Presented pursuant to the Government Resources and Accounts Act 2000 c.20 s.6

Department of Health

Resource Accounts 2006-07

(For the year ended 31 March 2007)

Ordered by the House of Commons to be printed
11 October 2007

LONDON: The Stationery Office
HC 1005

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Contents

Annual Report

INTRODUCTION

1.1 During 2006-07 the Department of Health was responsible for the stewardship of almost £90 billion of public funds.

1.2 The Department advises ministers on how best to use this funding to meet government objectives. The Department's staff are responsible for leading and driving forward change in the NHS and social care and improving standards in public health.

1.3 The Department's overall aim is to improve the health and well being of the people of England. Its work includes setting national standards and shaping the direction of the NHS and social care services; and promoting healthy living.

1.4 The Department has three distinct but inter-related roles:

- it is the major Department of State for a broad and complex range of governmental activity;
- it is the effective national headquarters of the NHS; and
- it is responsible for setting policy on public health, adult social care and a related topics from genetics to international work.

1.5 These Resource Accounts show how the Department's activities were funded and its resources deployed. In summary:

- the Department met each of its financial duties, managing within the resources voted by Parliament and the spending limits set by Treasury;
- net revenue expenditure by organisations within the resource accounting boundary totalled £64,601 million an increase of £2,075 million or 3.2% compared with 2005-06. This compared with provision for the year of £65,338 million, an underspend of £737 million or 1.1%;
- expenditure on Departmental administration was £229.4 million compared with £245.6 million in 2005-06 a decrease of 6.6%. The Department's administration cost limit was £239.6 million;
- net capital expenditure by organisations within the resource accounting boundary totalled £2,263 million an increase of £208 million or 10.1% compared with 2005-06. This compares with provision for the year of £3,184 million, an underspend of £921 million or 28.9%; and
- Net Assets Employed increased by £1.7bn during the year. The main reason for this was a £2bn increase in investments in NHS trusts and Foundation trusts.

Within the public spending framework underspends are carried forward for utilisation in future years.

MATTERS FOR INCLUSION IN THE DIRECTORS' REPORT

2. Financial Statements and Reporting Cycle

2.1 These accounts cover the period 1 April 2006 to 31 March 2007. They have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under section 7 of the Government Resources and Accounts Act 2000. A copy of this direction is available online, by accessing the HMT website at www.hm-treasury.gov.uk. All financial statements presented in the report are audited by the

Comptroller and Auditor General (C&AG). The primary financial statements that make up these accounts are:

- a **"Statement of Parliamentary Supply"**. This is the prime parliamentary accountability statement. It provides a comparison of resource outturn against the Supply Estimate voted by Parliament for each Request for Resources (RfR); a summary of the cash required to finance expenditure and; a summary of income both appropriated in aid of expenditure and surrendered to the Consolidated Fund.

- an **"Operating Cost Statement"**. This shows resources consumed by organisations within the Departmental boundary during the year by Request for Resources comprising administration and programme expenditure net of income.

- a **"Balance Sheet"**. This shows the assets, liabilities and taxpayers' equity of organisations within the departmental boundary at the beginning and end of the year.

- a **"Cash Flow"** statement. This shows how cash has been used during the year for operating activities, capital expenditure and financing.

- a **"Consolidated Statement of Operating Costs by Departmental Aims and Objectives"**. This shows expenditure allocated to the Department's agreed objectives.

2.2 These statements and the notes that support them have been prepared in accordance with the Government Financial Reporting Manual for 2006-07 (FReM).

2.3 The Resource Accounts are one of series of document published each year by the Department and HM Treasury that account to Parliament and the public for the Department's performance and use of resources. The other key documents published as part of the annual reporting cycle are:

- **Departmental Report**. The most recent report was presented to Parliament in May 2007. It provides a comprehensive overview of spending and investment programmes and of the reforms accompanying this investment. It focuses on the continuing improvements being delivered for people using health and social care services and on the Department's progress against its Public Service Agreements. The report also sets out the Department's plans for future years. In particular it focuses on plans for improvements in 2007-08. The announcement of the outcome of the Comprehensive Spending Review in October will provide the financial context for subsequent years. The Departmental Report can be found on the Department of Health website www.dh.gov.uk

- **Estimates**: The Estimates are the Government's requests for resources from Parliament and are presented annually on the following cycle:

  – Main Supply Estimates start the supply procedure and are presented at the beginning of the financial year to which they relate;

  – Winter Supplementary Estimates are presented in November, and reflect changes to Supply, and the funds that are required by the Department, that have been identified during the year; and

  – Spring Supplementary Estimates are presented in February, and represent the final changes required by the Department.

  Supply Estimates are presented by HM Treasury and can be found on their website www.hm-treasury.gov.uk

- **Autumn Performance Report**: Following on from the Departmental Report, the Autumn Performance Report is usually published in November/December and provides a further update to

the progress against the Public Service Agreement targets that are set out in Section 2 of the main Departmental Report. Publication dates are agreed with HM Treasury. This can again be found on the Department's website www.dh.gov.uk

- **Public Expenditure Outturn White Paper**. This is published by HM Treasury in July. For each Department this shows provisional expenditure against the Departmental Expenditure Limits and the Administrative Cost Limit which covers departmental running costs. This is used to determine the level of underspend which can be carried forward for spending in the current or future years. The White Paper can be found on the HM Treasury website www.hm-treasury.gov.uk

3. Departmental Accounting Boundary

3.1 These accounts consolidate the financial information of organisations within the Departmental Accounting Boundary.

3.2 The departmental boundary is different from the concept of the group in the commercial sector as it is based on in-year budgetary control rather than strategic control. For the Department of Health those organisations within the boundary are: the Department itself, the NHS Purchasing and Supply Agency, those Special Health Authorities not funded by trading activities, Strategic Health Authorities and Primary Care Trusts.

3.3 There is a wide range of organisations that lie outside the departmental boundary but form part of the Departmental Group. These include NHS Trusts, NHS Foundation Trusts, Non-Departmental Public Bodies and those Special Health Authorities that receive their funding direct from trading activities. Note 37 provides a comprehensive list of the all organisations within the Departmental Group showing those which are inside and those which are outside the departmental boundary for the purposes of resource accounting.

4. Management of the Department

4.1 The Department is headed by a team of Ministers, supported by officials, the most senior of whom are the Permanent Secretary, the NHS Chief Executive and the Chief Medical Officer.

4.2 The Permanent Secretary, Hugh Taylor, is also the Principal Accounting Officer for the Department. He is responsible for leading the department as a whole to make sure it operates effectively, that ministers get the advice and support they need, and that there is effective cross-government working. The NHS Chief Executive, David Nicholson, is Additional Accounting Officer for RfR 1. He is responsible for leading the NHS and is chief adviser to the Secretary of State on the NHS. The Chief Medical Officer Sir Liam Donaldson is the chief professional adviser to ministers and across government on medical and public health issues.

Ministers

4.3 The following Ministers were responsible for the Department in 2006-07:

- Secretary of State for Health with overall responsibility for the work of the Department: Rt Hon Patricia Hewitt MP.

- Ministers of State with responsibilities for the NHS and Social Care, including long term care, disability and mental health:
  - Lord Warner, Minister of State to 31 December 2006
  - Rosie Winterton MP, Minister of State continuous
  - Rt Hon Jane Kennedy MP, Minister of State to 5 May 2006
  - Caroline Flint MP, Minister of State from 8 May 2006

- Lord Phillip Hunt, Minister of State from 5 January 2007
- Andy Burham MP, Minister of State from 6 May 2006

- Parliamentary Under Secretaries (Commons) with responsibility for Health and Public Health:
  - Liam Byrne MP, to 5 May 2006
  - Ivan Lewis MP, from 6 May 2006

The Departmental Management Board

4.4 The Departmental Board supports Ministers and the Permanent Secretary in developing strategy for the health and care system and overseeing its implementation and in providing leadership to the Department and to the health and care system. The Board is responsible for:

- setting the standards and values for the department;
- agreeing the department's forward plan and ensuring its delivery; and
- ensuring that the Department is well managed, with good governance and control arrangements, effective management of risk.

4.5 The Departmental Management Board includes both Director Generals from within the Department and non-executive members. Membership at 31 March 2007 is shown in the table below.

Name	**Title**	**Date appointed (if during year)**
Hugh Taylor	Permanent Secretary *(Acting Permanent Secretary from 1st April 2006)*	18 December 2006
David Nicholson	NHS Chief Executive	1 September 2006
Sir Liam Donaldson	Chief Medical Officer	
Chris Beasley	Chief Nursing Officer	
David Behan	Director General of Social Care	29 August 2006
Andrew Cash *(on secondment from Sheffield Teaching Hospitals NHS Trust)*	Director General of Provider Development	1 July 2006
Clare Chapman	Director General of Workforce	3 January 2007
Alan Doran	Director General of Departmental Management *(Acting Director General of Departmental Management from 1 April 2006)*	18 December 2006
Richard Douglas	Director General Finance & Investment	
Bill McCarthy	Director General of Policy and Strategy *(Acting Director General of Policy and Strategy from 1 October 2005)*	21 July 2006
Mike Seitz	Acting Commercial Director General	1 January 2007
Duncan Selbie	Director General of Programmes and Performance Director General of Commissioning from 1 May 2006	
Matt Tee	Interim Director General of Communications	
Richard Granger	Director General of NHS IT	
Derek Myers	Non-executive member	
Julie Baddeley	Non-executive member	
Mike Wheeler	Non-executive member	

4.6 The following officials also served on the Departmental Management Board during 2006-07:

Sir Ian Carruthers	Acting NHS Chief Executive	up to 31 August 2006
Barbara Hakin	Interim Director General of Commissioning	up to 31 May 2006
David Flory	Interim Director of Financial Recovery	7 April 2006 to 31 December 2006
Nic Greenfield	Acting Director General of Workforce	1 May 2006 to 2 January 2007
Margaret Edwards	Director General, Access	Up to 31 May 2006
Ken Anderson	Director General, Commercial	Up to 31 December 2006

4.7 In discharging its responsibilities the Departmental Board is supported by a number of boards and sub-committees. During 2006-07 these were:

- the **NHS Management Board**. This is chaired by the NHS Chief Executive and brings together SHA Chief Executives and executive members of the Departmental Management Board (DMB) to lead performance and financial delivery in NHS.
- the **Policy Committee**. This is chaired by the Permanent Secretary and comprises key figures involved in policy development across the department, both from policy teams, and from finance and information. Its role is to embed good policy making, with all DH policy being developed in line with best practice guidance championed by the committee.
- the **Corporate Management Board**. This is chaired by the Permanent Secretary and comprises all the Department's Director General's and senior officials from business support. Its role is to support the Permanent Secretary in managing the Department's business including the allocation and management of resources.
- the **Finance Committee**. This is chaired by the Director General, Finance & Investment and includes four Director Generals, one non-executive from the Departmental Management Board, one Strategic Health Authority Chief Executive and one Strategic Health Authority Finance Director. The committee oversees work on finance and investment on behalf of the Departmental Management Board.
- the **Senior Pay Committee**. This is chaired by the Permanent Secretary and comprises the Chief Medical Officer, the NHS Chief Executive, and the Department's HR Director, one non-executive from the Departmental Management Board and a representative from the First Division Association. The committee oversees the departmental pay strategy.
- the **Audit Committee**. The committee is chaired by a non-executive member of the Departmental Management Board and also includes one other Board non-executive, and three senior managers drawn from the health and social care system. The committee's role is to advise the department's accounting officers on risk management, corporate governance and assurance arrangements relating to the department and its subordinate bodies.

Appointment of senior officials

4.8 Senior Civil Servants, including the Permanent Secretary and Departmental Management Board members are appointed in accordance with the Department's Procedures, the Civil Service Commissioner's Recruitment Code and Guidance on Civil Service Commissioner's Recruitment to Senior Posts.

Remuneration of Ministers and senior officials

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

4.10 The majority of Senior Civil Servants in the Department, including the Permanent Secretary and Departmental Board members, are paid in accordance with the Senior Civil Service pay system, which is determined centrally. A minority of Senior Civil Servants in the Department are on NHS pay terms.

4.11 Details of the remuneration of Ministers and senior officials are given in the Remuneration Report.

Events since the year end

4.12 Following a Government reorganisation in June the Prime Minister appointed the following Ministers to the Department:

- Secretary of State for Health: Rt Hon Alan Johnson MP
- Minister of State for Health Services: Ben Bradshaw MP
- Minister of State for Public Health: Rt Hon Dawn Primarolo MP
- Parliamentary Under Secretary of State: Professor Lord Darzi KBE
- Parliamentary Under Secretary of State for Care Services: Ivan Lewis MP
- Parliamentary Under Secretary for Health Services: Ann Keen MP

4.13 In May 2007 a number of changes were made to the senior structure of the Department creating a distinct NHS leadership team. The main reporting lines are shown below:

Hugh Taylor: Permanent Secretary

- Richard Douglas: Director General Finance & Investment
- Una O'Brien: Acting Director General Policy & Strategy
- David Behan: Director General Social Care, Local Government & Care Partnerships
- Alan Doran: Director General Departmental Management
- Sian Jarvis: Director General communications.

David Nicholson: NHS Chief Executive

- Chris Beasley: Chief Nursing Officer
- Mark Britnell: Director General Commissioning & System Management
- Clare Chapman: Director General Workforce
- Richard Granger: Director General NHS IT
- David Flory: Director General NHS Finance, Perfomance & Operations.
- Chan Wheeler: Director General Commercial
- Vacant: NHS Medical Director General

Sir Liam Donaldson: Chief Medical Officer

- Martin Marshall: Director General Healthcare Quality
- Fiona Adshead: Director General Health Improvement
- Sally Davies: Director General Research & Development
- David Harper: Director General Health Protection, International Health & Scientific Development
- Bill Kirkup: Director General Programmes.

MANAGEMENT COMMENTARY

Departmental aims and objectives

5.1 The Department's overall aim is to improve the health and well-being of the people of England. Underpinning this aim the Department had four medium term objectives for improving:

- the health of the population
- health outcomes for people with long term conditions
- access to services
- patient and user experience

Supporting these objectives are eight Public Service Agreement targets agreed in the 2004 Spending Review. Details of these targets and performance against them are provided in the Departmental Report.

Principal activities

5.2 In support of the delivery of its objectives the Department:

- develops strategy and direction for the health and social care system and acts to maintain the integrity and values of the system
- provides the legislative framework for the health and social care system
- sets some standards and ensures that others are met
- builds capability and capacity
- secures and allocates resources
- ensures accountability to Parliament and the public.

5.3 The Department manages delivery through some 2,257 staff who are permanently employed, in addition there are also 2,382 other staff who work in some capacity for the Department; 25 arms length bodies that have been created to regulate the system, improve standards, protect public welfare and support local services; local NHS organisations and a wide range of partnerships with other public and private sector organisations.

Review of the Year

5.4 The following paragraphs provide a brief review of the Department's activities and achievements during 2006-07 covering its main areas of business: the NHS; public heath; social care and; Department of State. Further information on performance is included in the Departmental Report the Chief Executive's Report to the NHS and the Finance Director's report to the Secretary of State on NHS Financial Performance Quarter Four 2006-07 each of these can be accessed through the DH website www.dh.gov.uk

5.5 In relation to the NHS during 2006-07 the Department focussed on: restoring financial balance; strengthening NHS leadership; maintaining progress on planned improvements in performance and; continuing to reform the system. In these areas:

- the finances of the NHS were transformed. From a financial deficit of £547 million in 2005-06 the NHS moved to a surplus of £515 million in 2006-07 which is carried forward for spend in future years. Just as important, we introduced a modern, fair and transparent financial regime that will support sustainable financial improvement.
- NHS leadership was streamlined and strengthened. 28 Strategic Health Authorities were reduced to 10, 303 Primary Care Trusts to 152 and 31 ambulance trusts to 12 releasing resources for frontline service delivery. At the same time performance remained on track and financial grip improved.

- progress on planned service improvements was maintained including reduction in cancer waiting times from diagnosis to treatment to one month; and continuing progress on the targets to reduce waiting times from referral to treatment to just 18 weeks and to halve MRSA rates by 2008.
- roll out of system reform continued with an increase in the number of Foundation Trusts, consultation on system management and regulation and a new model contract and updated tariff launched for 2007-08 with the NHS Operating Framework in December 2006.

5.6 In the public health arena, the most significant event during the year was the introduction of "smoke-free" legislation, July 2006 saw the Health Act 2006 receive Royal Assent. The Act contained provisions for the prohibition of smoking in almost all enclosed and substantially enclosed public places and workplaces. Smoke-free regulations were made following a full public consultation run by the Department and the new law was implemented on 1st July 2007. Further information can be found in the Chief Medical Officer's Annual Report "On The State of Public Health" which can be accessed through www.dh.gov.uk.

5.7 In the area of Social Care, the Department created a new Director General post supported by a Social Care Directorate to: provide clear national leadership for social care across central and local government; deliver the commitments on reform and improvements in social care and related health outcomes in the White Paper "Our Health, Our Care, Our Say"; lead policy development on adult social care and; oversee and take responsibility for building capacity and capability within the Department on Social Care. Activities during 2006-07 include:

- Funding pilots for "Partnerships for Older People Projects" designed to establish locally innovative projects between councils, PCTs and voluntary bodies with the aim of delivering reform across health and social care to deliver improved outcomes for older people.
- Piloting of individual budgets across 13 local authorities with the aim of enabling people who need access to social care and associated services to design that support and the power to decide the nature of the services they need.
- The launch in November 2006 of the Dignity in Care campaign to create a national debate about dignity and to send a strong signal to care services about the importance of dignity in the care of older people.

5.8 In its role as a Department of State the Department has one of the most demanding agendas and is one of the busiest in Whitehall. During the year it:

- remained on track to deliver some £6.5 billion of annual efficiency savings across the areas of its responsibilities as agreed following the "Gershon" efficiency review;
- continued to develop and improve its capacity to contribute to cross-governmental and international work on meeting the challenges of terrorism and other major emergencies;
- published 24 Regulatory Impact Assessments and achieved 100% compliance with the RIA process;
- managed 8% of all freedom of information requests across government and over 100,000 pieces of correspondence;
- answered over 10,000 parliamentary questions, led on 8 Public Accounts Committee Inquiries and 6 Select Committee reports.

5.9 Although the Department achieved many successes during the past year there are a number of areas where there remains scope for improvement.

5.10 In June 2006, the Cabinet Office published its Capability Review on the Department. This independent assessment of our capability to deliver our aims and objectives commended the talent, passion and commitment of our staff, and reached the following conclusions on the three key areas:

- on delivery, the Department scored equal to the highest in Government, in an area where many departments have struggled;
- on strategy, work has started and is going in the right direction, but we need to go further and faster; and

- on leadership, the Department needed to take urgent action to tackle areas of concern.

5.11 The "Forward Look" below outlines the action the Department is taking in response to the Capability Review.

Forward Look

The NHS

5.12 The NHS Operating Framework published in December 2006 set out the planning parameters within which local NHS organisations are expected to operate in 2007-08 [www.dh.gov.uk]. Within the context of rising public expectations, changing demographics, changes in medical technology and variations in quality, safety, access and value for money across the NHS these cover: health and service priorities for the year; next steps in reform; and financial objectives.

5.13 Reflecting both the degree of challenge they pose and their importance to the public the development priorities for the NHS in 2007-08 are:

- achieving a maximum wait of 18 weeks from GP referral to start of treatment;
- reducing rates of MRSA and other healthcare acquired infections;
- reducing health inequalities and promoting health and well being; and
- achieving sustainable financial health.

5.14 Beyond 2007-08 future activities and priorities will be determined by

i) the outcome of the Comprehensive Spending Review; and

ii) the NHS Next Stage Review.

5.15 In October 2007 the Government will publish the outcome of its Comprehensive Spending Review which will include the resources to be provided to the Department of Health for the health and social care systems together with the Public Service Agreements will set out perfomance expectations.

5.16 For the NHS, following a number of years of unprecedented growth in health spending – a period of "catch-up" – it is inevitable that although real terms growth will continue this will be at a lower level as the NHS enters a period of "keep-up". The challenge that the Department and NHS leadership face will be to continue to meet the challenge of rising demand and expectations through improving the use of existing capacity. This will place a premium on the control of costs and the delivery of efficiency improvements across the NHS.

5.17 Following receipt of the CSR settlement the Department will announce the allocation of resources to Primary Care Trusts and provide planning guidance through the NHS Operating Framework.

5.18 The Next Stage Review led by Professor the Lord Darzi was announced by the Secretary of State on 4 July. The Review will directly engage patients, NHS staff and the public on four critical challenges:

- First, working with NHS staff to ensure that clinical decision making is at the heart of the future of the NHS and the pattern of service delivery.
- Second, improving patient care, including high quality, joined up services for those suffering long-term or life-threatening conditions so that patients are treated with dignity in safe, clean environments.
- Third, ensuring that there is more accessible and convenient care integrated across primary and secondary providers, reflecting best value for money and offering services in the most appropriate settings for patients.
- Fourth, establishing a vision for the next decade of the Health Service which is based less on central direction and more on patient control, choice and local accountability, and which ensures services are responsive to patients and local communities.

The terms of reference for review can be found on the Department's website. Professor the Lord Darzi will complete an initial assessment in October to inform the CSR; and produce his full report in the 2008, setting out a new vision for a 21st Century NHS, coinciding with its 60th anniversary.

Department of Health

5.19 During 2007-08 the Department is taking action in response to the Capability Review. In July the Department published a development plan in which focuses on:

- Setting direction – by establishing a vision and clear strategic direction for the health and social care system, leading to a clearly articulated common purpose, and capacity within the Department to sustain and refresh this vision as required. The department should be seen as a good organisation to do business with.
- Agreeing the Department's role and work programme – to provide clarity to all staff and stakeholders by establishing a work programme that explicitly reflects its strategic direction, role and resources.
- Taking a new approach to leadership, values and behaviours. The Department should have a positive and confident senior leadership team that is connected and responsive to all staff, and which is proud to celebrate success.
- Supporting our staff to succeed – developing capability. Managers should be committed to a culture of openness and fairness, and staff should be clear about the development support they can expect. Training and development should be seen as essential investment to strengthen capability and professionalism.
- Improving the Department's organisation and business processes, so that the structure and business systems are transparent and efficient, the decision-making process is clear, and there is a high standard in evidence-based policy making and implementation.

6. SUMMARY OF FINANCIAL RESULTS

Revenue expenditure

6.1 Across the three Requests for Resources the Department underspent in 2006-07 by a total of £737 millon on total resource provision of £65,338 million. Table one shows the breakdown of the under spend by RfR.

