financial year		<b>20,653</b>	1,267
Unrealised surplus on the indexation of fixed assets	11.2	<b>6</b>	10
<b>Total recognised gains for the financial year</b>		<b>20,659</b>	1,277

*The notes at pages G12 to G23 form part of this account.*



## Balance Sheet as at 31 March 2006

	Notes	31 March 2006 £000	31 March 2005 £000
<b>Fixed assets</b>			
Intangible assets	4.1	501	143
Tangible assets	4.2	3,965	3,759
		<b>4,466</b>	3,902
<b>Current assets</b>			
Stocks	5	0	0
Debtors	6.1	49,180	48,937
Cash at bank and in hand	7	15	(14)
		<b>49,195</b>	48,923
<b>Creditors: amounts falling due within one year</b>	8.1	<b>(26,920)</b>	(49,011)
<b>Net current assets/(liabilities)</b>		<b>22,275</b>	(88)
<b>Total assets less current liabilities</b>		<b>26,741</b>	3,814
<b>Creditors: amounts falling due after more than one year</b>	8.2	<b>0</b>	0
<b>Provisions for liabilities and charges</b>	9	<b>(813)</b>	(2,483)
		<b>25,928</b>	1,331
<b>Taxpayers' equity</b>			
General Fund	11.1	22,451	1,321
Revaluation reserve	11.2	16	10
Capital reserve	11.3	3,461	0
		<b>25,928</b>	1,331

*The notes at pages G12 to G23 form part of this account.*

David Nicholson CBE  
Accounting Officer

30 November 2006

## Cash Flow Statement for the year ended 31 March 2006

	Notes	2005-2006 £000	2004-2005 £000
<b>Net cash (outflow) from operating activities</b>	12	<b>(43,894)</b>	(30,355)
<b>Servicing of finance</b>			
Interest paid		<b>0</b>	(2)
<b>Net cash (outflow) from servicing of finance</b>		<b>0</b>	(2)
<b>Capital expenditure and financial investment</b>			
(Payments) to acquire intangible fixed assets		<b>(293)</b>	(33)
(Payments) to acquire tangible fixed assets		<b>(3,784)</b>	(1,158)
Net cash (outflow) from investing activities		<b>(4,077)</b>	(1,191)
<b>Net cash (outflow) before financing</b>		<b>(47,971)</b>	(31,548)
<b>Financing</b>			
Revenue Grant in Aid		<b>43,927</b>	31,534
Capital Grant in Aid	11.3	<b>4,073</b>	0
<b>Increase/(decrease) in cash in the period</b>	7	<b>29</b>	(14)

*The notes at pages G12 to G23 form part of this account.*

# Notes to the Account

## 1 Accounting policies

The financial statements have been prepared in accordance with the Financial Reporting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

### 1.1 Accounting conventions

This account is prepared under the historical cost convention, modified to account for the revaluation of tangible fixed assets and stock where material, at their value to the business by reference to current cost. 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 Income

Income is accounted for applying the accruals convention. Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges to other NHS bodies for the provision of flexible health professionals, but it also includes other income such as that from investments and from other health bodies. It includes both income appropriated-in-aid and income to the Consolidated Fund which HM Treasury has agreed should be treated as miscellaneous income. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

The Special Health Authority is also funded by Parliamentary grant from the Department of Health from Request for Resources 1 within an approved cash limit, which is credited to the Income and Expenditure Statement. Parliamentary funding is recognised in the financial period in which it is received.

Capital funding is credited to the Capital Reserve and released to Income and Expenditure Statement in line with the associated expenditure.

### 1.3 Taxation

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

### 1.4 Capital charges

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2005-2006 was 3.5% (2004-2005 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 where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000;
- ii Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred; and
- iii Tangible assets which are capable of being used for more than one year, and they
  - individually have a cost equal to or greater than £5,000;
  - collectively have a cost of at least £5,000 and an individual cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
  - form part of the initial equipping and setting-up cost of a new building, ward or unit irrespective of their individual or collective cost.

### b Valuation

#### *Intangible fixed assets*

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

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

#### *Tangible fixed assets*

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

### i Land and buildings (including dwellings)

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five yearly intervals in accordance with FRS 15. Between valuations price indices appropriate to the category of asset 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.

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

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

- specialised operational assets have been valued on a replacement rather than modern substitute basis;
  - no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
  - additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.
- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
  - iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
  - iv All adjustments arising from indexation and five-yearly revaluations are taken to the Revaluation Reserve. All impairments resulting from price changes are charged to the Statement of Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.
- c Depreciation and amortisation

Depreciation is charged on each individual fixed asset as follows

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

	Years
Furniture and fittings	10
Information technology	5

### 1.6 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. This is considered to be a reasonable approximation to current cost due to the high turnover of stocks. Work in progress comprises goods in intermediate stages of production.

