

NATIONAL HEALTH SERVICE REORGANISATION ACT 1973
NATIONAL HEALTH SERVICE ACT 1977
HEALTH SERVICES ACT 1980
HEALTH AND SOCIAL SERVICES AND SOCIAL SECURITY ADJUDICATIONS ACT 1983
HEALTH AND SOCIAL SECURITY ACT 1984
NATIONAL HEALTH SERVICE AND COMMUNITY CARE ACT 1990
HEALTH AUTHORITIES ACT 1995
NATIONAL HEALTH SERVICE ACT 1999

Summarised Accounts of Health Authorities, and NHS Trusts in England, of the Dental Practice Board and Special Health Authorities providing central services in England, and of Funds Held on Trust by Health Authorities, NHS Trusts, Special Health Authorities and Special Trustees in England, for the year ended 31 March 2000 together with the Report of the Comptroller and Auditor General thereon.
(In continuation of House of Commons Paper No. 356 of 1999–2000)

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

NHS (England) Summarised Accounts 1999–2000

ORDERED TO BE PRINTED BY THE HOUSE OF COMMONS 9 JULY 2001

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executive summary

Report by the Comptroller and
Auditor General

Introduction

- 1 The Department of Health prepares summarised accounts for the NHS in England, which for 1999-2000 covered:
 - the 99 health authorities, which spent around £39 billion in purchasing health care and related services from NHS Trusts and other contractors to the health service;
 - the 377 NHS Trusts, which spent some £29 billion in delivering health care;
 - the 460 charitable funds held on trust; and
 - the sixteen special health authorities.

Issues covered in my Report

- 2 My report records the results of my audit of these summarised accounts, and the overall findings from the audits of the underlying health organisations by auditors appointed by the Audit Commission for England and Wales (paragraphs 2.1 to 2.22). The separate NHS summarised accounts for Scotland and Wales, including auditors' reports, are laid before the Scottish Parliament and the National Assembly for Wales respectively.
- 3 I also report on the key developments in accounting and internal control (paragraphs 3.1 to 3.42), the overall financial performance of health authorities and NHS Trusts (paragraphs 4.1 to 4.27), progress in countering fraud (paragraphs 5.1 to 5.20), and on the financial costs facing the NHS for clinical negligence claims together with the latest accounting and quality of care developments (paragraphs 6.1 to 6.21).

Main findings and conclusions

- 4 On the basis of my assessment of the work of the appointed auditors, and my audit at the Department of Health, I have given unqualified opinions on all of the 1999-2000 summarised accounts (paragraphs 1.1 to 1.5).

Findings of the Appointed Auditors

- 5 For the sixth consecutive year, the appointed auditors gave unqualified "true and fair" opinions on the accounts of all individual NHS Trusts and health authorities (paragraphs 2.6 to 2.16). They also gave unqualified audit opinions on all of the sixteen special health authorities. On funds held on trust within the NHS, the number of underlying accounts on which the appointed auditors qualified their opinions continued to fall, from four in 1998-99 to two out of 460 in 1999-2000. Given the small value of the accounts involved, I was able to give an unqualified audit opinion on the summarised account for these funds (paragraphs 2.8 to 2.10).

- 6 As a result of Resource Accounting developments in central government, the appointed auditors were required to express an opinion on the regularity of the activities of health authorities and special health authorities for the first time in respect of the 1999-2000 accounts. Their audit opinions therefore included a statement as to 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 all but three cases, they also gave unqualified regularity opinions (paragraphs 2.11 to 2.16).

