

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 2005 together with the Report of the Comptroller and Auditor General thereon. (In continuation of House of Commons Paper No. 60-II of 2005-2006)

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

NHS (England) Summarised Accounts 2004-2005

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NHS (England) Summarised Accounts 2004-2005

This volume has been published alongside first volume comprising of the
Comptroller and Auditor General's report -
HC 1092-I Financial Management in the NHS
NHS (England) Summarised Accounts 2004-05

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Foreword

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. For 2004-2005 NHS bodies (except for the National Blood Authority) are not required to submit charitable fund accounts to the Department of Health but only to the Charity Commission.
- 7 The summarised accounts have been prepared from the accounts of the individual health bodies, for the year ended 31 March 2005, of
 - the 28 Strategic Health Authorities (SHAs);
 - the 259 NHS Trusts in England;
 - the 303 Primary Care Trusts in England (PCTs); and
 - the four Special Health Authorities (SpHAs) not exempted by the relevant Statutory Instruments.
- 8 These summarised accounts are based on audited figures submitted by the individual organisations. Although audited accounts have been received from Kensington and Chelsea PCT and University Hospitals of Coventry and Warwickshire NHS Trusts, these have not been included in the relevant summarised accounts as changes from the unaudited versions received were not considered sufficiently material to require amendment. In the foreword the analyses are based on audited figures.
- 9 During 2004-2005 25 trusts became NHS Foundation Trusts (FTs). Six applicants became FTs on 1 April 2005 and others are expected with establishment dates throughout 2005-2006. FTs are not subject to direction by the Secretary of State for Health but they are subject to directions from the FT regulator with the approval of Treasury and are accountable to their local community. Summarised accounts will not be prepared for FTs by the Department and they will lay their accounts individually before Parliament and a summarised account will be prepared by the FT regulator.

- 10 The NHS trust summarised account includes the accounting entries of the 15 NHS trusts that became FTs during the 2004-2005 financial year for the period they were NHS trusts.
- 11 The following sections provide background information on each of the accounts.

Format of the accounts

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

Overall NHS Performance

- 16 In aggregate, PCTs, NHS Trusts and SHAs achieved a revenue resource overspend of £221m (2003-2004: £73m underspend) and a capital resource underspend of £172m in 2004-2005 (2003-2004: £161m underspend).

Strategic Health Authorities

- 17 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

- 18 SHAs 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 achieve financial balance without the need of unplanned financial support (not a statutory duty but a performance management measure).
 - d To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).

Overall financial performance of Strategic Health Authorities in 2004-2005

- 19 In 2004-2005, 27 SHAs achieved their statutory financial duties to remain within approved revenue resource, capital resource and cash limits. One SHA reported an overspend against the revenue resource limit. The SHAs reported a £373m underspend against the revenue resource limit (2003-2004: £206m underspend) and a £22m underspend against the capital resource limit in 2004-2005 (2003-2004: £20m underspend).

Better Payment Practice – Code Strategic Health Authorities

20 The percentage of bills paid in compliance with the better payment practice code in 2004-2005 is as follows

Compliance level	Number of Strategic Health Authorities	
	By number of bills	By value of bills
Between 95% and 100%	7	11
Between 85% and 94.9%	7	10
Between 75% and 84.9%	7	4
Between 65% and 74.9%	6	2
Between 55% and 64.9%	1	0
Less than 54.9%	0	1
Total	28	28
Overall performance 2004-2005	84.8%	91.7%

- 21 In 2004-2005 SHAs paid 84.8% of their bills (91.7% when measured by value) within 30 days/contracted terms. This in the context of SHAs processing and paying over 150,000 invoices per annum.
- 22 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

- 23 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.
- 24 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

- 25 PCTs have five main financial duties
- To contain expenditure, measured on an accruals basis, within approved revenue resource limits (a statutory duty).
 - To contain cash spend within approved limits (a statutory duty).
 - To achieve financial balance without the need of unplanned financial support (not a statutory duty but a performance management measure).
 - To contain expenditure, measured on an accruals basis, within approved capital resource limits (a statutory duty).
 - 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 2004-2005

- 26 In 2004-2005 PCTs reported a revenue resource limit overspend of £272m compared to a £4m underspend in 2003-2004.
- 27 PCTs reported an aggregate underspend of £58m on the capital resource limit, compared to £68m in 2003-2004.
- 28 The 2004-2005 revenue position is made up of 213 PCTs reporting an aggregate underspend of £70m (£95m in 2003-2004) and 90 PCTs reporting an aggregate overspend of £342m (£91m in 2003-2004).
- 29 On capital, 300 PCTs reported an aggregate underspend of £59m with 3 PCTs reporting an aggregate overspend of £1m (the underspend was £68m in 2003-2004). The three PCTs which reported a capital overspend failed this statutory duty (two in 2003-2004).
- 30 In 2004-2005 there were 29 PCTs (2003-2004: 22 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

- 31 The percentage of bills paid in compliance with the better payment practice code in 2004-2005 is as follows

Compliance level	Number of Primary Care Trusts	
	By number of bills	By value of bills
Between 95% and 100%	57	99
Between 85% and 94.9%	119	113
Between 75% and 84.9%	76	62
Between 65% and 74.9%	37	19
Between 55% and 64.9%	13	7
Less than 54.9%	1	3
Total	303	303
Overall performance 2004-2005	85.0%	89.0%

- 32 In 2004-2005 PCTs paid 85% of their bills (89% when measured by value) within 30 days/contracted terms. This is in the context of PCTs processing and paying nearly 3.7 million invoices per annum.
- 33 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

- 34 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

35 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.

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 departmental duty to break even each and every year;
- 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 2003-2004);
- d To remain within the External Financing Limit (EFL) set for each NHS Trust by the Department of Health; and
- e To remain within the Capital Resource Limit (CRL) set for each NHS Trust by the Department of Health.

Overall financial performance of NHS Trusts in 2004-2005

- 36 In 2004-2005 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £322m compared to a £138m deficit in 2003-2004.
- 37 The 2004-2005 position is made up of 68 NHS Trusts reporting an aggregate deficit of £383m, offset by 191 NHS Trusts reporting an aggregate surplus of £61m.
- 38 While 68 NHS Trusts reported a deficit in 2004-2005, one breached their statutory financial duty to break even 'taking one financial year with another'. Twenty eight NHS trusts in their 4th year of recovery have agreed extended periods of recovery with their SHA, with five others still in discussion. There are three organisations that have been excluded from these figures. Two NHS trusts breached their break even duty for technical reasons and only one has needed to agree an extension to its recovery period and one NHS trust which would have been in its 4th year of recovery in 2005-2006, but became a Foundation Trust on 1 April 2005.
- 39 57 NHS Trusts out of the 259 were identified by the Department of Health as having significant financial difficulties at the end of 2004-2005 compared to 62 in 2003-2004.
- 40 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.

41 Table 1 below summarises the performance of NHS Trusts against the three subsidiary financial duties.

Table 1¹

	Number	Percentage
Total NHS Trusts	259	100%
<i>NHS Trusts achieving targets</i>		
Capital Absorption Rate		
Total achieving 3.5% or more	110	42%
After adjusting for immaterial results ²	219	85%
External Financing Limit		
Total meeting limit	244	94%
After adjusting for de minimus overshoots ³	247	95%
Capital Resource Limit		
Total meeting limit	243	94%
After adjusting for de minimus overshoots ⁴	247	95%

42 Analysis of the 2004-2005 results show that

- a 68 (65 in 2003-2004) had an income and expenditure deficit – 26% of all NHS Trusts (24% in 2003-2004);
- b one statutory breakeven duty failure (none in 2003-2004);
- c 149 did not make a 3.5% return on capital (91 in 2003-2004 did not make a 3.5% return on capital) – 58% of all NHS Trusts (34% in 2003-2004);
- d 15 (16 in 2003-2004) overshot their EFL – 6% of all NHS Trusts (6% in 2003-2004); and
- e 16 (15 in 2003-2004) overshot their CRL – 6% of all NHS Trusts (6% in 2003-2004).

43 When non-material failures are discounted

- a 60 (49 in 2003-2004) had an income and expenditure deficit⁵ – 23% of all NHS Trusts (18% in 2003-2004);
- b 40 (eight in 2003-2004) did not make a 3.5% return on capital – 15% of all NHS Trusts (3% in 2003-2004);
- c 12 (seven in 2003-2004) overshot their EFL – 5% of all NHS Trusts (3% in 2003-2004); and
- d 12 (10 in 2003-2004) overshot their CRL – 5% of all NHS Trusts (4% in 2003-2004).

44 NHS trusts that became Foundation Trusts part way through the year had the opportunity to set their EFL and CRL control totals to match the charge against the CRL and EFL incurred during the part of the year that they were NHS trusts. Twelve out of the 15 NHS trusts reported exactly meeting their CRL and 11 reported exactly meeting their EFL.

45 The achievement of the capital cost absorption duty is an annual measure. As a result all NHS trusts that became Foundation Trusts part way through the year did not achieve 3.5%.

¹ Source: Analysis of the audited NHS Trust Account Forms of individual NHS Trusts 2003-2004 by Department of Health.

² A shortfall on the rate of return duty of less than 0.5% is treated as immaterial.

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 de minimus limits.

⁵ A deficit of more than 0.5% of total annual income.

Reasons for NHS Trusts failing financial duties

- 46 Other reasons for NHS Trusts failing financial duties are similar to those reported in previous years and include one or more of
- a shortfalls on planned income/cost improvements – which in some cases are due to optimistic planning assumptions;
 - b increased use of locum medical and agency staff due to recruitment problems; and
 - c timing of capital expenditure and income over financial year end.

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

- 47 Where analysis of an NHS Trust's financial performance leads the SHA to believe there is an underlying recurrent financial difficulty, the NHS Trust is required to prepare a recovery plan.
- 48 The appropriate SHA will agree the plan and monitor the results closely. This may involve monthly reporting to SHA, regular meetings with NHS Trust senior managers and the NHS Trust achieving specific milestones to ensure satisfactory progress is being made.
- 49 SHAs will focus on the NHS Trusts 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.

Better Payment Practice Code – NHS Trusts

- 50 The percentage of bills paid in compliance with the better payment practice code in 2004-2005 is as follows

Compliance level	Number of Trusts	
	By number of bills	By value of bills
Between 95% and 100%	52	58
Between 85% and 94.9%	94	107
Between 75% and 84.9%	63	45
Between 65% and 74.9%	25	30
Between 55% and 64.9%	13	12
Less than 55%	12	7
Total	259	259
Overall performance 2004-2005	82.8%	83.9%

- 51 In 2004-2005 NHS Trusts paid 82.8% of their bills (2003-2004: 84%) by number (83.9% when measured by value (2003-2004: 84%)) within 30 days/contracted terms. This in the context of NHS Trusts processing and paying circa 10.9 million invoices per annum.
- 52 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.

Special Health Authorities

National Blood Authority

- 53 On 1 April 1993 the National Blood Authority was formed to replace the Central Blood Laboratories Authority and was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977. On 1 April 1994 the National Blood Authority took over responsibility for the 13 Regional Transfusion Centres from Regional Health Authorities. The Authority now provides a national blood service from the collection of blood through to the testing and processing of blood products, manufacture of plasma products and the resultant distribution to hospitals. The majority of the revenue expenses of the Authority are defrayed by sales income, while the remainder of revenue expenses and all capital funds are defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Request for Resources 1.
- 54 The Authority issued 2,030,000 units of red cells (2003-2004: 2,157,000 units) and 219,000 units of platelets (2003-2004: 220,000 units). The Authority charges customers for the costs of collection, processing and distribution (£120.22 in 2004-05 and £110.92 in 2003-2004 for adult red cells). There is no charge for the blood itself which is donated on a voluntary basis.
- 55 The 2004-2005 Business Planning period represents a departure from previous planning years, in that it will be necessary, at least for the first six months of this plan, to focus the majority of efforts and resources in maintaining the sufficiency and security of the blood supply. This change of emphasis is in response to the anticipated pressures that the Service will face in light of recent Ministerial announcements and the additional measures the National Blood Service is implementing to reduce further the possible risk of transmission of vCJD by blood transfusion.
- 56 The Authority recorded a £9,055,000 surplus (2003-2004: £16,389,000 deficit) on an income of £425,418,000 (2003-2004: £375,519,000).

NHS Logistics Authority

- 57 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.
- 58 The Cabinet Office Review of NHS Procurement, published in 1998, envisaged efficiency savings from this development, as the existing infrastructure of the Authority's national supply channel is increasingly utilised by the NHS and, as a result, supply volumes approach optimum levels. The Authority has seven distribution centres around the country with a fleet of over 200 vehicles. Deliveries are made to more than 10,000 physical locations to trusts throughout England.
- 59 The Authority has launched its own e-ordering system and has consolidated its estate for improved efficiency.
- 60 The Authority achieved a surplus of £722,000 (2003-2004 surplus of £853,000) on turnover of £730,309,000 (2003-2004: £676,956,000). All revenue income was derived from sales or fees, with £2,735,000 received from the Department for capital from Request for Resources 1.

NHS Professionals

- 61 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.
- 62 The Authority was established to manage and recruit a flexible workforce in the National Health Service in an efficient and cost effective way.
- 63 Accounts were prepared for the three month period to 31 March 2004 showing the costs incurred in the setting up of the Authority and not of its operational functions.

- 64 The accounts for 2004-2005 represent the first full year of operation. The Authority achieved a surplus of £1,267,000 (2003-2004 deficit of £84,000) on turnover of £229,327,000 (2003-2004: funding of £414,000 from the Department of Health).

NHS Direct

- 65 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.
- 66 The underlying account for 2004-2005 will be qualified by the Comptroller and Auditor General because he could not obtain all the information and explanations considered necessary for the purpose of his audit and was unable to determine whether proper accounting records has been maintained. In consequence the Comptroller and Auditor General's opinion on the summarised account of NHS Direct has also been qualified. The Report of the Comptroller and Auditor General is included within these financial statements.

Better Payment Practice Code – Special Health Authorities measure of compliance

- 67 Each Special Health Authority is required to pay their non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or valid invoice (whichever is later) unless the payment terms have been agreed with the supplier.

	Percentage of bills paid within target – Compliance level			
	2004-2005		2003-2004	
	Number	£000	Number	£000
National Blood Authority	90.3%	91.9%	87.8%	89.5%
NHS Logistics Authority	89.6%	81.7%	77.2%	75.2%
NHS Professionals	96.9%	94.9%	94.6%	Not stated
NHS Direct	%	%	n/a	n/a

Developments

- 68 A number of special health authorities were dissolved on 31 March 2005 or merged with other special health authorities as a result of the review of the Department's arms length bodies.
- 69 The following changes occurred on 31 March 2005: NHS Information Authority was dissolved and established as a smaller Health and Social Care Information Centre; the NHS Litigation Authority took over the responsibilities of the Family Health Services Appeal Authority; the responsibilities of the National Clinical Assessment Authority were taken on by the National Patient Safety Authority; and the National Institute for Clinical Excellence took over the responsibilities of the Health Development Agency. The Health Protection Agency Special Health Authority became an NDPB on 1 April 2005 and took over the remaining functions of the Public Health Laboratory Service.
- 70 The National Blood Authority and UK Transplant merged from 1 October 2005 as NHS Blood and Transplant; NHSU merged with part of the NHS Modernisation Agency on 1 July 2005 to form the National Institute of Innovation and Improvement. Further details can be found in *An Implementation Framework for Reconfiguring the DH Arm's Length Bodies*, November 2004.
- 71 From 1 April 2004 the NHS has started to introduce a system of financial flows based on the principle of payments by results against a standard tariff for treatment in NHS trusts and FTs. The system is part of the reform programme in the NHS which will increase patient choice and provide strong incentives for providers to focus on quality and increasing patient satisfaction as well as efficiency. The standard tariff will keep transaction costs down and remunerate trusts in a fair and transparent way.

- 72 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. This is likely to lead to a reduction in the number of SHAs and PCTs during 2006-2007.

Sir Nigel Crisp
Accounting Officer

30 November 2005

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 Permanent Secretary and 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, 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 2004-2005 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 described how they 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.

They recorded that they make 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

The Department has issued guidance to SHAs describing the principles to be applied to the identification, evaluation and control of risk. For 2004-2005 all SHAs were required to embed 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.

Some SHAs use a balanced scorecard system with a 'traffic light' system to flag up risk priorities.

SHAs described their own Assurance Frameworks in their Statements on Internal Control and provided comments on the embedding of risk management 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 and embedding 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 2005

All 28 SHAs achieved Category 'A' – providing evidence that a system of internal control was in place.

The numbers present a year-end improvement on 2003-2004, when there were 27 SHAs assessed as category 'A' and one category 'B'. As more robust criteria have been introduced for 2004-2005, this actually represents a significant improvement. The Department is continuing to provide further training and guidance for Strategic

Health Authorities to promulgate to NHS Trusts and PCTs in order to help raise progressively the standard of internal control as evidenced by the Assurance Frameworks.

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	23%	30%
Organisational controls	62%	70%
Clinical controls	15%	0%

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 Statements on Internal Control (SIC), 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 opinion provided by the SHA head of internal audit.

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.

No inconsistencies were identified in the SHA SICs.

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

Significant control issues

No significant control issues were disclosed by any SHA for their own organisation.

Conclusion

The ongoing development of Assurance Frameworks with all 28 SHAs assessed as Category 'A' 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 improved on the good results of 2003-2004. Arrangements are in place to further develop Assurance Frameworks with support from the Department in 2005-2006.

Sir Nigel Crisp
Accounting Officer

30 November 2005

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

I certify that I have audited the financial statements on pages A9 to A25 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages A12 to A16.

Respective responsibilities of the Accounting Officer and Auditor

As described on page A3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder, and 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.

I review whether the statement on pages A4 to A6 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required 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.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the financial transactions included in the financial statements. 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 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 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Strategic Health Authorities at 31 March 2005 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the 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.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

12 April 2006

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

Operating Cost Statement for the year ended 31 March 2005

Continuing operations

	Notes	2004-2005 £000	Restated 2003-2004 £000
Authority operating costs	2.1	3,799,202	3,410,815
Operating Income	3	(112,306)	(143,420)
Net operating costs		<u>3,686,896</u>	<u>3,267,395</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2005

		2004-2005 £000	2003-2004 £000
Unrealised surplus on the revaluation of fixed assets	11	12,558	6,809
Net transfer to NHS bodies and Department of Health	12	(7,659)	(2,178)
Recognised gains for the financial year		<u>4,899</u>	<u>4,631</u>

The notes at pages A12 to A25 form part of this account.

Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Intangible assets	4.1	327	273
Tangible assets	4.2	62,572	63,922
		62,899	64,195
Current assets			
Debtors	5	106,066	139,414
Cash at bank and in hand	14	256	312
		106,322	139,726
Creditors: amounts falling due within one year	6	(173,038)	(137,186)
Net current (liabilities)/assets		(66,716)	2,540
Total assets less current liabilities		(3,817)	66,735
Creditors: amounts falling due after more than one year	7	(1,504)	(2,980)
Provisions for liabilities and charges	8	(23,067)	(19,115)
		(28,388)	44,640
Taxpayers' equity			
General Fund	12	(52,516)	29,783
Revaluation reserve	11	24,128	14,857
		(28,388)	44,640

The notes at pages A12 to A25 form part of this account.

Sir Nigel Crisp
Accounting Officer

30 November 2005

Cash Flow Statement for the year ended 31 March 2005

	2004-2005	Restated 2003-2004
Notes	£000	£000
Net cash (outflow) from operating activities	15 (3,616,193)	(3,218,633)
Capital expenditure and financial investment		
(Payments) to acquire fixed assets	(1,577)	(4,053)
Receipts from the sale of fixed assets	8,887	1,588
Net cash inflow/(outflow) from investing activities	7,310	(2,465)
Net cash (outflow) before financing	(3,608,883)	(3,221,098)
Analysis of financing		
Net Parliamentary funding	12 3,608,810	3,217,346
(Decrease) in cash	14 (73)	(3,752)

The notes at pages A12 to A25 form part of this account.

Notes to the Accounts

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 2004-2005 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 Resource Accounting 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 2004-2005 was 3.5% (2003-2004: 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 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. The valuations do not include notional directly attributable acquisition costs nor have selling costs been deducted, since they are regarded as not material.

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

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

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

c Depreciation

Depreciation is charged on each individual tangible fixed asset as follows

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

From 2000-2001, 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.

From 2003-2004, the method for accounting for second hand assets on acquisition has been changed from disclosing gross costs and accumulated depreciation to disclosing net acquisition costs. The change will have no effect on the balance sheet figures and comparative figures have not been amended.

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 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 2004-2005 was £19,949,000 (2003-2004 £8,226,000). 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. 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%). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and paid directly to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding has been devolved in full to NHS Pension Scheme employers and the employers' contribution rate has risen to 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 3.5% in real terms.

2.1 Authority operating costs

	2004-2005	Restated ² 2003-2004
	£000	£000
<i>The expenses of the authorities were</i>		
Non-executive members' remuneration	1,761	1,684
Other staff costs	206,170	167,495
Premises and fixed plant	31,597	33,253
Establishment costs	23,987	21,395
Training costs	3,411,093	3,066,228
Transport and moveable plant	671	640
External contractors	15,107	15,405
Capital: Depreciation	2,233	1,907
Impairments	375	2,196
Capital charge interest	159	1,085
(Profit)/loss on disposal of fixed assets	(8)	0
	2,759	5,188
Auditors' remuneration - Audit fee ¹	2,955	3,164
Auditors' remuneration - Other fees	187	155
Interest payable	68	318
Unwinding of discount on provisions	309	1,074
Change in the discount rate	0	143
Miscellaneous	102,538	94,673
	3,799,202	3,410,815

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.

- 2 The expenditure and Parliamentary funding have been restated to remove entries for the administration of the Students Grants Unit which was transferred to the NHS Pensions Agency on 1 April 2004.

The Late Payment of Commercial Debts (Interest) Act 1998

£1,000 was payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (2003-2004: £1,000). No compensation was paid to cover debt recovery costs under this legislation (2003-2004: £NIL).