Table One – 2006-07 Overall Revenue Spending Approved by Parliament

Expenditure Type	Provision £m's	Outturn £m's	(Under) Spend £m's
Request for Resources 1			
Securing health for those who need it	61,874	61,288	586
Request for Resources 2			
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health	3,451	3,301	150
Request for Resources 3			
Office of the Independent Regulator for NHS Foundation Trusts	13	12	1
Total Resources	**65,338**	**64,601**	**737**

6.2 Within the centrally managed programmes the significant variations are shown in table two below and also reported under note 2.

Table Two: Significant Variations on Centrally Managed Programmes

Programme	Budget	Outturn £m's	Variance £m's	Explanation
RfR1 line A	Strategic health authorities and primary care trusts unified budgets and central allocations	77,116	494	Mainly the SHA and PCT net surpluses of £592m.
RfR1 line D	FHS dental Services	19	4	Difficulty in forecasting the value of outstanding claims from dentists for this demand led service.
RfR1 line F	Strategic Health Authority and primary care trust's grants to local authorities.	272	40	Slippage on a number of planned Local Authority schemes.
RfR2 line E	Other Personal Social Services	131	28	A budget for the Brighter Future for Older People £22.6m included in Other PSS at Spring Supply is now included in RfR1 Strategic health authorities and primary care trusts unified budgets and central allocations. In addition there were under spends of £2.5m due to delays in expansion of domicilairy workers and £2.5m on other social care budgets.
RfR2 line S	Individual budget pilots	3	2	Delays in setting up pilot sites for this new PSS grant

6.3 The total expenditure for which the Department is responsible includes not only voted sums but spending by organisations outside the resource accounting boundary. In 2006-07 the Department was responsible for managing a total resource budget of £81,855 million. Table three below reconciles this total spending to the net resource outturn shown in table one above.

Table Three: Revenue Reconciliation between Estimates, Accounts and Budgets

	2006-07 £m's	2005-06 £m's
Net Resource Outturn (Estimates)	**64,601**	**62,526**
Adjustments to remove:		
Provision voted for earlier years		**0**
Adjustments to additionally include:		
Non-voted expenditure in the OCS		**0**
Consolidated Fund Extra Receipts in the OCS	**–878**	**–1**
Other Adjustments		**0**
Net Operating Cost (Accounts)	**63,723**	**62,525**
Adjustments to remove:		
Capital Grants to Local Authorities and Third Parties	**–217**	**–68**
Capital Grants financed from the Capital Modernisation Fund	**0**	**0**
European Union income and related adjustments		**0**
Voted expenditure outside the budget	**16,804**	**12,499**
Adjustments to additionally include:		
Other Consolidated Fund Extra Receipts	**878**	**0**
Resource consumption of Non Departmental Public Bodies	**452**	**461**
Unallocated resource provision		**0**
Other adjustments	**–933**	**–466**
Resource Budget Outturn (Budget) of which;	**80,707**	**74,951**
Departmental Expenditure Limit (DEL)	**80,715**	**74,947**
Annually Managed Expenditure	**–9**	**4**

6.4 The primary financial control that the Treasury apply to the department is the Departmental Expenditure Limit (DEL) Table four provides a breakdown of 2006-07 Revenue DEL performance across the main DH spending sectors. This underspend is avaiable to be drawn down in future years under the Treasury's rules on "end of year flexibility".

Table Four: 2006-07 Revenue DEL Position by Sector

	2006-07 DEL (Under) Spend £m's
Strategic Health Authorities, Primary Care Trusts and NHS Trusts	**515**
Foundation Trusts	**–3**
Central Programme	**128**
Central Administration	**10**
Non-cash Departmental Unallocated Provision/underspend	**490**
2006-07 Total Revenue DEL Underspend	**1,140**
2006-07 Total Revenue DEL Provision	**81,855**
2006-07 Revenue DEL Underspend as a % of Provision	**1.4%**

Capital Expenditure

6.5 Across the two Requests for Resources the Department underspent in 2006-07 by a total of £921 millon on total provision of £3,184 million. Table five shows the breakdown of the under spend by RfR.

Table Five: 2006-07 Overall Capital Spending Approved by Parliament

Expenditure Type	Provision £m's	Outturn £m's	(Under) Spend £m's
Request for Resources 1			
Securing health for those who need it	3,163	2,123	1,040
Request for Resources 2			
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health	21	17	4
Net movement in debtors/creditors	0	123	–123
Total Resources	**3,184**	**2,263**	**921**

6.6 As with revenue expenditure the Department is responsible for capital spending for organisations outside the resource accounting boundary. Table six below reconciles this total capital expenditure to the total capital resources approved by Parliament shown in table five.

Table Six: Capital Reconciliation between Estimates, Accounts and Budgets

	2006-07 £m
Net Capital Outturn (Resource Account)	**2,263**
Adjustments to remove:	
Gains /losses from sale of capital assets	**–194**
Adjustments to additionally include	
Capital spending by non departmental public bodies	**80**
Capital grants	**223**
Supported capital expenditure (revenue)	**50**
Other adjustments	
Capital expenditure or NHS Trusts and FTs	**1,988**
Less net PDC and loans to trusts and FTs	**–1,338**
Other	**11**
Capital Budget Outturn (Budget) of which;	**3,083**
Departmental Expenditure Limit (DEL)	**2,994**
Annually Managed Expenditure	**89**

6.7 Table seven provides a breakdown of 2006-07 Capital DEL performance across the main DH spending sectors. This underspend is avaiable to be drawn down in future years under the Treasury's rules on "end of year flexibility".

Table Seven: 2006-07 Capital DEL Position by Sector

	2006-07 DEL (Under) Spend £M
Strategic Health Authorities, Primary Care Trusts and NHS Trusts	**502**
Central Programme (including Foundation Trusts and Grants)	**1,315**
Central Administration	**4**
Departmental Unallocated Provision (DUP)	**500**
2006-07 Total capital DEL Underspend	**2,321**
2006-07 Total Capital DEL Provision	**5,315**
2006-07 Capital DEL Underspend as a % of Provision	**43.7%**

6.8 The Capital DEL underspend is largely due to underspend/slippage by the NHS bodies including Foundation Trusts, Connecting for Health and unallocated capital, eg in the Departmental Unallocated Provision (DUP) and to the fact that a number of NHS organisations were in the process of financial recovery resulting in capital investment being delayed in some areas. The NHS has now moved into surplus and the numbers of organisations in deficit has reduced. This should ensure that capital investment should progress.

7. PUBLIC INTEREST AND OTHER ISSUES

Employment of Disabled Persons policy

7.1 The Department of Health is committed to the employment and career development of disabled people. Selection to posts is based upon the ability of the individual to do the job using a competence based selection system. The Department operates the Guaranteed Interview Scheme, which guarantees an interview to anyone with a disability whose application meets the minimum criteria for the post. Once in post disabled staff are provided with any reasonable support they might need to carry out their duties.

Equal Opportunities policy

7.2 The Department of Health is committed to treating all staff fairly and responsibly. The aim of the Department's equal opportunities policy is to promote equality of opportunity whereby no employee or job applicant is discriminated against either directly or indirectly on such grounds as race, colour, ethnic or national origin, sex, marital status, responsibility for children or other dependants, disability, age, work pattern, sexual orientation, gender reassignment, Trade Union membership or activity, religious or political beliefs. Line managers are responsible for promoting equal opportunities within their own work teams and for ensuring business compliance with equal opportunities legislation. Support is provided by the HR units in the Department's Group Business Teams.

Payment of Suppliers

The Department complies with the CBI prompt payment code and the British Standard on prompt payment. The Department's policy is to pay bills in accordance with agreed contractual conditions or, where no such conditions exist, within thirty days. In 2006-07 the core Department paid 96% of bills (2005-06 96%), 225,755 invoices (2005-06 293,896), in accordance with the policy. The prompt payment performance of other members of the departmental family can be found in their published annual accounts.

External auditor

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

Provision of Information to, and Consultation with, Employees

7.4 The Department has a series of communication channels in place to communicate organisational and business developments to staff, and to provide an opportunity for feedback, both at a corporate and local level. The channels used range from timely electronic communications to face-to-face briefings by Departmental Management Board members and the department's Senior Leadership Team to involve all staff. The Department also works in partnership with the Departmental Trade Unions to agree the full range of qualitative and quantitative consultation mechanisms necessary to build engagement in senior decision making.

Details of Company Directorships and other significant interests held by the Board

7.5 Other than those disclosed in note 34 there are no company directorships or significant interests held by Board members.

Sustainable development activities

7.6 The Department continues to develop its links with others working on sustainable development across Government and more widely.

We liaise closely with Defra (which leads on sustainable development for Government) and contribute to many cross-government initiatives such as the development of Integrated Policy Appraisal. Partnership working with the Sustainable Development Commission (SDC) continues to develop.

The Department has a good record on the environmental management of its own estate, and continues to seek ways of improving its performance. For several years we have directly purchased renewable energy for our London administrative buildings; in the current year this will effectively reduce carbon emissions by 15% per annum. We have introduced Environmental Management systems (EMS) in our three main London buildings. We have recently put in place a web-based system for recording and monitoring our environmental performance, which will improve the Department's ability to track and report progress against targets.

8. Resource by Programme Budget Categories for the Year ended 31 March 2007

Although the department is now able to present Net Operating Costs by Key objectives Consolidated Statement of Operating Costs by Departmental Aim and Objectives, the below presentation is a bottom up analysis of Gross Operating Cost by the 23 Programme Budgeting Categories:

The Department of Health's overall aim is to improve the health and wellbeing of the people of England through the resources available to prevent/treat:

Resources by Programme Budget Categories for the year ended 31 March 2007	**2006-07 Gross £'m**	**2005-06 Gross £'m**
Mental Health Disorders	9125.74	8538.76
Problems of Circulation	6898.41	6361.97
Cancers & Tumours	4352.46	4302.66
Problems of the Gastro Intestinal System	3851.58	3973.45
Problems of the Genito Urinary System	3755.33	3507.72
Problems of the Musculo Skeletal System	3531.28	3768.84
Problems of the Respiratory System	3539.63	3468.75
Maternity and Reproductive Health	2932.12	2929.76
Problems due to Trauma and Injuries	2992.16	3853.42
Neurological	2987.04	2120.33
Dental Problems	2643.86	2759.70
Problems of Learning Disability	2494.24	2595.67
Endocrine, Nutritional and Metabolic Problems	2133.09	1895.31
Social Care Needs	1720.19	1744.99
Problems of the Skin	1552.69	1334.86
Healthy Individuals	1482.23	1340.57
Problems of Vision	1381.61	1356.04
Infectious Diseases	1301.16	1257.70
Disorders of Blood	1034.65	1051.29
Adverse Effects and Poisoning	756.05	707.62
Conditions of Neonates	801.69	786.39
Problems of Hearing	329.81	321.81
Other Areas of Spend/Conditions		
• General Medical Services/Personal Medical Services	7256.78	7308.44
• Strategic Health Authorities (inc WDCs)	3514.20	3818.41
• Miscellaneous	11825.21	9080.78
Gross Operating Cost	**84193.21**	**80185.24**

Note:

The analysis shown above is a calculation which uses 2006-07 indicative activity provider costs (reference costs) and prescribing information as the basis for apportioning the totality of NHS/Department spend across various programme budget categories. The analysis was based on a "bottom up" approach. PCTs allocated/apportioned their spend at the local level and reported the results to the Department. The analysis above is an aggregate of these returns.

Due to a combination of new HRG4 data, a reassignment of primary diagnosis codes to programme budgeting category, the introduction of the new sub-categories and a change in the methodology for calculating non-admitted patient care costs, comparison between 2005/06 and 2006/07 is not straight forward.

Hugh Taylor

Permanent Secretary

Department of Health, 9 October 2007

Publications List

HMT Direction for Accounts
www.hm-treasury.gov.uk./media/C/C/dao1206.pdf

DH Departmental report 2006-07
www.dh.gov.uk/en/publicationsandstatistics/Publications/AnnualReports/DH_074767

HMT Supply Estimates
www.hm-treasury.gov.uk/documents/public_spending_reporting/estimates/psr_estimates_mainindex.cfm

DH Autumn Performance Report
www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_062807

HMT Public Expenditure White Paper
www.hm-treasury.gov.uk/economic_data_and_tools/finance_spending_statistics/pes_publications/pespub_pesa07.cfm

Chief Executive Report to the NHS
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports/DH_076170

Finance Directors report to SofS on NHS financial Performance Quarter 4
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_075230

On the state of Public Health
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/AnnualReports/DH_076817

The NHS Operating Framework 2007-08
http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_063267

STATEMENT OF PRINCIPAL ACCOUNTING OFFICER'S RESPONSIBILITIES

1. Under the Government Resources and Accounts Act 2000, the Department of Health is required to prepare resource account for each financial year, in conformity with a Treasury direction, detailing the resources acquired, held or disposed of during the year, and the use of resources by the Department during the year.

2. The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Department, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

3. HM Treasury has appointed the Permanent Secretary of the Department as principal Accounting Officer of the Department with overall responsibility for preparing the Department's accounts and for transmitting them to the Comptroller and Auditor General.

In preparing the accounts, the Principal Accounting Officer is required to comply with the Financial Reporting Manual, prepared by HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

4. In addition, the HM Treasury has appointed a separate Accounting Officer to be accountable for the NHS pension scheme and NHS compensation for premature retirement scheme resource account. These are produced and published as a separate account. This appointment does not detract from the Permanent Secretary's overall responsibility as Accounting Officer for the Department's accounts.

5. The responsibilities of an Accounting Officer, including the responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Department's assets, are set out in the Accounting Officer's Memorandum issued by HM Treasury and published in Government Accounting. Under the terms of the Accounting Officer's Memorandum, the relationship between the Department's principal and additional Accounting Officers, together with their respective responsibilities, is set out in a written statement.

REMUNERATION REPORT

A – DEPARTMENTAL BOARD MEMBERS

1. The following parts of the Remuneration Report relating to Board Members are subject to audit . These items, excepting the last, are also audited for Ministers:

- Salaries and allowances
- Compensation for loss of office
- Non-cash benefits
- Pension increases and values
- CETV values and increases
- Amounts payable to third parties for the services of senior managers.

2. The Departmental Management Board membership increased following a Top Structure Review at the end of February 2006. This had an impact on the composition of the Departmental Management Board in 2006/07.

3. Responsibility for Senior Civil Service (SCS) pay lies with the Minister for the Civil Service. It has not been delegated to Departments. Each Department is required to operate within agreed pay band structures and associated pay ranges and target rates detailed in the Senior Salaries Review Body Annual Report. Departments are given discretion in some areas to adapt the system to local needs under the auspices of a Departmental Senior Pay Strategy Committee and to produce an annual senior pay strategy agreed by the Committee. The strategy document sets out how the system operates in DH. For awards made from 1 April 2006, the average basic pay award for members of the SCS was 3.25% of the existing paybill for such staff (paid in two stages on 1 April and 1 November) and bonuses ranged from zero to 12%. Basic pay awards are consolidated and bonuses are non-consolidated. Both are fully performance-related.

4. Permanent Secretaries' salaries are determined by the Cabinet Office. Increases to salary for other Departmental Board Members are determined by the Pay Committees in accordance with the Departmental SCS Pay Strategy. All pay increases are performance related.

5. The Senior Pay Strategy Committee is responsible for setting the Department's strategic approach to SCS pay and producing the yearly Departmental Pay Strategy – operating within the parameters set by the Cabinet Office for the whole of the Senior Civil Service. Because of the size of the SCS in the Department of Health, it is not be possible for the Pay Committee itself to make decisions regarding individual pay for the whole Department. The Senior Pay Strategy Committee therefore delegates responsibility for implementing the pay strategy to sub committees who are responsible for assessing, in the light of the strategy, the relative contribution of individual SCS members and making the final pay decisions. Each of the pay sub-committees has an independent member whose role it is to ensure consistent application of standards and provide quality assurance to the process. The independent member has no line management responsibility for any of the staff discussed at the individual Pay Committee meeting. In addition, one Pay Committee reviews the decisions of the other Pay Committees to ensure consistency across the whole Department at SCS Pay Band 1.

6. The membership of the Senior Pay Strategy Committee in 2006 was as follows:

Joint Chair: Hugh Taylor (Acting Permanent Secretary) and Sir Ian Carruthers (Acting Chief Executive)
Sir Liam Donaldson (Chief Medical Officer and Director Health and Social Care Standards and Quality Group)
Anne Rainsberry (Director of Human Resources)
C Marc Taylor (FDA)
Kent Woods (Chief Executive, Medicines and Healthcare Products Regulatory Agency)
Julie Baddeley (Non-Executive Director)

7. For the 2006 pay round there were five Pay Committees reflecting the organisational structure for the main part of the reporting year.

Committee A made decisions in the case of all members of the SCS Pay Band 3 Departmental Board and all SCS Pay Band 2 (excluding MHRA), considering pay for the senior leadership team of the Department in one Committee. This Committee also reviewed the decisions of Pay Committees B-D.

This Committee was jointly chaired by Hugh Taylor and Sir Ian Carruthers. The other members were Sir Liam Donaldson, Julie Baddeley (Non-executive Director) and Anne Rainsberry (Director of Human Resources).

Committee B made decisions in the case of all SCS staff in Pay Band 1 employed within the Strategy and Business Development Group

The Committee was chaired by Alan Doran (Acting Director of Departmental Management) and the other members were Julie Baddeley, Chris Beasley (Chief Nursing Officer), Bill McCarthy (Acting Director of Policy and Strategy), Matt Tee (Director of Communications), Anthony Sheehan (Director of Care Services), Kathryn Hudson (National Director of Social Care) and Surinder Sharma (Director of Equality and Human Rights).

Committee C made decisions in the case of all SCS staff in Pay Band 1 employed within the Delivery Group

The Committee was chaired by Sir Ian Carruthers. The other members were Alan Doran, Julie Baddeley, Richard Douglas (Director of Finance), Nic Greenfield (Acting Director of Workforce), Duncan Selbie (Director of Programmes and Performance), Gary Belfield (Acting Director of Access), Ken Anderson (Commercial Director) and Duncan Eaton (Chief Executive of the NHS Purchasing and Supplies Agency).

Committee D made decisions in the case of all staff in SCS Pay Band 1 in the Health and Social Care Standards and Quality Group.

The Committee was chaired by Sir Liam Donaldson. The other members were Alan Doran, Julie Baddeley, Fiona Adshead (Deputy Chief Medical Officer), Bill Kirkup (Acting Deputy Chief Medical Officer) and Sally Davies (Director of Research and Development).

Committee E made decisions in the case of all staff in SCS Pay Bands 1 and 2 in the MHRA.

The Committee was chaired by MHRA Chief Executive Kent Woods and the members were the MHRA Board, supplemented by Alan Doran and Gary Watts (MHRA Non-executive Director). The awards for the MHRA Board members were decided in a separate meeting between Kent Woods and Hugh Taylor.

8. The performance review system used for members of the SCS in the Department of Health has been developed by the Cabinet Office for use throughout the Civil Service. The record of responsibilities and agreed objectives is completed at the start of the performance review year. SCS members complete a mid-year development review with line managers. In the mid-year review, SCS members have the opportunity to discuss progress against objectives for the current year, any changes to duties and objectives as well as discussing long-term development. The outcome of the mid-year review is recorded to inform the end of year discussion between SCS members and line managers.

All managers must ensure that they discuss reporting standards with their colleagues before they complete their reports to ensure that relativities are fair, and to be rigorous in this process.

Medical doctors are required to complete a slightly lengthened version of the performance review form that is also used for revalidation purposes.

9. Thirteen of the Departmental Board Members, listed below, held permanent Senior Civil Service contracts during this period. Two members held fixed term contracts and five were seconded to the Department. Two members were seconded to the Department but converted to either a permanent or fixed term appointment during the period and are included in the numbers stated above.

10. The following table details the date members took up appointment as Permanent Secretary or Director General appointment. All are permanent Civil Servants unless otherwise stated:

DMB Member	Job Title	Date of Appointment
Ken Anderson *(up to 31st December 2006)*	Commercial Director	1st July 2003 (see note 12)
Chris Beasley	Chief Nursing Officer	19th October 2004
David Behan	Director General of Social Care	29th August 2006
Sir Ian Carruthers *(up to 31 August 2006 on secondment from Dorset and Somerset Strategic Health Authority)*	Acting NHS Chief Executive	1st February 2006
Andrew Cash *(on secondment from Sheffield Teaching Hospitals NHS Trust)*	Director General of Provider Development	1st July 2006
Clare Chapman	Director General of Workforce	3rd January 2007
Sir Liam Donaldson	Chief Medical Officer	21st September 1998
Alan Doran *(Acting Director General of Departmental Management from 1st April 2006)*	Director General of Departmental Management	18th December 2006
Richard Douglas	Director General of Finance	1st May 2001
Margaret Edwards *(up to 31st May 2006)*	Director of Access	7th July 2003
David Flory *(up to 31st December 2006 on secondment from County Durham and Tees Valley Strategic Health Authority)*	Interim Director of Financial Recovery	7th April 2006
Richard Granger	Director General of NHS IT	7th October 2002
Nic Greenfield *(up to 2nd January 2007)*	Acting Director General of Workforce	1st May 2006
Barbara Hakin *(up to 31st May 2006)*	Interim Director General of Commissioning	1st April 2006
Bill McCarthy *(Acting Director General of Policy and Strategy from 1st October 2005)*	Director General of Policy and Strategy	21st July 2006
David Nicholson *(seconded from London Strategic Health Authority for the period 1st September to 30th September 2006)*	NHS Chief Executive	1st September 2006
Mike Seitz	Acting Commercial Director General	1st January 2007 (see note 13)
Duncan Selbie	Director General of Programmes and Performance Director General of Commissioning	3rd November 2003 1st May 2006
Hugh Taylor *(Acting Permanent Secretary from 1st April 2006)*	Permanent Secretary	18th December 2006
Matt Tee	Interim Director General of Communications	12th December 2005 (see note 11)

11. Matt Tee was seconded to the Department but converted to a fixed term contract on 2nd September 2006. David Nicholson was seconded to the Department but appointed permanently on 1st October 2006.

12. Ken Anderson also held a fixed term contract. The contract was due to end on 31st March 2007 but Ken Anderson resigned from the Department and left on 31st December 2006.