### 1.7 Losses and special payments

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

### 1.8 Pension costs

Past and present employees are covered by the provisions of the NHS Pension Scheme. The Scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. As a consequence it is not possible for the Special Health Authority to identify its share of the underlying scheme 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 total employer contributions payable in 2005-2006 was £8,300,000, of which Corporate was £1,794,000 (2004-05 £1,577,000).

The Scheme is subject to a full valuation by the Government Actuary every four years which is followed by a review of the employer contribution rates. The last valuation took place as at 31 March 2003 and has yet to be finalised. The last published valuation 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 NHS Pensions Agency website at [www.nhspa.gov.uk](http://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 employers' contributions should be 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 bodies are directed by the Secretary of State to charge employers' 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 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. 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 Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final year's pensionable pay for death in service, and up to five times their annual pension for death after retirement, less pensions already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement is payable.

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

### **1.9 Research and development**

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the 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 should be calculated on the same basis as used for depreciation i.e. on a quarterly basis.

### **1.10 Foreign exchange**

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

### 1.11 Leases

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

### 1.12 Provisions

The Authority provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's discount rate of 2.2% in real terms (2004-2005: 3.5%).

### 2.1 Operating expenditure

	Notes	2005-2006 £000	2004-2005 £000
Non-executive members' remuneration		107	106
Other salaries and wages	2.2	282,289	238,673
Supplies and services - general		1,583	2,027
Establishment expenses		4,601	5,408
Transport and moveable plant		267	177
Premises and fixed plant		3,654	6,981
External contractors		1,673	4,205
<i>Capital</i>			
Depreciation and amortisation	4.1, 4.2	1,064	381
Capital charges interest		477	138
		<u>1,541</u>	<u>519</u>
Auditor's remuneration: Audit Fees		75	80
Miscellaneous		180	1,416
		<u>295,970</u>	<u>259,592</u>

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

### 2.2 Staff numbers and related costs

	2005-2006 Total £000	Permanently employed staff £000	Other £000	2004-2005 Total £000
Salaries and wages	260,031	17,640	242,391	235,935
Social security costs	13,958	1,376	12,582	1,161
Employer contributions to NHSPA	8,300	1,794	6,506	1,577
	<u>282,289</u>	<u>20,810</u>	<u>261,479</u>	<u>238,673</u>

The average number of employees during the year was

	2005-2006 Total Number	Permanently employed staff Number	Other Number	2004-2005 Total Number
Total	<u>9,182</u>	<u>649</u>	<u>8,533</u>	<u>685*</u>

\* Information was not collated for the full year in respect of other staff (including contract agency staff and bank staff), the 685 reported relates solely to permanently employed staff.

**Expenditure on staff benefits**

The amount spent on staff benefits during the year totalled £Nil (2004-2005: £Nil).

**Retirements due to ill-health**

During 2005-2006 there was one early retirement (2004-2005: 2) from the Special Health Authority on the grounds of ill-health. The estimated additional pension liabilities of this ill-health retirement (calculated on an average basis and borne by the NHS Pensions Scheme) will be £94,000 (2004-2005: £100,000). This information has been supplied by NHS Pension Agency.

These retirements represented 0.10 per 1,000 active scheme members (2004-2005: 1.47).

**2.3 Better Payment Practice Code – measure of compliance**

	<b>Number</b>	£000
Total non NHS bills paid 2005-2006	<b>128,398</b>	93,271
Total non NHS bills paid within target	<b>116,789</b>	80,808
Percentage of non NHS bills paid within target	<b>91.0%</b>	86.6%
	<b>Number</b>	£000
Total NHS bills paid 2005-2006	<b>1,281</b>	10,436
Total NHS bills paid within target	<b>955</b>	6,797
Percentage of NHS bills paid within target	<b>74.6%</b>	65.1%

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

	<b>2005-2006</b>	2004-2005
	<b>£000</b>	£000
Amounts included within interest payable arising from claims made under this legislation	<b>0</b>	2
Compensation paid to cover debt recovery costs under this legislation	<b>0</b>	0
	<b>0</b>	2

**3 Operating income**

Operating income analysed by classification and activity, is as follows

	Appropriated in aid	Not appropriated in aid	<b>2005-2006</b>	2004-2005
	£000	£000	<b>Total</b>	Total
			<b>£000</b>	£000
<i>Programme income</i>				
Fees and charges to external customers	0	99	<b>99</b>	127
Income received from other Departments, etc.	0	271,985	<b>271,985</b>	229,200
Income released from capital reserve	0	612	<b>612</b>	0
<b>Total</b>	<b>0</b>	<b>272,696</b>	<b>272,696</b>	<b>229,327</b>



**4.1 Intangible fixed assets**

	Software Licences £000
Gross cost at 31 March 2005	153
Additions purchased	426
Reclassification	(40)
<b>Gross cost at 31 March 2006</b>	<b>539</b>
Accumulated amortisation at 31 March 2005	10
Provided during the year	28
<b>Accumulated amortisation at 31 March 2006</b>	<b>38</b>
Net book value at 31 March 2005	143
<b>Net book value at 31 March 2006</b>	<b>501</b>

The only intangible fixed assets held are Software Licences.