	2004-2005	2003-2004
	£000	£000
<i>Hire and operating rentals included in expenses</i>		
Hire of plant and machinery	535	504
Other operating leases	11,184	9,981
	11,719	10,485

Executive members and staff costs

	2004-2005	Permanently	Other	2003-2004
	Total	employed	£000	Total
	£000	£000	£000	£000
Salaries and wages	171,662	145,132	26,530	146,604
Social security costs	14,557	13,919	638	12,497
Employer contributions to NHS Pensions Agency	19,949	19,069	880	8,226
Other pension costs	2	165	(163)	168
	206,170	178,285	27,885	167,495

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

	2004-2005	Permanently	Other	2003-2004
	Total	employed	Number	Total
	Number	Number	Number	Number
Total	4,499	3,844	655	3,847

Retirements due to ill-health

During the year, 13 employees retired due to ill health (2003-2004: 13). The additional pension liabilities for these staff is estimated at £870,000 (2003-2004: £1,040,000) (calculated on an average basis and borne by the NHS Pension Scheme).

2.2 Segmental reporting

	SHA activities	WDC	Other	Total
	£000	£000	£000	£000
Net operating costs	204,853	3,441,946	40,097	3,686,896
Net assets at 31 March 2005	42,114	(62,512)	(7,990)	(28,388)

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

3 Operating income

	2004-2005	2003-2004
	£000	£000
Fees and charges	6,399	4,743
Other	105,907	138,677
	112,306	143,420

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 2004	352
Additions - purchased	181
Disposals	(59)
Gross cost at 31 March 2005	474
Accumulated amortisation at 31 March 2004	79
Charged in year	127
Disposals	(59)
Accumulated amortisation at 31 March 2005	147
Net book value at 31 March 2004	273
Net book value at 31 March 2005	327

4.2 Tangible fixed assets

	Total	Land	Buildings exc dwellings	Dwellings	Assets under construction and pay on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation									
31 March 2004	68,752	28,945	29,988	107	0	340	154	7,306	1,912
Transfers to NHS bodies /NHS Estates	(7,698)	(4,434)	(3,264)	0	0	0	0	0	0
Additions -purchased	1,505	0	417	0	0	41	5	925	117
Reclassification	(67)	0	(72)	0	0	(106)	5	88	18
Impairments	0	0	0	0	0	0	0	0	0
Indexation	4,408	1,966	2,388	9	0	2	3	0	40
Other in-year revaluation	(372)	(303)	(69)	0	0	0	0	0	0
National revaluation exercise	8,562	4,838	3,724	0	0	0	0	0	0
Disposals	(5,389)	(1,686)	(3,609)	0	0	0	0	(94)	0
Gross cost at 31 March 2005	69,701	29,326	29,503	116	0	277	167	8,225	2,087
Accumulated depreciation at 31 March 2004	4,830	0	0	0	0	197	154	4,132	347
Transfers to NHS bodies /NHS Estates	(39)	0	(39)	0	0	0	0	0	0
Charged in year	2,106	0	985	5	0	13	2	865	236
Reclassification	(67)	0	(67)	0	0	(3)	0	3	0
Impairments	375	0	375	0	0	0	0	0	0
Indexation	40	0	29	0	0	0	3	0	8
Other in-year revaluation	0	0	0	0	0	0	0	0	0
Disposals	(116)	0	(22)	0	0	0	0	(94)	0
Accumulated depreciation at 31 March 2005	7,129	0	1,261	5	0	207	159	4,906	591
Net book value at 31 March 2004	63,922	28,945	29,988	107	0	143	0	3,174	1,565
Net book value at 31 March 2005	62,572	29,326	28,242	111	0	70	8	3,319	1,496

The net book value of land and buildings at 31 March 2005 comprised

	2004-2005 £000	2003-2004 £000
Freehold	56,504	57,904
Long leasehold	656	662
Short leasehold	519	474
	57,679	59,040

No assets in 2004-2005 or 2003-2004 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 2004-2005 or 2003-2004.

5 Debtors

	2004-2005 £000	2003-2004 £000
NHS debtors	51,596	88,152
Prepayments	26,022	19,622
Accrued income	1,950	2,761
Provision for irrecoverable debts	(259)	(498)
Capital debtors	3,358	6,964
Pension prepayments - in respect of staff and former directors	0	91
Other debtors	23,399	22,322
	106,066	139,414

6 Creditors: Amounts falling due within one year

	2004-2005 £000	2003-2004 £000
Bank overdrafts	17	0
NHS creditors	103,965	78,003
Non-NHS trade creditors	32,480	28,053
Payments received on account	1,270	306
Income tax and social security	3,052	1,412
Capital creditors	172	63
Rentals due under operating leases	0	25
Pensions - relating to former directors	325	386
Pensions - relating to other staff	1,965	2,926
Other creditors	29,792	26,012
	173,038	137,186

7 Creditors: Amounts falling due after more than one year

	2004-2005 £000	2003-2004 £000
Pensions relating to former directors	296	625
Pensions relating to other staff	1,183	2,355
Other	25	0
	1,504	2,980

8 Provisions for liabilities and charges

	Pensions relating to former directors £000	Pensions relating to other staff £000	Legal claims £000	Restructuring £000	Other £000	Total £000
At 31 March 2004	3,048	9,437	234	4,090	2,306	19,115
Arising during the year	10	538	257	136	8,721	9,662
Utilised during the year	(574)	(1,856)	(85)	(1,360)	(308)	(4,183)
Reversal unused	(38)	(361)	(21)	(241)	(1,175)	(1,836)
Unwinding of discount	95	182	0	21	11	309
At 31 March 2005	2,541	7,940	385	2,646	9,555	23,067

Expected timing of cash flows

Within one year	434	1,599	271	960	6,521	9,785
Within one to five years	1,217	3,459	94	1,059	70	5,899
Over five years	890	2,882	20	627	2,964	7,383

£681,753,000 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

	2004-2005 £000	2003-2004 £000
<i>Land and buildings</i>		
Commitments under non-cancellable operating leases which expire		
Within one year	1,650	508
Between one and five years	5,878	3,751
After five years	8,127	10,903
	15,655	15,162
<i>Other leases</i>		
Commitments under non-cancellable operating leases which expire		
Within one year	227	134
Between one and five years	1,207	1,199
After five years	0	0
	1,434	1,333

11 Revaluation reserve

	2004-2005 £000	2003-2004 £000
Balance at 1 April	14,857	18,353
Impairments	0	0
Revaluations and indexation	12,558	6,809
Transfers to General Fund - realised elements	(3,287)	(2,043)
Transfers to General Fund - re transfers to PCTs	0	(8,262)
Balance at 31 March 2005	24,128	14,857

12 General Fund

	2004-2005 £000	Restated 2003-2004 £000
Balance at 1 April	29,783	70,620
Net operating cost for the year	(3,686,896)	(3,267,395)
Net Parliamentary funding	3,608,810	3,217,346
Transfer to NHS bodies/NHS Estates	(7,659)	(2,178)
Transfers from Revaluation Reserve	3,287	10,305
Capital charges interest	159	1,085
Balance at 31 March 2005	(52,516)	29,783

13 Movements in working capital other than cash

	2004-2005 £000	2003-2004 £000
Decrease in debtors	29,742	130,733
Increase/(decrease) in creditors	34,250	(78,245)
Transfer of debtors/creditors between NHS bodies	0	(129)
Net decrease in working capital other than cash	63,992	52,359

14 Analysis of changes in net debt

	As at 31 March 2004 £000	Cash flows £000	As at 31 March 2005 £000
Cash at OPG	83	154	237
Cash at commercial bank and in hand	229	(210)	19
Bank overdraft	0	(17)	(17)
		(73)	
Debt due within one year	0	0	0
Debt due after one year	0	0	0
	<u>312</u>	<u>(73)</u>	<u>239</u>

15 Reconciliation of operating cost to operating cash flows

	Notes	2004-2005 £000	Restated 2003-2004 £000
Net operating cost		(3,686,896)	(3,267,395)
Adjustment for non-cash transactions	2.1	2,759	5,188
Adjustment for movements in working capital other than cash	13	63,992	52,359
Adjust for movement in provisions	8	3,952	(8,785)
Net cash (outflow) from operating activities		(3,616,193)	(3,218,633)

16 Contingent liabilities

	31 March 2005 £000	31 March 2004 £000
<i>Authorities reported contingent liabilities</i>		
Contingent liabilities	1,188	31
Amounts recoverable	0	0
	1,188	31

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 2005 £000	31 March 2004 £000
Contracted	4	18
Authorised but not contracted	211	0
	215	18

17 Other commitments

Strategic health authorities have not entered into any non-cancellable contracts (which are not operating leases) as at 31 March 2005 (2003-2004: £nil).

18 Losses and special payments

There were 79 cases of losses and special payments (2003-2004: 80 cases) totalling £696,000 (2003-2004: £745,000) approved during 2004-2005. There were no fraud cases where the net payment exceeded £100,000 (2003-2004: one case of £527,000). There was one personal injury case of £152,000 (2003-2004: 0 cases) and one compensation under legal obligation case of £135,000 (2003-2004: 0 cases) where the payment exceeded £100,000. There were no clinical negligence cases or fruitless payment cases where the payment exceeded £100,000 (2003-2004: 0 cases).

19 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.

20 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.

21 Post balance sheet events

From 1 April 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5% to 2.2%. This change will result in an increase in provisions which will be charged to the operating cost statement in 2005-2006. National funding will be increased by the total estimated effect to offset this charge.

22 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	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	103,326	2,740	173,038	1,504
Balances with other central government bodies	34,831	0	26,318	442
Balances with local authorities	216	0	240	0
Balances with NHS Trusts	64,604	289	53,557	0
Balances with public corporations and trading funds	432	0	353	854
Balances with bodies external to government	39,042	0	56,718	1,684
At 31 March 2004	139,125	289	137,186	2,980

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 Permanent Secretary and 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, 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 2004-2005 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 identified a number of ways in which they provided effective leadership and management of risk processes within their organisations. These 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 were 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, organisations described varying approaches to the roles of their sub committees in handling risk. These varied 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 identified a number of ways in which staff were made aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also set out how they provided training on risk, in some instances mandatory, induction training and on the emphasis placed on continuing professional development.

The risk and control framework

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

The Department guidance describes the principles to be applied to the identification, evaluation and control of risk. For 2004-2005 all PCTs were required to embed 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. They also provided a range of comments on the embedding of risk management 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 made an assessment of the quality and embedding of the PCT Assurance Frameworks against a number of criteria and this showed that at 31 March 2005

- 290 (96%) of PCTs achieved a Category A – providing evidence that a system of internal control was in place
- 13 (4%) of PCTs achieved a Category B – providing insufficient evidence that a system of internal control was in place at 31 March 2005.

The numbers present a similar year-end position to 2003-2004 but, as more robust criteria have been introduced, actually represent a significant improvement. The Department is continuing to provide further training and guidance for Strategic Health Authorities to promulgate to PCTs in order to help raise progressively the standard of internal control as evidenced by the Assurance Frameworks.

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%	28%
Organisational controls	41%	43%
Clinical controls	28%	29%

Strategic Health Authorities performance managed the ongoing development of the PCTs Assurance Frameworks and the actions taken by the PCTs to address any gaps in control or assurance that are significant.

Review of effectiveness

I draw my major source of assurance on the PCTs systems of internal control from Statements on Internal Control (SICs) signed by Accountable Officers in support of the accounts for each PCT that have been summarised by the Strategic Health Authorities (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 Opinion provided by the PCT head of internal audit.

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 Statements on Internal Control prepared by the Strategic Health Authorities. 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 Strategic Health Authority Chief Executives' reports recorded the following inconsistencies

- a small number of PCTs where routine performance management identified inconsistencies with the Head of Internal Audit Opinion; and
- a small number of PCTs had failed to identify that the system of internal control was not in place for the full year as required.

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 issued Reports in the Public Interest in respect of the financial situation at a number of PCTs during 2004-2005.

Significant control issues

PCTs disclosed 77 significant control issues in their Statements on Internal Control and, of these, around two-thirds were concerned with the financial position of the PCT. PCTs are working with their Strategic Health Authorities to agree recovery plans, which may be phased in over a number of years.

91 PCT's accounts were qualified on regularity as they have incurred expenditure in excess of the notified resource limits. This is a breach of a statutory duty.

Performance management by Strategic Health Authorities

Strategic Health Authorities have been given responsibility for ensuring that PCTs address, within agreed deadlines, all outstanding actions they need to take to be able to provide assurances about their systems of internal control. As part of this process, Strategic Health Authorities 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 2005-2006.

Conclusion

The ongoing development of Assurance Frameworks, with 96% being assessed as Category 'A' by Strategic Health Authorities (96% in 2003-2004), 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 maintained performance around last year's high levels. Arrangements are in place to further develop Assurance Frameworks with support from the Department in 2005-2006.

Sir Nigel Crisp
Accounting Officer

30 November 2005

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

I certify that I have audited the financial statements on pages B8 to B29 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages B11 to B17.

Respective responsibilities of the Accounting Officer and Auditor

As described on page B2, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and 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.

I review whether the statement on pages B3 to B5 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required 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.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the financial transactions included in the financial statements. 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 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 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 also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the Primary Care Trusts at 31 March 2005 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98 (4) of the National Health Service Act 1977 and with the directions made thereunder by the 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.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

12 April 2006

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

Operating Cost Statement for the year ended 31 March 2005

Continuing operations

	Notes	2004-2005 £000	2003-2004 £000
Programme costs	2.1	62,769,808	55,584,181
Operating income	4	(2,886,285)	(2,487,238)
Net operating cost for the financial year		<u>59,883,523</u>	<u>53,096,943</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2005

	Notes	2004-2005 £000	Restated 2003-2004 £000
Unrealised surplus on the indexation and revaluation of fixed assets	12.2 – 12.4	1,054,303	343,968
Increase in the donated asset reserve and Government grant reserve due to receipt of donated/Government granted assets	12.3, 12.4	14,464	11,243
Net increase in the general fund due to the transfer of assets/liabilities from NHS bodies and the Department of Health	12.1	30,061	35,708
Increase in the donated asset reserve and Government grant reserve due to transfer of assets from NHS bodies	12.3, 12.4	0	5
Fixed asset impairment losses	12.2	(26,608)	(569)
(Reductions) to other reserves	12.2 – 12.5	(28,502)	(8,179)
Recognised gains for the financial year		<u>1,043,718</u>	<u>382,176</u>

The notes at pages B11 to B29 form part of this account.

Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Intangible assets	5.1	6,321	4,342
Tangible assets	5.2	5,690,721	4,546,322
Investments	5.5	13,464	1,866
		5,710,506	4,552,530
Current assets			
Stocks and work in progress	6	19,820	16,465
Debtors	7	1,077,374	1,155,817
Cash at bank and in hand	8	7,515	28,785
		1,104,709	1,201,067
Creditors: amounts falling due within one year	9.1	(4,630,097)	(3,827,440)
Net current (liabilities)		(3,525,388)	(2,626,373)
Total assets less current liabilities		2,185,118	1,926,157
Creditors: amounts falling due after more than one year	9.2	(45,164)	(67,378)
Provisions for liabilities and charges	10	(688,156)	(733,503)
		1,451,798	1,125,276
Taxpayers' equity			
General Fund	12.1	(542,298)	108,833
Revaluation reserve	12.2	1,876,255	909,560
Donated asset reserve	12.3	98,195	89,757
Government grant reserve	12.4	21,550	13,300
Other reserves	12.5	(1,904)	3,826
		1,451,798	1,125,276

The notes at pages B11 to B29 form part of this account.

Sir Nigel Crisp
Accounting Officer

30 November 2005

Cash Flow Statement for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Net cash (outflow) from operating activities	13	(58,850,817)	(52,517,719)
Servicing of finance			
Interest received/(paid)		2	(534)
Interest element of finance leases		(1,618)	(1,820)
Net cash (outflow) from servicing of finance		(1,616)	(2,354)
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(3,398)	(1,864)
(Payments) to acquire tangible fixed assets		(443,464)	(410,571)
(Payments) to acquire fixed asset investments		(9,568)	(1,286)
Receipts from disposal of tangible fixed assets		165,984	61,487
Receipts from disposal of fixed asset investments		42	0
Net cash (outflow) from investing activities		(290,404)	(352,234)
Net cash (outflow) before financing		(59,142,837)	(52,872,307)
Financing			
Net Parliamentary funding		59,112,898	52,870,862
Capital grants received		9,118	4,702
Capital element of finance leases		(519)	(329)
Other capital receipts surrendered		(22)	0
Cash transfers from/(to) other NHS bodies		475	(15,065)
(Decrease) in cash in the period	8	(20,887)	(12,137)

Note: Owing to errors in the underlying accounts of primary care trusts, there are internal inconsistencies between cash payments and receipts relating to fixed assets and corresponding additions and disposals of fixed assets in the notes. These arise from similar inconsistencies in some of the underlying primary care trust accounts. These are not regarded as significant and it would involve a disproportionate costs to further investigate the underlying differences.

The notes at pages B11 to B29 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 Trust 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 2004-2005 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 Resource Accounting Manual 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 2004-2005 was 3.5% (2003-2004 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. From 2000-2001, 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 cost 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

Stock 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 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 2004-2005 was £565,322,000 (2003-2004 £252,544,000). 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. 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 2004-2005 were set at 14% of pensionable pay (2003-2004 14%). Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement these costs were devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding has been devolved in full to NHS Pension Scheme employers and the employers' contribution rate has risen to 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 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 RAM which are adapted from SSAP13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Primary care trusts are unable to disclose the total amount of research and development expenditure charged to the Operating Cost Statement because some research and development activity cannot be separated from patient care activity. Fixed assets acquired for use in research and development are depreciated over the life of the associated project, or according to the asset category if the asset is to be used for subsequent production work.

1.10 Foreign exchange

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

1.11 Leases

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

1.12 Provisions

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

1.13 Clinical negligence costs

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

The total value of clinical negligence provisions carried by the NHSLA on behalf of Primary Care Trusts is disclosed at note 10.

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 21 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 and the Counter Fraud and Security Management Service. These four accounts are included within this primary care trust summarised account. Balances in respect of the Personal Dental Services Scheme are included for the first time in 2004-2005.

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.

PFI Schemes deemed to be off balance sheet

In this financial year, 21 PCTs reported off balance sheet PFI schemes over £1 million (2003-2004: 13 PCTs). The estimated capital value of these schemes over £1 million is £195.6 million (2003-2004: £119.1 million). The amount included within operating expenses for these schemes is £14.0 million (2003-2004: £8.0 million (restated)).

PFI schemes deemed to be on balance sheet

In this financial year, one PCT reported an on balance sheet PFI scheme (2003-2004: one PCT). The value of assets brought on balance sheet in respect of this scheme is £2.1 million (2003-2004: £2.7 million) and the amount included within operating expenses is £268,000 (2003-2004: £250,000 (restated)).

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	£000	2004-2005 £000	2003-2004 £000
Goods and services from NHS bodies			30,535,930	30,740,506
Goods and services from NHS Foundation Trusts			3,454,588	0
Staff costs			5,571,300	4,687,513
Board members	2.2		182,615	164,818
Capital: Depreciation and amortisation	5.1, 5.2	189,762		165,823
Impairments and reversals	5.1, 5.2	22,389		25,386
Capital charges interest			40,395	40,719
(Profit)/loss on disposal	5.7	(4,411)		(9,609)
			248,135	222,319
Premises and fixed plant			435,081	394,233
Establishment expenses			407,383	378,738
Transport and moveable plant			36,520	30,803
Supplies and services – clinical			404,766	358,768
Supplies and services – general			144,327	150,300
Prescribing costs			7,375,763	6,963,029
GMS, PMS, APMS and PCTMS			6,003,060	4,088,550
Personal dental services (PDS) pilots			225,285	47,859
Non-GMS services from GPs			38,121	77,196
Pharmaceutical services			989,215	961,635
General dental services			1,671,374	1,766,809
General ophthalmic services			340,756	321,611
Expenditure on drugs action teams			194,726	181,882
Social care from independent providers			288,301	271,265
Purchase of healthcare from non-NHS bodies			3,353,031	2,847,897
Expenditure on NHS trust impairments			89,041	86,487
Interest payable			1,876	1,644
Other finance costs – unwinding of discount			13,843	14,718
Other finance costs - change in the discount rate			0	29,333
Auditor's remuneration: Audit Fees ¹			32,945	31,508
Auditor's remuneration: Other Fees			3,064	3,314
Miscellaneous			728,762	761,446
			62,769,808	55,584,181

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

	2004-2005 £000	2003-2004 £000
Amounts included within interest payable arising from claims made under this legislation	18	12
Compensation paid to cover debt recovery costs under this legislation	1	3

2.2 Board members' remuneration

	2004-2005 £000	2003-2004 £000
PCT Board members' remuneration	149,100	131,949
Non-officer members' remuneration	33,515	32,869
Total remuneration	182,615	164,818

2.3 Staff costs

Executive members' remuneration and staff costs

	2004-2005			2003-2004
	Total	Permanently	Other	Total
	£000	employed	£000	£000
		£000		
Salaries and wages	4,659,880	4,534,978	124,902	4,310,371
Social security costs	335,700	330,831	4,869	289,802
Employer contributions to NHSPA	565,322	558,919	6,403	252,544
Other pension costs	10,398	10,222	176	3,593
	5,571,300	5,434,950	136,350	4,856,310

2.4 Employee benefits

The amount spent on employee benefits during the year totalled £856,000 (2003-2004: £711,000).

2.5 Retirements due to ill-health

During 2004-2005 there were 527 early retirements from PCTs on the grounds of ill-health (2003-2004: 536). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £28,195,000 (2003-2004: £28,639,000).