13. Mike Seitz is a contractor, employed through an agency and his contract is held by Alexander Hughes.

14. Because of the power of the Crown to dismiss at will, Senior Civil Servants are not entitled to a period of notice terminating employment. However, unless the employment is terminated by agreement, in practice, a Senior Civil Service member, holding either a permanent or fixed term contract, will normally be given the following periods of notice in writing terminating their employment:

(i) if retired on age grounds, if dismissed on grounds of inefficiency, or if dismissal is the result of disciplinary proceedings in circumstances where summary dismissal is not justified:

Continuous Service for:

- Up to 4 years – 5 weeks
- 4 years and over – 1 week plus 1 week for every year of continuous service up to a maximum of 13 weeks.

(ii) if retired on medical grounds, the period of notice in (i) above or, if longer, 9 weeks, unless a shorter period is agreed.

(iii) if employment is terminated compulsorily on any other grounds, unless such grounds justify summary dismissal at common law or summary dismissal is the result of disciplinary proceedings, the period of notice is 6 months.

On the expiration of such notice, employment will terminate.

The SCS Member will receive no notice if s/he agrees to flexible or approved early retirement or voluntary redundancy.

If employment is terminated without the notice which would, in practice normally be given as in (i) above, compensation may be paid in accordance with the relevant provisions of the Civil Service Compensation Scheme.

Unless otherwise agreed, the SCS member is required to give a specified period of written notice to line management and copied to the Senior Civil Service Unit if s/he wishes to terminate the employment. This notice period is usually for 3 months, however a different period can be negotiated with line management.

15. The Department of Health's policy on termination payments are outlined in the Civil Service Compensation Scheme.

16. The following section provides details of remuneration interests of Departmental Board Members:

DM Member	2005-2006		2006-2007			
	Salary Band £'000	Benefit in Kind	Salary Band £'000	Benefit in Kind	Non Cash Remuneration Element	Compensation for Loss of Office
Ken Anderson (up to 31st December 2006)	20 – 25 (220 – 225 full year equivalent)	Nil	185 – 190 (240 – 245 full year equivalent)	Nil	Nil	Nil
Chris Beasley	140 – 145	Nil	145 – 150	Nil	Nil	N/A
David Behan (from 29th August 2006)	N/A	N/A	100 – 105 (170 – 175 full year equivalent)	Nil	Nil	N/A
Sir Ian Carruthers*	See Below	Nil	See Below	Nil	Nil	Nil
Andrew Cash* (from 1st July 2006)	N/A	N/A	See Below	Nil	Nil	N/A
Clare Chapman (from 3rd January 2007)	N/A	N/A	50 – 55 (205 – 210 full year equivalent)	Nil	Nil	N/A
Sir Liam Donaldson	180 – 185	Nil	200 – 205	Nil	Nil	N/A
Alan Doran	N/A	N/A	155 – 160	Nil	Nil	N/A
Richard Douglas	135-140	Nil	130 – 135	Nil	Nil	N/A
Margaret Edwards (up to 31st May 2006)	15 – 20 (145 – 150 full year equivalent)	Nil	30 – 35 (150 – 155 full year equivalent)	Nil	Nil	Nil
David Flory* (from 7th April 2006 to 31st December 2006)	N/A	N/A	See Below	Nil	Nil	Nil
Richard Granger	30 – 35 (270 – 275 full year equivalent)	Nil	290 – 295	Nil	Nil	N/A
Nic Greenfield (from 1st May 2006 to 2nd January 2007)	N/A	N/A	85 – 90 (115-120 full year equivalent)	Nil	Nil	Nil
Barbara Hakin* (up to 31st May 2006)	See Below	Nil	See Below	Nil	Nil	Nil
Bill McCarthy	10 – 15 (115 – 120 full year equivalent)	Nil	130 – 135	Nil	Nil	N/A
David Nicholson (from 1st September 2006)	N/A	N/A	95 – 100 (195 – 200 full year equivalent)	Nil	Nil	N/A
Mike Seitz** (from 1st January 2007)	N/A	N/A	85 – 90 (310-315 full year equivalent)	Nil	Nil	N/A
Duncan Selbie	15 – 20 (165 – 170 full year equivalent)	Nil	190 –195	Nil	Nil	N/A
Hugh Taylor	145 – 150	Nil	160 – 165	Nil	Nil	N/A
Matt Tee	35 – 40 (120 – 125 full year equivalent)	Nil	130 – 135	Nil	Nil	N/A

* Information not held as members are seconded to the Department and are employees of other organisations.

** Mike Seitz is employed through an agency, Alexander Hughes, and this figure includes agency fees.

17. The following section provides details of pension interests of Departmental Board Members:

DMB Member	Real increase in pension	Real increase in lump sum	Pension at End Date	Lump sum at End Date	CETV at Start Date (31/03/06)	CETV at End Date (31/03/07)	Employee contributions and transfers in	Real increase in CETV funded by employer
	£'000	£'000	£'000	£'000	£'000	£'000	To the nearest £100	To the nearest £100
Ken Anderson (up to 31st December 2006)	0–2.5	0	6	0	67	88	2,900	15,500
Chris Beasley	0–2.5	2.5–5	48	140–145	1,079	1,095	2,000	22,000
David Behan (from 29th August 2006)	0–2.5	0	1	0	0	16	2,200	13,800
Sir Ian Carruthers**	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Andrew Cash** (from 1st July 2006)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Clare Chapman (from 3rd January 2007)	0–2.5	0	0	0	0	3	400	2,500
Liam Donaldson	7.5–10	27.5–30	88	260–265	1,682	1,959	8,100	209,500
Alan Doran	0–2.5	0	73	0	1,281	1,365	4,900	21,500
Richard Douglas	0–2.5	2.5–5	46	135–140	780	816	1,900	16,100
Margaret Edwards (up to 31st May 2006)	0–2.5	2.5–5	42	120–125	536	613	2,100	10,500
David Flory** (from 7th April 2006 to 31st December 2006)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Richard Granger	0–2.5	0	8	0	71	92	3,800	16,200
Nic Greenfield (from 1st May 2006 to 2nd January 2007)	2.5–5	0	27	0	377	470	2,600	40,300
Barbara Hakin** (up to 31st May 2006)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Bill McCarthy	0–2.5	0	38	0	10	452	3,800	56,900
David Nicholson* (from 1st September 2006)	0–2.5	0	2	0	0	26	1,500	22,100
Mike Seitz**** (from 1st January 2007)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Duncan Selbie	0–2.5	0	6	0	54	77	3,800	18,300
Hugh Taylor	5–7.5	17.5–20	64	190–195	1,242	1,418	2,200	129,700
Matt Tee***	0–2.5	0	1	0	0	13	2,200	10,400

Footnote: No lump sum payable to premium scheme members.

* The figures for David Nicholson relate to his period of substantive employment with the Department only. London Strategic Health Authority will be including details relating to his pension in their annual accounts for the period he was employed by the SHA.
** Information not held as members are seconded to the Department and are employees of other organisations.
*** Matt Tee's employer did not contribute to a pension scheme during his period of secondment to the Department. The figures shown in the table above relate to his period of direct employment with the Department of Health from September 2006.
**** The Department makes no contribution towards Mike Seitz's pension.

18. No Departmental Board Members received any expenses allowances other than as reimbursement of expenses directly incurred in the performance of their duties.

19. Payments were made to third parties for the services of Mike Seitz (who is employed through an agency) and Ian Carruthers, Andrew Cash, David Flory, Barbara Hakin and David Nicholson (who were seconded to the Department for part of the year).

B – MINISTERS

1. Ministers are political appointment made by the Prime Minister – they do not have contracts of employment. Consequently notice periods and termination periods do not apply. Ministers do receive a flat-rate compensation payment for loss of office of three month's salary.

2. The following Ministers were in post during 2006/07 financial year:

Minister		Date Appointed
Andy Burnham MP	Minister of State	6-May-06
Liam Byrne MP	Parliamentary Under Secretary	10-May-05**
Caroline Flint MP	Minister of State ***	8-May-06
Rt Hon Patricia Hewitt MP	Secretary of State	6-May-05
Lord Phillip Hunt	Minister of State	5-Jan-07
Rt Hon Jane Kennedy MP	Minister of State	10-May-05**
Ivan Lewis MP	Parliamentary Under Secretary	6-May-06
Lord Warner	Minister of State	10-May-05*
Rosie Winterton MP	Minister of State	14-Jun-03

* to 31 December 2006
** to 5 May 2006
*** Parliamentary Under Secretary from 10 May 2005

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

4. The following section provides details of remuneration interests of Ministers.

	2005–2006		2006– 2007			
Minister	**Salary**	**Benefit in Kind – (to the nearest £100)**	**Salary**	**Benefit in Kind – (to the nearest £100)**	**Non Cash Remuneration Element**	**Compensation for Loss of Office**
Burnham, Andy (from 6 May 2006)	N/A	N/A	£33,574	Nil	Nil	N/A
Byrne, Liam (to 5 May 2006)	£26,320	Nil	£4,915	Nil	Nil	Nil
Flint, Caroline	£22,118	Nil	£38,489	Nil	Nil	N/A
Hewitt, Patricia	£67,653	Nil	£74,902	Nil	Nil	N/A
Hunt, Lord Phillip (from 5 January 2007)	N/A	N/A	£20,101	Nil	Nil	N/A
Kennedy, Jane (to 5 May 2006)	£32,378	Nil	£3,760	Nil	Nil	£9,714
Lewis, Ivan (from 6 May 2006)	N/A	N/A	£24,655	Nil	Nil	N/A
Warner, Lord Norman (to 31 December 2006)	£79,855	Nil	£60,717	Nil	Nil	Nil
Winterton, Rosalie	£38,854	Nil	£39,404	Nil	Nil	N/A

5. The following section provides details of pension interests of Ministers.

Minister	**Real increase in pension**	**Pension at End Date**	**CETV at Start Date**	**CETV at End Date**	**Minister's contributions and transfers in**	**Real increase in CETV funded by employer**
	£	**£'000**	**£'000**	**£'000**	**£**	**£**
Burnham, Andy (from 6 May 2006)	876	0 – 2.5	5	11	3,561	2,335
Byrne, Liam (to 5 May 2006)	70	0 – 2.5	4	5	288	159
Flint, Caroline	917	2.5 – 5	16	25	3,849	3,612
Hewitt, Patricia	1,011	10 – 12.5	105	122	4,867	6,631
Hunt, Lord Phillip (from 5 January 2007)	434	10 – 12.5	118	124	1,918	2,969
Kennedy, Jane (to 5 May 2006)	80	5 – 7.5	61	63	380	344
Lewis, Ivan (from 6 May 2006)	814	2.5 – 5	27	34	3,550	2,460
Warner, Lord Norman (to 31 December 2006)	1,409	5 – 7.5	60	75	6,026	9,876
Winterton, Rosalie	896	5 – 7.5	35	44	3,940	3,873

C – NON EXECUTIVE DIRECTORS

1. The Department of Health appointed two Non-Executive Directors to the Management Board for the first time in 2005. A third Non-Executive Director joined the Management Board in June 2006. Guidance about the reimbursement for Non-Executive Directors is available from Cabinet Office and reimbursement ranges from simply reimbursing expenses to significant payments for quite substantial roles.

2. Non-Executive Directors are not employees of the Department of Health. The Non-Executive Directors are appointed for a fixed term of three years with the possibility of extension. They are appointed to attend Departmental Board meetings which involve an estimated time commitment of eleven four-hour meetings and two overnight events per year.

3. Either party may terminate the contract for any reason before the expiry of the fixed period by giving one month's notice in writing. There is no provision for compensation for early termination.

4. Derek Myers is not personally reimbursed for his role as a Non-Executive Director. His employer is reimbursed for £500 for every day worked. Julie Baddeley and Mike Wheeler receive a fee of £2,000 per day.

5. Non-Executive Directors fees are not pensionable.

Hugh Taylor
Permanent Secretary
Department of Health, 9 October 2007

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

1. This note sets out the nature of the relationship between Accounting Officers in the Department of Health, its Agencies and the NHS. It refers to the Accounting Officer Memorandum published by HM Treasury, in which paragraph 18 indicates that responsibilities within a Department may vary according to the needs of the Department.

2. The Permanent Secretary of the Department of Health is accountable for the Department's administration, some central health and miscellaneous health services, those elements of social services expenditure within the Department's responsibilities, Welfare Foods and European Economic Area (EEA) medical costs. These are covered by the Request for Resources 2 in the Department's Estimates and Accounts. As Head of the Department, he takes responsibility for the consolidation of the Department's Accounts and for the voted cash requirement, and has the Department-wide responsibility for the good management of the Department as a whole, including a high standard of financial management. This includes the parts of the Department managing the NHS (as distinct from the NHS itself) and the Department's Agencies, since they are parts of the Department operating in support of the Secretary of State. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in respect of those responsibilities.

3. As an additional Accounting Officer the Chief Executive of the NHS is directly responsible to the Secretary of State for the management of the NHS. He is accountable for expenditure on hospital and community health services, family health services, some central health services, the drugs bill and NHS Trusts' external financing. These are covered by the Request for Resources 1 in the Department's Estimates and Accounts. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in respect of those responsibilities. He is also the Accounting Officer for the Summarised Accounts of NHS Trusts, Primary Care Trusts, Strategic Health Authorities, and Special Health Authorities where required.

4. Each year the Permanent Secretary agrees with the Chief Executive of the Supply Financed Agency within the Department of Health (other than the Medicines & Healthcare Products Regulatory Agency who are a trading fund), a budget for the administration costs to cover their responsibilities and delegates to them immediate responsibility for the good management of the Department's Supply Financed Agency.

5. Chief Executives of NHS Trusts, Primary Care Trusts and Strategic Health Authorities are designated as accountable officers and Chief Executives of Special Health Authorities are designated as accounting officers, who are accountable to Parliament through the NHS Chief Executive for the efficient, effective and proper use of all the resources in their charge.

6. The Chief Executive of the NHS Business Services Authority is also the Accounting Officer for the NHS Pension Scheme. He is responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum in relation to the operation of the NHS Pension Scheme. In respect of the administrative expenditure of the Authority, the Chief Executive's responsibilities are set out in the Authority's Framework Document and his letter of designation as Authority Accounting Officer.

7. The Chief Executive of the Medicines & Healthcare Products Regulatory Agency are accountable for the expenditure relating to these Trading Funds. They are responsible for carrying out the duties set out in paragraphs 6-17 of the Accounting Officer Memorandum for the Agency. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health, as explained in paragraphs 18 and 19 of the Memorandum and in the Agency's Framework Document.

8. The Chief Executive of Special Health Authorities are accountable for the expenditure relating to those Bodies. They are responsible for carrying out the duties set out in the Accounting Officer Memorandum in respect of those responsibilities. Their accountability is subject to the Permanent Secretary's overall responsibility for the organisation and management of the Department of Health, as explained in the Memorandum and in their Framework Document.

9. The Chief Executive of Purchasing and Supply Agency within the Department of Health is designated as an Agency Accounting Officer. Their responsibilities are set out in the Agencys' Framework Documents and their letters of designation as Agency Accounting Officers.

Statement on Internal Control

INTRODUCTION

1. The financial year 2006-07 was one of transition in the management of the Department of Health. Sir Nigel Crisp, who had combined the responsibilities of NHS Chief Executive and DH Permanent Secretary since November 2000, retired in March 2006. Sir Ian Carruthers was appointed acting NHS Chief Executive and Hugh Taylor acting Permanent Secretary. It was subsequently decided that the post be permanently split. The transitional arrangements continued until September 2006 when David Nicholson was appointed NHS Chief Executive. Hugh Taylor was appointed DH Permanent Secretary substantively in December 2006. The Permanent Secretary has been appointed by HM Treasury as Principal Accounting Officer for the Department. He is the Accounting Officer for expenditure resourced from RfR2 (Securing social care and child protection for those who need it, and at national level, protecting, promoting and improving the nation's health) and for expenditure resourced from RfR3 (Office of the Independent Regulator for NHS Foundation Trusts). He is primarily responsible for the management of the Department of Health. The NHS Chief Executive has been appointed by HM Treasury as an Additional Accounting Officer for expenditure resourced from RfR1 (Securing health for those who need it). He is primarily responsible for leadership of the NHS, and signs the Statements of Internal Control for Strategic Health Authorities, Primary Care Trusts and NHS Trusts which are included in the NHS Summarised Accounts. As Principal Accounting Officer, Hugh Taylor is responsible for signing the Statement of Internal Control for the DH Resource Accounts, which is set out below.

SCOPE OF RESPONSIBILITY

2. As Principal Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Department of Health's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible. This is in accordance with the responsibilities assigned to me in Government Accounting.

3. This statement is given in respect of the Resource Account for the Department of Health, which incorporates the transactions and net assets of the core Department, its Executive Agencies and other bodies falling within the departmental boundary for resource accounting purposes. This includes English NHS bodies except NHS Trusts and Foundation Trusts (although the Department's investment in them is included) and certain Special Health Authorities. As Principal Accounting Officer for the Department, I acknowledge my overall personal responsibility for ensuring that the Department, its Executive Agency and other Arms Length and NHS bodies maintain a sound system of internal control. I am supported in exercising the responsibility by the Additional Accounting Officer for the NHS (RfR1). In particular I have drawn on the overall statements of internal control for strategic health authorities, primary care trusts and NHS Trusts, which he has approved, to support this Statement of Internal Control.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

4. The Department of Health's system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve the Department's policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to:

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

5. The system of internal control was in place in the Department of Health for the financial year ending 31 March 2007, and has remained in place up to the date of final approval of the Department's annual report and Resource Accounts. The Department's system of internal control accords with Treasury guidance. Some potential improvements to the system of internal control have been identified which will be put in place during 2007-08. This includes:

- taking further steps to embed risk management in directorate business plans for 2007-08 and beyond, underpinned by a Department of Health policy on risk and associated guidance on risk management, which will accord with the latest guidance on risk management in central government from the Office of Government Commerce (OGC) (paragraph 9)
- further improvements in business planning (paragraph 17)
- acting in 2007-09 and 2009-10 on the recommendations on governance structures and risk management made by the Cabinet Secretary's report of the Capability Review of the Department of Health (paragraph 30).

CAPACITY TO HANDLE RISK

6. The internal control system is based on a clear risk management framework and accountability process that is embedded in the Department and its Agencies via delivery and business planning processes.

7. Leadership of the system of internal control has been shown by senior staff in visibly owning and supporting risk assessment and control activity, in particular in support of the delivery programmes for PSA targets and other priorities. Also during 2006-07, the Department continued to develop new Accountability and Governance Structures, work on which began at the end of 2005/06 following a high-level review. The roles and responsibilities of the Department Management Board (DMB) and its sub-committees were clearly set out and communicated to staff. An additional non-executive member (NEM) was appointed to the DMB, making three in all. Two of the NEMs now serve on the Audit Committee, one as its Chair. One NEM is a member of the Finance and Investment Committee, and one is a member of the Senior Staff Remuneration Committee. Further work on accountability and governance is being progressed following the findings of the Capability Review of the Department of Health, which reported in June 2007.

8. Leadership of the NHS has been strengthened since the end of the 2006/07 financial year, through organisational changes in May 2007 which established an NHS leadership team of seven Director Generals under the NHS Chief Executive (including the appointment of a Director General responsible for NHS Finance, Performance & Operations). The NHS Management Board (NHSMB) brings together these Director Generals with the 10 SHA Chief Executives, and other members of the DMB, to provide overall leadership to the NHS within the policy framework established by the Secretary of State. The NHSMB has a particularly strong focus on financial control, and securing a high level of performance across the NHS's priorities.

9. The Departmental risk framework and guidance on risk management is being updated in 2007, to ensure that is fully in line with the latest OGC guidance, and underpinned by a single IT system for capturing and monitoring information about risks. The framework makes clear that all staff have responsibility for assessing risks to the achievement of objectives in the areas of work for which they are responsible. Directors General are responsible for ensuring staff are appropriately trained.

THE RISK AND CONTROL FRAMEWORK

10. Within the Department, I operate an accountability process based around following five core assurance standards:

- risk management
- planning and delivery
- resource management
- policy development, and
- governance of arms length bodies.

11. Directors General, and certain other senior managers, are required to provide me with assurance statements at the end of the financial year which, address the extent to which these standards have been met in their directorates.

12. The DMB is responsible for the ownership and management of strategic risks. Throughout the year the Board, supported by its Audit Committee and other Committees, has maintained an oversight on these high-level risks, presented in a high-level risk register. Some risks have been removed, and new ones added in the course of the year. There has been continuing challenge to the assessments of likelihood and impact contained on the high-level risk register. The Audit Committee in particular has made suggestions, which I have accepted for implementation in 2007, to improve the high-level risk register, particularly as a tool to assist strategic decision making by top management. The NHS Management Board also considered risks escalated to it from individual delivery programmes, and has identified issues and risks arising for Strategic Health Authorities and the Department.

13. The Department of Health continues to be responsible for high risk activity, including leadership of work across government on preparations for a possible flu pandemic. Risk management has been integrated into the new Business Planning Framework developed during the year and included in the 2007-08 Departmental and Directorate business plans. Further improvements will be made to the business planning arrangements for 2008-09 and beyond.

14. The Audit Committee advises the Accounting Officers and the Board on the quality of risk management, corporate governance and internal control. It has reviewed this statement in draft and its comments on evidence of assurances received have been reflected.

15. During the year, the DMB was presented with a proposed strategy for the implementation of an Assurance Framework. This was accepted by the DMB, and is being used to develop an overall framework, which will identify and quantify the value of the internal and external assurances available to the Department.

16. Within the Department, the Assurance Strategy and Audit (ASA) team provides an independent assurance function on the robustness of governance and internal control processes. The Head of Internal Audit (ASA) made the following statement in his annual opinion:

> 'In my opinion, during 2006-07 the Department has worked to lay the foundations for an improved governance and control environment. However, there remains further work to be done to build on these foundations, with action required both in terms of embedding risk management and internal control systems at directorate and sub-directorate levels; and in terms of the capacity and capability of staff to discharge the necessary governance and control functions.
>
> Although I have seen no evidence of systemic control weaknesses of a fundamental nature, my concern is that, without an increase in the totality of assurance coverage within the Department (across all sources), the Accounting Officer can only have partial comfort that additional issues will not become evident in the future.'

17. ASA resources for 2006-07 were determined on the assumption that the implementation of an assurance framework would enable all directorates in the Department to embed assurance within their operations, draw on the targeted assurance activity of ASA, and commission further assurance (from whatever source) where gaps were identified. In practice, use of the assurance framework has not yet been fully embedded across the Department. ASA resources were also under pressure in 2006-07. Together, these factors have limited the extent of the assurance that ASA has been able to provide me with for 2006-07. However, I have received end-year assurance statements from all Directors General which indicate that internal control and assurance arrangements are being strengthened. The 2007-08 Business Plan now provides a stronger basis on which to take forward work on embedding the Assurance Framework in 2007-08 and beyond.