**4.2 Tangible fixed assets**

	Information Technology £000	Furniture and fittings £000	<b>Total £000</b>
Cost or Valuation at 31 March 2005	3,622	514	<b>4,136</b>
Additions - purchased	209	987	<b>1,196</b>
Reclassification	40	0	<b>40</b>
Indexation	0	10	<b>10</b>
<b>Gross cost at 31 March 2006</b>	<b>3,871</b>	<b>1,511</b>	<b>5,382</b>
Accumulated depreciation at 31 March 2005	188	189	<b>377</b>
Provided during the year	805	231	<b>1,036</b>
Indexation	0	4	<b>4</b>
<b>Accumulated depreciation at 31 March 2006</b>	<b>993</b>	<b>424</b>	<b>1,417</b>
Net book value at 31 March 2005	3,434	325	<b>3,759</b>
<b>Net book value at 31 March 2006</b>	<b>2,878</b>	<b>1,087</b>	<b>3,965</b>

NHS Professionals held no assets under finance leases and hire purchase contracts at the balance sheet date (31 March 2005: £Nil)

**4.3 Net Book Value of land and buildings**

The net book value of land and buildings at the balance sheet date was £Nil (2004-2005: £Nil)

**4.4 Profit/loss on disposal of fixed assets**

NHS Professionals had no disposals of assets during the year (2004-2005: £Nil)

**5 Stocks and work in progress**

The net book value of stocks and work-in-progress at the balance sheet date was £Nil (2004-2005: £Nil)

## 6 Debtors

### 6.1 Amounts falling due within one year

	<b>31 March 2006 £000</b>	31 March 2005 £000
NHS debtors	<b>29,420</b>	28,556
Prepayments	<b>881</b>	183
Accrued income	<b>17,962</b>	19,523
Other debtors	<b>917</b>	675
	<b><u>49,180</u></b>	<u>48,937</u>

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

NHS Professionals held £Nil debtors falling due after more than one year at the end of the financial year 2005-2006 (2004-2005: £Nil).

## 7 Analysis of changes in cash

	At 31 March 2005 £000	Change during the year £000	<b>At 31 March 2006 £000</b>
Cash at OPG	(15)	27	<b>12</b>
Cash at commercial banks and in hand	1	2	<b>3</b>
	<u>(14)</u>	<u>29</u>	<u><b>15</b></u>

## 8 Creditors

### 8.1 Amounts falling due within one year

	<b>31 March 2006 £000</b>	31 March 2005 £000
NHS creditors	<b>1,257</b>	7,387
Capital creditors	<b>627</b>	3,082
Tax and social security	<b>(31)</b>	5
Other creditors	<b>6,530</b>	14,046
Accruals	<b>17,929</b>	20,551
Deferred income	<b>608</b>	3,940
	<b><u>26,920</u></b>	<u>49,011</u>

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

NHS Professionals held £Nil creditors falling due after more than one year at the end of the financial year 2005-2006 (2004-2005: £Nil)

### 8.3 Finance lease obligations

NHS Professionals has not entered into any finance lease obligations (2004-2005: £Nil)

**9 Provisions for liabilities and charges**

	Other £000	<b>Total £000</b>
At 31 March 2005	2,483	<b>2,483</b>
Arising during the year	120	<b>120</b>
Utilised during the year	(494)	<b>(494)</b>
Reversed unused	(1,296)	<b>(1,296)</b>
<b>At 31 March 2006</b>	<u>813</u>	<u><b>813</b></u>
<i>Expected timing of cash flows</i>		
Within 1 year	813	<b>813</b>

£Nil is included in the provisions of the NHS Litigation Authority at 31 March 2006 in respect of clinical negligence liabilities of the Special Health Authority.