2.6 Average number of persons employed

	2004-2005			2003-2004
	Total Number	Permanently employed Number	Other Number	Total Number
Medical and dental	5,887	5,272	615	5,610
Administration and estates	57,621	53,785	3,836	51,591
Healthcare assistants and other support staff	17,094	16,006	1,088	17,790
Nursing, midwifery and health visiting staff	75,324	71,179	4,145	72,872
Nursing, midwifery and health visiting learners	3,967	3,547	420	3,341
Scientific, therapeutic and technical staff	28,185	26,333	1,852	25,890
Social care staff	2,157	1,864	293	1,286
Other	3,699	3,434	265	3,710
	193,934	181,420	12,514	182,090

3 Healthcare and related services commissioned

3.1 Primary healthcare commissioned by primary care trusts

	2004-2005 £000	2003-2004 £000
GMS, PMS, APMS and PCTMS	5,904,621	4,626,225
Prescribing costs	7,375,763	6,963,029
Pharmaceutical services	965,623	961,635
General dental services	1,671,374	1,766,809
General ophthalmic services	340,756	321,611
Department of Health initiative funding	11,673	22,513
PDS pilots	195,825	44,402
Non-GMS services from GPs	38,121	77,196
Other	95,091	165,686
Total primary healthcare commissioned	16,598,847	14,949,106

3.2 Secondary healthcare commissioned by PCTs

	2004-2005 £000	2003-2004 £000
Learning difficulties	1,682,349	1,593,718
Mental illness	5,623,108	5,179,510
Maternity	1,541,912	1,350,286
General and acute	24,572,177	22,178,133
Accident and emergency	1,433,617	1,230,145
Community Health Services	3,829,813	3,511,452
Other	1,398,883	1,320,749
Total secondary healthcare commissioned	40,081,859	36,363,993
Impairments and depreciation for Trusts	89,041	86,487
Revenue grants to fund capital projects - GMS	29,899	18,850
Revenue grants to fund capital projects - outside bodies	88,405	58,882
Total Healthcare commissioned by primary care trusts	56,888,051	51,477,318
Social Care from independent providers	288,301	271,265

4 Operating income

Operating income analysed by activity, is as follows

	2004-2005	Restated
	£000	2003-2004
		£000
Fees and charges to external customers	108,549	82,261*
Prescription charge income	424,580	428,257
General Dental Services income	425,871	483,593
Income from Local Authorities	592,692	404,097
Income from NHS bodies and Department of Health	937,930	647,207*
Income for NHS trust impairments	0	3,133
Other	396,663	438,690
Total	<u>2,886,285</u>	<u>2,487,238</u>

* Fees and charges income has been re-analysed to adjust for elements which are now disclosed under the 'Other' category. Other income has been analysed to show income from NHS bodies and Department of Health separately.

5.1 Intangible fixed assets

	Total	Software	Licences and	Development
	£000	Licences	trademarks	Expenditure
		£000	£000	£000
Gross cost at 31 March 2004	7,369	7,018	159	192
Additions – purchased	3,421	3,413	8	0
Additions – donated	1	1	0	0
Additions – Government granted	63	63	0	0
Reclassifications	(320)	(320)	0	0
Other revaluation	(2)	(2)	0	0
Disposals	(85)	(85)	0	0
Gross cost at 31 March 2005	<u>10,447</u>	<u>10,088</u>	<u>167</u>	<u>192</u>
Accumulated amortisation at 31 March 2004	3,027	2,921	79	27
Reclassifications	(190)	(190)	0	0
Impairments	2	2	0	0
Charged in year	1,371	1,332	14	25
Disposals	(84)	(84)	0	0
Accumulated amortisation at 31 March 2005	<u>4,126</u>	<u>3,981</u>	<u>93</u>	<u>52</u>
Net book value				
Purchased at 31 March 2004	4,342	4,097	80	165
Donated at 31 March 2004	0	0	0	0
Government granted at 31 March 2004	0	0	0	0
Net book value at 31 March 2004	4,342	4,097	80	165
Net book value				
Purchased at 31 March 2005	6,257	6,043	74	140
Donated at 31 March 2005	1	1	0	0
Government granted at 31 March 2005	63	63	0	0
Net book value at 31 March 2005	<u>6,321</u>	<u>6,107</u>	<u>74</u>	<u>140</u>

5.2 Tangible fixed assets

	Total	Land	Buildings excluding dwellings	Dwellings	Assets under construction and payments on account	Plant and machinery	Transport equipment	Information technology	Furniture and fittings
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation at 31 March 2004	4,695,462	1,444,859	2,760,971	19,099	143,884	136,248	14,233	132,240	43,928
Transfers (to)/from NHS bodies	28,912	10,878	18,271	0	(687)	228	218	45	(41)
Additions - purchased	447,466	21,583	164,663	391	153,939	23,393	1,045	71,276	11,176
Additions - donated	6,471	225	4,211	0	1,134	786	66	35	14
Additions - Government granted	7,929	584	1,261	0	5,268	589	97	121	9
National revaluation exercise	737,671	609,467	124,463	6,327	(2,586)	0	0	0	0
Reclassifications	150	3,480	167,866	5,168	(190,200)	4,791	843	8,869	(667)
Impairments	(26,868)	(2,934)	(22,925)	(89)	(868)	(118)	0	66	0
Indexation	340,531	104,950	220,155	1,866	9,638	2,758	314	0	850
Other in year revaluations	(24,038)	14,700	(38,839)	49	187	13	(11)	(11)	(126)
Disposals	(172,381)	(88,774)	(73,515)	(200)	(4,238)	(2,442)	(1,152)	(1,521)	(539)
Gross cost at 31 March 2005	6,041,305	2,119,018	3,326,582	32,611	115,471	166,246	15,653	211,120	54,604
Accumulated depreciation at 31 March 2004	149,140	0	0	0	0	69,295	10,121	48,628	21,096
Transfers (to)/from NHS bodies	(47)	0	3	0	0	0	0	20	(70)
Reclassifications	20	0	83	0	0	(645)	601	145	(164)
Impairments and reversals	22,387	227	22,201	50	0	(104)	0	(21)	34
Indexation	1,862	0	0	0	0	1,291	211	0	360
Other in year revaluation	(1,987)	0	(2,042)	2	0	66	(13)	0	0
Charged in year	188,391	0	143,803	805	0	14,262	1,226	24,111	4,184
Disposals	(9,182)	0	(4,604)	(13)	0	(1,895)	(1,097)	(1,070)	(503)
Accumulated depreciation at 31 March 2005	350,584	227	159,444	844	0	82,270	11,049	71,813	24,937
Net book value									
Purchased at 1 April 2004	4,443,265	1,436,300	2,678,468	18,979	139,661	60,431	3,720	83,567	22,139
Donated at 1 April 2004	89,757	7,890	72,709	120	1,493	6,496	361	21	667
Government granted at 1 April 2004	13,300	669	9,794	0	2,730	26	31	24	26
Net book value at 1 April 2004	4,546,322	1,444,859	2,760,971	19,099	143,884	66,953	4,112	83,612	22,832
Net book value									
Purchased at 31 March 2005	5,571,040	2,104,115	3,074,267	31,755	112,363	76,163	4,131	139,106	29,140
Donated at 31 March 2005	98,194	13,583	75,135	12	1,353	7,186	357	62	506
Government granted at 31 March 2005	21,487	1,093	17,736	0	1,755	627	116	139	21
Net book value at 31 March 2005	5,690,721	2,118,791	3,167,138	31,767	115,471	83,976	4,604	139,307	29,667

The total amount of depreciation charged in the operating cost statement in respect of assets held under finance leases and hire purchase contracts

1,520	0	1,335	50	0	1	0	1	133
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5.3 Net Book Value of Land, Buildings and Dwellings as at 31 March 2005 comprises

	Purchased	Donated	Government Granted	2004-2005 Total	2003-2004 Total
	£000	£000	£000	£000	£000
Freehold	5,080,773	81,926	14,192	5,176,891	4,109,074
Long leasehold	124,605	6,702	1,107	132,414	109,303
Short leasehold	8,391	0	0	8,391	6,552
	<u>5,213,769</u>	<u>88,628</u>	<u>15,299</u>	<u>5,317,696</u>	<u>4,224,929</u>

5.4 Net book value of assets held under finance leases and hire purchase contracts comprises

	2004-2005 £000	2003-2004 £000
Land	2,394	1,035
Buildings including dwellings	27,863	28,378
Plant and machinery	13	0
Information technology	3	0
Furniture and fittings	631	26
	<u>30,904</u>	<u>29,439</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £1,520,000 (2003-2004: £1,306,000).

5.5 Investments

	Equity Shareholding £000	Loan stock £000	Total £000
Balance at 1 April 2004	252	1,614	1,866
Additions	4,980	6,643	11,623
Revaluations	0	17	17
Disposals	0	(42)	(42)
Balance at 31 March 2005	<u>5,232</u>	<u>8,232</u>	<u>13,464</u>

5.6 Summary of fixed assets

	Purchased	Donated	Government granted	2004-2005 Total	2003-2004 Total
	£000	£000	£000	£000	£000
Net book value					
Intangible fixed assets	6,257	1	63	6,321	4,342
Land	2,104,115	13,583	1,093	2,118,791	1,444,859
Buildings	3,074,267	75,135	17,736	3,167,138	2,760,971
Dwellings	31,755	12	0	31,767	19,099
Assets under construction	112,363	1,353	1,755	115,471	143,884
Plant and machinery	76,163	7,186	627	83,976	66,953
Transport equipment	4,131	357	116	4,604	4,112
Information technology	139,106	62	139	139,307	83,612
Furniture and fittings	29,140	506	21	29,667	22,832
Investments	13,464	0	0	13,464	1,866
	<u>5,590,761</u>	<u>98,195</u>	<u>21,550</u>	<u>5,710,506</u>	<u>4,552,530</u>

5.7 Profit and loss on disposal of fixed assets

	2004-2005	2003-2004
	£000	£000
(Loss) on disposal of intangible fixed assets	(2)	0
Profit on disposal of land and buildings	7,510	14,190
(Loss) on disposal of land and buildings	(2,904)	(4,300)
Profit on disposal of plant and equipment	43	28
(Loss) on disposal of plant and equipment	(236)	(309)
	4,411	9,609

6 Stocks and work in progress

	2004-2005	2003-2004
	£000	£000
Raw materials and consumables	15,042	11,862
Finished processed goods	4,778	4,603
	19,820	16,465

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

	2004-2005	2003-2004
	£000	£000
NHS debtors	421,575	493,983
Provision for irrecoverable debts	(12,651)	(10,266)
Prepayments and accrued income	154,540	168,821
Capital debtors	18,747	14,317
Other debtors	457,376	424,947
	1,039,587	1,091,802

7.2 Amounts falling due after more than one year

NHS debtors	9,198	48,055
Prepayments and accrued income	14,166	12,846
Provisions for irrecoverable debts	(19)	(11)
Capital debtors	716	131
Other debtors	13,726	2,994
	37,787	64,015
Total debtors	1,077,374	1,155,817

8 Analysis of changes in debt

	At 31 March 2004 £000	Transfers from NHS bodies £000	Non-cash changes £000	Change during the year £000	At 31 March 2005 £000
Cash at OPG	25,921	0	0	(18,668)	7,253
Cash at commercial banks and in hand	2,864	0	0	(2,602)	262
Bank overdrafts	(6,723)	0	0	383	(6,340)
	22,062	0	0	(20,887)	1,175
Finance leases due within one year	(1,057)	(49)	(331)	144	(1,293)
Finance leases due after one year	(15,763)	(749)	(7,401)	279	(23,634)
	5,242	(798)	(7,732)	(20,464)	(23,752)

9.1 Creditors: Amounts falling due within one year

	2004-2005 £000	2003-2004 £000
Bank overdrafts	6,340	6,723
NHS creditors	1,203,308	948,332
FHS contractors	1,362,392	1,355,978
Non-NHS trade creditors – revenue	836,656	620,847
Non-NHS trade creditors – capital	51,964	49,851
Tax and social security	90,597	52,557
Payments received on account	6,704	5,044
Obligations under finance leases and HP contracts	1,293	1,057
Other creditors	342,310	257,635
Accruals and deferred income	728,533	529,416
	4,630,097	3,827,440

9.2 Creditors: Amounts falling due after more than one year

NHS creditors	9,885	47,088
Obligations under finance leases and HP contracts	23,634	15,763
Other creditors	11,645	4,527
	45,164	67,378

9.3 Finance lease obligations

	2004-2005 £000	2003-2004 £000
Leases payable		
Within one year	2,227	2,370
Between one and five years	15,972	9,236
After five years	37,666	72,914
Finance charges allocated to future periods	(30,938)	(67,700)
	24,927	16,820

10 Provisions for Liabilities and charges

	Pensions for former members £000	Pensions to other staff £000	Legal claims £000	Restruct- urings £000	Other £000	Total £000
1 April 2004	15,833	384,413	85,641	17,411	230,205	733,503
Transfers (to)/from other NHS bodies	203	8,024	765	(492)	(9,240)	(740)
Arising during the year	853	18,438	11,903	2,331	135,750	169,275
Utilised during the year	(2,093)	(44,216)	(23,648)	(4,248)	(55,275)	(129,480)
Reversed unused	(808)	(17,455)	(19,978)	(6,311)	(53,693)	(98,245)
Unwinding of discount	297	11,177	914	22	1,433	13,843
At 31 March 2005	14,285	360,381	55,597	8,713	249,180	688,156

Expected timing of cash flows

Within one year	2,156	36,860	21,871	6,274	105,493	172,654
One and five years	6,717	148,266	16,813	1,608	103,376	276,780
After five years	5,412	175,255	16,913	831	40,311	238,722

The amount included in provisions in the accounts of the NHS Litigation Authority in respect of clinical negligence liabilities of primary care trusts is £26,374,000 (2003-2004: £23,465,000).

11 Movements in working capital other than cash

	2004-2005 £000	2003-2004 £000
(Increase) in stocks	(3,355)	(970)
Decrease in debtors	83,458	550,341
Increase in creditors	778,713	64,764
Transfer of balances to/(from) NHS bodies	1,640	(48,435)
Financing transactions	(23,975)	0
	836,481	565,700

12 Reserves**12.1 The movement on the General Fund in the year comprised**

	2004-2005 £000	2003-2004 £000
Balance at 1 April	108,833	275,718
PCT mergers	0	4,939
Net operating costs for the year	(59,883,523)	(53,096,943)
Net Parliamentary funding	59,112,898	52,870,862
Transfer of realised profits	30,112	20,956
Non-cash items		
Capital charge interest	40,395	40,719
Transfers from other NHS bodies	30,061	35,708
Other movements	18,926	(43,126)
Balance at 31 March	(542,298)	108,833

12.2 The movement on the revaluation reserve in the year comprised

	2004-2005	2003-2004
	£000	£000
Balance at 1 April	909,560	609,505
PCT mergers	0	(4,939)
Impairments	(26,608)	(569)
Revaluation/indexation of fixed assets	1,044,312	335,965
Other movements	(21,298)	(9,485)
Transfer to General Fund: realised revaluation	(29,711)	(20,917)
Balance at 31 March	1,876,255	909,560

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

	2004-2005	2003-2004
	£000	£000
Balance at 1 April	89,757	83,132
Impairments	(260)	(4)
Transfers from NHS bodies	0	5
Other revaluation/indexation of fixed assets	9,976	6,869
Receipt of donated assets	6,472	6,140
Depreciation of donated assets	(5,158)	(4,406)
Transfer of realised profits	(1)	(39)
Other movements	(2,591)	(1,940)
Balance at 31 March	98,195	89,757

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

	2004-2005	2003-2004
	£000	£000
Balance at 1 April	13,300	6,926
Transfer from other NHS bodies	0	0
Other revaluation/indexation of fixed assets	15	1,134
Transfer of realised profits	(400)	0
Receipt of Government granted assets	7,992	5,103
Depreciation of Government granted assets	(474)	(261)
Other movements	1,117	398
Balance at 31 March	21,550	13,300

12.5 The movement on other reserves in the year comprised

	2004-2005	2003-2004
	£000	£000
Balance at 1 April	3,826	978
Other movements	(5,730)	2,848
Balance at 31 March	(1,904)	3,826

13 Reconciliation of operating cost to operating cash flows

	Notes	2004-2005 £000	2003-2004 £000
Net operating cost for the year		(59,883,523)	(53,096,943)
Adjust for non-cash transactions	2.1	248,135	222,319
Adjust for movements in working capital other than cash	11	836,481	565,700
Use of provisions	10	(44,607)	(205,877)
Transfer from donated asset reserve		(7,305)	(4,410)
Transfer from Government grant reserve		(474)	(261)
Other		476	1,753
Net cash (outflow) from operating activities		(58,850,817)	(52,517,719)

14 Contingent liabilities

At 31 March 2005, there were net contingent liabilities of £86,336,000 (2003-2004: £178,545,000). These are mainly for continuing care and agenda for change. Primary care trusts have provided for these liabilities in Note 10 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.

15 Capital commitments

At 31 March 2005 the value of contracted capital commitments was £110,342,000 (2003-2004: £89,779,000).

16 Commitments under operating leases

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

	2004-2005 £000	2003-2004 £000
Hire of plant and machinery	7,054	6,115
Other operating leases	86,685	64,869
	93,739	70,984

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

	2004-2005		2003-2004	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Within one year	7,706	9,160	4,672	8,883
Between one and five years	22,966	23,200	16,793	19,692
After five year	50,652	214	30,692	355
	81,324	32,574	52,157	28,930

17 Commitments under PFI contracts

PCTs are committed to make the following payments under PFI contracts during 2005-2006, analysed by the period during which the commitment expires:

	2004-2005	2003-2004
	£000	£000
Within one year	0	0
2 to 5 years (inclusive)	357	346
6 to 10 years (inclusive)	0	383
11 to 15 years (inclusive)	357	423
16 to 20 years (inclusive)	2,105	834
21 to 25 years (inclusive)	10,072	6,135
26 to 30 years (inclusive)	16,189	7,842
31 to 35 years (inclusive)	2,396	7,087
36 years and beyond	3,774	0

18 Losses and special payments

There were 19,142 (2003-2004: 33,175) cases of losses and special payments totalling £8,493,000 (2003-2004: £5,248,000) approved during 2004-2005. There were no relevant cases over £100,000 (2003-2004: two cases of compensation totalling £385,000).

19 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 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 trusts accounts.

20 Financial instruments

The PCT summarised account includes the accounts of 307 underlying NHS bodies. It is within the underlying accounts of these 307 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.

21 Third party assets

The balance of patients' money held within the PCT bank accounts at the Balance Sheet date was £3,621,000 (31 March 2004: £4,021,000). 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.

22 Post balance sheet events

From 1 April 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5% to 2.2%. This change will result in an increase in provisions which will be charged to the operating cost statement in 2005-2006. National funding will be increased by the total estimated effect to offset this charge.

22 Intra-governmental balances

	Debtors amounts falling due within one year £000	Debtors amounts falling due after more than one year £000	Creditors amounts falling due within one year £000	Creditors amounts falling due after more than one year £000
Balances with other central government bodies	41,847	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
At 31 March 2005	1,039,587	37,787	4,630,097	45,164
Balances with other central government bodies	163,326	19,568	1,232,529	32,728
Balances with local authorities	89,044	2,228	75,896	1,183
Balances with NHS Trusts	518,777	40,839	950,547	7,558
Balances with public corporations and trading funds	12,219	0	34,338	0
Balances with bodies external to government	308,436	1,380	1,534,130	25,909
At 31 March 2004	1,091,802	64,015	3,827,440	67,378

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 Permanent Secretary and 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, 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 2004-2005 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 identified a number of ways in which they provided effective leadership and management of risk processes within their organisations. These 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, organisations described varying approaches to the roles of their sub committees in handling risk. These varied 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.

Trusts identified a number of ways in which staff were made aware of their responsibilities through providing clear accountability, robust guidance, establishing clear policies and procedures and incorporating risk responsibilities in job descriptions. They also set out how they provided training on risk, in some instances mandatory, and the 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 2004-2005 all NHS Trusts were required to embed 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. They also provided a range of comments on the embedding of risk management 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 assessment of the quality and embedding of the NHS Trust Assurance Frameworks against a number of criteria and this showed that, at 31 March 2005

248 (96%) of NHS Trusts achieved a Category A – providing evidence that a system of internal control was in place;

11 (4%) of NHS Trusts achieved a Category B – providing insufficient evidence that a system of internal control was in place at 31 March 2005.

The numbers present a similar year-end position to 2003-2004 but, as more robust criteria have been introduced, actually represent a significant improvement. The Department is continuing to provide further training and guidance for SHAs to promulgate to NHS Trusts in order to help raise progressively the standard of internal control as evidenced by the Assurance Frameworks.

NHS Trusts 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	29%	29%
Organisational controls	41%	43%
Clinical controls	29%	28%

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

Review of effectiveness

I draw my major source of assurance on the NHS Trusts' systems of internal control from Statements on Internal Control (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 the Trusts' Assurance Frameworks, that provide much of the evidence in support of the Accountable Officers' statements, are fit for purpose. The SHA Chief Executives also reported if there were inconsistencies between each NHS Trust SIC and

- the external audit opinion;
- evidence from the SHA performance management reviews; and
- the opinion provided by the NHS Trust head of internal audit.

I have carried out sample checks of the analysis of the NHS Trusts' Assurance Frameworks and Statements on Internal Control prepared by the Strategic Health Authorities. 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 Strategic Health Authority Chief Executives' reports revealed one inconsistency between an NHS Trust's SIC and the External Auditor's Opinion, where the SHA considered a financial imbalance to be problematic. They also recorded

- a small number of NHS Trusts where routine performance management identified inconsistencies with the Head of Internal Audit's opinion;
- a small number of NHS Trusts had failed to identify that the system of internal control was not in place for the full year as required;
- an NHS Trust had failed to identify the need for maintaining financial balance as a key objective in its Assurance Framework; and
- comments about the disclosure of significant control issues by three NHS Trusts in their SICs.

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 issued Reports in the Public Interest in respect of a number of NHS Trusts during 2004-2005 and 'Section 19' referrals to Secretary of State in respect on one NHS Trust. One of the Reports in the Public Interest was also referred to Secretary of State.

Significant control issues

NHS Trusts disclosed 84 significant control issues in their Statements on Internal Control and, of these, just over a half were concerned with the financial position of the trust. NHS Trusts are working with their Strategic Health Authorities to agree recovery plans, which may be phased in over a number of years.

Conclusion

The ongoing development of Assurance Frameworks with 96% being assessed as Category 'A' by Strategic Health Authorities, the same as 2003-2004, 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 were able to demonstrate they have made considerable progress since 31 March 2004. Arrangements are in place to further develop Assurance Frameworks with support from the Department in 2005-2006. The Department, with the SHAs, are working with NHS Trusts to address issues on financial control which have been identified and are reflected in the 2004-2005 Accounts and SICs.

Sir Nigel Crisp
Accounting Officer

30 November 2005

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

I certify that I have audited the financial statements on pages C8 to C31 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages C11 to C17.

Respective responsibilities of the Accounting Officer and Auditor

As described on page C3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder 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 responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and 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.

I review whether the statement on page C4 to C6 reflects the Department's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the corporate governance procedures of either the Department or the NHS Trusts, or their risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 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 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 error, or by fraud or other irregularity. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of NHS Trusts at 31 March 2005 and the deficit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

Please see my Report at HC1092-I.