18. In respect of each of the Department's arm's length bodies (ALBs), including the Special Health Authorities, an Accounting Officer has been appointed who is held responsible for the maintenance and operation of the system of internal control in that body. I rely on the Statements on Internal Control signed by those Accounting Officers as part of their annual accounts. In addition, I rely on Senior Departmental Sponsors in the Department to ensure that the bodies they sponsor operate sound Governance arrangements and the Sponsors must meet the Department's standard for the governance of our ALBs.

19. For each Strategic Health Authority, NHS Trust and Primary Care Trust the Additional Accounting Officer for the NHS has appointed an Accountable Officer who is held responsible for the maintenance and operation of the system of internal control in that body. The major sources of assurance for these bodies are the Statements on Internal Control signed by these Accountable Officers as part of their accounts. Strategic Health Authorities and NHS Internal Auditors are also engaged in the performance management and objective assessment of NHS Trusts' and PCTs' ability to comply with SIC requirements, and the Additional Accounting Officer for the NHS draws on their assessments.

20. The delivery programmes for PSA targets and other priorities form key elements of the Department's programme and these operate with clear governance and risk management arrangements. Programme Boards, co-ordinated by the Department's Central Programme Office, take the lead in managing programme risks.

21. Because of its size and importance, the NHS IT programme is run as a managed programme by a separate unit, Connecting for Health, under the Director General for NHS IT. Best practice structures have been established to deliver the programme which is subject to regular Gateway reviews by OGC. In April 2005, stronger management arrangements were introduced with the Department's Group Director for Health and Social Care Delivery being appointed as Senior Responsible Officer for the Programme. In 2006, this responsibility moved to the NHS Chief Executive.

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

- assessments by Strategic Health Authorities which, as part of their role of performance management of the NHS, identify local risks to delivery, where necessary coordinate mitigation actions, and report into NHS Management Board discussions;
- work by the Healthcare Commission during the year;
- reports from the National Audit Office (Annex B) and Audit Commission resulting from their work in the Department and the NHS, and the Public Accounts Committee (Annex C);
- the Department's Assurance Strategy and Audit Unit report for 2006-07;
- Gateway reviews of large projects; and
- assessments of the Department's work by other external units, including for example the Prime Minister's Delivery Unit.

REVIEW OF EFFECTIVENESS

23. As Principal Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. This is informed by:

- the work of the executive managers within the department, who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors; and
- comments made by the external auditors in their management letters and other reports.

24. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and plan to address weaknesses and ensure continuous improvement of the systems in place.

25. The Department has continued to assess its progress against the Treasury's Risk Management Assessment Framework, a self-assessment toolkit developed by the Treasury. While this showed continuing progress in risk management activity within the Department for most of the year, the latest (July 2006) assessment was that there had been some backwards movement in three areas from the position reported in 2004-05 on leadership, partnership working, and outcomes. The restructuring of the Department's governance arrangements during 2006-07 should correct this reversal and allow for continuing improvement.

26. The Directors General have provided me with assurance statements recording the position in their business groups over the year. I have reviewed these, through a summary report prepared in my Secretariat. This confirmed that there were no material control problems identified. Following the Department's restructuring programme, responsibilities for reconciliation of payroll costs were not fully up-to-date until 2006-07. This resulted in some weakness within the system of controls during 2006-07 which are now fully remedied.

27. I noted, for the Connecting for Health programme, that the National Audit Office report "The National Programme for IT in the NHS" – published in June 2006 – concluded that the Department has established management systems and structures to match the scale of the challenge. A review by QinetiQ in 2005 for the National Audit Office confirmed that project control and planning processes were in place.

28. Since the financial year end, the Commission for Racial Equality (CRE) has begun a formal investigation of the Department's compliance with race equality legislation – in particular the production of race equality impact assessments. The Department is co-operating fully with the CRE which has agreed to a limited formal investigation to three policy areas (Mental Health Bill, Our Health, Our Care Our Say White Paper 2006 and Independence, Well Being and Choice Green Paper 2005). The CRE is expected to report in autumn 2007.

29. Meanwhile, the Department has made some commitments in a CRE Action Plan (in response to the CRE's investigation) which has been incorporated into the Department's Single Equality Scheme. An equality impact assessment training programme and tool (which covers understanding the concept of EqIA, their importance and relevance to screening policies) have been rolled out across the Department and the uptake to date has been positive. An Equality Monitoring Group has also been set up to ensure that the Department's policies and initiatives take account of equality monitoring data vital to the success of the health and social care sector work programme. I have direct oversight of this risk and am regularly briefed by our Equality and Human Right Group officials. The Policy Committee is also kept updated with progress on the CRE's Formal Investigation.

30. In June, the report for the Cabinet Secretary of the Capability Review of the Department of Health was published. It identified some important areas for action including strengthening of the Departmental governance structures and risk management arrangements. On 12 September 2007 the Department published a Department of Health Development Plan which sets out a two year programme of action in response to the main areas for action identified by the Review.

31. For the Department's arm's length bodies, I have reviewed a summary of the key points raised in the Statement on Internal Control that each body's Accounting Officer makes as part of their annual accounts, and of the opinions of their external auditors. I have similarly reviewed assurance statements provided by the senior member of staff in the Department responsible for sponsoring each body. On this basis I have concluded that at least minimum assurance standards are being met, and that there are no significant control issues in the ALBs which need to be included in this SIC. There is one issue to note however, relating to the NHS Business Services Authority (NHS BSA) which has received a qualification to its accounts for 2006/07 in relation to NHS bursary awards. This was a continuation of a qualification from 2004/05 when it was identified that there was a lack of evidence about the student bursary awards made by the Pensions Agency (prior to the Pensions Agency becoming part of the NHS BSA on 1 April 2006). Because many of the bursary awards were 3-year awards the qualification has continued through 2005/06 and 2006/07. The NHS BSA is acting on this by transferring the funding to SHAs; putting in place monitoring systems and controls for the existing awards; and working in conjunction with the NAO to ensure that there will be no further quafilication in 2007/08. Overall, I have noted that there is still progress to be made to ensure that high quality internal governance, financial management and reporting procedures extend to all the Department's arm's length bodies. The Department has put in place stronger oversight of the sector through the establishment of a business support unit to performance manage the sector.

32. The statements of internal control prepared for the NHS Summarised Accounts, approved by the NHS Chief Executive as Additional Accounting Officer for RfR1, have been drawn on in compiling this Statement. A major NHS reorganisation saw a reduction in the number of SHAs from 28 to 10 from 1 July 2006 and of PCTs from 303 to 152 from 1 October 2006. As a result, all SHAs and the majority of PCTs have had to develop new systems of internal control in 2006-07. For bodies in the NHS (other than Special Health Authorities, which are included among the Department's arms' length bodies), Strategic Health Authorities have collated information from the Accountable Officers' own statements on Internal Control and Internal Audit reports in their area. These show at 31 March 2007 that 97% of PCTs provided evidence that a system of internal control was in place while 3% were unable to do so. This represents a small change compared with the 2005-06 position when 99% of PCTs provided evidence that system of internal control was in place. For SHAs themselves seven were assessed as having systems of internal control in place and three as having made considerable progress in doing so.

33. 55 PCTs, and 78 NHS Trusts (which are outside the Department's Resource Accounting boundary), together disclosed a total of 199 significant control issues in their statements of internal control. Of these, about 37 per cent were concerned with the financial position of the Trust and 40 per cent with compliance with Standards for Better Health. Under the direction of the NHS Chief Executive, the Department has maintained a centrally managed turnaround programme to support a number of PCTs to ensure delivery of key targets and financial balance and PCTs have or are taking action to comply with Standards for Better Health.

34. Strategic Health Authorities will continue to monitor and review the ongoing development and embedding of Assurance Frameworks by PCTs.

35. In compiling the statements of internal control for the NHS Summarised Accounts, it was noted that the accounts of 43 PCTs, for breaches of their resource limits, were qualified on the grounds of regularity.

36. The compilation of the statements of internal control for the NHS Summarised Accounts also drew on the Auditors' Local Evaluation assessments coordinated by the Audit Commission. This assesses how well NHS trusts and PCTs have implemented their systems of internal control. The assessment showed that 96 per cent of NHS bodies demonstrated adequate or more than adequate performance in their implementation of systems of internal control, while four per cent failed to meet the minimum requirements. This failure was primarily a failure to manage significant business risks.

37. In 2006/07, NHS expenditure remained within the sums voted by Parliament, and the resource departmental expenditure limit set by HM Treasury. Overall, there was a £515m net surplus as a result of the action taken in 2006/07 to keep the NHS in financial balance, including the creation of contingency funds within each SHA area.

38. There was a significant underspend by the NHS on capital, against the overall sums available for spending in 2006-07. This was caused by a combination of slippage on central spending, for example on the Connecting for Health programme, and to the fact that a number of NHS organisations were in process of financial recovery resulting in capital investment being delayed in some areas. The NHS has now moved into surplus and the numbers of organisations in deficit has reduced. This should ensure that capital investment should progress. As Principal Accounting Officer, advised by the Additional Accounting Officer, I concluded that this underspending did not imply any control failings.

SIGNIFICANT INTERNAL CONTROL PROBLEMS

39. In the last quarter of 2006-07, the implementation of the Medical Training Application Service (MTAS) highlighted significant control problems with the Modernising Medical Careers (MMC) Programme, which have been addressed through continuing work in 2007/8. These problems were a result of a high number of applicants, and shortcomings in the recruitment process and computer system. The Department took a number of actions to deal with the immediate problems and put in hand work to avoid similar problems in the future. This included working with the professions and other representatives of the NHS through the Review Group led by Professor Neil Douglas. The Group advocated a revised approach for the remainder of the 2007 recruitment process, plus a transition package of additional training posts to avoid the loss of appointable but unsuccessful applicants. Revised programme structure, processes and team were put in place, including a project team to plan the 2008 implementation and avoid the problems faced in 2007. The Secretary of State commissioned an independent review by Sir John Tooke into the MMC strategy. Sir John has engaged with the NHS, the professions and the junior doctors and will report by December 2007, with an interim report in the autumn.

CONCLUSION

40. I conducted my review of the effectiveness of the system on internal control in the Department of Health jointly with the NHS Chief Executive as Additional Accounting Officer. We did not identify any significant control issues, except in respect of: the financial position of some NHS bodies; compliance by some NHS bodies with the standards set out in 'Standards for Better Health'; and the control problems in the Modernising Medical Careers Programme which emerged around the end of the financial year. The Department has maintained a vigorous programme of action initiated in 2005-06 to address the NHS financial position, and the underlying need of NHS bodies to improve financial management processes. NHS bodies which have assessed themselves as failing to meet Standards for Better Health are taking local action to ensure compliance, or have already done so. Action has already been taken, and will continue through 2007/8, to address and prevent the reoccurrence of the MMC problems.

Hugh Taylor
Permanent Secretary and Principal Accounting Officer
9 October 2007

The Certificate of the Comptroller and Auditor General to the House Of Commons

I certify that I have audited the financial statements of the Department of Health for the year ended 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement, the Statement of Recognised Gains and Losses, the Balance Sheet, the Consolidated Cashflow Statement, the Consolidated Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and auditor

The Accounting Officer is responsible for preparing the Annual Report, which includes the Remuneration Report and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the "Introduction", "Matters for inclusion in the Directors' Report", "Management Commentary", "Summary of Financial Results" and "Public interest and other Issues" is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I also report to you if the Department has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding other transactions is not disclosed.

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Department'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 and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the departments' affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating cost applied to objectives, recognised gains and losses and cashflows for the year then ended;

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the HM Treasury directions issued under the Government Resources and Accounts Act 2000; and

- information given within the Annual Report, which comprises the "Introduction", "Matters for inclusion in the Directors' Report", "Management Commentary", "Summary of Financial Results" and "Public interest and other Issues", is consistent with the financial statements.

Audit Opinion on Regularity

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

Emphasis of matter: Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Without qualifying my opinion, I draw your attention to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives which analyses the Department's resources by objective in accordance with the methodology set out in note 1.24.This information is collected at a local level and subject to departmental review. The extent of judgement required in this process means that significantly different, yet still defensible, allocations of income and expenditure could have been reported to provide indicative spend.

Emphasis of matter: NHS Business Services Authority

Without qualifying my opinion on these accounts, I draw your attention to my qualified opinion on the NHS Business Services Authority (BSA) account for 2006-07 on the grounds that I could not determine that NHS BSA had maintained proper accounting records for certain bursary payments made to students under the NHS Bursary Scheme in England. This account, together with my certificate and report was laid before Parliament on 19 July 2007(HC887). Although these accounts are consolidated within the Department of Health's Resource Account, my qualification on these accounts does not affect my opinion on the Department of Health's Resource Account for the year ended 31 March 2007 as the amounts spent on the scheme are not a significant element of the Department of Health's expenditure.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
10 October 2007

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

Statement of Parliamentary Supply

Summary of Resource Outturn 2006-07

		Estimate			Outturn			2006-07 Net total outturn compared with Estimate savings/ (excess)	2005-06 Outturn NET TOTAL
Request for Resources	Note	Gross Expenditure	Appropriation -in-Aid	NET TOTAL	Gross Expenditure	Appropriation -in-Aid	NET TOTAL		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	2	81,655,751	19,781,564	61,874,187	80,817,401	19,529,651	61,287,750	586,437	59,142,660
2	2	3,512,986	62,110	3,450,876	3,363,484	62,110	3,301,374	149,502	3,365,716
3	2	12,574	–	12,574	12,324	–	12,324	250	17,543
Total resources	**3**	**85,181,311**	**19,843,674**	**65,337,637**	**84,193,209**	**19,591,761**	**64,601,448**	**736,189**	**62,525,919**
Non-operating cost A-in-A				**2,489,407**			**1,601,202**	**(888,205)**	**993,671**

Net cash requirement 2006-07

	Note	Estimate £'000	Outturn £'000	2006-07 Net total outturn compared with estimate: Saving/ (excess) £'000	2005-06 Outturn £'000
Net cash requirement	4	65,990,363	64,561,827	1,428,536	61,494,283

Summary of income payable to the Consolidated Fund

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

		Forecast 2006-07		Outturn 2006-07	
		Income	*Receipts*	Income	*Receipts*
	Note	£'000	£'000	£'000	£'000
Total	**5**	876,854	*1,043,944*	877,984	*1,045,074*

Note:
Explanations of variances between Estimate and outturn are given in Note 2 and in the Management Commentary.

The notes on pages 45-81 form part of these accounts.

Operating Cost Statement

for the year ended 31 March 2007

		Core Department					2006-07 Consolidated		2005-06
		Staff Costs	Other Costs	Income	Staff Costs	Other Costs	Income	Core Department	Consolidated
	Notes	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Administration Costs:									
Staff costs	9	137,175			137,175			145,892	145,892
Other administration costs	10		107,873			107,873		135,230	135,230
Operating income	12			(5,165)			(5,165)	(17,444)	(17,444)
Programme Costs									
Request for Resources 1									
Securing health care for those who need it.									
Staff Costs	9	157,903			7,186,033			106,558	7,013,754
Programme Costs	11		6,209,112			73,631,368		3,955,797	69,715,806
Income	12			(1,322,513)			(20,407,635)	(1,460,767)	(17,586,900)
Request for resources 2									
Securing social care and child protection for those who need it and, at national level, protecting, promoting and improving the nation's health.									
Staff Costs	9	361			16,184			412	17,641
Programme Costs	11		3,090,109			3,102,252		3,155,214	3,139,375
Income	12			(55,484)			(56,945)	(55,840)	(55,517)
Request for resources 3									
Office of the Independent Regulator for NHS Foundation Trusts									
Staff Costs	9	–			–			–	–
Programme Costs	11		12,324			12,324		17,543	17,543
Income	12			–			–	–	–
Totals		**295,439**	**9,419,418**	**(1,383,162)**	**7,339,392**	**76,853,817**	**(20,469,745)**	**5,982,595**	**62,525,380**
Net Operating Cost	3,13			**8,331,695**			**63,723,464**	**5,982,595**	**62,525,380**

Statement of Recognised Gains and Losses

for the year ended 31 March 2007

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Net gain/(loss) on revaluation of tangible fixed assets	27,947	317,698	72,050	219,808
Net gain/(loss) on revaluation of intangible fixed assets	–	–	–	(112)
Net gain/(loss) on revaluation of investments	–	402	–	84
Receipt/revaluation of donated assets	–	19,700	(109)	15,264
Impairment of fixed assets	-	(19,290)	(3,637)	(33,578)
Total recognised gains for the year	**27,947**	**318,510**	**68,304**	**201,466**

The activities reported in the Operating Cost Statement are from continuing operations within the Departmental boundary. There were no material acquisitions or disposals.

The notes on pages 45-81 form part of these accounts.

Balance Sheet

as at 31 March 2007

	Note	2007 £'000 Core Department		2007 £'000 Consolidated	2006 £'000 Core Department	2006 £'000 Consolidated
Fixed assets:						
Tangible assets	14	626,858	7,131,418		790,886	6,856,232
Intangible assets	15	926,215	942,578		607,043	619,894
Investments	16	23,400,305	23,438,751		21,394,917	21,423,013
		24,953,378		**31,512,747**		
Debtors falling due after more than one year	18	**99,524**	**157,655**	**157,655**	**75,896**	**116,409**
Current assets:						
Stocks	17	390,021	456,170		274,105	296,714
Debtors	18	603,387	2,163,782		520,130	1,703,086
Cash at bank and in hand	19	1,292,394	1,438,492		779,762	901,626
		2,285,802	**4,058,444**		**1,573,997**	**2,901,426**
Creditors (amounts falling due within one year)	20	(2,105,961)	(7,919,740)		(1,490,150)	(6,986,457)
Net current assets		**179,841**		**(3,861,296)**	**83,847**	**(4,085,031)**
Total assets less current liabilities		**25,232,743**		**27,809,106**	**22,952,589**	**24,930,517**
Creditors (amounts falling due after more than one year)	20	–	(192,553)	–		(111,194)
Provisions for liabilities and charges	21	(1,494,354)	(11,350,497)		(1,328,201)	(10,268,192)
		(1,494,354)		(11,543,050)		
Net Assets		**23,738,389**		**16,266,056**	**21,624,388**	**14,551,131**
Taxpayers' equity						
General fund	22	23,412,465		13,603,372	21,112,697	11,920,659
Revaluation reserve	23.1	325,924		2,519,902	510,670	2,498,831
Donated asset reserve	23.2	–		142,782	1,021	131,641
		23,738,389		**16,266,056**	**21,624,388**	**14,551,131**

The notes on pages 45-81 form part of these accounts.

Hugh Taylor
Permanent Secretary
Department of Health

9 October 2007

Consolidated Cash Flow Statement

for the year ended 31 March 2007

	Note	2006-07 £'000	2005-06 £'000
Net cash flow from operating activities	24.1	(61,356,670)	(59,375,698)
Capital expenditure and financial investment	24.2, 24.3	(2,166,794)	(2,117,822)
Payments of amounts due to the Consolidated Fund		(1,044,181)	(764)
Financing	24.4	65,106,693	61,755,718
Increase in cash in the period	24.5	**539,048**	**261,434**

The notes on pages 45-81 form part of these accounts.

Consolidated Statement of Operating Costs by Departmental Aim and Objectives for the year ended 31 March 2007

In addition to the Department of Health's Programme Budgeting Analysis of Gross operating Costs (see page 18), below is a presentation of Net Operating Costs by key objectives.

Aim: The Department of Health's overall aim is to improve the health and well being of the people of England, through the resources available.

In pursuance of this aim, the department has the following objectives (as set as part of the 2004 Spending Review process):

	2006-07	2005-06
	£m	£m
Objective I		
Access to Services	23,322	26,749
Objective II		
Improving the Patient / User Experience	5,990	5,807
Objective III		
Health of the Population	26,788	29,111
Objective IV		
Long Term Conditions	14,353	6,672
Other	13,740	11,846
	84,193	80,185
Total Income	(20,470)	(17,660)
Net Operating Cost	**63,723**	**62,525**

Note

The majority of income comes from National Insurance Contributions and is treated as central funding rather than allocated as a particular objective. Therefore gross operating figures have been disclosed for each objective.

The presentation above provides high level indicative spend against the key departmental objectives applying a method based on outturn data already collected by the NHS. Although departmental and NHS activity can contribute to several objectives at the same time, the adopted method provides a high-level and fair assessment of spend by objective. The NHS response to many conditions contributes to more than one objective, but the model used to derive the schedule outturn assigns individual PSA target expenditure to single objectives. As a result the figure on long term conditions excludes some spend on conditions which are usually considered long term conditions, such as cancer because these are included in health of the population. These figures should not be taken as absolute, however.

Costs have been allocated to these objectives in accordance with the methodology set out in Note 1.24 using the latest available data and for reference costs this is the final 2005-06 data. This information is collected at a local level and subject to departmental review. The extent of judgement required in this process means that significantly different, yet still defensible, allocations of income and expenditure could have been reported.

See note 25 for further analysis of these objectives.

The notes on pages 45-81 form part of these accounts.

Notes to the Accounts

1 Statement of accounting policies

The financial statements have been prepared in accordance with the The Government Financial Reporting Manual (FReM) for 2006-07 issued by HM Treasury. The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. In addition to the primary statements prepared under UK GAAP, the FReM also requires the Department to prepare two additional primary statements. The Statement of Parliamentary Supply and supporting notes show outturn against Estimate in terms of the net resource requirement and the net cash requirement. The consolidated Statement of Operating Costs by Departmental Aim and Objectives and supporting notes analyse the Department's income and expenditure by the objectives agreed with Ministers. Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be most appropriate to the particular circumstances of the Department for the purpose of giving a true and fair view has been selected. The Department's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

The accounts include two departures from FReM which have been agreed with HM Treasury:

- Public Dividend Capital issued by the Department due to the creation of new NHS Trusts and written-off due to the dissolution of existing NHS Trusts is debited or credited to the General Fund rather than the Operating Cost Statement.
- Income from NHS bodies received by the Department or bodies within the accounting boundary is excluded and netted off the relevant expenditure.

1.1 Accounting convention

These accounts have 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 cost.

1.2 Basis of consolidation

These accounts consolidate financial information for the Department of Health (core Department), its supply-financed Executive Agency, and other NHS bodies funded directly by the Department that fall within the departmental boundary as defined in the Government Financial Reporting Manual issued by HM Treasury. The Medicines & Healthcare Products Regulatory Agency, NHS Trusts, Foundation Trusts and all, except NHS Tribunals, of the Department's non-Departmental Public Bodies are excluded from the consolidation. Note 37 contains a full list of bodies consolidated within and excluded from the accounts. More information on entities within the departmental family can be found in the annual reports and accounts of the Executive Agency or in the individual and summarised accounts of NHS Trusts, Strategic Health Authorities, Special Health Authorities, Foundation Trusts and Primary Care Trusts which are published separately.