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

	<b>2005-2006 £000</b>	2004-2005 £000
Increase in debtors	<b>243</b>	48,799
Decrease/(increase) in creditors	<b>19,636</b>	(45,707)
	<u><b>19,879</b></u>	<u>3,092</u>

**11 Movements on reserves****11.1 General Fund**

	<b>31 March 2006 £000</b>	31 March 2005 £000
	Notes	
Balance at 31 March 2005	<b>1,321</b>	(84)
Net surplus for the year	<b>20,653</b>	1,267
Non-cash items: Capital charge interest	2.1 <b>477</b>	138
<b>Balance at 31 March 2006</b>	<u><b>22,451</b></u>	<u>1,321</u>

**11.2 Revaluation reserve**

	<b>31 March 2006 £000</b>	31 March 2005 £000
	Notes	
Balance at 31 March 2005	<b>10</b>	0
Indexation of fixed assets	4.2 <b>6</b>	10
<b>Balance at 31 March 2006</b>	<u><b>16</b></u>	<u>10</u>

**11.3 Capital reserve**

	<b>31 March 2006 £000</b>	31 March 2005 £000
Balance at 31 March 2005	<b>0</b>	0
Capital Grant in Aid	<b>4,073</b>	0
Depreciation	<b>(612)</b>	0
<b>Balance at 31 March 2006</b>	<u><b>3,461</b></u>	<u>0</u>

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

	Notes	2005-2006 £000	2004-2005 £000
Net operating deficit before interest for the year		<b>23,274</b>	30,265
Adjust for non-cash transactions	2.1	<b>(1,541)</b>	(519)
Adjust for capital depreciation recognised in income	11.3	<b>612</b>	0
Adjust for movements in working capital other than cash	10	<b>19,879</b>	3,092
Decrease/(increase) in provisions	9	<b>1,670</b>	(2,483)
Net cash outflow from operating activities		<b>43,894</b>	30,355

**13 Contingent liabilities**

At 31 March 2006, there were no known contingent liabilities (31 March 2005: £Nil)

**14 Capital commitments**

At 31 March 2006 the value of contracted capital commitments was £1,458,000 (31 March 2005: £8,053,000)

**15 Commitments under operating leases**

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

	2005-2006 £000	2004-2005 £000
Hire of plant and machinery	<b>120</b>	0
Other operating leases	<b>1,744</b>	1,809
	<b>1,864</b>	1,809

**Commitments under non-cancellable operating leases**

	£000	£000
<i>Land and buildings</i>		
Operating leases which expire within one year	<b>906</b>	995
between one and five years	<b>342</b>	432
after five years	<b>721</b>	274
	<b>1,969</b>	1,701
<i>Other leases</i>		
Operating leases which expire within one year	<b>90</b>	17
between one and five years	<b>29</b>	13
after five years	<b>0</b>	0
	<b>119</b>	30

**16 Other commitments**

At 31 March 2006 the value of other financial commitments (which are not operating leases) was £671,000 (2004-2005: £472,000). These relate to the provision of IT management services (£213,000) (2004-2005: £372,000), accounting systems (£130,000) (2004-2005: £100,000) and network line rentals (£328,000) (2004-2005: £Nil).

**17 Losses and special payments**

During the year 2005-2006 NHS Professionals incurred losses and special payments of £9,000 for settlement of employee claims (2004-2005: losses of £153,000)

## **18 Related parties**

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

The Department of Health is regarded as a controlling related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, i.e. sales and services to other Health Authorities, Primary Care Trusts and NHS Trusts which during the year were valued at £272 million and which represented trading with 181 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £10.5 million, which represented trading with 203 individual organisations.

During the year, none of the Authority's members or members of the key management staff or other related parties has undertaken any material transactions with the Authority.

## **19 Post balance sheet events**

There were no post balance sheet events to report.

## **20 Financial instruments**

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role that financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the way Special Health Authorities are financed, NHS Professionals is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. NHS Professionals has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing NHS Professionals in undertaking its activities.

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

### *Liquidity risk*

NHS Professionals net operating costs are financed from resources voted annually by Parliament. NHS Professionals largely finances its capital expenditure from funds made available from Government. NHS Professionals is not, therefore, exposed to significant liquidity risks.

### *Interest rate risk*

100% of the Authority's financial assets and 100% of its financial liabilities carry nil or fixed rates of interest. NHS Professionals is not, therefore, exposed to significant interest rate risk.

### *Foreign currency risk*

NHS Professionals has negligible foreign currency income.

### *Fair values*

Fair values are not significantly different from book values and therefore, no additional disclosure is required.

**21 Intra-government balances**

	<b>Debtors amounts falling due within one year £000</b>	<b>Debtors amounts falling due after more than one year £000</b>	<b>Creditors amounts falling due within one year £000</b>	<b>Creditors amounts falling due after more than one year £000</b>
Balances with other central government bodies	797	0	2,838	0
Balances with local authorities	0	0	11	0
Balances with NHS Trusts	48,124	0	2,217	0
Balances with public corporations and trading funds	(1)	0	28	0
Balances with bodies external to government	260	0	21,826	0
<b>At 31 March 2006</b>	<b>49,180</b>	<b>0</b>	<b>26,920</b>	<b>0</b>
	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	1,129	0	580	0
Balances with local authorities	2	0	3	0
Balances with NHS Trusts	47,713	0	11,709	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	93	0	36,719	0
At 31 March 2005	48,937	0	49,011	0

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