John Bourn
Comptroller and Auditor General

12 April 2006

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

Income and Expenditure Account for the year ended 31 March 2005

Continuing operations

	Notes	2004-2005 £000	2003-2004 £000
Operating activities			
Income from activities	2	31,423,977	31,163,798
Other operating income	3	4,140,501	4,673,678
Operating expenses	4.1	(35,124,554)	(35,187,310)
Operating surplus		439,924	650,166
Profit on disposal of fixed assets	6	34,002	55,054
Surplus before interest		473,926	705,220
Interest receivable		63,101	51,138
Interest payable	7	(27,678)	(27,675)
Other finance costs - unwinding of discount		(13,591)	(14,274)
Other finance costs - change in discount rate on provisions		0	(21,243)
Surplus on ordinary activities		495,758	693,166
Public dividend capital dividends payable		(817,584)	(830,783)
Retained (deficit) for the year		(321,826)	(137,617)
Capital cost absorption rate	8	3.2%	3.6%

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Surplus on ordinary activities for the financial year		495,758	693,166
Fixed asset impairment losses	16.1 - 16.3	(120,674)	(202,268)
Unrealised surplus on fixed asset revaluations/indexation	16.1 - 16.3	4,242,626	2,075,492
Increase in the donated asset/government grant reserve due to receipt of donated/government granted assets	16.2, 16.3	131,336	175,873
(Reduction) in the donated asset/government grant reserve due to depreciation, impairment and/or disposal of donated/government granted assets	16.2, 16.3	(84,778)	(94,460)
Addition to other reserves	16.4	267	1,011
Total recognised gains for the financial year		4,664,535	2,648,814

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

Balance Sheet as at 31 March 2005

		31 March	31 March
		2005	2004
	Notes	£000	£000
Fixed assets			
Intangible fixed assets	9	38,112	40,242
Tangible fixed assets	10.1	28,490,477	27,805,277
		28,528,589	27,845,519
Current assets			
Stocks and work in progress		475,933	514,841
Debtors - amounts falling due within one year	11	2,215,148	2,209,195
after more than one year		621,962	611,137
Investments	12	0	19,513
Cash at bank and in hand	19	110,629	141,536
		3,423,672	3,496,222
Creditors: amounts falling due within one year	13.1	(3,094,059)	(3,449,012)
Net current assets		329,613	47,210
Total assets less current liabilities		28,858,202	27,892,729
Creditors: amounts falling due after more than one year	13.2	(318,233)	(302,181)
Provisions for liabilities and charges	14	(844,545)	(726,837)
		27,695,424	26,863,711
Financed by			
<i>Taxpayers equity</i>			
Public dividend capital	15	16,981,531	18,415,722
Revaluation reserve	16.1	9,691,608	6,976,011
Donated asset reserve	16.2	963,645	1,276,100
Government grant reserve	16.3	21,598	16,671
Other reserves	16.4	148,866	156,909
Income and expenditure reserve	16.5	(111,824)	22,298
		27,695,424	26,863,711

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

Sir Nigel Crisp
Accounting Officer

30 November 2005

Cash Flow Statement for the year ended 31 March 2005

	2004-2005 Notes £000	2003-2004 £000
Operating activities		
Net cash inflow from operating activities	17 1,617,589	1,826,782
Returns on investments and servicing of finance		
Interest received	57,666	50,397
Interest paid	(897)	(6,489)
Interest element of finance lease rental payments	(24,727)	(26,284)
Net cash inflow from returns on investments and servicing of finance	32,042	17,624
Capital expenditure		
(Payments) to acquire tangible fixed assets	(2,078,176)	(2,302,129)
Receipts from sale of tangible fixed assets	280,754	334,774
(Payments) to acquire intangible fixed assets	(10,873)	(14,314)
Receipts from sale of intangible fixed assets	32	23
Net cash (outflow) from capital expenditure	(1,808,263)	(1,981,646)
Dividends paid	(803,446)	(830,683)
Net cash (outflow) before management of liquid resources and financing	(962,078)	(967,923)
Management of liquid resources		
(Payments) to acquire investments	(1,740,197)	(1,486,518)
Receipts from sale of investments	1,738,200	1,467,005
Net cash (outflow) from management of liquid resources	(1,997)	(19,513)
Net cash (outflow) before financing	(964,075)	(987,436)
Financing		
New Public Dividend Capital issued	1,788,279	1,759,967
Repayment of Public Dividend Capital	(858,068)	(821,787)
Loans received	0	39,915
Repayments of amounts borrowed	(33,315)	(108,979)
Other capital receipts	97,141	127,300
Capital element of finance lease rental payments	(2,316)	(2,255)
Cash transferred to Foundation Trusts	(22,807)	0
Net cash inflow from financing	968,914	994,161
Increase in cash	19 4,839	6,725

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 2004-2005 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 Resource Accounting 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 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>	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

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.

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;
- 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 3.5% in real terms.

Clinical negligence costs

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

Since financial responsibility for clinical negligence cases transferred to the NHSLA at 1 April 2002, the only charge to operating expenditure in relation to clinical negligence in 2004-2005 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 total employer contribution payable in 2004-2005 was £2,115,274 (£1,078,542,000 for 2003-2004).

The Scheme is subject to a full valuation 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. 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 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. 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. Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding was devolved in full to NHS Pension Scheme employers and the employers' contribution rate rose to 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. 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.

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/member can make contributions to enhance their 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

There were no NHS Trusts involved in reconfigurations in 2004-2005.

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 FRS 5 Amendment and the guidance 'Land and Buildings in PFI schemes Version 2'.

PFI schemes are schemes under which the PFI operator receives an annual payment from the Trust for the services provided by the PFI operator.

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.

PFI Schemes deemed to be off balance sheet

In this financial year, 71 NHS Trusts reported off balance sheet PFI schemes. The estimated capital value of the schemes is £2.605 billion. The amount included within operating expenses for these schemes is £396 million.

PFI schemes deemed to be on balance sheet

In this financial year, five NHS Trusts reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £199 million and the amount included within operating expenses is £51 million.

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 Dividend

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. For 2004-2005 the average carrying amount of assets is calculated before the national revaluation figures are applied on 31 March 2005. 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 charged to the relevant functional headings on a cash 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

10 NHS Trusts achieved Foundation Trust status on 1 April 2004. 1 April 2004 opening figures have been restated and adjusted to eliminate balances relating to these Trusts. 15 NHS Trusts 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

	2004-2005 £000	2003-2004 £000
Strategic Health Authorities	108,488	92,382
Primary Care Trusts	29,980,371	29,734,457
Foundation Trusts	39,203	0
Local authorities	464,332	394,887
Department of Health	177,084	306,864
NHS Other	28,751	0
Non-NHS: private patients	302,965	374,662
overseas patients (non-reciprocal)	10,835	9,178
Road Traffic Act	106,873	114,602
other	205,075	136,766
	31,423,977	31,163,798
Income recognised to offset impairments and accelerated depreciation	128,321	145,346

3 Other operating income

	2004-2005 £000	2003-2004 £000
Patient transport services	5,664	10,529
Education, training and research	2,177,825	2,285,045
Charitable and other contributions to expenditure	87,921	96,437
Transfers from the donated asset reserve in respect of depreciation on donated assets	83,740	93,525
Transfers from the government grant reserve in respect of depreciation and impairments of government granted assets	1,038	935
Non-patient care services to other bodies	629,935	423,596
Other income from activities	1,154,378	1,763,611
	<u>4,140,501</u>	<u>4,673,678</u>

4 Operating expenses**4.1 Operating expenses comprise**

	2004-2005 £000	2003-2004 £000
Contracts with other NHS bodies	460,383	335,881
Contracts with Foundation Trusts	72,783	0
Purchase of healthcare from non-NHS bodies	328,925	379,614
Directors' costs	173,619	162,100
Staff costs ¹	5.1 23,878,172	23,416,469
Supplies and services - clinical	4,548,322	4,966,852
Supplies and services - general	743,271	832,767
Establishment	630,239	719,870
Transport	254,819	256,619
Premises	1,458,041	1,553,076
Write off and movement in bad debt provisions	22,699	19,023
Depreciation and amortisation	9,10 1,270,958	1,310,041
Fixed asset impairments and reversals	50,772	69,696
Auditors' remuneration: Audit fees ²	33,926	35,044
Auditors' remuneration: Other remuneration	2,935	5,233
Clinical negligence	347,389	234,862
Pre-1995 early retirements	0	362
Other	847,301	889,801
	<u>35,124,554</u>	<u>35,187,310</u>

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

	2004-2005 £000	2003-2004 £000
Hire of plant and machinery	55,616	58,697
Other operating leases	231,281	235,599
	<u>286,897</u>	<u>294,296</u>

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

	2004-2005 £000	2003-2004 £000
Land and buildings		
Expiring within one year	6,901	7,274
Expiring between one and five years	19,449	21,473
Expiring after five years	172,154	189,172
	198,504	217,919

Other leases

Expiring within 1 year	35,947	36,710
Expiring between 1 and 5 years	97,074	108,374
Expiring after 5 years	25,230	33,337
	158,251	178,421

5 Staff costs and numbers

5.1 Staff costs

	Permanently Employed £000	Other £000	2004-2005 Total £000	2003-2004 £000
Salaries and wages	19,083,307	1,320,429	20,403,736	20,975,098
Social security costs	1,500,712	17,420	1,518,132	1,492,466
Pension costs	2,102,574	12,700	2,115,274	1,078,542
Other pension costs	8,247	2,033	10,280	16,561
	22,694,840	1,352,582	24,047,422	23,562,667

5.2 Average number of persons employed

	Permanently Employed Number	Other Number	2004-2005 Total Number	2003-2004 Number
Medical and dental	69,724	7,313	77,037	74,840
Ambulance staff	22,373	100	22,473	21,585
Administration and estates	155,344	8,119	163,463	167,541
Healthcare assistants and other support staff	84,781	4,804	89,585	92,179
Nursing, midwifery and health visiting staff	275,629	18,421	294,050	302,663
Nursing, midwifery and health visiting learners	4,602	575	5,177	5,159
Scientific, therapeutic and technical staff	98,489	4,388	102,877	104,998
Social care Staff	2,730	1,147	3,877	3,291
Other	8,714	625	9,339	10,106
	722,386	45,492	767,878	782,362

5.3 Staff benefits

The amount spent on staff benefits during the year totalled £1,089,000 (2003-2004: £1,042,000).

5.4 Pensions

NHS Trusts participate in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS Trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of Treasury. For 2004-2005, the contribution rate was 14%.

5.5 Retirements due to ill health

During 2004-2005 there were 1,617 early retirements from NHS Trusts on the grounds of ill-health (2003-2004: 2,250). The estimated additional pension liabilities of these ill-health retirements (calculated on an average basis and borne by the NHS Pensions Scheme) will be £87,526,000 (2003-2004: £128,752,000).

6 Profit/(Loss) on disposal of fixed assets

	2004-2005	2003-2004
	£000	£000
(Loss) on disposal of intangible fixed assets	(25)	(130)
Net profit on disposal of land and buildings	38,440	58,872
Net (loss) on disposal of plant and equipment	(4,413)	(3,688)
	<u>34,002</u>	<u>55,054</u>

7 Interest payable and similar charges

	2004-2005	2003-2004
	£000	£000
Interest payable is in respect of the following		
Finance leases	27,454	27,272
Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	70	64
Other interest	154	339
	<u>27,678</u>	<u>27,675</u>

Compensation paid to cover debt recovery costs under the Late Payment of Commercial Debts (Interest) Act 1998 was nil (2003-2004: £7,000)

8 Capital cost absorption rate

NHS Trusts are required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The rate is calculated as the percentage that dividends paid on public dividend capital, totalling £803 million, bears to the average relevant net assets of £24.9 million, that is 3.2% (2003-2004: 3.6%).

9 Intangible fixed assets

	Software licences £000	Licences and trademarks £000	Patents £000	Development expenditure £000	Total £000
Gross cost at 1 April 2004	72,340	0	0	4,181	76,521
Transferred to Foundation Trusts on 1 April 2004	(3,900)	0	0	(89)	(3,989)
Restated gross cost at 1 April 2004	68,440	0	0	4,092	72,532
Indexation	0	0	0	62	62
Reclassifications	2,563	0	0	(287)	2,276
Other revaluation	0	0	0	(12)	(12)
Additions - purchased	10,887	100	0	463	11,450
Additions - donated	150	0	0	0	150
Additions - government granted	48	0	0	0	48
Disposals	(1,851)	0	0	0	(1,851)
Transferred to Foundation Trusts in-year	(5,713)	0	0	0	(5,713)
Gross cost at 31 March 2005	74,524	100	0	4,318	78,942
Accumulated amortisation at 1 April 2004	33,146	0	0	3,133	36,279
Transferred to Foundation Trusts on 1 April 2004	(1,659)	0	0	(45)	(1,704)
Restated accumulated amortisation at 1 April 2004	31,487	0	0	3,088	34,575
Indexation	0	0	0	50	50
Impairments	11	0	0	0	11
Reclassifications	39	0	0	0	39
Other revaluation	0	0	0	(12)	(12)
Provided during the year	9,891	12	0	443	10,346
Disposals	(1,754)	0	0	0	(1,754)
Transferred to Foundation Trusts in-year	(2,425)	0	0	0	(2,425)
Accumulated amortisation at 31 March 2005	37,249	12	0	3,569	40,830
Net book value					
Purchased at 1 April 2004	38,289	0	0	1,048	39,337
Donated at 1 April 2004	905	0	0	0	905
Total at 1 April 2004	39,194	0	0	1,048	40,242
Purchased at 31 March 2005	36,718	88	0	749	37,555
Donated at 31 March 2005	509	0	0	0	509
Government granted at 31 March 2005	48	0	0	0	48
Total at 31 March 2005	37,275	88	0	749	38,112

10 Tangible fixed assets**10.1**

	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 1 April 2004	5,188,367	18,386,309	488,684	1,299,856	5,030,657	313,177	1,075,521	336,594	32,119,165
Transferred to Foundation Trusts on 1 April 2004	(184,705)	(795,457)	(21,563)	(37,625)	(240,650)	(4,031)	(43,600)	(9,272)	(1,336,903)
Restated gross cost at 1 April 2004	5,003,662	17,590,852	467,121	1,262,231	4,790,007	309,146	1,031,921	327,322	30,782,262
Additions - purchased	54,742	521,143	4,997	963,045	290,176	21,796	119,150	22,351	1,997,400
Additions - donated	421	20,862	0	53,449	48,986	276	2,111	983	127,088
Additions - government granted	0	6,053	0	8	1,319	0	449	85	7,914
Impairments	(4,992)	(103,382)	(2,715)	(5,253)	(354)	0	(771)	(3,207)	(120,674)
Reclassifications	52,398	805,286	(5,308)	(969,875)	53,695	12,392	36,201	8,075	(7,136)
Indexation	390,227	1,435,933	38,412	80,241	99,710	6,464	0	8,835	2,059,822
Other in-year revaluations	91,773	(63,343)	17,153	(15,532)	(628)	11	201	(8)	29,627
Disposals	(118,849)	(109,146)	(17,523)	(10,669)	(129,396)	(33,623)	(31,395)	(3,897)	(454,498)
Transferred to Foundation Trusts in-year	(471,587)	(2,005,618)	(36,521)	(170,778)	(588,271)	(4,420)	(91,030)	(29,755)	(3,397,980)
National Revaluation Exercise	2,500,816	(236,687)	68,917	(13,894)	(88)	2	5	(13,125)	2,305,946
Cost or valuation at 31 March 2005	7,498,611	17,861,953	534,533	1,172,973	4,565,156	312,044	1,066,842	317,659	33,329,771
Accumulated depreciation at 1 April 2004	0	0	0	0	3,236,932	209,033	688,824	179,099	4,313,888
Transferred to Foundation Trusts on 1 April 2004	0	0	0	0	(151,652)	(2,710)	(28,429)	(3,827)	(186,618)
Restated accumulated depreciation at 1 April 2004	0	0	0	0	3,085,280	206,323	660,395	175,272	4,127,270
Provided during the year	101	772,608	17,727	0	320,205	28,601	97,770	23,600	1,260,612
Impairments	2,973	63,727	7,910	7,374	660	0	14	189	82,847
Reversal of impairments	0	(29,711)	(2,375)	0	0	0	0	0	(32,086)
Reclassifications	0	(2,539)	(138)	0	(5,940)	6	2,659	1,053	(4,899)
Indexation	19	41,688	1,844	0	62,906	4,207	0	3,851	114,515
Other in-year revaluations	0	0	0	0	(32)	15	15	5	3
Disposals	(5)	(15,648)	(2,817)	0	(115,409)	(29,926)	(29,115)	(2,368)	(195,288)
Transferred to Foundation Trusts in-year	0	(34,061)	(3,385)	0	(390,964)	(3,331)	(63,403)	(18,536)	(513,680)
Accumulated depreciation at 31 March 2005	3,088	796,064	18,766	7,374	2,956,706	205,895	668,335	183,066	4,839,294

10.2 Net book value

	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
Purchased at 1 April 2004	5,131,234	17,599,311	483,085	1,175,398	1,500,382	100,010	379,187	151,393	26,520,000
Donated at 1 April 2004	57,133	775,922	5,599	124,024	290,020	4,115	7,064	5,947	1,269,824
Government granted 1 April 2004	0	11,076	0	434	3,323	19	446	155	15,453
Total at 1 April 2004	<u>5,188,367</u>	<u>18,386,309</u>	<u>488,684</u>	<u>1,299,856</u>	<u>1,793,725</u>	<u>104,144</u>	<u>386,697</u>	<u>157,495</u>	<u>27,805,277</u>
Purchased at 31 March 2005	7,461,598	16,467,167	512,072	1,080,991	1,366,558	103,262	392,038	129,194	27,512,880
Donated at 31 March 2005	33,925	583,709	3,695	84,600	237,955	2,880	5,722	5,175	957,661
Government granted at 31 March 2005	0	15,013	0	8	3,937	7	747	224	19,936
Total at 31 March 2005	<u>7,495,523</u>	<u>17,065,889</u>	<u>515,767</u>	<u>1,165,599</u>	<u>1,608,450</u>	<u>106,149</u>	<u>398,507</u>	<u>134,593</u>	<u>28,490,477</u>

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

	<u>7,804</u>	<u>241,834</u>	<u>11,921</u>	<u>0</u>	<u>661</u>	<u>0</u>	<u>0</u>	<u>9</u>	<u>262,229</u>
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Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £8,448,000 (2003-2004: £8,811,000).

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

	31 March 2005 £000	31 March 2004 £000
Freehold	24,560,312	23,505,467
Long leasehold	510,098	552,676
Short leasehold	6,769	5,217
	<u>25,077,179</u>	<u>24,063,360</u>

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

	31 March 2005 £000	31 March 2004 £000
National Health Service debtors	1,239,949	1,100,120
Provision for irrecoverable debts	(65,147)	(65,819)
Other prepayments and accrued income	313,180	377,447
Other debtors	727,166	797,447
	<u>2,215,148</u>	<u>2,209,195</u>

11.2 Amounts due after more than one year

National Health Service debtors	207,478	183,289
Provision for irrecoverable debts	(2,874)	(2,762)
Other prepayments and accrued income	307,045	278,002
Other	110,313	152,608
	<u>621,962</u>	<u>611,137</u>
Total debtors	<u>2,837,110</u>	<u>2,820,332</u>

12 Short-term investments

There were no short term investments held at the balance sheet date (2003-2004: £19,513,000). The analysis of these is held within the individual NHS Trust accounts.

13 Creditors

13.1 Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
Overdrafts	30,042	53,992
Current instalments due on loans	2,372	14,951
Interest payable	2,595	2,433
Payments received on account	37,673	40,387
National Health Service creditors	563,033	805,006
Non-NHS trade creditors - revenue	668,212	704,184
Non-NHS trade creditors - capital	257,424	314,307
Payroll and related creditors	399,239	323,637
Obligations under finance leases and hire purchase contracts	3,770	3,759
Other creditors	342,060	208,827
Accruals and deferred income	787,639	977,529
	<u>3,094,059</u>	<u>3,449,012</u>

13.2 Amounts falling due after more than one year

Obligations under finance leases and hire purchase contracts	283,110	248,338
National Health Service creditors	7,362	10,382
Other	27,761	43,461
	<u>318,233</u>	<u>302,181</u>

13.3 Finance lease obligations

	31 March 2005 £000	31 March 2004 £000
Leases payable		
Within one year	30,413	28,597
Between one and five years	122,464	116,055
After five years	1,928,684	682,248
Finance charges allocated to future periods	(1,794,681)	(574,803)
	<u>286,880</u>	<u>252,097</u>

14 Provisions for liabilities and charges

	Pensions Relating to former directors £000	Pensions Relating to other staff £000	Other legal claims £000	Restruct- urings £000	Other £000	Total £000
At 1 April 2004	5,685	339,644	79,343	14,112	288,053	726,837
Transferred to Foundation Trusts 1 April 2004	(131)	(4,328)	(1,497)	(67)	(10,424)	(16,447)
Restated at 1 April 2004	5,554	335,316	77,846	14,045	277,629	710,390
Transfers to PCTs	0	0	0	0	0	0
Arising during the year	1,129	19,505	78,767	4,198	334,751	438,350
Utilised during the year	(808)	(27,752)	(15,600)	(4,828)	(175,676)	(224,664)
Reversed unused	(285)	(11,236)	(10,863)	(4,906)	(15,522)	(42,812)
Unwinding of discount	186	10,853	654	99	1,799	13,591
Transferred to Foundation Trusts in-year	(478)	(23,965)	(4,353)	0	(21,514)	(50,310)
At 31 March 2005	5,298	302,721	126,451	8,608	401,467	844,545

Expected timing of cashflows

Within one year	1,271	28,493	59,884	4,865	304,879	399,392
One and five years	2,201	102,588	57,344	1,142	27,292	190,567
Over five years	1,826	171,640	9,223	2,601	69,296	254,586

* £1,448,320,995 is included in the accounts of the NHS Litigation Authority (NHSLA) for clinical negligence liabilities in NHS Trusts.

15 Public dividend capital

	2004-2005 £000
At 1 April 2004	18,415,722
Transferred to Foundation Trusts 1 April 2004	(719,722)
Restated at 1 April 2004	17,696,000
New public dividend capital received (including transfers from dissolved NHS Trusts)	1,752,102
Public dividend capital repaid in year	(760,223)
Public dividend capital repayable (creditor)	(36,421)
Public dividend capital written off	0
Public dividend capital transferred to Foundation Trusts	(1,683,057)
Other movements in public dividend capital in year	13,130
At 31 March 2005	16,981,531

This note has been restructured for 2004-2005, the disclosures used in the 2003-2004 summarised account are not directly comparable to those in the 2004-2005 summarised account, therefore, no prior year comparators have been included.