In 2005-06 NHS Logistics Special Health Authority was outside the resource accounting boundary and not included in the Department of Health resource accounts. On 1 April 2006 part of NHS Logistics the NHS Supply Chain, was included in a new Special Health Authority , NHS Business Services Authority. This Special Health Authority is within the resource accounting boundary and included in these resource accounts.

1.3 Intangible fixed assets

The following intangible fixed assets are capitalised:

– Purchased computer software licences

– Licences and trademarks

– Development expenditure

Expenditure incurred on the National Programme for IT has been split between capital and revenue expenditure using a financial model that analyses contractor costs over the life of the project. As the majority of assets generated by this project are software related, including the purchase of licences, they have been capitalised within intangible fixed assets. These are being amortised over the life of the project.

1.4 Tangible fixed assets

Fixed assets other than purchased computer software and licenses are capitalised as a tangible asset where expenditure of £5,000 or more is incurred on:

(i) a discrete asset;

(ii) a collection of assets which, individually may be valued at less than £5,000 but which together form a single collective asset because the items fulfil all of the following criteria:

- the items are functionally interdependent;
- the items are acquired at about the same date and are planned for disposal at about the same date; and
- the items are under single managerial control.

(iii) a collection of assets which individually may be valued at less than £5,000 but which form part of the initial equipping and setting-up cost of a new building; and

(iv) enhancing an existing asset beyond its previously assessed standard of performance.

Fixed assets are valued as follows:

i) The Civil Estate was valued as at 30 June 2000, and revalued as at 01 September 2005 for the Central Department's Land and Building, by independent valuers employed by the Department. For other NHS bodies, Civil Estate Land and Building valuations were undertaken in 2004 as at the prospective valuation date of 1 April 2005 and were applied as at 31 March 2005. All valuations have been according to RICS guidelines. Between valuations, IPD indices for Civil Estate assets and NHS indices for all other assets are applied to arrive at current values; and

ii) The Retained Estate was valued as at 31 March 2005 by professional valuers. Specialised operational property is valued at depreciated replacement cost, non-specialised operational property is valued on an existing use value and non-operational and surplus property are valued at open market value.

iii) IT equipment, assets in the course of construction, transport equipment, furniture and fittings and plant and machinery held for operational use are valued at net current replacement cost using an appropriate index. Surplus equipment is valued at the net recoverable amount.

1.5 Depreciation

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 Private Finance Initiative contract assets are not depreciated until the asset is brought into use or reverts to the Primary Care Trust, respectively.

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

Leaseholds are depreciated over the primary lease term.

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

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

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.

Land, surplus building and assets in the course of construction are not depreciated.

1.6 Amortisation of Intangible Fixed Assets

Licences and trademarks and purchased computer software licences are amortised over the life of the licences. Development expenditure is amortised over the life of the project.

Capitalised costs of the National Programme for IT are being amortised over the life of the project.

1.7 Donated assets

Donated tangible fixed assets are capitalised at their valuation on receipt; this value is credited to the donated assets reserve. Subsequent revaluations are also taken to this reserve. Each year, an amount equal to the depreciation charge on the asset is released from the donated asset reserve to the Operating Cost Statement.

1.8 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 as operating costs on a straight-line basis over the lease term. Leasing rental income, where the Department acts as a lessor in shared buildings, is recognised as it falls due.

1.9 Investments

Investments held in the group relate mainly to transactions between the Department and its bodies. These include Public Dividend Capital (PDC), and any loans, issued by the Department to NHS Trusts, Foundation Trusts and the Medicines & Healthcare Products Regulatory Agency. The Department additionally holds investments in Partnership for Health, Shared Business Services, Plasma Resources UK Limited, Credit Guarantee Fund and iSoft. All these investments are valued at historic cost except for Credit Guarantee Loans which are indexed at the balancesheet date using RPI.

PCTs have investments in LIFT companies which are valued at current cost.

1.10 Stocks

Stocks are valued at the lower of purchase cost (calculated on a first-in, first-out basis) and net realisable value.

1.11 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
- 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 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 charge is calculated on the same basis as 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. 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.

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 the FReM which are adapted from SSAP 13 to take account of the not-for-profit context. Expenditure which does not meet the criteria for capitalisation is treated as an operating cost in the year in which it is incurred. Primary Care Trusts are unable to disclose the total amount of research and development expendiutre charged to the Operating Cost Statement becasue some research and development activity cannot be seperated 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.

1.12 Operating income

Operating income is income related directly to the operating activities of the Department. It comprises principally, fees and charges for services provided, on a full cost basis, to external customers and public sector repayment work, but also includes other income such as that from investments. It includes Appropriations-in-Aid (A-in-A) and Consolidated Fund Extra Receipts (CFERs) treated as income but excludes A-in-A and CFERs treated as capital. National Insurance Contributions are included in operating income. Operating income is stated net of VAT.

1.13 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the costs of running the Department. These include both administrative costs and associated operating income. Income is analysed in the notes between that which, under the administrative cost-control regime, is allowed to be offset against gross administrative costs in determining the outturn against the administration cost limit, and that operating income which is not. Programme costs reflect non-administration costs, including payments of grants and other disbursements by the department, as well as certain staff costs where they relate directly to service delivery. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

1.14 Capital charge

A charge, reflecting the cost of capital utilised by the department, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for:

a) donated assets, and cash balances with the Office of the Paymaster General, where the charge is nil; and

b) investments in NHS Trusts, Foundation Trusts and in Trading Funds where the charge is applied to their underlying assets at a rate agreed with HM Treasury.

1.15 Audit costs

A charge reflecting the cost of audit is included in operating costs. The Department of Health is audited by the Comptroller and Auditor General. No charge is made for this service but a notional charge representing the cost of the audit is included in the accounts. This charge covers all audit costs on the main Department accounts, and the audit of all the summarised accounts prepared under s232 of the NHS Act 2006 (note 10). Other Group bodies are audited by the Comptroller and Auditor General or the Audit Commission-appointed auditor and are charged audit fees (note 11).

1.16 Foreign exchange

The large majority of the Department's foreign currency transactions relate to EEA medical costs. Because of delays in submission of medical cost claims by member states, the Department estimates annual medical costs and adjusts future years' expenditure when actual costs are claimed. Estimated costs are converted into sterling at average rates calculated using EU published rates. Payments made are valued at prevailing exchange rates. Amounts in the balance sheet at year-end are converted at forward contract rates with the balance of the liabilities at the exchange rate ruling at the balance sheet date. Exchange rate gains or losses are calculated in accordance with accepted accounting practice.

1.17 Principal Civil Service Pension Scheme

Past and present employees are covered by the provisions of the Civil Services Pension Schemes which are described at Note 9. The defined benefit schemes are unfunded and are non-contributory except in respect of dependents benefits. The department recognises the expected costs of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by payment to the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the department recognises the contributions payable for the year.

The Cabinet Office publishes a separate scheme statement for PCSPS as a whole.

1.18 NHS Pension Scheme

Present and past employees of NHS bodies funded directly by the Department are covered by the provisions of the NHS Pension Scheme. This is notionally funded. It is a statutory, defined benefit scheme, the provisions of which are contained in the NHS Pension Scheme Regulations (SI 1995 No.300). Under these regulations the Department is required to pay an employer's contribution, a percentage of pensionable pay as determined from time to time by the Government Actuary's Department.

The NHS compensation for premature retirement scheme is funded by special contributions paid by the employer. These contributions can be paid quarterly over the life of the former employee; paid in five annual instalments; or settled in one lump-sum.

Both the NHS Pensions Scheme and the NHS Compensation for Early Retirements Scheme are administered by the Business Services Authority. Further details are given in the annual financial statements for the 'NHS Pension Scheme and NHS Compensation for Premature Retirement Scheme'.

1.19 Clinical negligence costs

Clinical negligence costs are managed through the following different schemes by the NHS Litigation Authority.

The Existing Liability Scheme and Ex-Regional Health Authority schemes are funded by the Department of Health, and the Clinical Negligence Scheme for Trusts, from Trust contributions. The accounts for the schemes are prepared in accordance with FRS 12. A provision for these schemes is calculated in accordance with FRS 12 by discounting the gross value of all claims received; this is disclosed in Note 21.

The calculation is made using:

i) probability factors. The probability of each claim having to be settled is assessed between 10% and 94%. This probability is applied to the gross value to give the probable cost of each claim; and

ii) a discount factor calculated using the real discount rate of 2.2%, RPI of 3% and claims inflation (varying between schemes) of between 3% and 6%, is applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in note 31.

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

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

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise her statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Litigation Authority in respect of these schemes.

Clinical Negligence Scheme for Trusts (CNST)

A provision for this scheme is calculated in accordance with FRS12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 2007 and after 1 April 1995. This is disclosed in note 21.

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

a. the probable cost and time to settlement in accordance with scheme guidelines;

b. that they are qualifying incidents; and

c. that the Trust remains a member of the scheme.

As at 31st March 2002 all outstanding claims for incidents post 1st April 1995 became the direct responsibility of the NHSLA. This 'call in' of CNST claims effectively means that member trusts are no longer reponsible for accounting for claims made against them although they do remain the legal defendant.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise her statutory powers to deal with the liabilities of a Special Health Authority, if it ceases to exist. This would include the liabilities assumed by the Authority in respect of this scheme.

Incidents Incurred but not reported (IBNR)

FRS 12 requires the inclusion of liabilities in respect of incidents which have been incurred but not reported to the NHS Litigation Authority as at 31 March 2007 where the following can be reasonably forecast:

a) that an adverse incident has occurred; and

b) that a transfer of economic benefit will occur; and

c) that a reasonable estimate of the likely value can be made.

The NHSLA uses its actuaries, Lane, Clark & Peacock, to assess the potential value of IBNRs against each of the schemes it operates. The actuaries review existing claims records, and using an appropriate model, calculate values in respect of IBNRs for all schemes. The provisions and contingent liabilities arising are shown in notes 21 and 31 respectively. The sums concerned are accounting estimates, and although determined on the basis of information currently available, the ultimate liabilities may vary as a result of subsequent developments.

1.20 Derivatives and other financial instruments

The Department of Health mainly relies on Parliamentary voted funding and receipt of a proportion of National Insurance Contributions to finance its operations. Other than items such as trade debtors and creditors that arise from its operations and cash resources it holds no other financial instruments nor enters into derivative transactions or interest rate swaps. The Department enters into forward contracts where a specific amount of foreign currency are required at a particular date in the future in accordance with Government Accounting, chapter 28.7.

The Department has transactions with other EEA member states for medical costs.

1.21 Contingent Liabilities

In addition to contingent liabilities disclosed in accordance with FRS 12, the Department discloses for parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote. These comprise:

– items over £100,000 (or lower, where required by specific statute) that do not arise in the normal course of business and which are reported to Parliament by departmental Minute prior to the Department entering into the arrangement

– all items (whether or not they arise in the normal course of business) over £100,000 (or lower, where required by specific statute or where material in the context of resource accounts) which are required by the Financial Reporting Manual to be noted in the resource accounts.

Where the time value of money is material, contingent liabilities which are required to be disclosed under FRS 12 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by FRS 12 are stated at the amounts reported to Parliament.

1.22 Value Added Tax

Most of the activities of the department 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.

1.23 Funds Held on Trust

Some organisations received donations which are held on trust. These funds are administered by Trustees and accounted for separately from other funds for which the Department retains control.

1.24 Consolidated Statement of Operating Costs by Departmental Aim and Objectives

The Government Financial Reporting Manual (FReM) requires a primary statement analysing net operating cost by departmental aims and objectives (Consolidated Statement of Operating Costs by Departmental Aim and Objectives). The Department of Health's objectives used are those agreed and published in the "Spending Review 2004: Public Service Agreements" White Paper. Each objective is supported by one or more Public Service Agreement (PSA) targets which relate directly to the services delivered by the NHS and Social Care systems.

Departmental expenditure has been allocated to the PSA targets using "programme budget categories", indicative provider costs (reference costs) and prescribing data. Primary Care Trusts have allocated their spend at the local level and reported within defined activity categories. Consolidated Statement of Operating Costs by Departmental Aim and Objectives has been built from this underlying data, assigning expenditure to meeting the PSA targets and using the PSA targets to allocate between the objectives.

This method provides high level indicative spend against the key departmental objectives applying a method based on outturn data already collected by the NHS. Although departmental and NHS activity can contribute to several objectives at the same time, the adopted method provides a high-level and fair assessment of spend by objective. These figures should not be taken as absolute, however.

1.25 Provisions

The Department provides for legal or constructive obligations which 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 real rate set by HM Treasury (currently 2.2 per cent).

1.26 Private Finance Initiative (PFI) transactions

The Department of Health 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.

1.27 Assets belonging to third parties

Assets belonging to third parties (such as money held on behalf of Patients) are not recognised in the accounts since the Department has no beneficial interest in them. These amounts are disclosed in note 35.

1.28 Cash, Bank and Overdraft

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

1.29 Losses and Special Payments

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

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

2 Analysis of net resource outturn by section

This note compares outturn with the figures approved by Parliament.

	Admin	Other Current	Grants	Gross Resource Expend-iture	A-in-A	Outturn Net Total	Estimate	2006-07 £'000 Net total Outturn compared with Estimate savings/ (excess)	2005-06 £'000 Prior year outturn
Request for Resources 1:									
Securing health care for those who need it.									
Spending in Departmental Expenditure Limits(DEL)									
Central government spending									
Strategic health authorities and primary care trusts unified budgets and central allocations	–	78,743,082	160,513	78,903,595	(1,787,983)	77,115,612	77,610,025	494,413	69,483,187
	–	**78,743,082**	**160,513**	**78,903,595**	**(1,787,983)**	**77,115,612**	**77,610,025**	**494,413**	**69,483,187**
FHS-Pharmaceutical Services	–	1,033,473	–	1,033,473	–	1,033,473	998,271	(35,202)	1,162,165
FHS-Prescription charges income	–	–	–	–	(411,715)	(411,715)	(399,918)	11,797	(426,856)
FHS-General Dental Services	–	26,328	–	26,328	(7,242)	19,086	23,000	3,914	1,037,886
FHS-General Ophthalmic Services	–	380,588	–	380,588	–	380,588	381,000	412	357,768
	–	**1,440,389**	**–**	**1,440,389**	**(418,957)**	**1,021,432**	**1,002,353**	**(19,079)**	**2,130,963**
Support for Local Authorities									
Strategic health authority and primary care trusts grants to local authorities	–	–	272,272	272,272	–	272,272	311,788	39,516	304,766
	–	**–**	**272,272**	**272,272**	**–**	**272,272**	**311,788**	**39,516**	**304,766**
Spending in Annually Managed Expenditure (AME)									
Central Government spending									
Hospital financing for Credit Guarantee Finance (CGF) pilot projects	–	14,052	–	14,052	(22,679)	(8,627)	(8,039)	588	4,288
Non-budget (not DEL or AME)									
Grant in aid to Non-departmental Public Bodies, NHS Trusts and Foundation trusts PDC issues and repayments, Foundation trusts loans and repayments and repayment of interest	–	–	187,093	187,093	(1,094,761)	(907,668)	(836,685)	70,983	1,475,055
National Insurance Contributions	–	–	–	–	(16,205,271)	(16,205,271)	(16,205,255)	16	(14,255,599)
	–	**–**	**187,093**	**187,093**	**(17,300,032)**	**(17,112,939)**	**(17,041,940)**	**70,999**	**(12,780,544)**
	–	**80,197,523**	**619,878**	**80,817,401**	**(19,529,651)**	**61,287,750**	**61,874,187**	**586,437**	**59,142,660**

	Admin	Other Current	Grants	Gross Resource Expend-iture	A-in-A	Outturn Net Total	Estimate	2006-07 £'000 Net total Outturn compared with Estimate savings/ (excess)	2005-06 £'000 Prior year outturn
Request for Resources 2:									
Securing social care and child protection for those who need it and at national level, protecting, promoting and improving the nation's health									
Spending in Departmental Expenditure Limits(DEL)									
Central Government Spending									
Central Department	234,446	10,533	–	244,979	(5,095)	239,884	252,173	12,289	263,198
NHS Purchasing and Supplies Authority	–	26,509	–	26,509	(1,461)	25,048	26,829	1,781	27,124
Other Services, including medical, scientific and technical services, grants to voluntary bodies, research and development and information services	–	249,827	30,150	279,977	(4,540)	275,437	298,505	23,068	219,665
Welfare Food and European Economic Area Medical costs	–	756,089	–	756,089	(47,678)	708,411	769,702	61,291	620,765
Other Personal Social Services	–	5,399	126,586	131,985	(529)	131,456	159,003	27,547	66,389
Support for local Authorities									
AIDS support grant	–	8	18,565	18,573	–	18,573	19,600	1,027	16,690
Services for people with a mental illness	–	(28)	132,267	132,239	–	132,239	132,900	661	133,486
Carers' grant	–	–	185,000	185,000	–	185,000	185,000	–	184,797
Preserved rights grant	–	–	297,530	297,530	–	297,530	297,565	35	339,877
Residential allowance grant	–	–	–	–	–	–	–	–	216,997
Improving Information management (capital)	–	–	24,802	24,802	–	24,802	25,000	198	25,037
National training strategy	–	–	107,859	107,859	–	107,859	107,859	–	91,686
Access and systems capacity grant	–	–	546,000	546,000	–	546,000	546,000	–	642,784
Human resources development strategy	–	–	49,750	49,750	–	49,750	49,750	–	62,859
Children and adolescents mental health grant	–	1,407	88,762	90,169	–	90,169	90,539	370	90,557
Delayed discharged grant	–	–	100,000	100,000	–	100,000	100,000	–	100,000
Assistive technology:older people	–	–	30,000	30,000	–	30,000	30,000	–	–
Preventive Service Pilot: older people	–	2	19,885	19,887	–	19,887	19,885	(2)	–
Extra Care housing grant	–	–	19,882	19,882	–	19,882	20,000	118	–
Individual Budget Pilots	–	1,463	3,133	4,596	(1,460)	3,136	5,280	2,144	–
	234,446	**1,051,209**	**1,780,171**	**3,065,826**	**(60,763)**	**3,005,063**	**3,135,590**	**130,527**	**3,101,911**
Non-budget									
Grant in Aid funding Non-departmental public bodies and special health authorities	–	1,853	295,805	297,658	(1,347)	296,311	315,286	18,975	263,805
	234,446	**1,053,062**	**2,075,976**	**3,363,484**	**(62,110)**	**3,301,374**	**3,450,876**	**149,502**	**3,365,716**

	Admin	Other Current	Grants	Gross Resource Expend-iture	A-in-A	Outturn Net Total	Estimate	2006-07 £'000 Net total Outturn compared with Estimate savings/ (excess)	2005-06 £'000 Prior year outturn
Request for Resources 3: Office of the Independent Regulator for NHS Foundation Trusts									
Non-budget									
Grant in aid funding to the Office of the Independent Regulator for NHS Foundation Trusts	–	240	12,084	12,324	–	12,324	12,574	250	17,543
Resource Outturn	**234,446**	**81,250,825**	**2,707,938**	**84,193,209**	**(19,591,761)**	**64,601,448**	**65,337,637**	**736,189**	**62,525,919**
Reconciliation to Operating Cost Statement									
Income from Consolidated Fund Extra Receipts	–	–	–	–	(877,984)	(877,984)	(876,854)	1,130	(539)
Net operating cost	**234,446**	**81,250,825**	**2,707,938**	**84,193,209**	**(20,469,745)**	**63,723,464**	**64,460,783**	**737,319**	**62,525,380**

Explanation of variation between Estimate and Outturn

RfR1

Strategic health authorities and primary care trusts unified budgets and central allocations

Mainly the SHA and PCT surpluses of £592m which results from the reduction in deficits and generation of further surpluses, has put the NHS back onto a firm financial footing. A surplus was vital for a healthy NHS, it allowed the NHS flexibility to continuously improve services for patients with a modern up to date health service. NHS organisations in surplus are able to respond to the changing demands upon them more quickly, so that the sound financial footing can be sustained.

FHS dental Services

Difficulty in forecasting the value of outstanding claims from dentists for this demand led service.

Strategic Health Authority and primary care trust's grants to local authorities.

Slippage on a number of planned Local Authority schemes.

RfR2

Other Personal Social Services

A budget for the Brighter Future for Older People £22.593m included in Other Pss at Spring Supply is now included in RfR1 Strategic health authorities and primary care trusts unified budgets and central allocations. In addition there were under spends of £2.5m due to delays expansion of domicilairy workers and £2.5m on other social care budgets.

Individual budget pilots

Delays in setting up pilot sites for this new PSS grant.

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

3.1 Reconciliation of net resource outturn to net operating cost

	Note	Outturn	Supply Estimate	2006-07 £'000 Outturn compare with Estimate	2005-06 £'000 Outturn
Net Resource Outturn	2	64,601,448	65,337,637	736,189	62,525,919
Non-supply income (CFERs)	5	(877,984)	(876,854)	1,130	(539)
Net Operating Cost		**63,723,464**	**64,460,783**	**737,319**	**62,525,380**

3.2 Outturn against final Administration Budget

	Budget	2006-07 £'000 Outturn	2005-06 £'000 Outturn
Gross Administration Budget	245,233	234,446	261,107
Income allowable against Administration Budget	(5,655)	(5,095)	(15,569)
Net outturn against final Administration Budget	**239,578**	**229,351**	**245,538**

4 Reconciliation of resources to cash requirement

	Note	Estimate £'000	Outturn £'000	Net Total outturn compared with Estimate saving/(excess) £'000
Resource Outturn	2	65,337,637	64,601,448	736,189
Capital		5,673,798	3,864,418	1,809,380
Non operating A-in-A		(2,489,407)	(1,601,202)	(888,205)
Accruals adjustments				
Non-cash items	10	(3,989,920)	(3,787,707)	(202,213)
Changes in working capital other than cash		381,490	266,610	114,880
Changes in creditors falling due after more than one year	20	–	(81,359)	81,359
Use of provision	21	909,675	1,113,899	(204,224)
Excess cash receipts surrenderable to the Consolidated Fund		167,090	167,090	–
Other		–	18,630	(18,630)
Net cash requirement		**65,990,363**	**64,561,827**	**1,428,536**

Note 4 Explanations of variations

The underspend on the net cash requirement reflects the underspends on the revenue and capital expenditure in the Resource Account less non cash expenditure (cost of capital, depreciation, impairments, new provisions, profit and loss on disposal, bad debts etc), plus payment of provisions, plus/minus movments in debtors, creditors, stocks and cash.