16 Movement on reserves*16.1 Revaluation reserve*

	2004-2005	2003-2004
	£000	£000
At 1 April 2004	6,976,011	5,670,826
Transferred to Foundation Trusts 1 April 2004	(296,827)	0
Restated at 1 April 2004	6,679,184	5,670,826
Transfer to PCTs	0	(90,706)
Write off on merger of Trusts	0	(126,892)
Impairments	(117,572)	(195,237)
Other revaluations/indexation of fixed assets	4,209,969	1,986,556
Transfer of realised profits to Income and Expenditure reserve	(89,694)	(95,186)
Other transfers between reserves	(168,490)	(136,779)
Reserve eliminated on mid-year dissolution	0	(36,571)
Transferred to Foundation Trusts in-year	(821,789)	0
As at 31 March 2005	9,691,608	6,976,011

16.2 Donated asset reserve

	£000	£000
At 1 April 2004	1,276,100	1,119,425
Transferred to Foundation Trusts 1 April 2004	(59,989)	0
Restated at 1 April 2004	1,216,111	1,119,425
Transfer to PCTs	0	(6)
Impairments	(3,102)	(6,021)
Other revaluations/indexation of fixed assets	32,634	88,348
Transfer of realised profits to Income and Expenditure reserve	(1,752)	(2,593)
Receipt of donated assets	123,030	169,930
Depreciation, impairment and disposal of donated assets	(83,740)	(93,525)
Other transfers between reserves	(1,094)	540
Reserve eliminated on mid-year dissolution	0	2
Transferred to Foundation Trusts in-year	(318,442)	0
As at 31 March 2005	963,645	1,276,100

16.3 Government grant reserve

	£000	£000
At 1 April 2004	16,671	12,138
Transferred to Foundation Trusts 1 April 2004	(1,163)	0
Restated at 1 April 2004	15,508	12,138
Impairments	0	(1,010)
Surplus on other revaluation/indexation of fixed assets	23	588
Receipt of Government granted assets	8,306	5,943
Depreciation, impairment and disposal of Government granted assets	(1,038)	(935)
Other transfers between reserves	(169)	(53)
Transferred to Foundation Trusts in-year	(1,032)	0
As at 31 March 2005	21,598	16,671

16.4 Other reserves

	2004-2005 £000	2003-2004 £000
At 1 April 2004	156,909	184,115
Transferred to Foundation Trusts 1 April 2004	(2,721)	0
Restated at 1 April 2004	154,188	184,115
Transfer to PCTs	0	9,680
Value of merged Trusts at 1 April 2004	0	1,666
Transfers between reserves	(1,121)	(39,563)
Other movements on reserves	267	1,011
Transferred to Foundation Trusts in-year	(4,468)	0
As at 31 March 2005	148,866	156,909

16.5 Income and Expenditure reserve

	£000	£000
At 1 April 2004	22,298	(52,369)
Transferred to Foundation Trusts 1 April 2004	(25,266)	0
Restated as at 1 April 2004	(2,968)	(52,369)
Transfer to PCTs	0	(12,584)
Write off on merger of trusts	0	(7,457)
Transfer from income and expenditure account	(321,826)	(137,617)
Transfers of realised profits	91,446	97,779
Other transfers between reserves	170,874	135,281
Reserve eliminated on dissolution	0	(735)
Transferred to Foundation Trusts in-year	(49,350)	0
As at 31 March 2005	(111,824)	22,298

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

	2004-2005 £000	2003-2004 £000
Operating surplus	439,924	650,166
Depreciation and amortisation	1,270,958	1,310,041
Impairments	50,772	69,696
Transfer from donated asset reserve in respect of depreciation on donated assets	(83,740)	(93,525)
Transfer from the Government grant reserve	(1,038)	(935)
(Increase) in stocks	(40,076)	(59,187)
(Increase) in debtors	(395,393)	(74,139)
Increase/(decrease) in creditors	210,915	(129,893)
Increase in provisions for liabilities and charges	165,267	154,558
Net cash inflow from operating activities	1,617,589	1,826,782

18 Reconciliation of net cash flows to movement in net debt

	£000	£000
Net debt at 1 April 2004		(159,991)
Transferred to Foundation Trusts 1 April 2004		(1,741)
Restated at 1 April 2004		(161,732)
Increase in cash in year	4,839	
Cash inflow from new debt	0	
Cash outflow from debt repaid and finance lease capital payments	35,631	
Cash outflow from increase in liquid resources	1,997	
Changes in net debt resulting from cash flows		42,467
Non-cash changes in debt		(47,694)
Transferred to Foundation Trusts in-year		(41,708)
Net debt at 31 March 2005		(208,667)

19 Analysis of the change in net debt

	1 April 2004	Transferred to Foundation Trusts at 1 April 2004	Restated 1 April 2004	Transferred to Foundation Trusts in- year/cash transferred (to)/from other NHS Bodies	Cash changes in year	Non-cash changes in year	31 March 2005
	£000	£000	£000	£000	£000	£000	£000
OPG cash at bank	145,502	(4,653)	140,849	(35,868)	3,070	0	108,051
Commercial cash at bank and in hand	(3,966)	(453)	(4,419)	(233)	7,230	0	2,578
Bank overdrafts	(53,992)	1,409	(52,583)	28,002	(5,461)	0	(30,042)
					4,839		
Debt due within one year	(14,951)		(14,951)	(18,364)	33,315	(2,372)	(2,372)
Finance leases	(252,097)	1,956	(250,141)	6,265	2,316	(45,322)	(286,882)
Current Asset Investments	19,513	0	19,513	(21,510)	1,997	0	0
	<u>(159,991)</u>	<u>(1,741)</u>	<u>(161,732)</u>	<u>(41,708)</u>	<u>42,467</u>	<u>(47,694)</u>	<u>(208,667)</u>

20 Capital commitments

	31 March 2005 £000	31 March 2004 £000
Contracted at the balance sheet date	556,347	752,412
	<u>556,347</u>	<u>752,412</u>

21 Contingent liabilities

Potential net contingent liabilities totalling £81,844,000 (2003-2004: £30,806,000) 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 Losses and special payments

There were 60,482 (2003-2004: 60,333) cases of losses and special payments totalling £31,239,496 (2003-2004: £33,195,192) approved during 2004-2005. These included one personal injury case totalling £100,000 (2003-2004: two cases totalling £321,323), one payment under legal obligation of £174,792 (2003-2004: six cases totalling £982,625), 0 clinical negligence cases (2003-2004: 0 cases), 0 fraud cases (2003-2004: one case totalling £575,000), and one fruitless payment case of £200,000 (2003-2004: one fruitless payment case of £157,496) where payments exceeded £100,000.

23 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.

24 Post balance sheet events

As at 31 March 2005 there were 244 NHS Trusts (including five Care Trusts). With effect from 1 April 2005, three NHS Trusts were involved in reconfigurations. The three NHS Trusts merged to form one NHS Trust. With effect from 1 April 2005 six NHS Trusts became Foundation Trusts. This will result in a net decrease of eight NHS Trusts to 236 (231 NHS Trusts and five NHS Trust Care Trusts). Further NHS Trusts are expected to be established as Foundation Trusts later in 2005-2006.

The value of post balance sheet events disclosed in the individual NHS Trust accounts represented a net increase in expenditure of £22,823,000.

From 1 April 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5% to 2.2%. This change will result in an increase in our provisions which will be charged to the Income and Expenditure account in 2005-2006. National funding of NHS commissioners will be increased by the total estimated effect to offset this charge.

25 Financial instruments

The NHS Trust summarised account includes the accounts of 259 underlying NHS Trusts. It is within the underlying accounts of these 259 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.

26 Third party assets

The balance of patients money held within the NHS Trusts' bank accounts at the Balance Sheet date was £9,562,000 (31 March 2004: £14,184,000). 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.

27 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	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	2,215,148	621,962	3,094,059	318,233
Balances with other Central Government Bodies	666,910	135,159	603,395	8,352
Balances with Local Authorities	48,284	832	14,906	59
Balances with NHS Trusts and Foundation Trusts	470,456	68,406	428,462	5,095
Balances with Public Corporations and Trading Funds	50,125	7,944	93,667	33
Balances with bodies external to government	973,420	398,796	2,308,582	288,642
At 31 March 2004	2,209,195	611,137	3,449,012	302,181

Accounts Direction given by the Treasury in accordance with Section 98(4) of the National Health Service Act 1977

- 1 This direction applies to the summarised account of NHS trusts for the financial year ended 31 March 2003 and subsequent financial years.
- 2 The summarised account of the NHS trusts shall be prepared from the audited accounts of the individual NHS trusts to which it relates.
- 3 The summarised account of the NHS trusts shall be prepared in compliance with the accounting principles and disclosure requirements of the edition of the Resource Accounting Manual issued by HM Treasury which is in force for the financial year, except insofar as divergencies have been formally agreed for that year by the Treasury.
- 4 The summarised account of NHS trusts shall be prepared so as to give a true and fair view of the state of affairs at 31 March and of the income and expenditure, gains and losses, and cash flows for the financial year then ended.
- 5 Compliance with the requirements of the Resource Accounting Manual subject to formally agreed divergences will, in all but exceptional circumstances, be necessary for the accounts to give a true and fair view. If, in these exceptional circumstances compliance with the requirements of the Resource Accounting Manual subject to agreed divergences is inconsistent with the requirements to give a true and fair view, the requirements of the Manual and agreed divergences should be departed from only to the extent necessary to give a true and fair view. In such cases, informed and unbiased judgement should be used to devise an appropriate alternative treatment that should be consistent with both the economic characteristics of the circumstances concerned and the spirit of the Resource Accounting Manual subject to agreed divergences. Any material departure from the Resource Accounting Manual subject to agreed divergences should be discussed in the first instance with the Treasury.

David Loweth
Head of Central Accountancy Team
HM Treasury

14 March 2003

Summarised Account of the National Blood 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 Blood 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 Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the Summarised Account of the National Blood 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 National Blood 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.

I have appointed the Chief Executive of the Authority 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 2005 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. A plan to address any weaknesses identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

The system of internal control has been in place for the year ended 31 March 2005. During the year, no significant weaknesses in the design or operation of the Authority's system of internal control have been identified.

The underlying accounts are laid before Parliament¹.

Sir Nigel Crisp
Accounting Officer

30 November 2005

¹ HC 142

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

I certify that I have audited the financial statements on pages D7 to D26 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages D10 to D14.

Respective responsibilities of the Accounting Officer and Auditor

As described on page D2, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with the section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder 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 responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the national Health Service Act 1977 and with the Treasury directions made thereunder, and 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.

I review whether the statement on pages D3 to D4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, 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 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.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Blood Authority at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by 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.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

5 June 2006

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

Income and Expenditure Account for the year ended 31 March 2005

Continuing operations

	Notes	2004-2005 £000	2003-2004 £000
Income			
Department of Health funding		50,547	17,712
Operating income	2.2	374,871	357,807
Expenditure			
Operating expenses	3.1	(416,363)	(391,908)
Surplus/(deficit) for the financial year		9,055	(16,389)

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Surplus/(deficit) for the financial year		9,055	(16,389)
Unrealised gain on the revaluation of fixed assets	12.2	34,518	0
Unrealised gain on the indexation of fixed assets	12.2	14,452	15,007
Fixed asset impairment (losses)	12.2	(5,518)	0
Total recognised gains/(losses) for the financial year		52,507	(1,382)

The notes at pages D10 to D26 form part of this account.

Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Intangible assets	5.1	3,972	4,084
Tangible assets	5.2	272,696	219,655
		276,668	223,739
Current assets			
Stocks and work in progress	6	61,621	63,440
Debtors	7	26,415	16,965
Cash at bank and in hand	8	98	57
		88,134	80,462
Creditors: amounts falling due within one year	9	(27,598)	(35,278)
Net current assets		60,536	45,184
Total assets less current liabilities		337,204	268,923
Provisions for liabilities and charges	10	(9,315)	(3,018)
		327,889	265,905
Capital and reserves			
Capital account	12.1	172,207	162,346
Revaluation reserve	12.2	104,280	61,190
Donated asset reserve	12.3	181	203
Income and expenditure reserve	12.4	51,221	42,166
		327,889	265,905

The notes at pages D10 to D26 form part of this account.

Sir Nigel Crisp
Accounting Officer

30 November 2005

Cash Flow Statement for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Net cash inflow/(outflow) from operating activities	13	41	(9)
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(536)	(1,164)
(Payments) to acquire tangible fixed assets		(31,887)	(21,246)
Receipts from disposal of tangible fixed assets		42	124
Net cash (outflow) from investing activities		(32,381)	(22,286)
Net cash (outflow) before financing		(32,340)	(22,295)
Financing			
Net Parliamentary funding		32,381	22,286
Increase/(decrease) in cash in the period	8	41	(9)

The notes at pages D10 to D26 form part of this account.

Notes to the Account

1 Accounting policies

The financial statements have been prepared in accordance with the 2004-2005 Resource Accounting 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.

Going concern

On 22 July 2004 the Secretary of State for Health announced that the number of NHS bodies that work at 'arm's length' from the Department of Health would be reduced. On 30 November 2004, the Secretary of State announced the dissolution of the National Blood Authority as a separate body at 30 September 2005, with the transfer of its functions into the NHS Blood and Transplant with effect from 1 October 2005, subject to Parliamentary approval of the Statutory Instrument. Accordingly, the assets, liabilities, contractual obligations and staff of the National Blood Authority will be transferred from 1 October 2005 to the NHS Blood and Transplant. The Accounting Officer therefore considers that it is appropriate to prepare the 2004-2005 summarised account on a going concern basis.

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. 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 2004-2005 was 3.5% (2003-2004 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 and have been included in these accounts 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 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 total employer contributions payable in 2004-2005 was £16,851,000 (2003-2004: £7,861,000).

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. 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 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. 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. Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding was devolved in full to NHS Pension Scheme employers and the employers' contribution rate rose to 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. 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 years 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 years 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 3.5% in real terms.

2.1 Reconciliation of cash flow statement to parliamentary funding

	Notes	2004-2005 £000	2003-2004 £000
Net cash inflow/(outflow) from operating activities	13	41	(9)
Expenditure	3.1	416,363	391,908
Operating income	2.2	(374,871)	(357,807)
Movement in working capital		9,014	(16,380)
Capital expenditure (net)		32,381	22,286
Capital charges adjustment		427	761
Total Parliamentary funding		83,355	40,759

2.2 Operating income

Operating income analysed by activity, is as follows

	2004-2005 £000	2003-2004 £000
Blood Product Income	301,170	282,455
BPL Product Sales	45,851	50,593
Other income	27,850	24,759
Total	374,871	357,807

2.3 Segmental reporting

	2004-2005 £000	2003-2004 £000
BPL Income	78,030	72,995
BPL Surplus/(Deficit)	1,308	(11,605)
BPL Net Assets	160,475	129,259

3.1 Expenditure

	Notes	2004-2005 £000	2004-2005 £000	Restated 2003-2004 £000
Salaries and wages	3.2		175,103	152,116
Other staff costs			13,544	13,439
Consumable supplies			118,436	127,589
Maintenance of buildings, plant and equipment			16,283	12,019
Rent and rates			10,494	9,655
Transport costs			7,010	6,147
External contractors			10,013	9,453
Purchase and lease of equipment and furniture			6,155	8,333
Utilities and telecommunications			8,670	7,008
Media advertising			2,647	2,989
Capital: Depreciation and amortisation	5.1, 5.2	20,338		18,392
Impairments	5.1, 5.2	1,027		0
Capital charges interest		9,779		9,245
			31,144	27,637
Other finance costs - unwinding of discount	10		24	36
- change in discount rate			0	163
Auditor's remuneration: Audit Fees			159	162
Foreign exchange loss			1,099	2,491
Miscellaneous			15,582	12,671
			416,363	391,908

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

3.2 Staff numbers and related costs

	2004-2005 Total £000	Permanently employed staff £000	Other £000	Restated 2003-2004 Total £000
Salaries and wages	148,134	139,915	8,219	134,475
Social security costs	10,118	9,930	188	9,780
Employer contributions to NHSPA	16,851	16,599	252	7,861
	175,103	166,444	8,659	152,116

The average number of employees during the year was

	2004-2005 Total Number	Permanently employed staff Number	Other Number	2003-2004 Total Number
Total	6,035	5,750	285	5,916

Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £900,000 (2003-2004: £742,000).

Retirements due to ill-health

During 2004-2005 there were 17 early retirements from the National Blood 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 £652,000.

3.3 Salary and pension entitlement of senior managers

a Remuneration

Name and title	2004-2005			2003-2004		
	Salary in £5000 bands £000	Other remuner- ation in £5000 bands £000	Benefits in kind (rounded to the nearest £000) £000	Salary in £5000 bands £000	Other remuner- ation in £5000 bands £000	Benefits in kind (rounded to the nearest £000) £000
Mr M Fogden CB (Chairman)	20-25	N/A	N/A	20-25	N/A	N/A
Mr M Bellamy (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Mrs E Buggins (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Mrs J Gubbins (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Mr M Hindle (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Dr M Sekhar (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Mr P Sabapathy CBE (NED)	5-10	N/A	N/A	5-10	N/A	N/A
Mr M Gorham OBE (Chief Executive)	110-115	N/A	116	105-110	N/A	116
Dr A Robinson (Medical Director)	180-185	N/A	114	155-160	N/A	100
Mr B Savery (Director of Finance)	100-105	N/A	78	95-100	N/A	73

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.

The increase in the Medical Director's salary is due to the payment of arrears.

b Pension benefits

Name and title	Real increase in pension and related lump at age 60 (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2005 and related lump sum (bands of £5,000) £000	Cash equivalent transfer value at 31 March 2005 £000	Cash equivalent transfer value at 31 March 2004 £000	Real increase in cash transfer value £000	Employer's contributions to stakeholder pension (rounded to nearest £000) £000
Mr M Gorham OBE (Chief Executive)	5-7.5	205-210	848	789	37	N/A
Dr A Robinson (Medical Director)	N/A	265-270	N/A	N/A	N/A	N/A
Mr B Savery (Director of Finance)	N/A	90-95	N/A	N/A	N/A	N/A

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 from 2004-2005 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.

4 Better Payment Practice Code - measure of compliance

	Number	£000
Total bills paid 2004-2005	130,452	229,296
Total bills paid within target	117,774	210,718
Percentage of bills paid within target	90.3%	91.9%

The Late Payment of Commercial Debts (Interest) Act 1998

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

Act 1998 (2003-2004 £Nil). No compensation payments were made under this legislation (2003-2004: £Nil).

5.1 Intangible fixed assets

	Software Licences £000	Development Expenditure £000	Total £000
Gross cost at 31 March 2004	10,085	714	10,799
Indexation	0	16	16
Additions - purchased	440	764	1,204
Reclassification	387	0	387
Gross cost at 31 March 2005	10,912	1,494	12,406
Accumulated amortisation at 31 March 2004	6,715	0	6,715
Charged in year	1,719	0	1,719
Accumulated amortisation at 31 March 2005	8,434	0	8,434
Net book value at 31 March 2004	3,370	714	4,084
Net book value at 31 March 2005	2,478	1,494	3,972

Reclassification relates to the transfer of completed assets from assets under construction.

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 31 March 2004	19,351	136,903	1,168	19,125	67,113	10,862	19,550	3,373	277,445
Additions - purchased	0	1,688	0	21,575	5,824	376	556	0	30,019
Impairments	(832)	(5,713)	0	0	0	0	0	0	(6,545)
Reclassification	0	6,548	0	(8,298)	1,308	0	55	0	(387)
Indexation	1,439	10,878	92	1,238	1,455	234	0	73	15,409
National revaluation exercise	6,965	26,681	872	0	0	0	0	0	34,518
Disposals	0	0	0	(2)	(4,153)	(1,167)	(103)	0	(5,425)
Gross cost at 31 March 2005	26,923	176,985	2,132	33,638	71,547	10,305	20,058	3,446	345,034
Accumulated depreciation at 31 March 2004	0	0	0	0	34,522	7,320	12,654	3,294	57,790
Charged in year	0	8,055	33	0	6,746	1,097	2,673	15	18,619
Indexation	0	0	0	0	744	158	0	71	973
Disposals	0	0	0	0	(3,797)	(1,148)	(99)	0	(5,044)
Accumulated depreciation at 31 March 2005	0	8,055	33	0	38,215	7,427	15,228	3,380	72,338
Net book value									
Purchased at 31 March 2004	19,351	136,903	1,168	18,924	32,589	3,542	6,896	79	219,452
Donated at 31 March 2004	0	0	0	201	2	0	0	0	203
Total at 31 March 2004	19,351	136,903	1,168	19,125	32,591	3,542	6,896	79	219,655
Net book value									
Purchased at 31 March 2005	26,923	168,930	2,099	33,638	33,151	2,878	4,830	66	272,515
Donated at 31 March 2005	0	0	0	0	181	0	0	0	181
Total at 31 March 2005	26,923	168,930	2,099	33,638	33,332	2,878	4,830	66	272,696

All impairments arise from the District Valuer's five yearly revaluation of the NHS estate. Impairments to the value of existing amounts held in the revaluation reserve are taken to the Statement of Recognised Gains and Losses. Amounts in excess are taken to the Income and Expenditure account.

Incorporated in assets under construction are payments relating to the construction of a new building in Liverpool. The building is due to be operational by August 2005, prior to which valuation will be undertaken by the District Valuer. The building will be treated as a finance lease in accordance with SSAP21.

5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2005 comprises

	2004-2005 £000	2003-2004 £000
Freehold	185,524	149,189
Long leasehold	12,428	8,233
Total	197,952	157,422

5.4 Profit and loss on disposal of fixed assets

	2004-2005 £000	2003-2004 £000
(Loss) on disposal of plant and equipment	(339)	(156)
	(339)	(156)

6 Stocks and work in progress

	31 March 2005 £000	31 March 2004 £000
Raw materials and consumables	29,484	33,112
Work in progress	5,945	3,732
Finished processed goods	26,192	26,596
	61,621	63,440

7 Debtors

	31 March 2005 £000	Restated 31 March 2004 £000
Amounts falling due within one year		
NHS debtors	13,102	6,847
Provision for irrecoverable debts	(217)	(168)
Prepayments	5,608	2,874
Accrued income	637	735
Capital debtors	209	593
Other debtors	7,076	6,084
	26,415	16,965

8 Analysis of changes in cash

	At 31 March 2004 £000	Change during the year £000	At 31 March 2005 £000
Cash at OPG	15	46	61
Cash at commercial banks and in hand	42	(5)	37
	57	41	98

9 Creditors

	31 March 2005 £000	31 March 2004 £000
Amounts falling due within one year		
NHS creditors	3,827	4,995
Capital creditors	576	1,773
Tax and social security	8	3,186
Other creditors	8,871	12,772
Accruals	13,890	11,976
Deferred income	426	576
	27,598	35,278

A lease agreement commenced in April 2004 in respect of the new Liverpool Centre. Lease payments to date, amounting to £450,000, have been charged to assets under construction. At 31 March 2005 the outstanding obligation is £8,550,000.

10 Provisions for liabilities and charges

	Pensions for former staff £000	Product Liability £000	Other £000	Total £000
At 31 March 2004	323	1,551	1,144	3,018
Arising during the year	0	1,111	6,401	7,512
Utilised during the year	(214)	(117)	(534)	(865)
Reversed unused	(8)	(184)	(182)	(374)
Unwinding of discount	0	14	10	24
At 31 March 2005	<u>101</u>	<u>2,375</u>	<u>6,839</u>	<u>9,315</u>
<i>Expected timing of cash flows</i>				
Within one year	101	996	6,566	7,663
One and five years	0	1,379	60	1,439
Over five years	0	0	213	213

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 £1,645,000 (2003-2004 £762,000) have been brought under an action for product liability, and are included in the above Product Liability provision total of £2,375,000 (2003-2004 £1,551,000). The increase relates mainly to the reassessment of the probabilities of existing Hepatitis C cases.

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.

£107,000 (2003-2004 £242,000) is included in the provisions of the NHS Litigation Authority at 31 March 2005 in respect of clinical negligence liabilities of the National Blood Authority. There is a provision of £3,000 in respect of the existing liabilities scheme (2003-2004 £nil).

11 Movements in working capital other than cash

	2004-2005 £000	2003-2004 £000
Decrease in stocks	1,819	10,057
(Increase)/decrease in debtors	(9,450)	2,240
(Decrease)/increase in creditors	(7,680)	5,450
Net (decrease)/increase in working capital other than cash	<u>(15,311)</u>	<u>17,747</u>

12 Movements on reserves**12.1 Capital reserve**

	2004-2005 £000	2003-2004 £000
Balance at 31 March 2004	162,346	157,718
Additions	31,223	23,126
Impairments	(1,027)	0
Disposals	(19)	(113)
Depreciation	(20,316)	(18,385)
Balance at 31 March 2005	<u>172,207</u>	<u>162,346</u>

12.2 Revaluation reserve

	2004-2005 £000	2003-2004 £000
Balance at 31 March 2004	61,190	46,350
Impairments	(5,518)	0
Indexation of fixed assets	14,452	15,007
Revaluation of fixed assets	34,518	0
Disposals	(362)	(167)
Balance at 31 March 2005	<u>104,280</u>	<u>61,190</u>

12.3 Donated asset reserve

	2004-2005 £000	2003-2004 £000
Balance at 31 March 2004	203	9
Receipt of donated assets	0	201
Depreciation of donated assets	(22)	(7)
Balance at 31 March 2005	<u>181</u>	<u>203</u>

12.4 Income and Expenditure Reserve

	2004-2005 £000	2003-2004 £000
Balance at 31 March 2004	42,166	58,555
Transfer from the Income and Expenditure Account	9,055	(16,389)
Balance at 31 March 2005	<u>51,221</u>	<u>42,166</u>

13 Reconciliation of operating costs to operating cash flows

	2004-2005 £000	2003-2004 £000
Surplus/(deficit) for year	9,055	(16,389)
Adjust for movements in working capital other than cash	11 (15,311)	17,747
Increase/(decrease) in provisions	10 6,297	(1,367)
Net cash inflow/(outflow) from operating activities	<u>41</u>	<u>(9)</u>

14 Contingent liabilities

A contingent liability of £584,000 (2003-2004: £682,000) 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 £370,000 (2003-2004: £1,447,000) 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 2005 the value of contracted capital commitments was £4,618,000 (2003-2004: £4,872,000).

16 Commitments under operating leases

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

	2004-2005	2003-2004
	£000	£000
Hire of plant and machinery	484	517
Other operating leases	2,111	1,687
	<u>2,595</u>	<u>2,204</u>
Commitments under non-cancellable operating leases		
	£000	£000
Land and buildings		
<i>Operating leases which expire</i>		
Within one year	2,411	1,520
Between one and five years	5,295	4,292
After 5 years	2,976	2,947
	<u>10,682</u>	<u>8,759</u>
Other leases		
<i>Operating leases which expire</i>		
Within one year	2,156	1,675
between one and five years	3,219	2,844
after five years	73	46
	<u>5,448</u>	<u>4,565</u>

17 Other commitments

The Authority has entered into non-cancellable contracts (which are not operating leases) totalling £nil as at 31 March 2005 (2003-2004: £nil)

18 Losses and special payments

There were 388 losses cases in 2004-2005 (2003-2004: 481) amounting to £902,000 (2003-2004: £1,943,000). In 2004-2005 there was one case individually amounting to £100,000 or more (2003-2004: one case).

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, ie: the majority of NHS acute trusts. During the year these transactions were valued at £426 million of income, including capital funding, and £5million of expenditure, which represented trading with 252 separate organisations.

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

Name and Title	Registered Interest(s)
Mr M Bellamy (NED)	Buckinghamshire Hospitals NHS Trust (NED)
Mrs E Buggins (NED)	Birmingham and Black Country SHA (Chair)
Mr M Hindle (NED)	Peterborough Hospitals NHS Foundation Trust (NED)
	National Biological Standards Board (NED)
Mr P Sabapathy CBE (NED)	Eastern Birmingham PCT (Chair)
Mr M Gorham (Chief Executive)	Spouse is Chief Executive of Waltham Forest PCT

NED = Non-Executive Director

NBA transactions with members registered interests

	Income £000	Expenditure £000
Buckinghamshire Hospitals NHS Trust	1,756	Nil
Birmingham and Black Country SHA	21	Nil
Peterborough Hospitals NHS Foundation Trust	1,663	Nil
National Biological Standards Board	6	115
Eastern Birmingham PCT	Nil	Nil
Waltham Forest PCT	Nil	Nil

The Authority has also received revenue payments from the charitable funds, the Trustees for which are also members of the Board.

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 National Blood Authority.

20 Post balance sheet events

The Secretary of State announced that the National Blood Authority would be dissolved as a separate body at 30 September 2005, with the transfer of its functions into the NHS Blood and Transplant with effect from 1 October 2005, subject to Parliamentary approval of the Statutory Instrument.

From 1 April 2005 HM Treasury changed the discount rate used in calculating provision from 3.5% to 2.2%. This change will result in an increase in provisions of £115,000, which will be charged to the Income and Expenditure account in 2005-2006. National funding of NHS commissioners will be increased by the total estimated effect to offset this charge.

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 National Blood 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 National Blood Service 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

	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	3,036	0	311	0
Balances with local authorities	1,490	0	99	0
Balances with NHS Trusts	12,835	0	3,334	0
Balances with public corporations and trading funds	0	0	204	0
Balances with bodies external to government	9,054	0	23,650	0
At 31 March 2005	26,415	0	27,598	0
Balances with other central government bodies	1,984	0	3,351	0
Balances with local authorities	12	0	45	0
Balances with NHS Trusts	6,564	0	4,737	0
Balances with public corporations and trading funds	0	0	262	0
Balances with bodies external to government	8,405	0	26,883	0
At 31 March 2004	16,965	0	35,278	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 National Health Service, 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, aims and objectives and that the Authority reviews the effectiveness of those systems.

I confirm that Sir Nigel Crisp appointed the Chief Executive of the Authority 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 not fully in place in the Authority for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and did not fully accord with Treasury guidance. The Authority was established as a special health authority from a predecessor body on 1 April 2004 and I acknowledge that restructuring changes of that kind are likely to impact adversely on a body's strategic risk management. However, I would still expect that all the control procedures would have been in place before the end of the year.

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 the system of internal control has not been fully in place for the period in question.

Review of effectiveness

As Accounting Officer for the National Health Service, 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. A plan to address any weaknesses identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

An incomplete system of internal control has been in place for the year ended 31 March 2005. The Chief Executive is aware that significant issues have been raised about the Authority's system of internal control and has formulated an action plan to address these weaknesses and ensure continuous improvement. This plan is progressively being implemented. I have asked the appropriate Senior Departmental Sponsor to give the Authority special attention and every assistance while the Chief Executive's action plan to address these control issues is being implemented.

The underlying accounts are laid before Parliament.¹

Sir Ian Carruthers
Accounting Officer

5 June 2006

¹ HC 150

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

I certify that I have audited the financial statements on pages E10 to E27 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages E13 to E16.

Respective responsibilities of the Accounting Officer and Auditor

As described on page E2, the Accounting Officer, on behalf of the Secretary of State is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and directions made by the Treasury thereunder 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 responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder, and 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.

I review whether the statement on pages E3 to E4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of corporate governance procedures of the Authority or the Department of Health or their risk and control procedures.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to NHS Direct's circumstances, 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 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.

However the evidence available to me to confirm whether payroll expenditure is accurate was limited in that it was not possible to obtain supporting evidence for a number of payroll payments, and there was no system of controls I could rely on for the purposes of my audit. There were no other satisfactory audit procedures I could adopt to confirm that these payments were accurate. There was also no evidence available to me to confirm the prior year comparatives included in the financial statements, and no other procedures I could adopt to confirm that these figures were accurate.

In forming my opinion I have also evaluated the overall adequacy of the presentation of information in the financial statements.

Qualified opinion arising from a limitation in audit scope

In my opinion

- except for any adjustments which might have been found to be necessary had I been able to obtain sufficient evidence concerning the accuracy of payroll expenditure and prior year comparative figures, the financial statements give a true and fair view of the state of affairs of NHS Direct at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with Section 98(4) of the National Health Service Act 1977 and directions made thereunder by the 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.

In respect alone of the limitation on my work relating to expenditure on payroll and the prior year comparative figures

- I have not obtained all the information and explanations that I considered necessary for the purposes of my audit; and
- I was unable to determine whether proper accounting records had been maintained.

My report on pages E7 to E9 provides further details.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

5 June 2006

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

Report by the Comptroller and Auditor General

Introduction

- 1 The Summarised Accounts of NHS Direct for 2004-2005 are based on the underlying accounts of NHS Direct for 2004-2005 which were published on 8 February 2006 (HC 484 2005-2006).
- 2 NHS Direct was launched as a pilot in 1998 as a 24 hours a day, 7 days a week service with the aim of the NHS providing easier and faster access to health advice and information to the public. Initially three pilot call handling sites were set up based within individual NHS Trusts. The roll-out of the full service was carried out in four waves between March 1998 and November 2000 with NHS Direct becoming a national telephone service in 2000.
- 3 During this period NHS Direct was centrally managed by the Department of Health but the service was delivered at a local level by 22 NHS host Trusts. The services were provided through Service Level Agreements between the host Trusts and the Department of Health. The costs of NHS Direct were accounted for as part of the host Trusts expenditure and were therefore included within the accounts of the relevant Trusts. Some additional management costs were incurred by the Department of Health and reported in the Department of Health Resource Account.
- 4 In 2003 the Department of Health published its three year strategy for NHS Direct. This recommended that, from 2004, a nationally dedicated NHS Direct provider would be established with the responsibility for delivery of the service. As a result NHS Direct was established as a Special Health Authority on 1 April 2004 with its own Board, Chair and Chief Executive.
- 5 Although NHS Direct became a separate body on 1 April 2004 there was no ledger or payroll system in place at that date and whilst these systems were being established the host Trusts continued to be responsible for providing the accounting and payroll services which NHS Direct paid for through service levels agreements. These arrangements continued for the majority of the financial year until NHS Direct implemented a separate Oracle ledger which resulted in them progressively taking responsibility for purchase ledger transactions and payroll arrangements in the last quarter of the financial year.

My responsibilities as auditor

- 6 I am required, under Auditing Standards, to obtain sufficient evidence to satisfy myself that in all material aspects, the financial statements give a true and fair view of NHS Direct's state of affairs. In forming my opinion, I examine, on a test basis, evidence supporting the amounts, disclosures and regularity of financial transactions included in the financial statement and assess the significant estimates and judgements made in preparing them. I also consider whether the accounting policies are appropriate, consistently applied and adequately disclosed.
- 7 I have qualified my opinion on the account for 2004-2005 because I have been unable to confirm that NHS Direct has maintained proper accounting records for certain payroll costs and that I have received all the information and explanations I require for my audit. Specifically, no evidence was available to support amounts recorded in the ledger for a significant number of payroll costs. In addition, no evidence was available to support the prior year comparative figures for all aspects of the account.

Purpose of report

- 8 The purpose of my report is to
 - explain why NHS Direct has been unable to provide evidence to support a significant number of payroll costs;
 - explain why NHS Direct has been unable to provide prior year comparative figures; and

- indicate the steps NHS Direct is taking to address the weaknesses in controls that led to this situation and to prevent a recurrence in the future.

Accuracy of payroll costs

- 9 In 2004-05 NHS Direct incurred pay related expenditure of £94 million which accounts for 66 per cent of total expenditure. Prior to 1 April 2004 NHS Direct staff were employed by the host Trusts and were therefore paid through the host Trust's payroll system. In the majority of cases the host Trusts used shared service provider organisations to process payroll rather than having an in-house payroll section. As a result the payroll processing was split between 19 different payroll providers.
- 10 When NHS Direct was established as a Special Health Authority staff who had previously been employed by the host Trusts were transferred over to NHS Direct under the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE). However, at that date NHS Direct had no centralised ledger or payroll system in place and therefore the host Trusts payroll providers remained responsible under a service level agreement for the processing of payroll relating to NHS Direct staff.
- 11 As NHS Direct had not implemented a centralised ledger or payroll system and the payroll providers and records were dispersed across the country, there was an absence of central management control over the processing of payroll. My staff were therefore unable to take assurance from management's own monitoring controls. A further complication was the fact that staff across the 22 host Trust sites were on sixty-six different terms and conditions of service. As a result it was not possible for my staff to carry out reliable analytical procedures given the differing pay and staff grades across the country.
- 12 In addition, NHS Direct did not appoint an Internal Auditor until October 2004 and, due to the lack of any centralised payroll records, the Internal Auditor was not able to complete their assessment of the payroll system during 2004-05. As a result my staff were unable to place reliance on the work of Internal Audit. It was therefore necessary for my staff to carry out sample testing of payroll transactions made in 2004-2005 in order to gain assurance that payments had only been made to valid NHS Direct employees and at the correct amounts.
- 13 The collation of the source documentation to support the sample of payroll payments caused NHS Direct some difficulties. This was due to the fact that, whilst NHS Direct progressively moved to a centralised payroll provider starting in January 2005, Human Resources were still based at the host Trust sites, as were the majority of employee files. Furthermore the TUPE records provided no information on the actual salary being paid on transfer. As a result the source documentation had to be obtained from the host Trust payroll providers located across the country.
- 14 The results of the testing found that NHS Direct were unable to locate the complete or partial supporting evidence for 66 of the 411 (16 per cent) sample payments examined, by value around £30,000 of £1, 450,000 (2.1 per cent). As a result my staff could not verify that these payments were accurate. On the basis of the results of this exercise in the region of £1.6 million of payments made to staff during 2004-2005 may not be accurate.

NHS Direct has been unable to provide auditable prior year comparative figures

- 15 Under section 98(4) of the National Health Services Act 1977 the Secretary of State is to produce summarised accounts which meet the financial reporting requirements specified in HM Treasury's Resource Accounting Manual. As a Special Health Authority, NHS Direct itself is required under s7(2) of the Government Resources and Accounts Act 2000, to produce accounts which also meet these requirements. The Resource Accounting Manual designates the movement of responsibilities from one reporting entity to another within government as a Machinery of Government change. Such changes are accounted for as 'mergers' rather than 'acquisitions' and therefore should follow the requirements of Financial Reporting Standard 6, Acquisitions and Mergers. To ensure comparability between accounting periods, the Standard requires prior year comparative figures to be restated to incorporate the costs and assets of all the merged organisations.

- 16 As the expenditure relating to NHS Direct was not segregated from the host Trusts' own expenditure, NHS Direct has only been able to provide an estimate of total income and expenditure for the prior year based on returns provided by the host Trusts to the Department of Health together with an estimate of central departmental costs. However, no information has been provided which would enable this balance to be broken down in the way required by the Resource Accounting Manual.
- 17 Under Section 98(4) of the National Health Service Act 1977, I am required to provide an audit opinion as to whether the summarised accounts of NHS Direct provide a true and fair view of the state of affairs of the entity. I have limited the scope of my audit opinion on these financial statements because NHS Direct was unable to provide me with sufficient evidence to support the prior year comparative expenditure of £121 million and matching income of £121 million and because of this lack of evidence, I have been unable to audit these figures. There were no other audit procedures I could adopt to confirm that the prior year comparatives were not materially misstated.

Conclusion

- 18 The purpose of establishing NHS Direct as a Special Health Authority was to ensure that there was a single provider with responsibility for the delivery of NHS Direct services.
- 19 NHS Direct has encountered a number of difficulties in preparing its financial statements and is still working towards implementing systems and controls throughout the organisation. In particular, we have recommended improvements to the overall financial management controls and, more specifically, to controls over both pay and non pay expenditure. It is vital that NHS Direct continues this work in order to ensure that there is a strong system of internal managerial and accounting controls for the preparation of future financial accounts.
- 20 NHS Direct has taken steps in year to centralise the disparate systems including payroll and are in the process of recruiting Human Resource staff in order to ensure that there is an appropriate Human Resource capacity in each Region. In addition, NHS Direct is required to implement the Department of Health's Agenda for Change which aims to consolidate the conditions of service and pay for all staff across the NHS. This will assist with the harmonisation of the existing sixty six terms and conditions of service into a reduced number. This provides NHS Direct with an opportunity to centralise the information available on staff pay and conditions in order to ensure that documentation is available to support the amounts paid to staff in all cases. This will also enable NHS Direct to manage its resources more effectively and will allow the Accounting Officer to fulfil one of his key responsibilities of ensuring that proper accounting records are maintained.
- 21 In terms of providing prior year comparators, as a Special Health Authority NHS Direct is now required to produce its own accounts and going forward comparative figures will be provided.
- 22 My staff will continue to monitor NHS Direct's progress in developing its internal controls and in particular, the progress being made on ensuring that there are controls in place over the payroll system.

John Bourn
Comptroller and Auditor General

5 June 2006

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

Income and expenditure account for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Operating income	4	148,362	121,988
Expenditure	2.1	147,351	121,988
Operating surplus		1,011	0

All income and expenditure is derived from continuing operations.

Statement of total recognised gains and losses for the year ended 31 March 2005

		2004-2005 £000	2003-2004 £000
Operating surplus		1,011	0
Unrealised surplus on the indexation of fixed assets	12.2	855	0
Unrealised (deficit) on the revaluation of fixed assets	12.2	(238)	0
Total recognised gains for the financial year		1,628	0

The notes at pages E13 to E27 form part of this account.

Balance sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Tangible assets	5.2	10,569	0
		10,569	0
Current assets			
Debtors	7.1	31,701	0
Cash at bank and in hand	8	2,419	0
		34,120	0
Creditors: amounts falling due within one year	9.1	(27,150)	0
Net current assets		6,970	0
Total assets less current liabilities		17,539	0
Provisions for liabilities and charges	10	(3,927)	0
		13,612	0
Taxpayers' equity			
Income and expenditure reserve	12.1	1,166	0
Capital reserve	12.3	12,446	0
		13,612	0

The notes at pages E13 to E27 form part of this account.

Sir Ian Carruthers
Accounting Officer

5 June 2006

Cash flow statement for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Net cash inflow from operating activities	13	3,735	0
Servicing of finance			
Interest paid		0	0
Interest elements of finance leases		0	0
Net cash (outflow) from servicing finance		0	0
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(6,136)	0
Receipts from disposal of tangible fixed assets		0	0
Net cash inflow/(outflow) from investing activities		(6,136)	0
Net cash inflow/(outflow) before financing		(2,401)	0
Financing			
Capital funding		4,820	0
Increase in cash in the period	8	2,419	0

The notes at pages E13 to E27 form part of this account.

Notes to the accounts

Accounting policies

The financial statements have been prepared in accordance with the 2004-2005 Resource Accounting 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 2004-2005 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;
- 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 and have been included in these accounts 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 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
Plant and machinery	5-15
Information technology	5-8
Fixture 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 2004-2005 was £9,312,000.

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. 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 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. 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. Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension Scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding was devolved in full to NHS Pension Scheme employers and the employers' contribution rate rose to 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. 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 years 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 years' 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 3.5% in real terms.

2.1 Authority programme expenditure

	Notes	2004-2005 £000	2003-2004 £000
Non-executive members' remuneration		53	
Other salaries and wages	2.2	93,946	
Supplies and services – general		88	
Establishment expenses		3,810	
Health Information services		1,914	
Telecommunications		9,971	
Transport		380	
Premises and Fixed Plant		8,490	
IT contracts		18,389	
Service Level Agreement support provided by previous Host Trusts [a]		2,258	
Miscellaneous [b]		2,314	
Depreciation and amortisation	5.2	3,172	
Capital charges interest		155	
Capital charges interest – paid to previous host trusts [c]		358	
Impairment of fixed assets		1,877	
		5,562	
Other finance costs – unwinding of discount	10	7	
Auditor's remuneration: Audit Fees [d]		140	
Internal Audit Fees		29	
		147,351	121,988

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

[b] Significant items included in miscellaneous are interpreting services (£381,000), consultancy (£768,000) and insurance including CNST (£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.

Comparative figures are not available for the financial year 2003-2004. This is due to the fact that the expenditure and balance sheet information was reflected within the twenty two host provider sites as well as within the Department of Health accounts. The only comparative information available is the total expenditure for the year which was matched by a comparable level of income. This information has been reflected both in this note and note 4 operating income.

2.2 Staff numbers and related costs

	2004-2005 Total £000	Permanently Employed Staff £000	Other £000	2003-2004 Total £000
Salaries and wages	79,174	75,671	3,503	0
Social security costs	5,460	5,460	0	0
Employer contributions to NHSPA	9,312	9,312	0	0
	93,946	90,443	3,503	0

The full time equivalent number of employees as at April 2005 was

	2004-2005 Total Number	Permanently Employed Staff Number	Other Number	2003-2004 Total Number
Total	2,931	2,931	0	0

For the majority of the financial year payroll services were provided by twenty two trusts nationally. Due to the difficulties associated with obtaining consistent information from these service providers it has not been possible to produce a figure of the full time equivalent number of employees during the year. In lieu of this information the number of staff as at April 2005 has been included.