Capital includes the purchase of fixed assets, the issue of Public Dividend Capital to existing bodies and the issue of NHS loans. This is offset by appropriations in aid which includes the proceeds of fixed asset disposals and the repayment of PDC and loans.

The higher cash underspend in 2006-07 compared to that for 2005-06 is mainly the result of higher level of revenue underspends overall £477m and reduced non cash underspends within the overall revenue underspend £411m. These are offset by reduced capital underspends £313m.

5 Analysis of income payable to the Consolidated Fund

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

	Note	Income	Receipts	Forecast 2006-07 £'000 Income	Outturn 2006-07 £'000 Receipts
Operating income and receipts-excess A-in-A		–	–	996	*996*
Other operating income and receipts not classified as A-in-A		876,854	*876,854*	876,988	*876,988*
		876,854	*876,854*	877,984	*877,984*
Non-operating income and receipts excess A-in-A	7	–	–	–	–
Other non-operating income and receipts not classified as A-in-A	8	–	–	–	–
Other amounts collectable on behalf of the Consolidated Fund		–	–	–	–
Excess receipts to be surrendered to the Consolidated Fund		–	*167,090*	–	*167,090*
Total income payable to the Consolidated Fund		**876,854**	***1,043,944***	**877,984**	***1,045,074***

6 Reconciliation of income recorded within the Operating Cost Statement to operating income payable to the Consolidated Fund

	Note	2006-07 £'000	2005-06 £'000
Operating income	12	20,469,745	17,659,861
Gross income		20,469,745	17,659,861
Income authorised to be appropriated-in-aid		(19,591,761)	(17,659,322)
Operating income payable to the Consolidated Fund	5	**877,984**	**539**

7 Non-operating income – Excess A-in-A

The Department did not receive any Non-operating Income – Excess A-in-A in 2006-2007 or 2005-2006.

8 Non-operating income not classified as A-in-A

The Department did not receive any Non-operating income not classified as A-in-A in 2006-2007 or 2005-2006.

9 Staff numbers and related Costs

9.1 Staff costs consist of:

	2006-07 £'000					2005-06 £'000
	Total	Permanently employed staff	Others	Ministers	Special Advisers	Total
Salaries and Wages	6,159,243	5,545,041	613,782	310	110	6,037,931
Social Security costs	435,480	428,954	6,485	30	11	427,223
NHS Pension	702,458	693,761	8,697	–	–	678,682
Other pension costs	51,838	50,939	886	–	13	33,451
Sub-total	**7,349,019**	**6,718,695**	**629,850**	**340**	**134**	**7,177,287**
Less recoveries in respect of Outward Secondments	(9,627)	(9,627)	–	–	–	–
Total Net Costs *	**7,339,392**	**6,709,068**	**629,850**	**340**	**134**	**7,177,287**
*Of which Core Department is	295,439	122,139	172,826	340	134	252,862

Staff costs does not include £24,602,750 of capitalised costs.

Principal Civil Service Pension Scheme (PCSPS)

The Principal Civil Service Pension Scheme (PCSPS) to which most of the core Department's employees are members is an unfunded multi-employer defined benefit scheme which prepares its own scheme statements, but Department of Health is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2003 and details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2006-07, normal employer contributions of £21,565,000 were payable to the PCSPS at rates in the range 17.1 to 25.5 per cent of pensionable pay, based on salary bands. Rates will remain the same next year, subject to revalorisation of the salary bands. Employer contribution rates are to be reviewed every four years following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred; and they reflect past experience of the scheme.

Employees joining after 1 October 2002 could opt to open a partnership account, a stakeholder pension with an employer contribution.

Contributions due to the partnership pension providers at the balance sheet date were Nil. Contributions prepaid at that date were Nil.

The salaries and wages figure for other staff does not include the full cost associated with 588.1 full time equivalent agency staff and contractors engaged in the objectives of the entity. £10,164,259 associated with these staff is included in the salaries and wages figure for other staff in the staff costs note, with the remainder of the cost being captured within the expenditure figures disclosed notes 10 and 11.

NHS Pension Scheme

Other 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. 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 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.

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 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 2003) employer contribution rates from 2006-07 were set at 14% of pensionable pay (2005-06 14%). Until 2002-03 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. From 2004-05 funding has been devolved in full to NHS Pension Scheme employers and the employers' contribution rate is 14%.

The Scheme is a "final salary" scheme. 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.

Average number of persons employed

9.2 The average number of whole-time equivalent persons employed during the year was as follows. These figures include those working in the department as well as in agencies and other bodies included within the consolidated departmental resource account.

	Total	Permanent staff	Others	Ministers	2006-07 Number Special Advisers	2005-06 Number Total
Core Department	2,873	2,228	637	6	2	2,353
Connecting for Health	1,774	29	1,745	–	–	925
Primary Care Trusts	199,671	189,082	10,589	–	–	203,422
Strategic Health Authorities	3,949	3,281	668	–	–	4,596
Special Health Authorities	5,130	4,732	398	–	–	5,014
Others	327	327	–	–	–	350
Total whole time equivalent persons	**213,724**	**199,679**	**14,037**	**6**	**2**	**216,660**

10 Other administration costs

	Note	2006-07 £'000 Core Department	2006-07 £'000 Consolidated	2005-06 £'000 Core Department	2005-06 £'000 Consolidated
Rental under operating leases:					
Hire of plant and machinery		76	76	417	417
Other operating leases		11,624	11,624	17,339	17,339
Research and Development Expenditure		443	443	–	–
Non cash items (See Note b below):					
Depreciation		12,496	12,496	12,572	12,572
Amortisation		221	221	–	–
Loss on disposal of fixed assets		826	826	–	–
Impairment/permanent diminution of asset values		–	–	890	890
Cost of capital charges		2,435	2,435	3,132	3,132
Auditors' remuneration	a	542	542	490	490
Provision provided for in year	21	6,746	6,746	7,463	7,463
Unwinding of discount on provisions	21	556	556	–	–
Change in discount rate		–	–	975	975
Building and related costs		23,970	23,970	23,170	23,170
General office expenditure		22,573	22,573	29,270	29,270
Other expenditure		25,365	25,365	39,512	39,512
Total		**107,873**	**107,873**	**135,230**	**135,230**

Note a – The audit fee represents the cost for the audit of the Department's Consolidated Accounts and the Summarised Accounts of the NHS carried out by the Comptroller and Auditor General. This amount does not include fees in respect of non-audit work.

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

	2006-07 £'000	2005-06 £'000
Other administration costs – non-cash items (Note 10)	23,822	25,522
Programme costs – non-cash items (Note 11)	3,719,505	3,686,661
other non-cash amounts charged to operating expenditure	49,830	–
Less non-cash income:– deferred donation income released from the Donated Asset Reserve	(9,178)	(6,450)
Other: Stock Write-off, bad debt expenses	3,728	–
Total non-cash transactions	**3,787,707**	**3,705,733**

11 Programme Costs

		2006-07 £'000		2005-06 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Current grants and other current expenditure		6,483,515	71,999,880	4,784,381	68,324,819
Rental under operating leases:					
Hire of plant and machinery		–	10,084	–	8,429
Other operating leases		9,121	191,578	–	137,743
Interest Charges		–	8,387	–	4,171
PFI Service Charges		–	49,634	–	27,972
Research and Development expenditure		766,876	766,876	682,716	682,929
Non cash items (See Note b above):					
Depreciation		33,587	289,245	11,098	229,421
Amortisation		113,955	118,059	77,465	80,577
Profit on disposal of fixed assets		(6,957)	(47,026)	–	(31,679)
Loss on disposal of fixed assets		236,230	240,650	43,705	49,927
Impairment/permanent diminution of asset values		4,014	48,167	20,298	39,410
Cost of capital charges		1,150,900	887,004	1,096,666	881,847
Write-(on)/off of Investment		–	–	(1,438)	(1,438)
Provision provided for in year	21	497,460	2,089,893	289,570	1,581,736
Unwinding of discount on provisions	21	28,392	99,009	32,805	80,992
Other Non-cash expenditure		(5,548)	(5,496)	–	–
Change in discount rate		–	–	91,288	775,868
Total		**9,311,545**	**76,745,944**	**7,128,554**	**72,872,724**

	2006-07 £'000	2005-06 £'000
Auditor's Remuneration – Audit Fees	48,519	35,839
Auditor's Remuneration – Other Fees	2,754	2,505

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

12 Income

	RfR1	RfR2	RfR3	2006-07 £'000 Total	2005-06 £'000 Total
Operating income analysed by classification and activity, is as follows:					
Administration Income:					
Allowable within the administration cost limit	–	5,057	–	5,057	17,444
Not allowable within the administration cost limit	–	108	–	108	–
	–	5,165	–	5,165	17,444
Programme Income:					
Fees and charges to external customers	121,985	–	–	**121,985**	35,546
Fees and charges to other departments	1,259,354	–	–	**1,259,354**	567,482
Prescription, dental and ophthamic charges	915,275	–	–	**915,275**	838,123
National Insurance Contribution	17,082,125	–	–	**17,082,125**	14,255,599
Other	1,028,896	56,945	–	**1,085,841**	1,945,667
	20,407,635	56,945	–	20,464,580	17,642,417
Total Income*	**20,407,635**	**62,110**	**–**	**20,469,745**	**17,659,861**
*Of which Core Department is	1,322,513	60,649	–	**1,383,162**	**1,534,051**

13 Analysis of net operating cost by spending body

	Estimate	2006-07 £'000 Outturn	2005-06 £'000 Outturn
Spending body:			
Core Department	252,173	239,884	263,198
Purchasing and Supplies Agency	26,829	25,048	26,585
Entities within departmental boundary	60,997,333	60,409,766	59,142,660
Local authorities	2,116,241	2,064,918	2,252,507
Other bodies	1,068,207	983,848	840,430
Net Operating Cost	**64,460,783**	**63,723,464**	**62,525,380**

Note: Entities within departmental boundary include all NHS bodies, i.e. both consolidated and not consolidated in the department Resource Accounts as listed in note 37.

14 Tangible fixed assets

	Land and Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation								
At 1 April 2006	6,321,996	39,235	525,621	157,907	105,434	218,810	16,838	7,385,841
Additions-purchased	381,481	3,876	95,019	156,394	28,790	40,765	691	707,016
Additions-donated	6,619	–	87	2,712	541	640	66	10,665
Impairment	(23,170)	–	(55)	–	(218)	–	(3)	(23,446)
Transfers	127,545	(5,778)	2,162	(600)	1,356	6,760	447	131,892
Reclassifications	(49,266)	859	19,066	(135,621)	2,801	1,318	84	(160,759)
Revaluation and indexation	330,111	3,745	(15)	6,825	2,339	6,127	418	349,550
Disposals	(575,404)	(5,724)	(13,860)	(6,067)	(4,123)	(12,245)	(2,045)	(619,468)
At 31 March 2007	**6,519,912**	**36,213**	**628,025**	**181,550**	**136,920**	**262,175**	**16,496**	**7,781,291**
Depreciation								
At 1 April 2006	178,863	1,145	187,301	–	48,658	101,691	11,951	529,609
Charged in year	160,151	1,945	81,748	–	11,759	26,940	1,469	284,012
Impairment	42,675	539	104	–	38	107	–	43,463
Transfers	(258)	(1,163)	1,388	–	–	575	–	542
Reclassifications	(162,238)	–	2,888	–	(1,066)	718	63	(159,635)
Revaluation and indexation	(64)	168	(1)	–	735	2,514	271	3,623
Disposals	(25,703)	(38)	(12,046)	–	(3,607)	(8,494)	(1,853)	(51,741)
At 31 March 2007	**193,426**	**2,596**	**261,382**	**–**	**56,517**	**124,051**	**11,901**	**649,873**
Net Book Value At 31 March 2007	**6,326,486**	**33,617**	**366,643**	**181,550**	**80,403**	**138,124**	**4,595**	**7,131,418**
At 31 March 2006	6,143,133	38,090	338,320	157,907	56,776	117,119	4,887	6,856,232
Asset financing:								
Owned	6,187,259	33,617	366,513	181,550	76,713	120,562	4,595	6,970,809
Finance Lease	139,227	–	130	–	3,690	17,562	–	160,609
Net book value at 31 March 2007	**6,326,486**	**33,617**	**366,643**	**181,550**	**80,403**	**138,124**	**4,595**	**7,131,418**

Assets under construction includes assets purchased and held by the Department for the use of new bodies prior to the formation of those bodies. The assets are subsequently transferred to the new bodies when the bodies become operational.

Analysis of tangible fixed assets

The net book value of tangible fixed assets comprises:

	Land and Buildings (excluding dwellings)	Dwellings	Information Technology	Payments on Account & Assets Under Construction	Furniture and Fittings	Plant & Machinery	Transport Equipment	Total
Core Department 2006-07	402,062	3,310	141,858	71,768	7,691	171	(2)	**626,858**
Purchasing and Supply Agency 2006-07	337	996	595	–	–	304	–	**2,232**
Core Department 2005-06	621,992	3,027	128,882	21,886	6,650	8,434	15	**790,886**
Purchasing and Supply Agency 2005-06	330	995	490	89	–	277	–	**2,181**

15 Intangible Fixed Assets

Intangible fixed assets comprise, Purchased Software Licences, Trade Marks and Artistic Originals, and Development Expenditure, and NPFIT for the Department and entities consolidated within these statements.

	2006-07 £'000
Cost or valuation	
At 1 April 2006	735,178
Additions-purchased	459,139
Impairment	(53)
Transfers	273
Reclassification	309
Revaluation and indexation	7,135
Disposals	(809)
At 31 March 2007	**1,201,172**
Amortisation	
At 1 April 2006	115,284
Charged in year	136,009
Impairment	(5)
Transfers	(253)
Reclassification	7,828
Disposals	(269)
At 31 March 2007	**258,594**
Net book value at 31 March 2007	**942,578**
Net book value at 31 March 2006	619,894
Analysis of intangible fixed assets	
The net book value of intangible fixed assets comprises:	
Core Department at 31 March 2007	926,215
Purchasing and Supply Agency 31 March 2007	526
Core Department at 31 March 2006	607,043
Purchasing and Supply Agency 31 March 2006	449

Included within Intangible Fixed Assets is a receipt from Accenture arising from their novation of the contract for delivery of the North East and East & East Midlands Local Service Provider elements of the National Programme for IT.

16 Investments

	In NHS Trusts, Trusts Public Dividend Capital (PDC) £'000	NHS Loans £'000	Foundation Trusts (PDC) £'000	Foundation Trusts Loans £'000	In Other Bodies PDC £'000	In Other Bodies Loan £'000	In Other Bodies Share Capital £'000	Total £'000
Balance as at 1 April 2006	17,652,344		3,203,178	57,257	1,150	435,249	73,835	21,423,013
Issued:								
To newly established bodies	1,456,426		–	7,794	–	–	–	1,464,220
To existing bodies	1,406,335	777,881	276,303	50,439	–	138,818	40,738	2,690,514
Loans issued in previous years	–		–	–	–	–	–	–
Repaid:								
By continuing bodies	(1,168,627)		(6,797)	(5,965)	–	(45,996)	–	(1,227,385)
Written off:								
By or on behalf of dissolved bodies*	(911,513)		–	–	–	–	–	(911,513)
Revaluation	–		–	–	178	196	28	402
Loan repayable within 12 months transferred to debtors	–		–	–	–	–	–	–
Impairment	–		–	–	–	–	(500)	(500)
Reclassification	–		–	–	–	(3,563)	3,563	–
Balance as at 31 March 2007	**18,434,965**	**777,881**	**3,472,684**	**109,525**	**1,328**	**524,704**	**117,664**	**23,438,751**
Investments held by Core Department	18,434,965	777,881	3,472,684	109,525	1,328	504,102	99,820	23,400,305
Investments held by other NHS bodies	–	–	–	–	–	20,602	17,844	38,446
The Department can analyse its investments in other bodies as follows:								Percentage Shareholding
MHRA (Medicines and Healthcare products Regulatory Agency)					1,328	3,407	500	100%
PFH (Partnership for Health)					–	–	46,249	100%
Plasma Resources UK Ltd					–	5,003	53,065	100%
Credit Guarantee Fund					–	445,852	–	
iSOFT					–	37,418	–	
SBS					–	12,422	6	50%

*There is no overall loss of PDC, see note 33.

In addition Primary Care Trusts have investments of £26,446,000 in LIFT companies. Details of their investments can be found in their individual accounts. The Information Centre also has an investment of £12,000,000 in a Joint Venture arrangement known as Dr Foster Intelligence.

CGF is a loan, guaranteed by banks, monolines or other acceptable financial institutions, from the sponsoring Department to a PFI project SPV on 'market' terms. The CGF undertaken by the Department are pilots at two NHS PFI projects – Leeds and Portsmouth. Other than the pilots, the department will not be undertaking any further CGF loans as Treasury intend to develop the specific powers which will enable them to lend directly to the private sector should the pilots be successful.

The Department has increased its holding to 100% in Partnership for Health having acquired the remaining 50% holding of Partnership UK at a cost of £36,937,000.

The iSOFT loan had a balance of £52,980,000 at 1 April 2006; further advance was made of £27,950,000 during the year, and repayments of £43,527,000 made against the current loan giving a balance at 31 March 2007 of £37,418,000. It is not currently considered prudent to accrue interest on this loan, due to uncertainty around the payment profile of the loan and hence the actual interest to be received. All receipts to date have therefore been recorded against the capital element of the loan. This treatment will be revisited in 2007-08 once the interest to be received is more certain.

In 2006/07 working capital support for NHS Trusts was made available in the form of interest bearing loans replacing informal cash brokerage used previously. Loans to a total value of £778m were made to 56 NHS Trusts.

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

	NHS Trusts £'000	Foundation Trusts £'000	Medicines and Healthcare products Regulatory Agency £'000	Plasma Resources UK Limited £'000	PFH £'000	Joint Ventures SBS £'000
Net Assets at 31 March 2007	25,553,578	9,203,500	11,798	10,519	35,124	3,876
Turnover	35,177,496	10,142,300	81,308	53,319	927	13,018
Surplus/profit for the year (before financing)	735,055	197,900	1,663	154	(1,563)	(4,060)

17 Stocks and work in progress

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Stocks	390,021	456,170	274,105	296,714
	390,021	456,170	274,105	296,714

The increase in stock is due mainly to a increase in holdings of antivirals and vaccines.

18 Debtors

18.1 Analysis by type

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Trade debtors	52,779	508,728	60,535	446,906
Deposits and advances	320	320	–	117
Capital debtors	750	143,638	–	34,789
Other debtors	121,768	712,564	78,699	631,109
Pension prepayments maturing in one year	–	–	–	–
Consolidated Fund Extra Receipts Receivable	1	1	1	302
Other prepayments and accrued income	427,769	798,531	380,895	589,863
	603,387	**2,163,782**	**520,130**	**1,703,086**
Amounts falling due after more than one year:				
Trade debtors, advances for house purchases and other debtors	–	3,953	1,291	6,144
Deposits and advances	–	–	–	–
Capital debtors	–	20,114	–	269
Other debtors	87,496	111,123	74,605	91,407
Pension prepayments maturing after one year	–	–	–	–
Prepayments and accrued income	12,028	22,465	–	18,589
	99,524	**157,655**	**75,896**	**116,409**
Total debtors	**702,911**	**2,321,437**	**596,026**	**1,819,495**

18.2 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£'000	£'000	£'000	£'000
	2006-07	2005-06	2006-07	2005-06
Balances with other central government bodies	54,374	93,068	3,544	6,278
Balances with local authorities	226,162	178,800	5,132	7,610
Balances with NHS Trusts	440,194	322,744	409	1,186
Balances with Public Corporations and Trading Funds	34,312	22,438	–	37
Subtotal: Intra-government balances	**755,042**	**617,050**	**9,085**	**15,111**
Balances with bodies external to government	1,408,740	1,086,036	148,570	101,298
Total debtors at 31 March 2007	**2,163,782**	**1,703,086**	**157,655**	**116,409**

19 Cash at bank and in hand

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance as at 1 April	779,762	901,626	611,946	640,192
Net change in cash balance	512,632	536,866	167,816	261,434
Balance at 31 March	**1,292,394**	**1,438,492**	**779,762**	**901,626**
The following balances at 31 March were held at:				
Office of HM Paymaster General	1,292,392	1,436,674	779,758	894,672
Commercial banks and cash in hand	2	1,818	4	6,954
Balance at 31 March	**1,292,394**	**1,438,492**	**779,762**	**901,626**

20 Creditors

20.1 Analysis by Type

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Amounts falling due within one year:				
Bank Overdraft	–	8,825	–	11,007
VAT	–	–	–	–
Other taxation and social security	4,578	85,361	–	122,127
Trade creditors	36,012	4,358,356	9,109	4,000,533
Capital creditors	194,236	230,798	23,039	72,653
Other creditors	154,124	440,436	69,845	475,560
Early retirement costs payable within one year	–	8,519	–	1,674
Accruals and deferred income	287,344	1,350,366	497,815	1,407,982
Current part of finance lease	–	7,412	–	4,040
Amount issued from the Consolidated Fund for supply but not spent at year end	1,428,536	1,428,536	890,342	890,342
Consolidate fund extra receipts due to be paid to the Consolidated Fund – Received	1,131	1,131	–	539
	2,105,961	**7,919,740**	**1,490,150**	**6,986,457**
Amounts falling due after more than one year:				
Finance leases	–	166,779	–	76,487
Trade creditors	–	11,590	–	9,764
Other Creditors	–	14,184	–	24,943
	–	**192,553**	**–**	**111,194**

20.2 Intra-government balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	£'000 2006-07	£'000 2005-06	£'000 2006-07	£'000 2005-06
Balances with other central government bodies	117,343	1,078,255	37,912	3,228
Balances with local authorities	246,401	228,131	5,283	7,488
Balances with NHS Trusts	1,832,213	1,358,226	24,031	9,694
Balances with Public Corporations and Trading Funds	3,218	58,602	6	7,110
Subtotal: Intra-government balances	2,199,175	2,723,214	67,232	27,520
Balances with bodies external to government	5,720,565	4,263,243	125,321	83,674
Total creditors at 31 March	**7,919,740**	**6,986,457**	**192,553**	**111,194**

21 Provisions for liabilities and charges

	Core Department					Consolidated					
	Early departure costs £'000	Injury Benefits £'000	EEA medical costs £'000	Other £'000	Total £'000	Early departure costs £'000	Injury Benefits £'000	EEA medical costs £'000	Clinical Negligence £'000	Other £'000	Total £'000
Balance at 1 April 2006	80,340	590,939	588,426	68,496	1,328,201	475,570	590,939	588,426	8,219,452	393,805	10,268,192
Provided in the year	11,514	112,024	379,286	22,971	525,795	56,077	112,024	379,286	1,815,924	227,787	2,591,098
Provisions utilised in the year	(14,994)	(41,674)	(297,488)	(12,845)	(367,001)	(69,091)	(41,674)	(297,488)	(579,391)	(126,255)	(1,113,899)
Provisions not required written back	(309)	(8,351)	–	(12,929)	(21,589)	(5,203)	(8,351)	–	(420,810)	(60,095)	(494,459)
Unwinding of discount	1,776	13,000	12,945	1,227	28,948	11,448	13,000	12,945	59,538	2,634	99,565
Balance as at 31 March 2007	**78,327**	**665,938**	**683,169**	**66,920**	**1,494,354**	**468,801**	**665,938**	**683,169**	**9,094,713**	**437,876**	**11,350,497**

Clinical Negligence

The Department of Health provides for future costs where it is the defendant in a number of actions by claimants for damages arising from the effects of alleged clinical negligence. The clinical negligence provision reflects an actuarially determined assessment of incidents that have occurred, including those not yet reported, where it is more than 50% probable that the claim will be successful and the amount of the claim can be reliably estimated. The amount provided is calculated on a percentage expected probability basis. Expenditure is likely to be incurred over a period of more than twenty years.