Expenditure on staff benefits

The amount spent on staff benefits during the year as advised to the Inland Revenue totalled £205,000. This excludes staff benefits as advised to the Inland Revenue through previous Host Trusts.

Retirements due to ill-health

During 2004-2005 there were no early retirements from NHS Direct on the grounds of ill-health.

2.3 Salary and pension entitlement of senior managers

A Remuneration

Name and title	Salary	Other	2004-2005	Salary	Other	2003-2004
	(bands of £5000)	remuneration (bands of £5000)	Benefits in kind (rounded to the nearest £00)	(bands of £5000)	remuneration (bands of £5000)	Benefits in kind (rounded to the nearest £00)
	£000	£000	£00	£000	£000	£00
P Catchpole (Non Executive Director)	n/a	5 - 10	0	0	0	0
D Edmonds (Non Executive Chairman)	n/a	20 - 25	0	0	0	0
D Evans (Non Executive Director)	n/a	5 - 10	0	0	0	0
J Mallalieu (Non Executive Director)	n/a	5 - 10	1	0	0	0
D Newman (Non Executive Director)	n/a	5 - 10	0	0	0	0
J Shaw (Non Executive Director)	n/a	5 - 10	0	0	0	0
M Bain (Director of ICT)	55 - 60	0	0	0	0	0
S Elvin (Operations Director) – to 30 September 2004	30 - 35	0	24	0	0	0
P Jenkins (Director of Service Development)	80 - 85	0	0	0	0	0
A Lee (Medical Director) – to 31 August 2004	40 - 45	0	0	0	0	0
E Lester (Chief Executive)	155 - 160	0	0	0	0	0
M. Munt (Director of Finance) – from 20 September 2004	50 - 55	0	1	0	0	0
A Raynor (HR Director) – from 6 September 2004	50 - 55	0	0	0	0	0
M Sadler (Medical Director) – from 15 November 2004	40 - 45	0	1	0	0	0
R Sage (Transformation Director) – from 1 July 2004	75 - 80	0	1	0	0	0
J Stringer (Nursing Director) to 30 September 2004	30 - 35	0	43	0	0	0
J Treanor (Director of Communications and Corporate Affairs) – from 7 March 2005	5 - 10	0	0	0	0	0
S White (Chief Operating Officer) – from 3 January 2005	25 - 30	0	0	0	0	0
J Whitehouse (HR Director) – to 31 October 2005	45 - 50	0	0	0	0	0
H Young (Nursing Director) – from 1 December 2004	30 - 35	0	1	0	0	0
S Fell (Director of Finance) – to 19 September 2004	Agency Staff*					

* Consent to disclose withheld

NHS Direct was set up as a Special Health Authority on 1 April 2004 and therefore there will be no comparative salary information for 2003-2004

B Pension benefits

Name and title	Real Increase in pension and related lump sum at age 60 (bands of £2,500) £000	Total accrued pension at age 60 2005 and related lump sum (bands of £5000) £000	Cash Equivalent transfer value at 31 March 2005 £000	Cash Equivalent transfer value at 31 March 2004 £000	Real increase in cash equivalent transfer value £000	Employer's contribution to stakeholder pension (rounded to nearest £000) £000
M Bain (Director of ICT)	2.5 - 5	100 - 105	403	371	22	0
S Elvin (Operations Director) – to 30 September 2004	2.5 - 5	95 - 100	364	332	22	0
A Lee (Medical Director) – to 31 August 2004	12.5 - 15	100 - 105	336	280	48	0
E Lester (Chief Executive)	0	0 - 5	21	0	0	0
M Munt (Director of Finance) – from 20 September 2004	0	0 - 5	7	0	0	0
A Raynor (HR Director) – from 06 September 2004	0 - 2.5	60 - 65	176	164	7	0
M Sadler (Medical Director) – from 15 November 2004	0 - 2.5	70 - 75	235	224	5	0
R Sage (Transformation Director) – from 21 July 2004	0	0 - 5	10	0	0	0
J Stringer (Nursing Director) to 30 September 2004	5 - 7.5	60 - 65	229	193	30	0
S White (Chief Operating Officer) – from 3 January 2005	0	0 - 5	3	0	0	0
J Whitehouse (HR Director) – to 31 October 2005	7.5 - 10	70 - 75	282	240	35	0
H Young (Nursing Director) – from 1 December 2004	25.0 - 27.5	70 - 75	184	112	69	0

Non-Executive members do not receive pensionable remuneration.

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 from 2004-2005 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.

2.4 Better payment practice code - measure of compliance

During the year the creditor payments function was provided by twenty two trusts nationally and therefore it has not been possible to provide the information required in this section. This was due to the fact that payments made on behalf of NHS Direct were not in most cases segregated from the host provider's own payments.

The Late Payment of Commercial Debts (Interest) Act 1998.

No interest was paid under the Late Payment of Commercial Debts (Interest) Act 1998.

No compensation was paid to cover debt recovery costs under this legislation.

3 Reconciliation of gross capital expenditure to capital grant

	2004-2005 £000	2003-2004 £000
Gross capital expenditure	15,001	0
NBV of assets disposed	0	0
Capital grants	0	0
Net capital resource out-turn	15,001	0
Capital grants	5,352	0
(Over)spend against budget	(9,649)	0

£9,649,000 of additional funding is to be provided in 2005-2006 to fund the second tranche of purchases from Previous Host Trusts.

4 Operating income

Operating income analysed by classification and activity is as follows

	2004-2005 £000	2003-2004 £000
Primary Care Trusts	124,201	0
Department of Health	20,430	0
Other NHS	506	0
Other	53	0
Release of Government Capital Grant from Capital Reserve	3,172	0
Total	148,362	121,988

The comparative information for 2003-2004 matches against the expenditure for the year. For further information see Note 2.1.

5.1 Intangible fixed assets

There were no intangible fixed assets at the year end.

5.2 Tangible fixed assets

	Land £000	Non residential Buildings £000	Plant and Machinery £000	Information Technology £000	Furniture and fittings £000	Total £000
Cost or Valuation at 31 March 2004	0	0	0	0	0	0
Additions – transferred from other NHS bodies	740	10,396	31	2,549	753	14,469
Additions – purchased	0	532	0	0	0	532
Indexation	55	783	1	0	16	855
National Revaluation Exercise	205	(2,506)	0	0	0	(2,301)
Gross cost at 31 March 2005	1,000	9,205	32	2,549	769	13,555
Accumulated depreciation at 31 March 2004	0	0	0	0	0	0
Charged in year	0	1,576	26	1,423	147	3,172
National Revaluation Exercise	0	(186)	0	0	0	(186)
Accumulated depreciation at 31 March 2005	0	1,390	26	1,423	147	2,986
Net book value at 31 March 2004	0	0	0	0	0	0
Net book value at 31 March 2005	1,000	7,815	6	1,126	622	10,569

Fixed Assets were transferred from the previous host trusts when NHS Direct was established on the 1 April 2004. The purchase of these assets was not entirely completed during the the financial year 2004-05, however they have been included in NHS Direct's asset register as the Authority bears all the risks and rewards of ownership and does in substance own the assets.

The assets were accordingly depreciated for the full year. To recognise that the purchase had still to be completed a year end creditor of £8,839,612 has been included, based on the net book value of the assets as at 1 April 2004, less any advance payment made.

There were no assets held under finance leases and hire purchase contracts at the balance sheet date 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 2005 comprises

	31 March 2005 £000	31 March 2004 £000
Freehold	5,352	0
Improvements to long leasehold buildings	2,506	0
Improvements to short leasehold buildings	957	0
	8,815	0

Classed within the value of freehold property is a building used by NHS Direct on the Mayday NHS Trust site in Croydon. The occupation and ownership is the subject of discussion between the Department of Health, the Trust and NHS Direct.

6 Stocks and work in progress

There were no stocks and work in progress at the year end.

7 Debtors

7.1 Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
NHS debtors	16,761	0
Non-NHS trade debtors	113	0
Prepayments	494	0
Accrued Income	2,191	0
NHS Capital Debtors	10,181	0
Other debtors	4	0
Recoverable VAT	1,957	0
	<u>31,701</u>	<u>0</u>

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 2004 £000	Change during the year £000	At 31 March 2005 £000
Cash at OPG	0	2,419	2,419
	<u>0</u>	<u>2,419</u>	<u>2,419</u>

9 Creditors

9.1 Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
NHS creditors	5,220	0
Non-NHS trade creditors	8,140	0
NHS Capital creditors	8,840	0
Capital creditors	25	0
Tax and social security	1,496	0
Other creditors	15	0
Accruals	3,147	0
Deferred income	267	0
	<u>27,150</u>	<u>0</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	Total £000
At 31 March 2004	0	0	0
Arising during the year	0	3,814	3,814
Utilised during the year	(9)	0	(9)
Transfers from NHS bodies	115	0	115
Unwinding of discount	7	0	7
At 31 March 2005	113	3,814	3,927

Expected timing of cash flows

Within 1 year	6	3,814	3,820
1-5 years	21	0	21
Over 5 years	86	0	86

Included in the provisions for liabilities and charges is an amount of £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 2005 in respect of clinical negligence liabilities relating to NHS Direct.

11 Movements in working capital other than cash

	2004-2005 £000
Increase in debtors	21,520
(Increase) in creditors	(18,285)
	3,235

12 Movements on reserves

12.1 Income and expenditure reserve

	31 March 2005 £000	31 March 2004 £000
Balance at 31 March 2004	0	0
Retained surplus for the year	1,011	0
Non-cash items: Capital Charges Interest	155	0
Balance at 31 March 2005	1,166	0

12.2 Capital reserve

	31 March 2005 £000	31 March 2004 £000
Balance at 31 March 2004	0	0
Government grant received	15,001	0
Indexation of fixed assets	855	0
Revaluation of fixed assets	(238)	0
Transfer of depreciation to Income and Expenditure Account	(3,172)	0
Balance at 31 March 2005	12,446	0

13 Reconciliation of operating surplus to cash flows

	Notes	2004-2005 £000	2003-2004 £000
Net operating surplus before interest for the year		1,011	0
Adjust for non-cash transactions		5,204	0
Adjust for movements in working capital other than cash	11	(3,235)	0
Increase/(decrease) in provisions	10	3,927	0
Transfer from reserves	12.2	(3,172)	0
Net cash inflow from operating activities		3,735	0

14 Contingent liabilities

There were no known contingent liabilities at the year end.

15 Capital commitments

There were no contracted capital commitments at the year end.

16 Commitments under operating leases

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

	2004-2005 £000	2003-2004 £000
Hire of plant and machinery	110	0
Other operating leases	3,794	0
	3,904	0

Commitments under non-cancellable operating leases

	£000	£000
Land and buildings		
<i>Operating leases which expire</i>		
within 1 year	2,172	0
between 1 and 5 years	496	0
after 5 years	1,126	0
	3,794	0
Other leases		
<i>Operating leases which expire</i>		
within 1 year	43	0
between 1 and 5 years	67	0
after 5 years	0	0
	110	0

17 Other commitments

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

18 Losses and special payments

The Authority made no losses or special payments during the financial year.

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 £124 million which represented trading with 303 individual organisations.

In particular the Department of Health provided grant in aid funding of £20,461,000 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
Airedale PCT	5,536	Shropshire County PCT	836
NHS Professionals Special HA	2,194	Sutton & Merton PCT	810
Burnley, Pendle & Rossendale PCT	1,125	Newham PCT	809
Nottingham City PCT	1,083	Central Cheshire PCT	805
Northumberland Care Trust	1,002	Croydon PCT	784
Ealing PCT	886	Barnet PCT	761
Chelmsford PCT	839	Hillingdon PCT	760

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

From 1 April 2005 HM Treasury changed the discount rate used in calculating provision from 3.5% to 2.2%. This change will result in an increase in our provisions of £21,000 which will be charged to the Income and Expenditure Account in 2005-2006. National funding of NHS commissioners will be increased by the total estimated effect to offset this charge.

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

	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	11,958	0	1,496	0
Balances with local authorities	0	0	134	0
Balances with NHS Trusts	19,638	0	14,398	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	31,701	0	27,150	0
Balances with other central government bodies	0	0	0	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	0	0	0	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	0	0	0	0
At 31 March 2004	0	0	0	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 Permanent Secretary and 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 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.

I have appointed the Chief Executive of the Authority 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 2005 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. A plan to address any weaknesses identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

The system of internal control has been in place for the year ended 31 March 2005. During the year, no significant weaknesses in the design or operation of the Authority's system of internal control have been identified.

The underlying accounts are laid before Parliament.¹

Nigel Crisp
Accounting Officer

30 November 2005

¹ HC 150

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

I certify that I have audited the financial statements on pages F7 to F23 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages F10 to F13.

Respective responsibilities of the Accounting Officer and Auditor

As described on page F2, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with the section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder 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 responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the Treasury directions made thereunder, and 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.

I review whether the statement on pages F3 to F4 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, 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 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.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the NHS Logistics Special Health Authority at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by 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.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

5 June 2006

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

Income and expenditure account for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Continuing operations			
Operating income	4	730,309	676,956
Expenditure			
Cost of sales	2.1	(658,951)	(605,586)
Staff costs and administration expenses	2.1	(70,245)	(68,312)
Operating surplus		1,113	3,058
Cost of fundamental reorganisation or restructuring on continuing operations		(391)	(2,205)
Surplus for the financial year	12.1	722	853

Statement of total recognised gains and losses for the year ended 31 March 2005

		2004-2005 £000	2003-2004 £000
Surplus for the financial year	12.1	722	853
Unrealised surplus on the indexation of fixed assets	12.3	2,584	2,677
Fixed asset impairment losses		(2,987)	0
Total recognised gains for the financial year		319	3,530

The notes at pages F10 to F23 form part of this account.

Balance sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Intangible assets	5.1	90	46
Tangible assets	5.2	32,882	34,614
		32,972	34,660
Current assets			
Stocks	6	47,418	40,148
Debtors	7	61,023	49,762
Cash at bank and in hand	8	41	135
		108,482	90,045
Creditors: amounts falling due within one year	9	(43,225)	(21,512)
		65,257	68,533
Total assets less current liabilities		98,229	103,193
Provisions for liabilities and charges	10	(4,990)	(8,988)
		93,239	94,205
Taxpayers' equity			
Income and expenditure reserve	12.1	60,267	59,545
Capital reserve	12.2	26,177	26,967
Revaluation reserve	12.3	6,795	7,693
		93,239	94,205

The notes at pages F10 to F23 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2005

Cash flow statement for the year ended 31 March 2005

	Notes	2004-2005 £000	2003-2004 £000
Net cash (outflow) from operating activities	13	(606)	(826)
Servicing of finance			
Interest paid		0	0
Interest elements of finance leases		0	0
Net cash (outflow) from servicing finance		0	0
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(53)	(46)
(Payments) to acquire tangible fixed assets		(2,170)	(2,121)
Receipts from disposal of tangible fixed assets		3,096	1,637
Net cash inflow/(outflow) from investing activities		873	(530)
Net cash inflow/(outflow) before financing		267	(1,356)
Financing			
Net parliamentary funding		2,735	2,737
Surrender of capital receipts		(3,096)	(1,637)
(Decrease) in cash in the period	8	(94)	(256)

The notes at pages F10 to F23 form part of this account.

Notes to the accounts

1 Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting 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 is progressing through a market testing initiative, led by the Commercial Directorate of the Department of Health, to determine if the private sector can bring further efficiencies and expertise to the NHS Logistics' service. The role and functions performed by the Authority are seen as vital to the NHS and will continue. However, the Authority in its current form is expected to continue to March 2006, at which stage a possible outsourcing to a private sector partner or merger with another Arm's Length Body will take place. The decision on either outsourcing or merger was not yet known and the Accounting Officer therefore considers that it is appropriate to prepare the 2004-05 financial statements on a going concern basis.

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 (£729.3 million of the £730.3 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 2004-2005 was 3.5% (2003-2004 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.

1.6 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; 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, 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 and have been included in these accounts at 31 March 2005.

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

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

- Specialised operational assets have been valued on a replacement rather than modern substitute basis;
- no adjustment has been made to the cost figures of operational assets in respect of dilapidations; and
- Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

- ii Operational equipment is valued at net current replacement costs through annual uplift by the change in the value of the GDP deflator. Equipment surplus to requirements is valued at net recoverable amount.
- iii Assets in the course of construction are valued at current cost, using the index as for land and buildings. These assets include any existing land or buildings under the control of a contractor.
- iv 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 34 to 41 years). 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 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 2004-2005 was £2,879,362 (2003-2004 £1,388,110).

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.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 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. 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. Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding was devolved in full to NHS Pension Scheme employers and the employers' contribution rate rose to 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.

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 3.5% in real terms.

2.1 Cost of sales and administration

	Notes	2004-2005 £000	2003-2004 £000
Cost of sales		658,951	605,586
Non-executive members' remuneration		52	49
Other salaries and wages	2.2	32,291	29,375
Maintenance		1,084	1,390
Transport main contract		15,965	13,609
Transport other		265	266
Bridgwater distribution centre contract		5,452	5,081
<i>Capital</i>			
Depreciation and amortisation	5.1, 5.2	1,111	915
Impairments	5.1, 5.2	421	14
Capital charges interest		3,544	2,532
(Profit)/loss on disposal	5.4	(746)	261
		4,330	3,722
<i>Other finance costs</i>			
unwinding of discount	10	153	239
change in discount rate	10	0	257
Auditor's remuneration: Audit Fees *		75	80
Miscellaneous		10,578	14,244
		729,196	673,898

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

2.2 Staff numbers and related costs

	2004-2005 Total £000	Permanently Employed Staff £000	Other £000	2003-2004 Total £000
Salaries and wages	26,599	26,115	484	25,638
Social security costs	1,923	1,891	32	1,877
Employer contributions to NHSPA	2,879	2,847	32	1,388
Agency staff	890	0	890	472
	32,291	30,853	1,438	29,375

The average number of employees during the year was

	2004-2005 Total Number	Permanently Employed Staff Number	2003-2004 Total Number
Total	1,385	1,385	1,377

Expenditure on staff benefits

The amount spent on staff benefits during the year totalled £121,472 (2003-2004: £120,000).

Retirements due to ill-health

During 2004-2005 there were 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 £490,632.

2.3 Salary and pension entitlement of senior managers**A Remuneration**

Name and title	Salary	Other	2004-2005	Salary	Other	2003-2004
	(bands of £5000)	remuneration (bands of £5000)	Benefits in kind (rounded to the nearest £00)	(bands of £5000)	remuneration (bands of £5000)	Benefits in kind (rounded to the nearest £00)
	£000	£000	£00	£000	£000	£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) from 1 April 2004	0	5-10	N/A	0	0	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)	70-75	0	0-50	70-75	0	0-50
B Mellor, (Chief Executive)	100-105	0	50-100	95-100	0	0-50
S Horsley, (Director of Operations)	85-90	0	50-100	85-90	0	50-100
G Harris, (Director of Finance and Information Services)	85-90	0	0-50	85-90	0	0-50
M Hall, (Director of Customer and Service Development)	70-75	0	50-100	50-55	0	0-50
M Wood, (Director of Supply Chain and Corporate Services)	70-75	0	0-50	65-70	0	0-50

B Pension benefits

Name and title	Real Increase in pension and related lump sum at age 60 (bands of £2,500) £000	Total accrued pension at age 60 2005 and related lump sum (bands of £5000) £000	Cash Equivalent transfer value at 31 March 2005 £000	Cash Equivalent transfer value at 31 March 2004 £000	Real increase in cash equivalent transfer value £000	Employer's contribution to stakeholder pension (rounded to nearest £00) £000
L Garnett, (Director of HR)	2.5-5.0	65-70	201	178	18	0
B Mellor, (Chief Executive)	5.0-7.5	15-20	82	58	23	0
S Horsley, (Director of Logistics)	2.5-5.0	25-30	96	75	18	0
G Harris, (Director of Finance and Information Services)	2.5-5.0	50-55	127	107	17	0
M Hall, (Director of Customer Services)	5.0-7.5	30-35	87	62	23	0
M Wood, (Director of Supply Chain and Corporate Services)	7.5-10.0	90-95	321	279	34	0

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.

Accrued pension figures exclude lump sum.

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

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 from 2004-2005 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.

2.4 Better payment practice code - measure of compliance

	2004-2005	2003-2004
Total number of bills paid	570,164	464,299
Total number of bills paid within target	510,878	358,340
Percentage of bills paid within target	89.6%	77.2%
	£000	£000
Total value of bills paid	702,181	635,051
Total value of bills paid within target	573,804	477,735
Percentage value of bills paid within target	81.7%	75.2%

No interest or compensation payments were made under the Late Payment of Commercial Debt (Interest Act 1998).