Clinical negligence claims which may possibly succeed but are less likely or cannot be reliably estimated are shown as contingent liabilities.

Strategic Health Authorities, Primary Care Trusts, Foundation Trusts and NHS Trusts (which are outside the resource accounting boundary) retain legal liability for all liabilities covered by the clinical negligence schemes, the Ex-Regional Health Authority Scheme (RHA), Existing Liabilities Scheme (ELS) and Clinical Negligence Scheme for Trusts (CNST), but the NHS Litigation Authority (NHSLA) accounts for all liabilities under the ELS, CNST and RHA schemes. The NHSLA's actuaries undertake reviews regularly to identify likely future settlements under these schemes and these are recorded in the accounts of the NHSLA.

Clinical negligence provisions in the accounts of the NHSLA as at 31 March 2007 include £28,124,000 for the RHA scheme, £1,359,621,000 under the ELS and £7,706,968,000 for CNST.

Of the total £9,094,713,000 clinical negligence provisions, £973,089,000 is expected to be payable within 1 year, £2,344,398,000 in 1 to 5 years and £5,777,226,000 after 5 years.

Early Departure

This Account provides for the additional future costs, beyond the normal benefit awards for which employees are eligible under the terms of their pension scheme, arising from compensation payment for termination of employment through redundancy, severance or early retirement. The provision also takes account of arrangements with pension schemes under which employees could make prepayments to meet future liabilities. On the basis of the age of retirees, expenditure is likely to be incurred over a period of up to nine years.

The provision mainly relates to early retirement liabilities in Primary Care Trusts totalling £369,690,000. Of the total, £42,018,000 is expected to be payable within 1 year, £131,867,000 in 1 to 5 years and £195,805,000 after 5 years.

Further amounts of £16,058,000 are included in Strategic Health Authorities, £4,268,000 in Special Health Authorities, and £78,785,000 in the Department of Health, of which £13,776,000 is expected to be payable within 1 year, £35,063,000 in 1 to 5 years and £50,272,000 after 5 years.

Injury Benefits

This Account provides for the future costs of permanent Injury Benefits awarded up to April 1997, to NHS staff injured in the course of their duties. From this date the respective NHS body which employed the injured person has been liable for the costs. The Injury Benefit awards are guaranteed minimum income levels in nature and are granted for the life of the individual. The award is based on an assessment of the nature of the injury and the effect on the earning capacity of that individual as a result. Total claim provided for is £665,938,000 of which £86,887,000 is expected to be payable within 1 year, £155,041,000 in 1 to 5 years and £424,010,000 after 5 years.

Injury Benefit Review

An investigation into the administration of the injury benefits scheme began in 2006 following a decision by the Pensions Ombundsman. As a result of the review a provision of £45,971,803 has been raised within the 2006-07 accounts representing an estimate of the additional injury benefits that are likely to be paid due to irregularities in the administration of the injury benefits scheme between 1972 and 2006. The full costs will be determined in the Autumn of 2007.

EEA Medical Costs

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

The total cost provided for is £683,169,000 of which £350,807,000 is expected to be payable within 1 year and £332,362,000 in 1 to 5 years.

Other

This account has other provisions of £437,876,000. These include the following.

Provision has been made for future support for patients who contracted HIV from contaminated blood supplies. Total claim provided for is £11,744,000 of which £4,502,000 is expected to be payable within 1 year, and £7,242,000 in 1 to 5 years.

Other legal claims against Primary Care Trusts are £44,050,000 of which £14,884,000 is expected to be payable within 1 year, £13,628,000 in 1 to 5 years and £15,538,000 after 5 years. Further amounts of £4,857,000 are included in Strategic Health Authorities, of which £2,638,000 is expected to be payable within 1 year, £2,200,000 in 1 to 5 years and £19,000 over 5 years.

Restructuring provisions by Primary Care Trusts are £39,330,000 of which £34,350,000 is expected to be payable within 1 year, £2,360,000 in 1 to 5 years and £2,620,000 after 5 years. Further amounts of £17,011,000 are included in Strategic Health Authorities, of which £16,435,000 is expected to be payable within 1 year, £33,000 in 1 to 5 years and £543,000 after 5 years.

This Account provides for a scheme for persons infected by Hepatitis C contracted through blood and blood products in the course of treatment by the NHS. The amount provided is £17,512,000 of which £7,000,000 is expected to be payable within 1 year, £8,661,000 in 1 to 5 years and £1,851,000 after 5 years.

Other miscellaneous provisions is £303,372,000 of which £171,686,000 payable within 1 year, £77,956,000 in 1 to 5 years and £53,730,000 after 5 years.

22 General Fund

The General Fund represents the total assets less liabliities of each of the entities within the accounting boundary, to the extent that the total is not represented by other reserves and financing items.

		2006-07 £'000		2005-06 £'000	
	Note	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April		21,112,697	11,920,659	19,195,871	11,621,234
Net Parliamentary Funding					
Draw Down	24.5	9,426,394	65,100,021	7,298,484	62,384,625
Deemed		890,342	890,342	–	–
Year end adjustment					
Supply Creditor – current year	4	(1,428,536)	(1,428,536)	(890,342)	(890,342)
Net Transfer from Operating Activities					
Net Operating Cost	2	(8,331,695)	(63,723,464)	(5,982,595)	(62,525,380)
CFERs repayable to Consolidated Fund		(168,220)	(1,045,074)	–	(539)
Non Cash Charges					
Cost of Capital	10,11	1,153,335	889,439	1,099,798	884,979
Auditors' remuneration	10,11	542	542	490	542
PDC Investment adjustment		544,913	544,913	137,335	137,335
Transfers from Revaluation Reserve	23.1	212,693	277,739	252,247	290,848
Other Transfers		–	176,791	1,409	17,357
Balance at 31 March		**23,412,465**	**13,603,372**	**21,112,697**	**11,920,659**

23 Reserves

23.1 Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments (excluding donated assets)

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	510,670	2,498,831	694,504	2,603,477
Arising on revaluation during the year (net)	27,947	318,100	72,050	219,780
Impairment	–	(19,290)	(3,637)	(33,578)
Transferred to General Fund in respect of realised element of revaluation reserve	(2,431)	(67,477)	–	(38,319)
Transferred to General Fund on disposal	(210,262)	(210,262)	(252,247)	(252,529)
Balance at 31 March	**325,924**	**2,519,902**	**510,670**	**2,498,831**

23.2 Donated assets reserve

The donated asset reserve reflects the net book value of assets donated to the department or other bodies within the resource account boundary.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Balance at 1 April	1,021	131,641	2,340	108,784
Additions arising in year	–	13,367	–	13,524
Revaluation and indexation	–	6,333	(109)	1,740
Release to the Operating Cost Statement in respect of:				
– Depreciation	(1,021)	(7,070)	–	(5,219)
– Disposals	–	(1,515)	(1,210)	(1,231)
Other movements	–	26	–	14,043
Balance at 31 March	**–**	**142,782**	**1,021**	**131,641**

24 Notes to the Consolidated Cash Flow Statement

24.1 Reconciliation of operating cost to operating cash flows

	Notes	2006-07 £'000	2005-06 £'000
Net operating cost	13	63,723,464	62,525,380
Adjustment for non-cash transactions	10	(3,787,707)	(3,705,733)
(Increase)/Decrease in Stock		159,456	129,129
(Increase)/Decrease in Debtors		501,942	256,306
less movements in debtors relating to items not passing through the OCS		(128,694)	(3,522)
Increase/(Decrease) in creditors		(1,014,642)	(1,053,530)
less movements in creditors relating to items not passing through the OCS		788,952	199,389
Use of provisions	21	1,113,899	1,028,279
Net cash outflow from operating activities		**61,356,670**	**59,375,698**

24.2 Analysis of capital expenditure and financial investment

	Notes	2006-07 £'000	2005-06 £'000
Fixed assets	14,15	914,301	1,000,421
Proceeds of disposals of fixed assets		(245,123)	(558,173)
Purchase of Investments	16	2,698,308	2,116,138
Proceeds from disposal of Investments	16	(1,227,385)	(431,976)
Transfer of assets		26,693	(8,588)
Net cash outflow from investing activities		**2,166,794**	**2,117,822**

24.3 Analysis of capital expenditure and financial investment by Request for Resources

	Capital expenditure £'000	Loans and Investments £'000	A-in-A £'000	Net total £'000
Request for resources 1	897,457	2,698,308	(1,472,508)	2,123,257
Request for resources 2	16,844	–	–	16,844
Net movement in debtors/creditors	251,809	–	(128,694)	123,115
Total 2006-07	**1,166,110**	**2,698,308**	**(1,601,202)**	**2,263,216**
Total 2005-06	**930,651**	**2,118,350**	**(993,671)**	**2,055,330**

24.4 Analysis of financing

	Notes	2006-07 £'000	2005-06 £'000
From the Consolidated Fund (Supply)-current year	22	65,990,363	62,384,625
Repayment of supply creditor	22	(890,342)	(628,340)
Advances from the Contingencies fund		–	1,700,000
Repayment to the Contingencies fund		–	(1,700,000)
Other		6,672	(567)
Net financing		**65,106,693**	**61,755,718**

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

	Notes	2006-07 £'000	2005-06 £'000
Net cash requirement		64,561,827	61,494,283
From the Consolidated Fund (Supply)-current year	24(4)	(65,990,363)	(62,384,625)
Repayment of supply creditor	24(4)	890,342	628,340
Amount due to the Consolidated Fund received in prior year and paid over		237	764
Amount due to the Consolidated Fund-received and not paid over	3(1)	(1,130)	(237)
Other		39	41
(Increase)/decrease in cash		**(539,048)**	**(261,434)**

25 Notes to the Consolidated Statement of Operating Costs by Departmental Aim and Objectives

Programme grants and other current expenditure (excluding administration costs) have been allocated as follows:

	2006-07 £m	2005-06 £m
Objective 1-Access to Services	23,322	26,749
Objective 2-Improving the Patient/User Experience	5,990	5,807
Objective 3-Health of the Population	26,788	29,111
Objective 4-Long Term Conditions	14,353	6,672
Other	13,506	11,585
	83,959	**79,924**

The Department's two high level objectives (as set as part of the Spending Review 2002) are:

- Improve Service Standards;
- Improve Health and Social Care outcomes for everyone;

These objectives have been broken down further (as in accordance with Spending Review 2004):

- Improve Service Standards:
  - I. Access to Services;
  - II. Improving the Patient / User Experience.
- Improve Health and Social Care Outcomes for Everyone:
  - I. Health of the Population;
  - II. Long-Term Conditions.

The Department has allocated expenditure to these objectives through the PSA target that it most closely contributes to.

Access to Services covers the following PSA targets:

- By 2008 no one waits more than 18 weeks from GP referral to hospital treatment;

Expenditure against this objective has been calculated from data presented in the National Schedule of Reference Costs using data for:

- elective admissions (day case and ordinary elective);
- outpatients;
- non-elective admissions and A&E

The following expenditure has been stripped:

- Cancer, CHD and Mental health so as not do double count with the Health of the Population;
- Diabetes, Learning Disability Problems, Respiratory System Problems and Social Care Needs so as not to double count with the Long-term conditions objective

We have also included expenditure on GMS from the Programme Budgeting data.

Although the PSA target on 'Increase the participation of problem drug users in drug treatment programmes by 100 percent by 2008' could also be included in this category, we have assumed that such expenditure would be subsumed in GMS expenditure.

Improving the Patient/User Experience covers the following PSA targets:

- Sustained annual national improvements in NHS patient experience by 2008;
- Improve the quality of life and independence of vulnerable older people by: increasing the proportion of older people being supported to live in their own home by one percent annually in 2007 and 2008, and;
- By 2008, increasing the proportion of those supported intensively to live at home to 34 percent of the total of those supported at home or in residential care.

This objective includes all expenditure classified as residual expenditure from the National Schedule of reference costs.

Health of the Population covers the following PSA targets:

- Increase life expectancy at birth in England to 78.6 years for men and 82.5 years for women;

- Substantially reduce mortality rates by 2010 from heart disease and strokes, cancer and suicide and underdetermined injury;
- Reduce health inequalities by 10 percent by 2010 as measured by infant mortality and life expectancy at birth;
- Tackle the underlying determinants of health and health inequalities by reducing adult smoking rates to 21 percent or less, halting growth in child obesity and reducing the under-18 conception rate by 50 percent, by 2010.

This objective includes all expenditure estimated from Programme Budgeting expenditure on the Cancer, Circulation (CHD), Mental Health and Healthy Individuals programmes, plus the residual FHS prescription expenditure not already accounted for by Cancer, CHD and Mental Health.

The **Long-Term Conditions** objective has its own standalone PSA target:

- To improve health outcomes for people with long-term conditions by offering a personalised care plan for vulnerable people most at risk; and to reduce emergency bed days by five percent by 2008, through improved care in primary care and community settings for people with long-term conditions.

This objective includes all expenditure estimated from the latest available expenditure on adult personal social services plus Critical Care expenditure from the National Schedule of reference costs.

The analysis of Long-term conditions now also includes the latest available expenditure for programme budgeting categories 'Respiratory System Problems', 'Learning Disability Problems', 'Social Care Needs' and 'Diabetes'. These areas of expenditure reflect a change in methodology for 2006-07 agreed with NAO.

Long-term conditions does not include any expenditure from programme budgeting categories 'Cancer', 'Mental Health' or 'Cardiovascular Disease' (CVD) as these areas are specifically named in PSA Target 1 which is captured within Health of the population.

The **"Other"** category includes all activities that do not contribute directly to achieving the PSA targets, including the Workforce Development Confederation costs and funding for arms-length bodies not delivering front-line services.

In addition to matching expenditure against our high-level objectives, we have also presented in the Annual Report an analysis allocating expenditure in terms of overall spend against specific conditions (programme budget categories). This analysis contains data collected directly from the PCTs and SHAs and provides a rich evidence base regarding where Department resources are utilised.

The most recently available reference cost data at the time of compiling these figures was the 2005-06 data. Therefore, this year's Statement of Operating Costs by Departmental Aim and Objectives use this data. The 2004-05 reference cost data was used for the 2005-06 analysis.

26 Capital Commitments

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Contracted capital commitments at 31 March 2007 for which no provision has been made	2,899,785	2,952,884	3,967,096	4,024,427
Authorised but not contracted	10,000	10,290	–	67
		2,963,174		**4,024,494**

The vast majority of Core Department capital commitments relate to contracts entered into by Connecting for Health for the delivery of the National Programme for IT (see note 29 for further details).

The Department has a Captal Commitment for the purchase of residual interests in ISTC schemes. The total capital commitment is £187m falling due between 31 March 2010 and 31 March 2013.

27 Commitments under Leases

27.1 Operating Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Obligations under operating leases comprises:				
Land and buildings:				
Expiry within 1 year	7,996	21,746	3,482	13,679
Expiry after 1 year but not more than 5 years	18,937	47,849	2,553	31,930
Expiry thereafter	10,159	155,913	12,849	97,431
	37,092	**225,508**	**18,884**	**143,040**
Other:				
Expiry within one year	58	12,514	–	9,759
Expiry after 1 year but not more than 5 years	107	24,161	–	24,988
Expiry thereafter	–	1,138	–	43
	165	**37,813**	**–**	**34,790**

27.2 Finance leases

Obligation under finance leases are as follows.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Rentals due within 1 year	686	8,098	832	4,872
Rentals due after 1 year but within 5 years	2,662	131,619	3,359	71,022
Rentals due thereafter	1,636	72,027	1,842	40,445
	4,984	**211,744**	**6,033**	**116,339**
Less interest element	(2,243)	(34,812)	(2,546)	(32,325)
	2,741	**176,932**	**3,487**	**84,014**

28 Commitments under PFI contracts

PFI Schemes deemed to be off balance sheet

In this financial year, 30 PCTs reported off balance sheet PFI schemes over £1 million (2005-06: 31 PCTs). The estimated capital value of these schemes over £1 million is £422.7 million (2005-06: 348.8 million).

The total amount charged in the Operating Cost Statement in respect of off-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £49,600,000 (2005-06 £28,000,000) and the payments to which the department is committed during 2006-07, analysed by the period during which the commitment expires, is as follows.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expiry within 11 to 15 years	–	399	–	382
Expiry within 16 to 20 years	–	1,032	–	2,748
Expiry within 21 to 25 years	–	22,791	–	15,769
Expiry within 26 to 30 years	–	35,098	–	32,773
Expiry within 31 to 35 years	–	5,617	–	2,421
Expiry within 36 and beyond	–	–	–	3,877
	–	**64,937**	**–**	**57,970**

PFI schemes deemed to be on balance sheet

Devon PCT has entered into an on-balance sheet PFI contract. The asset is treated as an asset of the PCT. The substance of this contract is the PCT has a finance lease and payments comprise an imputed finance lease charge and a service charge. The value of assets brought on balance sheet in respect of this scheme is £3.5 million (2005-06: £2.0 million).

The total amount charged in the Operating Cost Statement in respect of on-balance sheet PFI transactions and the service element of on-balance sheet PFI transactions was £275,000 (2005-06: £280,000) and the payments to which the department is committed during 2006-07, analysed by the period during which the commitment expires, is as follows.

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Rentals due within 1 year	–	300	–	300
Rentals due within 2 to 5 years	–	1,321	–	1,259
Rentals due thereafter	–	6,939	–	7,300
	–	8,560	–	8,859
Less interest element	–	(3,729)	–	(3,938)
	–	**4,831**	**–**	**4,921**

29 Other Financial Commitments

	2006-07 £'000		2005-06 £'000	
	Core Department	Consolidated	Core Department	Consolidated
Expire within 1 year	277,658	278,527	53,581	66,759
Expire within 2 to 5 years	1,409,666	1,409,666	1,265,649	1,300,020
Expire thereafter	1,132,961	1,133,025	978,299	1,028,185
	2,820,285	**2,821,218**	**2,297,529**	**2,394,964**

At the balance sheet date Connecting for Health had entered into contracts which if delivered according to the terms of those contracts would result in commitments of £2,820,286,000 (2005-06: £2,297,529,000) over the next 9 years. The contracts are for National Programme for IT, which is being delivered by the NHS Connecting for Health, part of the Department Of Health, which is bringing modern computing systems into the NHS to improve patient care and service. Over the life of the programme, NHS Connecting for Health will convert over 30,000 GPs in England, almost 300 hospitals and give patients access to their personal health and care information, transforming the way NHS works. The contracts are such that the obligation to pay does not arise until the suppliers have implemented the solution to the required locations and it has been accepted after a period of live running.

30 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 relationship that the Department has with NHS bodies and the way those bodies are financed, the Department as a whole 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 Department has limited powers to borrow or invest surplus funds, financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the Department 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 the currency profile.

Liquidity risk

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

Currency Risk

Bodies within the Resource Accounting boundary have no or a relatively small amount of foreign currency income or expenditure except for EEA medical costs for which the Department has financial liabilities at 31 March 2007 totalling £683,169,000. These liabilities are payable in the local currencies of the EEA member countries, primarily Euros. The Department enters into forward contracts for the purchase of Euros for the purpose of paying EEA medical costs in-line with existing arrangements where a specific amount of Euros are required at a particular date in accordance with Government Accounting, chapter 28.7. As at 31 March 2007 the Department had entered into forward contracts to purchase €125m on 20 July 2007 and €125m on 14 December 2007.

Interest-Rate Risk

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

31 Contingent Assets and Liabilities disclosed under FRS 12

31.1 Contingent Assets

Government Departments with responsibility for services to look after children provided grants or loans for the provision or improvement of what were formerly approved schools but in 1973 became controlled or assisted community homes. These payments become repayable on change of use or disposal of part or the whole of the premises or facilities. The amount of the repayment is determined by a valuation by the District Valuer.

Property within the retained estate can be disposed of at an initial value with the final sale price being dependant upon the development of the site. Because this may not be known for some years after the initial disposal the Department has contingent assets relating to the future value. The Department will recognise additional disposal income when the development becomes certain, but currently cannot reliably estimate the value.

31.2 Contingent Liabilities

The Department is the actual or potential defendant in a number of actions regarding alleged clinical negligence. In some cases, costs have been provided for or otherwise charged to the accounts. In other cases, there is large degree of uncertainty as to the Department's liability and to the amounts involved. Possible total expenditure might be estimated at £4.71 billion (2005-06: £4.27 billion), although £4.136 billion (2005-06: £3.656 billion) relating to the Clinical Negligence Scheme for Trusts (CNST), Property Expense Scheme (PES) and Liability to Third Parties Scheme (LTPS) would be expected to be met by payments receivable from NHS Trusts.

Within Primary Care Trusts' accounts at 31 March 2007, there were net contingent liabilities of £78,404,000 (2005-06: £123,537,000). These are mainly for continuing care and agenda for change. Primary Care Trusts have provided for these liabilities 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.

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

The majority of decisions by NHS employers to pay temporary injury allowance (TIA) since 1991 are technically ultra vires. In addition, it is likely that (since 1985) many employers may also have applied the attribution test incorrectly. Ministers have decided that employers should provide full details of TIA claims (effective and rejected) made during the period 1985-2003 and for TIA awards only from 2003 to date. Department of Health will then be able to consider with lawyers what further action needs to be taken. At this stage it is not possible to say any confidence how large the problem is and also whether Department of Health has any liability.

32 Contingent Liabilities not required to be disclosed under FRS 12 but included for parliamentary reporting and accountability

32.1 Quantifiable

The Department of Health has entered into the following quantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of FRS12 since the likelihood of a transfer of economic benefit in settlement is too remote.

	1 April 2006 £'000	No.	Increase in year £'000	Obligation expired in year £'000	31 March 2007 £'000	No.	Amount reported to Parliament by departmental Minute £'000
Guarantees:	–	–	–	–	–	–	–
Indemnities:	156,250	4	–	–	156,250	4	156,250
	156,250	**4**	**–**	**–**	**156,250**	**4**	**156,250**

32.2 Unquantifiable

The Department of Health has entered into a number of unquantifiable or unlimited contingent liabilities with various health bodies and private companies. There were 31 indeminities.

None of these is a contingent liability within the meaning of FRS 12 since the possibility of a transfer of economic benefit in settlement is too remote.

Full details of these can be found in the Statement of Contingent or Nominal Liabilities held at the Department.

33 Losses and Special Payments and other Accounting Notes

33(a) Losses

	Cases	2006-07 Total £'000	Cases	2005-06 Total £'000
Total	127,784	1,076,241	186,502	189,419
Details of cases over £250,000	–	–	1	267
Cash Losses-cancelled PDC	41	911,512	7	73,026
Claims abandoned	9	37	3,535	479
Administrative write-offs	26	5,902	17	9
Fruitless payments	7	6,819	56	8

£911,512,000 PDC was cancelled in 06/07 by means of a treasury minute laid before Parliament. This was the outstanding PDC of the forty NHS trusts which were dissolved during 2006/07. One of the NHS trust had its outstanding PDC repaid by its successor body. The trusts were dissolved because they were involved in mergers and reconfigurations to form fifteen new NHS bodies to which £1,456,426,000 PDC was issued in the form of Originating Capital by means of a Statutory Instrument. The difference of £544,914,000 between the cancelled and newly issued PDC reflects movements in the composition and valuation of the assets of the dissolved trusts in the years since their initial establishment and, in the case of Isle of Wight Healthcare NHS Trust, the value of assets transferred to a Primary Care Trust. There is consequently no overall loss of PDC.

During the year there was one fruitless payment amounting to £500,000. This was in relation to a database commissioned by the Department which could not be adapted to meet business needs when the requirement changed substantially after it had been developed.

Store losses

	Cases	2006-07 Total £'000	2005-06 Total £'000
	10	25,487	7,424

NHS Business Service Authority reported write-offs relating to date expired of stock items. NHS Logistics Authority holds stocks of childhood vaccines on behalf of the Department. A quantity of these stocks will be destroyed annually due to damage in stores; failure (or suspected failure) to maintain vaccines at appropriate temperature during distribution and storage; variations in demand resulting in the expiry date of stock being exceeded. Other stock write-offs occur because of the technical obsolescence of vaccines or equipment that may arise from time to time. The value of stocks written-off in the year was £2,317,991.43, included in the above was £2,099,305.43 of vaccines with a short expiry date. £218,686 of vaccines damaged by the distribution company, Healthcare Logistics. These monies have been recouped by DH.

DH authorised write-offs relating to date expired stock items. NHS Supply Chain holds stocks of CBRN countermeasures on behalf of the Department, for use in the event of a natural emergency or terrorist attack involving chemical, biological, radiological or nuclear agents. If no such incidents occur then the stocks inevitably reach the end of their useable life and need to be disposed of and replaced with new stocks in order to maintain a measure of protection for the UK's populace. The value of stocks written-off in the year due to expiration of their shelf life was £23.379m. This cost was borne by DH.

33(b) Special Payments

	Cases	2006-07 Total £'000	Cases	2005-06 Total £'000
Total	1,424	11,079	6	5,762
Details Of Cases Over £250,000	3	8,144	3	5,675

During the year one ex gratia contractual payment was made amounting to £300,000. This was in relation to a misunderstanding with a mental health charity. Part way through the contract it was discovered that a misunderstanding had occurred with regard to the contract value. Legal advice from Solicitors' Office was that the Department was potentially liable for a technical late payment. Treasury were consulted on this and agreed the payment was Value For Money.

Abortive design costs – The total value of compensation payments made by the department on behalf of NHS PFI schemes that were cancelled or deferred was £7,339,280. The payments were authorised following formal submissions to FISC (Finance Investment Sub-Committee) and specific authorisation of the Permanent Secretary and the Director of Finance. The payments are not considered to be repercusive or novel and contentious as they are within government policy as laid down in the Bates Report. Treasury were consulted on this and agreed these were within the normal course of business and therefore within the department's delegated authorities.

A Special Payment totalling £504,457 was made in respect of the voluntary early retirement of the former Joint Chief Executives of NPSA, who left post in 2006 and the Agency at 31 March 2007.

34 Related Party Transaction

Other related parties transactions and the extent of the transactions are summarised below:

	Sub Note	2006-07 £000's
York University	1	9,976
Sheffield University	2	111
National Childbirth Trust	3	19
Thames Valley University	4	72
Marie Curie	5	187
The School of Medicine based at Kings College	6	3,959
Birmingham University	7	147

Sub Note

1) Andrew Cash is the Visiting Chair in Leadership Development at York University.
2) Andrew Cash is the Visiting Chair in School of Management and Leadership at Sheffield University.
3) Bill McCarthy's wife is an ante-natal teacher with the National Childbirth Trust.
4) Chris Beasley is a Pro-Vice Chancellor for Thames Valley University.
5) Chris Beasley is also a Trustee for Marie Curie.
6) Duncan Selbie is a Board Member at King's Medical School.
7) Sir Ian Curruthers is a Visiting Senior Fellow at Health Service Management Centre, which is part of Birmingham University.

Matt Tee used to work for Dr Foster and Holds 0.45% of the Share Capital. The Information Centre have a £12m investment in Dr Foster.

35 Third Party Assets

	31 March 2007 £'000	Gross outflows £'000	31 March 2006 £'000
Monetary assets			
Bank balances	8,610	5,724	2,886

36. Post Balance Sheet Events

There were no Post Balance Sheet events.

The Accounts were authorised for issue on the 11th October 2007.

37 Entities within the departmental boundary

Ministers had some degree of responsibility for the following bodies during the year 2006/07:

Consolidated in the Department's Resource Accounts

Supply financed agencies

NHS Purchasing and Supply Agency

Other Bodies

- Strategic Health Authorities
- Primary Care Trusts
- Special Health Authorities:
  - NHS Business Services Authority
  - Mental Health Act Commission***
  - The Information Centre
  - National Institute for Health and Clinical Excellence
  - NHS Litigation Authority
  - National Treatment Agency for substance misuse
  - National Patient Safety Agency
  - NHS Institute for Innovation and Improvement
  - NHS Appointments Commission*

Not Consolidated

Trading Funds

Medicines & Healthcare Products Regulatory Agency

Executive Non-Departmental Public Bodies

Appointments Commission*
National Biological Standards Board
Human Fertilisation and Embryology Authority**
General Social Care Council
Alcohol Education Research Council
Health Protection Agency
Commission for Patient and Public Involvement in Health
Independent Regulator of NHS Foundation Trusts
Council for Healthcare Regulatory Excellence
Commission for Social Care Inspection
Health Care Commission***
Human Tissue Authority **
Postgraduate Medical Education and Training Board

- NHS Trusts
- Food Standards Agency
- Plasma Resources UK Ltd
- Partnership for Health
- NHS Blood and Transplant
- NHS Shared Business Services
- NHS Direct
- NHS Professionals
- Social Care Institute for Excellence
- Foundation Trusts

* Became Appointments Commission on 1st October 2006.

** To be part of Regulatory Authority for Tissues and Embryos.

*** To be merged with Commission for Social Care Inspection.

Annex A

GLOSSARY OF GOVERNMENTAL TERMS

Administration costs. Administration costs are those which fall under the administration cost control regime.

Appropriations-in-Aid (A-in-A). Receipts retained by the Department and used to finance related expenditure. A-in-A can be revenue or capital in nature.

Comptroller & Auditor General. Head of the National Audit Office. Responsible for auditing the Department's resource accounts.

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

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

Cost of capital. A charge on assets employed representing the cost of their use.

Grants. Payments by the Department to other bodies. Can be revenue or capital in nature.

Executive Agencies. These carry out specific functions on behalf of the parent Department within a framework agreed by Ministers.

Strategic Health Authorities. Bodies responsible for identifying the health care needs of their population and for commissioning health care provision.

NHS Trusts. These comprise hospitals, community health services, mental health services or ambulance services and provide services to patients as requested by Health Authorities and GPs.

Foundation Trusts (NHSFT). These are trusts with a system of statutory accountability (elected Board of Governors) through an Independent Regulator (IR). Ministers have no powers to intervene directly in an NHSFT, and have no powers of direction over the IR.

Non-Departmental Public Bodies. A body which has a role in the process of government but operates at arm's length from government Ministers.

Operating Cost Statement. Shows net resources consumed during the year.

Parent Department. The Department of Health, including those parts of the Department formerly known as the NHS Executive.

Primary Care Trusts (PCTs). PCTs have taken control of local health care while strategic Health Authorities monitor performance and standards.

Programme costs. Programme costs include the running costs of NHS bodies funded directly by the Department but otherwise reflect non-administration costs, including payments of grants and other disbursements by the Department.

Personal Social Services (PSS). The services provided by Local Authority Social Service Departments.

Request for Resources (RfR). A statement identifying what the Department will spend on its voted provision.

Resource accounting. The application of accruals accounting to central government.

Resource budget. Covers planning and controlling Departmental expenditure on a resource (accruals) accounting basis.

Vote. Money voted to Departments by Parliament through the supply procedure.

Annex B

NAO Reports principally for Department Of Health

The Paddington Health Campus scheme

The scheme was a complex and ambitious attempt to build a world-class healthcare facility and ultimately proved to be beyond the capacity of the scheme partners to deliver. There were three main reasons for this.

- the number and scale of the risks and the lack of a single body in charge of the scheme
- the way in which the partners organised and carried through the scheme
- the lack of active strategic support for the campus vision.

The National Audit Office considered that the North West London Strategic Health Authority should either have required the campus partners to draw up a new Outline Business Case in early 2003 or cancelled the scheme at that stage. In late 2002, external construction consultants confirmed that the estimated capital construction costs had more than doubled and Westminster City Council confirmed that the scheme could not fit on the land available.

The report concluded that the failure of the two NHS Trusts – St Mary's NHS Trust and the Royal Brompton and Harefield NHS Trust – to merge at the start of the process was a key factor in the failure of the scheme. Their diverging clinical and financial interests were exposed as the scheme wore on, exacerbated by developments in NHS policy.

The scheme eventually failed in May 2005 for three specific reasons:

- The Campus partners were unable to secure adequate land for the scheme;
- The Campus partners, and others, differed over whether the scheme was affordable;
- Capacity planning in 2005 indicated that the local NHS in North West London needed to reduce capacity by 500 to 600 beds.

All three reasons caused the Board of the Royal Brompton and Harefield NHS Trust to decline to recommend the scheme for approval to proceed in May 2005. The scheme was formally cancelled in June 2005.

The Provision of Out-of-Hours Care in England

The report stated that there were shortcomings in the process of setting up new arrangements to provide out-of-hours primary medical care in 2004, although there was no evidence that patient safety was compromised. The Primary Care Trusts (PCTs) who took over responsibility for organising out-of-hours services from GPs lacked knowledge and experience in this area. However, most patients said that they were receiving a good service, with six out of ten rating it as excellent or good.

The NAO found the service beginning to reach a satisfactory standard but no providers met all the requirements and few reached the requirements for speed of response. Fewer than 10 per cent of PCTs who responded to the NAO's survey met the speed of response targets – that a clinical assessment should be started within 20 minutes of a call for urgent cases and within 60 minutes of a call for non-urgent cases.

Some PCTs were still confused over whether the out-of-hours services should be restricted to urgent cases or should respond to any request for medical care outside normal working hours – although there was no evidence that patient safety was being compromised.

Financial Management in the NHS 2004/05

Financial management in the NHS was prepared jointly by the National Audit Office and the Audit Commission. It looked in detail at the 2004-05 revenue position, examined current financial management and reporting issues, and considered the most significant financial issues that faced the NHS in 2005-06 and beyond, as well as the Department and Monitor's unaudited estimates of the 2005-06 financial position. It was a follow-up to their joint report issued in June 2005 and many of the recommendations made in that report remain valid to the NHS.

In 2004-05, the Department reported a deficit across the NHS as a whole – the first time since 1999-2000 that the NHS failed to break even overall. Compared to 2003-04, there was an increase in the number of bodies with a deficit or overspend, and more of these deficits and overspends were significant in size. The increase in deficits were attributed to a combination of:

- steady progress in recent years towards more transparent NHS financial reporting; and
- some deterioration in underlying performance.

However, quantifying the role played by each was difficult.

The National Programme for IT in the NHS

The Programme's scope, vision and complexity are wider and more extensive than any ongoing or planned healthcare IT programme in the world and it represents the largest single IT investment in the UK to date. It is designed to deliver important financial, patient safety and service benefits.

The NAO found that the Department and NHS Connecting for Health had made substantial progress with the Programme. Successful implementation of the Programme nevertheless continued to present significant challenges for the Department, NHS Connecting for Health and the NHS, especially in three key areas:

- Ensuring that the IT suppliers continue to deliver systems that meet the needs of the NHS, and to agreed timescales without further slippage.
- Ensuring that NHS organisations can and do fully play their part in implementing the Programme's systems.
- Winning the support of NHS staff and the public in making the best use of the systems to improve services.

Improving the use of temporary nursing staff in NHS acute and Foundation Trusts

The National Audit Office found that while the NHS had successfully reduced its expenditure on agency nursing staff, temporary staff remained a key component of trusts' ability to be flexible and expenditure on temporary nursing staff employed through nursing banks and NHS Professionals has increased. Many NHS trusts did not have robust information to help determine cost-effective staffing levels or to understand their real staffing needs. The report estimated that between £38 million and £85 million a year could be saved by better procurement of temporary nursing staff and better management of permanent nursing staff.

Acute and foundation trusts in England spent £790 million on temporary nursing staff in 2004-05. This had fallen from its peak of seven per cent of the total spent on nurses down to three per cent in 2004-05. However, trusts had paid less attention to addressing the wider issues of controlling and managing demand for all types of temporary nursing staff.

NHS trusts had to be able to respond to fluctuations in demand and staff availability through flexible staffing arrangements. Temporary staff form a key part of this flexibility for many trusts. In addition high levels of vacancies and extensive use of temporary staff may worsen patient satisfaction and staff morale.

The report found that work by NHS Professionals and the NHS Purchasing and Supply Agency had improved the cost and quality of temporary nursing staff but more needs to be done to ensure that all temporary staffing suppliers were operating to consistent standards.

Improving quality and safety: progress in implementing clinical governance in primary care: lessons for the new Primary Care Trusts

The Health Acts of 1999 and 2003 set out a statutory 'duty of quality' for all providers of NHS services. At the local NHS level, this duty of quality is discharged largely through implementing clinical governance. Since the first Primary Care Trusts (PCTs) came into being in 2001, they had taken on the dual role of providing primary care services and commissioning services on behalf of their local health economy with accountability for performance vested in the PCT Chief Executive. Clinical governance, implemented effectively, can provide PCT Chief Executives with assurance that healthcare, whether provided directly or commissioned from other providers, was both safe and of good quality.

The report concluded that the organisational structures and processes for clinical governance had largely been put in place at PCT level but progress in implementing the different components of clinical governance varied both within and between PCTs. Whilst quality and safety were more overtly monitored and managed with more explicit accountability of clinicians and managers for clinical performance, as identified in the Chief Medical Officer's report, more needed to be done to strengthen the systems that provide assurance about the performance of General Practitioners and protect the safety of patients.

The NAO identified that the areas of greatest need for attention to ensure quality and safety in future primary care organisations were: leadership development; sustaining partnerships and joint working between health and social care; developing practice based commissioning; and the benchmarking of commissioning.

Dr Foster Intelligence: A joint venture between the Information Centre and Dr Foster LLP

Good quality data and information are essential for any organisation to be able to manage its performance effectively. Healthcare providers, staff and patients need reliable and accessible information to make informed decisions and choices and that good use of data is fundamental to achieving a safe and patient-led NHS. The Department and NHS trusts have traditionally collected information and data in order to manage performance and improve the delivery of healthcare services.

The report concluded that DH might well have obtained better value for money if it had advertised the opportunity of the joint venture more widely. By not going out to tender or advertising the opportunity to the market, the NAO thought that DH and the Information Centre had entered into a transaction that carried the risk of legal challenge. Regardless of legality, the NAO reminded that it is good practice to hold a competitive process and that without the Information Centre had no fair comparisons or benchmarks to demonstrate that the joint venture with Dr Foster Ltd was the best structure to meet its needs, or that it represented good value for money.

Relevant reports covering several Departments

Sure Start Children's Centres

Sure Start is the Government programme to help give the best start in life for every child by bringing together early education, childcare, health and family support. The needs of families, particularly disadvantaged families, do not arise in tidy packages that single services can easily provide for. International evidence shows that participating in a programme that combines these services improves the life chances of children, particularly if they are from deprived backgrounds.

The Government is delivering services through children's centres, with 1,000 established by September 2006 and plans for 3,500 centres in total by 2010. Many of the benefits of children's centres are long-term. Even so, the value of offering services for children through a team of people working well together was clear. Effective partnerships between social services, education and health professionals, voluntary and private providers, and people running children's centres, were an essential feature of the programme.

At the time of the report's publication, the Department for Education and Skills led on all services for children, including Sure Start children's centres. In this respect, they have since been superseded by the Department for Children, Schools and Families. There were no recommendations made specifically to DH or the NHS but the idea of partnerships between local authorities and health services was raised as an issue.

The efficiency programme – a second review of progress

The report assessed the reliability of efficiency gains and headcount reductions reported to date, including a survey of 25 projects from 14 departments.

In the 2004 Spending Review, the Government accepted the findings of a review it had asked Sir Peter Gershon to conduct on public sector efficiency. In doing so, it launched the Efficiency Programme which aims, by March 2008, to:

- Secure £21.5 billion of annual efficiency gains.
- Reduce the civil service by 70,600 posts and reallocate 13,500 posts to the front line of public services;
- Embed efficiency into the culture of the public sector.

In DH, the target for Gershon-related gains were reported as £6,470m and a reduction in our headcount staffing figure of 720. Five DH projects were surveyed with a total reported efficiency saving of £2,401m. The NAO's assessment was that the gains are the upper limit of what might be achieved and, due to the volatility of some indicators used to measure them, the gains might be somewhat lower.

Improving the PFI tendering process

This study arose out of concerns expressed by the Committee of Public Accounts in 2003 that the tendering of PFI projects did not follow good practice and was not handled with sufficient skill on the part of the public sector, incurring high costs and risking value for money. New European Union procurement rules reinforce the need for best practice in the future. The NAO examined the tendering processes employed on all 49 central government department PFI projects between April 2004 and June 2006 including PFI hospitals and schools.

The report found that key elements of the tendering process had not improved and in some respects had worsened and made recommendations to address the following issues:

- the risk of PFI deals not having enough bids for viable competition,
- the need to reduce the length and cost of tendering;
- the need for more structured learning and sharing lessons across sectors and public authorities.

DH was not singled out in any recommendations but its Private Finance team is considering the overall conclusions.

Annex C

RECENT PAC HEARINGS: MAIN ISSUES

Tackling childhood obesity – first steps

Examined officials from DH, the Department for Education and Skills and the Department for Culture, Media and Sport on the increasing incidence of childhood obesity and how it should be tackled. The main points were:

- Departments have been slow to react to the problem and need to increase the pace of their response
- Roles and responsibilities for tackling the issue should be clarified
- Simple, high profile messages and advice should be given to parents and teachers.

The Provision of Out-of-Hours Care in England

Examined the new out of hours care service, introduced as part of the new General Medical Services contract in 2004, and focused on the cost of the new service and its performance against targets. The main points included:

- The negotiation arrangements and DH's role only as an observer
- Whether the contract represented value for money
- Whether GPs had benefited from no longer being responsible for providing out-of-hours care.

The Paddington Health Campus Scheme

Examined the role of the Department of Health in relation to the capital building programme in general and the Paddington scheme in particular. The Committee also examined the role of local management at St. Mary's, the Royal Brompton and the Harefield NHS Trusts. The main points were:

- The outline business case was inadequate, which led to delays and increased costs
- The Department was not adequately aware of the scheme
- The Campus business partners believed the Department lacked clarity in its role and objectives.

The National Programme for IT in the NHS

Examined the vision and the goals of the Programme and at ensuring that the Programme's systems met the need of the NHS. Main points included:

- That there were no firm plans published for completing the electronic patient record, which is two years behind schedule;
- That some suppliers to the Programme were struggling to deliver or had withdrawn already;
- And that there was still much uncertainty around the costs of the Programme and the benefits it would deliver.

Smarter Food Procurement in the Public Sector

Examined the NHS Purchasing and Supply Agency, the Ministry of Defence and the Department for Education and Skills on the efficiency and the outsourcing of their food procurement schemes. The main points included:

- Sustainable and ethical food sourcing;
- Cross-government working to identify best practice and combine purchasing power;
- The number of procurement officials who hold professional qualifications.

Financial Management in the NHS

Examined the issues that might have led to the deficits across the NHS in 2004/05, including:

- Costing the Agenda for Change initiative;
- The lack of financial management expertise in the NHS; and
- The lack of consistency across the NHS as to how the financial regime was applied.

Improving the use of temporary nursing staff in NHS acute and foundation trusts

Examined the distinction between and the proportions of temporary nursing staff who are bought in from agencies and trusts' own nursing banks, as well as the issues that drive the demand for temporary staff. The main points were:

- There are more shifts filled by temporary nursing staff than in 2000-01; and
- There is poor information on the drivers for demand for temporary nursing staff.

Improving quality and safety – Progress in implementing clinical governance in primary care: lessons for the new primary care trusts

Examined the systems of control and measurement of quality within primary care; the number of and reasons behind GPs being suspended and the role of PCTs in clinical governance. The questioning also touched on:

- GPs being independent contractors; and
- The introduction of a new complaints system.

Dr Foster Intelligence: A joint venture between the Information Centre and Dr Foster LLP

The Committee examined the process that was followed, who the responsible people were behind the joint venture and what implications it might have for future joint ventures. The main points included:

- Who stood to profit from the deal and by how much;
- How much the deal was worth and what the evidence base was for the assessment;

Whether the deal could have been done for less public money.

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