3 Reconciliation of gross capital expenditure to capital funding

	2004-2005	2003-2004
	£000	£000
Gross capital expenditure	2,176	2,191
NBV of assets disposed	(2,350)	(1,898)
Loss/(gain) on disposal	(746)	261
Net capital funding out-turn	(920)	554
Capital funding	2,209	2,200
Surrender of receipts	(3,096)	(1,637)
Remaining capital funding	33	9

4 Operating income

Operating income analysed by classification and activity, is as follows

	2004-2005	2003-2004
	£000	£000
Sales to NHS customers	712,726	660,301
Fees	996	836
Sales to non-NHS customers	16,587	15,819
Total	730,309	676,956

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 2004	46
Additions - purchased	53
Gross cost at 31 March 2005	99
Accumulated amortisation at 1 April 2004	0
Charged in year	9
Accumulated amortisation at 31 March 2005	9
Net book value at 31 March 2004	46
Net book value at 31 March 2005	90

5.2 Tangible fixed assets

	Land	Buildings excluding dwellings	Assets under constr. + poa	Plant and Machinery	Information Technology	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2004	10,109	25,218	182	1,204	1,105	37,818
Additions purchased	0	787	116	346	874	2,123
Reclassification	0	152	(182)	0	30	0
Indexation	751	2,011	0	26	0	2,788
Other in year revaluation	(430)	(5,745)	0	0	0	(6,175)
Disposals	(795)	(1,782)	0	(13)	(60)	(2,650)
Gross cost at 31 March 2005	9,635	20,641	116	1,563	1,949	33,904
Accumulated depreciation at 1 April 2004	0	2,486	0	331	387	3,204
Charged in year	0	734	0	155	213	1,102
Indexation	0	197	0	7	0	204
Other in year revaluation	0	(3,188)	0	0	0	(3,188)
Disposals	0	(229)	0	(14)	(57)	(300)
Accumulated depreciation at 31 March 2005	0	0	0	479	543	1,022
Net book value at 31 March 2004	10,109	22,732	182	873	718	34,614
Net book value at 31 March 2005	9,635	20,641	116	1,084	1,406	32,882

5.3 Net book value of land and buildings

The net book value of land, buildings and dwellings as at 31 March 2005 comprises

	31 March 2005 £000	31 March 2004 £000
Freehold	30,276	30,650
Long leasehold	0	2,191
	30,276	32,841

5.4 Profit/loss on disposal of fixed assets

	31 March 2005 £000	31 March 2004 £000
Profit on disposal of land and buildings	748	0
(Loss) on disposal of land and buildings	0	(226)
(Loss) on disposal of plant and equipment	(2)	(35)
	746	(261)

6 Stocks and work in progress

	31 March 2005 £000	31 March 2004 £000
Fuel stocks	99	95
Finished processed goods	47,319	40,053
	47,418	40,148

7 Debtors

Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
NHS debtors	54,212	41,211
Non-NHS debtors	3,180	3,787
Provision for irrecoverable debts	(9)	(11)
Prepayments	2,195	3,148
Accrued income	23	18
Other debtors	1,422	1,609
	61,023	49,762

8 Analysis of changes in cash

	At 31 March 2004 £000	Change during the year £000	At 31 March 2005 £000
Cash at OPG	135	(94)	41
Cash at commercial banks and in hand	0	0	0
	135	(94)	41

9 Creditors

Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
NHS creditors	22	193
Non NHS creditors	22,908	6,082
Capital creditors	121	144
Tax and social security	35	41
Other creditors	60	324
Accruals – non-stock	1,278	1,879
Accruals – stock	18,488	12,634
Deferred income	313	215
	43,225	21,512

10 Provisions for liabilities and charges

	Pensions for former staff £000	Legal claims £000	Other £000	Total £000
At 31 March 2004	4,778	172	4,038	8,988
Arising during the year	127	271	419	817
Utilised during the year	(392)	(175)	(1,967)	(2,534)
Reversed unused	(6)	(50)	*(2,378)	(2,434)
Unwinding of discount	153	0	0	153
At 31 March 2005	4,660	218	112	4,990
Expected timing of cash flows				
Within 1 year	389	218	112	719
1-5 years	1,555	0	0	1,555
Over 5 years	2,716	0	0	2,716

* This relates to the release of provision for an onerous property lease. The property (Kings Norton) has been reassigned during 2004-2005.

11 Movements in working capital other than cash

	2004-2005 £000	2003-2004 £000
(Increase)/decrease in stocks	(7,270)	1,966
(Increase)/decrease in debtors	(11,261)	5,081
Increase/(decrease) in creditors	21,736	(8,906)
Net increase/(decrease) in working capital other than cash	3,205	(1,859)

12 Movements on reserves*12.1 Income and expenditure reserve*

	2004-2005 £000	2003-2004 £000
Balance at 1 April 2004	59,545	58,692
Net operating costs for the year	722	853
Balance at 31 March 2005	60,267	59,545

12.2 Capital reserve

	£000	£000
Balance at 1 April 2004	26,967	26,761
Net parliamentary funding	2,176	2,191
Depreciation	(917)	(915)
Disposals	(2,243)	(1,898)
Impairments	(421)	(14)
Transfer ex revaluation reserve current year	615	842
Balance at 31 March 2005	26,177	26,967

12.3 Revaluation reserve

	£000	£000
Balance at 1 April 2004	7,693	5,858
Impairments	(2,566)	0
Indexation of fixed assets	2,584	2,677
Depreciation	(194)	0
Disposals	(107)	0
Transfer to capital reserve: realised revaluation	(615)	(842)
As at 31 March 2005	6,795	7,693

13 Reconciliation of operating costs to operating cash flows

	Notes	2004-2005 £000	2003-2004 £000
Surplus for the year		722	853
Brushing for life funding		(535)	(537)
Adjust for movements in working capital other than cash	11	3,205	(1,859)
(Decrease)/increase in provisions	10	(3,998)	717
Net cash outflow from operating activities		(606)	(826)

14 Contingent liabilities

There are no contingent liabilities (2003-2004 £131,000).

15 Capital commitments

At 31 March 2005 the value of contracted capital commitments was £Nil. (2003-2004 £Nil).

16 Commitments under operating leases

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

	2004-2005 £000	2003-2004 £000
Hire of plant and machinery	1,108	1,050
Other operating leases	940	982
	2,048	2,032

Commitments under non-cancellable operating leases

	£000	£000
Land and buildings		
<i>Operating leases which expire</i>		
within 1 year	0	0
between 1 and 5 years	27	27
after 5 years	0	341
	27	368
Other leases		
<i>Operating leases which expire</i>		
within 1 year	269	62
between 1 and 5 years	336	1,046
after 5 years	0	0
	605	1,108

17 Other commitments

The Authority has no other non-cancellable contracts as at 31 March 2005 (2003-2004: £Nil)

The Authority has two major service contracts

<i>Bridgwater distribution centre contract</i>	7 year contract commencing 17 December 2001, value 2004-2005 £5,452,354.
<i>Transport main contract</i>	5 year contract commencing 1 July 2003, annualised value 2004-2005 £15,965,350.

18 Losses and special payments

Bad debts written off	£591
Stock losses	£748,404
Personal injury	£67,881

There are no individual payments over £100,000.

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

Personal injury claims consists of 24 personal injury claims with advice.

Stock losses consist of

Write off past sell by date	£168,906
Damaged in warehouse	£248,219
Obsolete stock written off	£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 £713 million which represented trading with 592 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £46,327, which represented trading with 10 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 £79 million on behalf of the Department of Health for the Childhood Immunisation Programme, £28 million for Civil Contingency stocks and £20 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

From 1 April 2005 HM Treasury changed the discount rate used in calculating provisions from 3.5% to 2.2%. This change will result in an increase in our provisions of £522,715, which will be charged to the Income and Expenditure account in 2005-2006. NHS Logistics Authority does not receive any funding for this increased charge.

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

	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	1,010	0	35	0
Balances with local authorities	0	0	0	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
At 31 March 2005	61,023	0	43,225	0
Balances with other central government bodies	1,177	0	298	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	40,966	0	407	0
Balances with public corporations and trading funds	262	0	0	0
Balances with bodies external to government	7,357	0	20,807	0
At 31 March 2004	49,762	0	21,512	0

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 National Health Service, 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, aims and objectives and that the Authority reviews the effectiveness of those systems.

I confirm that Sir Nigel Crisp appointed the Chief Executive of the Authority 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 continued to be improved during 2004-2005, the first full year of the Authority's operation, up to the date of approval of the annual report and accounts, and accords with HM 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 National Health Service, 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. A plan to address any weaknesses identified and to ensure continuous improvement of the system of internal control is in place at the Authority.

The system of internal control has been in place for the year ended 31 March 2005, but the internal control assurance framework was not fully in place from the outset. The Chief Executive has in hand a programme to develop a number of areas in 2005-2006 including

- harmonisation of financial processes through the National Finance Centre;
- embedding a business planning and linked performance management process;
- developing a comprehensive and consistent procurement process; and
- introducing a national networked Complaints and Incidents Management System and associated policy.

The underlying accounts are laid before Parliament¹.

Sir Ian Carruthers
Accounting Officer

5 June 2006

¹ HC 152

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

I certify that I have audited the financial statements on pages G8 to G24 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages G11 to G15.

Respective responsibilities of the Accounting Officer and Auditor

As described on page G3, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with the section 98(4) of the National Health Service Act 1977 and Treasury directions made thereunder 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 responsibilities, as independent auditor, are established by statute and I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the Treasury directions made thereunder, and 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.

I review whether the statement on pages G4 to G5 reflects the Department of Health's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. An 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 judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, 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 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.

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of NHS Professionals at 31 March 2005 and of the surplus, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and directions made thereunder by 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.

Please see my Report at HC 1092-I.

John Bourn
Comptroller and Auditor General

5 June 2006

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

Income and Expenditure Statement for the year ended 31 March 2005

	Notes	2004-2005 £000	3 months to 31 March 2004 £000
Operating income	3	229,327	0
Operating expenditure	2.1	(259,592)	(498)
Operating deficit		(30,265)	(498)
Interest payable	2.4	(2)	0
Parliamentary funding		31,534	414
Net surplus/(deficit) for the financial year		1,267	(84)

All income and expenditure is derived from continuing operations.

The 2004 FY Accounts only covered the period January to March 2004 and the net deficit reported related to the set-up costs of the organisation only. The Authority only commenced full trading on 1 April 2004.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2005

	Note	2004-2005 £000	3 months to 31 March 2004 £000
Surplus/(deficit) for the financial year		1,267	(84)
Unrealised surplus on the indexation of fixed assets	11.2	10	0
Total recognised gains and losses for the financial year		1,277	(84)

The notes at pages G11 to G24 form part of this account.

Balance Sheet as at 31 March 2005

	Notes	31 March 2005 £000	31 March 2004 £000
Fixed assets			
Intangible assets	4.1	143	0
Tangible assets	4.2	3,759	0
		<u>3,902</u>	<u>0</u>
Current assets			
Stocks	5	0	0
Debtors	6.1	48,937	138
Cash at bank and in hand	7	(14)	0
		<u>48,923</u>	<u>138</u>
Creditors: amounts falling due within one year	8.1	(49,011)	(222)
		<u>(88)</u>	<u>(84)</u>
Net current (liabilities)			
Total assets less current liabilities		3,814	(84)
Creditors: amounts falling due after more than one year	8.2	0	0
Provisions for liabilities and charges	9	(2,483)	0
		<u>1,331</u>	<u>(84)</u>
Taxpayers' equity			
General fund	11.1	1,321	(84)
Revaluation reserve	11.2	10	0
		<u>1,331</u>	<u>(84)</u>

The notes at pages G11 to G24 form part of this account.

Sir Ian Carruthers
Accounting Officer

5 June 2006

Cash Flow Statement for the year ended 31 March 2005

	Notes	2004-2005 £000	3 months to 31 March 2004 £000
Net cash (outflow) from operating activities	12	(30,355)	(414)
Servicing of finance			
Interest paid		(2)	0
Net cash (outflow) from servicing finance		(2)	0
Capital expenditure and financial investment			
(Payments) to acquire intangible fixed assets		(33)	0
(Payments) to acquire tangible fixed assets		(1,158)	0
Net cash (outflow) from investing activities		(1,191)	0
Net cash (outflow) before financing		(31,548)	(414)
Financing			
Net Parliamentary Funding		31,534	414
(Decrease) in cash in the period	7	(14)	0

The notes at pages G11 to G24 form part of this account.

Notes to the Accounts

1 Accounting policies

The financial statements have been prepared in accordance with the 2004-2005 Resource Accounting 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.

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 2004-2005 was 3.5% (2003-2004 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

- i All assets falling into the following categories are capitalised
 - 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.

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 and have been included in these accounts at 31 March 2005.

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

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

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

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

c Depreciation 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
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 2004-2005 was £1,577,000 (2003-2004 £5,000).

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.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 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. 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. Until 2002-2003 HM Treasury paid the Retail Price Indexation costs of the NHS Pension scheme direct but as part of the Spending Review Settlement, these costs have been devolved in full. For 2003-2004 the additional funding was retained as a Central Budget by the Department of Health and was paid direct to the NHS Pensions Agency and the employers' contribution remained at 7%. From 2004-2005 this funding was devolved in full to NHS Pension Scheme employers and the employers' contribution rate rose to 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. Additional pension liabilities arising from early retirement are not funded by the scheme except where the retirement is due to ill-health. For early retirements not funded by the scheme, the full amount of the liability for the additional costs is charged to the Operating Cost Statement account at the time the Authority commits itself to the retirement, regardless of the method of payment.

A death gratuity of twice final years 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 years 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 Operating Cost Statement 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 3.5% in real terms.

2.1 Operating expenditure

	Notes	2004-2005 £000	3 months to 31 March 2004 £000
Non-executive members' remuneration		106	25
Other salaries and wages	2.2	238,673	177
Supplies and services - general		2,027	0
Establishment expenses		5,408	42
Transport and moveable plant		177	0
Premises and fixed plant		6,981	64
External contractors		4,205	180
Capital: Depreciation and amortisation	4.1, 4.2	381	0
Capital charges interest		138	0
		519	0
Auditor's remuneration: Audit Fees		80	10
Miscellaneous		1,416	0
		259,592	498

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

2.2 Staff numbers and related costs

	2004-2005 Total £000	Permanently employed staff £000	Other £000	3 months to 31 March 2004 £000
Salaries and wages	235,935	14,808	221,127	160
Social security costs	1,161	1,161	0	12
Employer contributions to NHSPA	1,577	1,577	0	5
	238,673	17,546	221,127	177

The average number of employees during the year was

	2004-2005 Total Number	Permanently employed staff Number	Other Number	3 months to 31 March 2004 Number
Total	685*	685	*	3

* Information has not been 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 (2003-2004: £nil).

Retirements due to ill-health

During 2004-2005 there were two 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 £100,000. This information has been supplied by NHS Pension Agency

These retirements represented 1.47 per 1,000 active scheme members.

2.3 Salary and pension entitlement of senior managers

a Remuneration

Name and title	2004-2005			3 months to 31 March 2004		
	Salary in £5000 bands £000	Other remuner- ation in £5000 bands £000	Benefits in kind (rounded to the nearest £000) £000	Salary in £5000 bands £000	Other remuner- ation in £5000 bands £000	Benefits in kind (rounded to the nearest £000) £000
Executive team						
Carmel Flatley (Chief Executive)	165-170	0	0	35-40	0	0
Ian Millar (Director of Finance)	105-110	0	0	15-20	0	0
Jeffrey Lynch (Director of HR, Marketing and Communications) started 17 May 2004	75-80	0	0	0	0	0
Richard McMahon (Director of Clinical Governance) started 23 October 2004	50-55	0	0	0	0	0
Paul Roche (Director of Operations) started 2 August 2004	70-75	0	0	0	0	0
Naveed Younus (Director of IT)	85-90	0	0	0	0	0
Non Executive team						
Richard Martin (Chairman)	0	55-60	0	0	10-15	0
Richard Bromberg	0	5-10	0	0	0-5	0
Fiona Eldridge	0	5-10	0	0	0-5	0
John Flook	0	5-10	0	0	0-5	0
Sue Hobbs	0	5-10	0	0	0-5	0
John King	0	5-10	0	0	0-5	0
Anthony McKeever	0	5-10	0	0	0-5	0
Carol Varlaam	0	5-10	0	0	0-5	0
Nilesh Goswami started 1 May 2004	0	5-10	0	0	0	0
Maggie Lee started 1 May 2004	0	0-5	0	0	0	0

b Pension benefits

Name and title	Real increase in pension and related lump sum at age 60 (bands of £2,500) £000	Total accrued pension at age 60 at 31 March 2005 and related lump sum (bands of £5,000) £000	Cash equivalent transfer value at 31 March 2005 £000	Cash equivalent transfer value at 31 March 2004 £000	Real increase in cash equivalent transfer value £000	Employer's contribution to stakeholder pension (rounded to nearest £000) £000
Carmel Flatley (Chief Executive)	5-7.5	5-10	29	10	19	0
Ian Millar (Director of Finance)	5-7.5	5-10	19	2	16	0
Jeffrey Lynch (Director of HR, Marketing and Communications) started 17 May 2004	2.5-5	65-70	211	185	21	0
Richard McMahon (Director of Clinical Governance) started 23 October 2004	7.5-10	75-80	283	257	19	0
Paul Roche (Director of Operations) started 2 August 2004	0	0-5	10	0	0	0
Naveed Younas (Director of IT)	0	0-5	13	0	0	0

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

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 from 2004-2005 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.

2.4 Better Payment Practice Code - measure of compliance

	Number	£000
Total bills paid 2004-2005	35,698	36,611
Total bills paid within target	34,606	34,727
Percentage of bills paid within target	96.9%	94.9%

The Late Payment of Commercial Debts (Interest) Act 1998

	2004-2005	3 months to 31 March 2004
	£000	£000
Amounts included within interest payable arising from claims made under this legislation	2	0
	2	0

Due to the migration of the accounting ledgers onto a new platform part way through the financial year, it has not been possible to provide data for the full year, and the above disclosures relate to the period November 2004 to March 2005. In 2005-2006 data will be provided for the full year.

3 Operating income

Operating income analysed by classification and activity, is as follows

	Appropriated in aid	Not Appropriated in aid	2004-2005 Total	3 months to 31 March 2004
	£000	£000	£000	£000
Programme income				
Fees and charges to external customers	0	127	127	0
Income received from other Departments, etc	0	229,200	229,200	0
Total	0	229,327	229,327	0

4.1 Intangible fixed assets

	Software Licences £000
Gross cost at 31 March 2004	0
Additions - purchased	153
Gross cost at 31 March 2005	153
Accumulated amortisation at 31 March 2004	0
Charged during the year	10
Accumulated amortisation at 31 March 2005	10
Net book value at 31 March 2004	0
Net book value at 31 March 2005	143

The only intangible fixed assets held are Software Licences.

4.2 Tangible fixed assets

	Information Technology £000	Furniture and fittings £000	Total £000
Cost or valuation at 31 March 2004	0	0	0
Additions - purchased	3,622	498	4,120
Indexation	0	16	16
Gross cost at 31 March 2005	3,622	514	4,136
Accumulated depreciation at 31 March 2004	0	0	0
Charged during the year	188	183	371
Indexation	0	6	6
Accumulated depreciation at 31 March 2005	188	189	377
Net book value at 31 March 2004	0	0	0
Net book value at 31 March 2005	3,434	325	3,759

NHS Professionals held no assets under finance leases and hire purchase contracts at the balance sheet date (31 March 2004: £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 (2003-2004: £nil)

4.4 Profit/loss on disposal of fixed assets

NHS Professionals had no disposals of assets during the year (2003-2004: £nil)

5 Stocks and work in progress

The net book value of stocks and work-in-progress at the balance sheet date was £nil (2003-2004: £nil)

6 Debtors

6.1 Amounts falling due within one year

	31 March 2005 £000	31 March 2004 £000
NHS debtors	28,556	138
Provision for irrecoverable debts	0	0
Prepayments	183	0
Accrued income	19,523	0
Other debtors	675	0
	48,937	138

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 2004-2005 (2003-2004: £nil)

7 Analysis of changes in cash

	At 31 March 2004	Change during the year	At 31 March 2005
	£000	£000	£000
Cash at OPG	0	(15)	(15)
Cash at commercial banks and in hand	0	1	1
	<u>0</u>	<u>(14)</u>	<u>(14)</u>

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

	31 March 2005	31 March 2004
	£000	£000
NHS creditors	7,387	0
Capital creditors	3,082	0
Tax and social security	5	0
Other creditors	14,046	0
Accruals	20,551	222
Deferred income	3,940	0
	<u>49,011</u>	<u>222</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 2004-2005 (2003-2004: £nil)

8.3 Finance lease obligations

NHS Professionals has not entered into any finance lease obligations (2003-2004: £nil)

9 Provisions for liabilities and charges

	Other £000	Total £000
At 31 March 2004	0	0
Arising during the year	2,483	2,483
At 31 March 2005	<u>2,483</u>	<u>2,483</u>
<i>Expected timing of cash flows</i>		
Within one year	2,483	2,483
One and five years	0	0
Over five years	0	0

£nil is included in the provisions of the NHS Litigation Authority at 31 March 2005 in respect of clinical negligence liabilities of the Special Health Authority.

10 Movements in working capital other than cash

	2004-2005	2003-2004
	£000	£000
Increase in debtors	48,799	138
(Increase) in creditors	(45,707)	(222)
	<u>3,092</u>	<u>(84)</u>

11 Movements on reserves**11.1 General fund**

	2004-2005	2003-2004
	£000	£000
Balance at 31 March 2004	(84)	0
Net surplus/(deficit) for the year	1,267	(84)
Non-cash items: Capital charge interest	138	0
Balance at 31 March 2005	<u>1,321</u>	<u>(84)</u>

11.2 Revaluation reserve

	2004-2005	2003-2004
	£000	£000
Balance at 31 March 2004	0	0
Indexation of fixed assets	10	0
Balance at 31 March 2005	<u>10</u>	<u>0</u>

12 Reconciliation of operating costs to operating cash flows

		2004-2005	3 months to
	Notes	£000	31 March 2004
			£000
Net operating deficit before interest for the year		30,265	498
Adjust for non-cash transactions	2.1	(519)	0
Adjust for movements in working capital other than cash	10	3,092	(84)
(Increase) in provisions	9	(2,483)	0
Net cash outflow from operating activities		<u>30,355</u>	<u>414</u>

13 Contingent liabilities

At 31 March 2005, there were no known contingent liabilities (31 March 2004: £nil)

14 Capital commitments

At 31 March 2005 the value of contracted capital commitments was £8,053,233 (31 March 2004: £nil)

15 Commitments under operating leases

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

	2004-2005	3 months to 31 March 2004
	£000	£000
Hire of plant and machinery	0	0
Other operating leases	1,809	61
	1,809	61
<i>Commitments under non-cancellable operating leases</i>		
Land and buildings	£000	£000
<i>Operating leases which expire</i>		
Within one year	995	73
Between one and five years	432	0
After five years	274	0
	1,701	73
<i>Other leases</i>		
<i>Operating leases which expire</i>		
Within one year	17	0
Between one and five years	13	0
After five years	0	0
	30	0

16 Other commitments

At 31 March 2005 the value of other financial commitments (which are not operating leases) was £472,000. These relate to the provision of IT management services (£372,000) and accounting systems (£100,000). The value as at 31 March 2004 was £nil.

17 Losses and special payments

During the year 2004-2005 NHS Professionals incurred losses and special payments as follows

Bad Debt Write-offs	£7,583
Stock Losses	£145,060

Bad Debts written off comprise 41 non-NHS debtor balances.

Stock Losses consisted of the write-off of staff uniforms which had no net realisable value as at 31 March 2005.

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 £203 million and which represented trading with 129 individual organisations.

Purchase of goods and services from other Health Authorities, Primary Care Trusts and NHS Trusts during the year were valued at £2 million, which represented trading with 194 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

From 1 April 2005 HM Treasury changed the discount rate used in calculating provision from 3.5% to 2.2%. This change will not result in any increase in our provisions in 2005-2006.

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

	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
	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	0	0	0	0
Balances with local authorities	0	0	0	0
Balances with NHS Trusts	138	0	0	0
Balances with public corporations and trading funds	0	0	0	0
Balances with bodies external to government	0	0	222	0
At 31 March 2004	138	0	222	0

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