Developments in accounting and internal control

- 7 In 1999-2000, the NHS implemented the Accounting Standards Board's Financial Reporting Standards 11 and 12 concerning accounting for impairment of fixed assets and goodwill and accounting for provisions, contingent liabilities and contingent assets. Implementation had been delayed by one year, with the approval of Treasury. The NHS also implemented, for the first time, Financial Reporting Standard 15 on accounting for tangible fixed assets.
- 8 On the implementation of Financial Reporting Standard 11, Treasury and the Department concluded that only those losses in asset values attributable to real loss of economic value should be charged to the Income and Expenditure account, and that other impairments should be charged to the Revaluation Reserve, even where this resulted in a negative reserve. The summarised accounts for NHS Trusts, health authorities and special health authorities for 1999-2000 have been restated to reflect this decision. The underlying accounts will be adjusted in 2000-2001. The resultant value of impairments charged to NHS Trust income and expenditure accounts, and partly funded by the Department of Health via health authorities, is some £450 million (paragraphs 3.5 to 3.14).
- 9 The most significant effects of Financial Reporting Standard 12 were to revise the method for measuring clinical negligence liabilities, and to require provisions to be shown gross of expected reimbursements. The summarised accounts show total provisions of £3.9 billion as at 31 March 2000, including for the first time provisions for "incidents incurred but not reported" of some £1.3 billion (paragraphs 3.15 to 3.22).
- 10 There was little in Financial Reporting Standard 15 which was new to health authorities and NHS Trusts. Only minor changes to disclosures were required to implement the standard in the 1999-2000 accounts (paragraph 3.23).
- 11 On 1 April 2000, the NHS Litigation Authority assumed sole responsibility for recording, handling and accounting for payments of compensation for clinical negligence, which are covered by the Department's Existing Liabilities Scheme. Although legal liability remains with the individual health authorities and NHS Trusts, accounting for these costs has now been transferred to the NHS Litigation Authority. This transfer required a post balance sheet adjustment to the summarised accounts, which will be reflected by prior year adjustments in the underlying accounts in 2000-2001 (paragraphs 3.24 to 3.29).
- 12 The number of projects coming on stream under the Private Finance Initiative continued to increase during 1999-2000, as did the impact on the summarised accounts. The estimated total capital value of major schemes, which had reached financial close by 31 March 2000, was some £1.75 billion. The complex nature of PFI schemes led the Accounting Standards Board to issue an amendment in September 1998 to Financial Reporting Standard 5, Reporting the Substance of Transactions. However, Treasury gave dispensation to public sector bodies to delay implementation until 1999-2000. As a result of a review of NHS PFI schemes, an additional four schemes with a capital value of

£65 million were brought on balance sheet; 94 per cent of NHS schemes, by value, remain off balance sheet (paragraphs 3.30 to 3.36).

- 13** This is the third year for which all NHS organisations have been required to prepare statements on internal financial control. As a result of their reviews of these statements, the appointed auditors issued unqualified opinions on all of these statements, but 45 NHS Trusts, four special health authorities and six health authorities identified weaknesses in their systems which remained during the financial year (paragraphs 3.37 to 3.42). The Department of Health has informed me that remedial action has been taken in these cases.

Financial performance of the NHS

- 14** The total net deficit of the NHS in England for 1999-2000 was £129 million (1998-99: £61 million). This comprised a £77 million deficit (1998-99: £36 million) reported by the 377 NHS Trusts, and a £52 million deficit (1998-99: restated £25 million) for the 99 health authorities. The accumulated net income and expenditure deficit at 31 March 2000 was £684 million (31 March 1999: £696 million restated) (paragraphs 4.3 and 4.17).
- 15** All health authorities achieved their statutory duty for net payments not to exceed their cash limits. However, 59 out of the 99 health authorities recorded a deficit in-year where liabilities arising in the year will require the NHS to make cash payments in future years (1998-99: 48 out of 100 health authorities) (paragraphs 4.2 to 4.7).
- 16** For NHS Trusts, this is the third year of a rolling three-year (by exception five-year) period over which performance against the statutory financial target to break even "taking one financial year with another" will be measured. All NHS Trusts met the objective in 1999-2000, but 150 NHS Trusts reported a retained deficit and 41 NHS Trusts were granted an extension from the three-year target to a five-year target. Nineteen NHS Trusts failed one or more of the two remaining financial targets set for them, the capital cost absorption rate and the external financing limit (paragraphs 4.15 to 4.22).
- 17** At the end of 1999-2000, the Department of Health assessed 28 health authorities and 76 NHS Trusts as being in serious financial difficulties (paragraphs 4.12 and 4.18). However, the latest available estimate from the Department is that the NHS in England will generate an overall in-year net surplus of some £37 million for 2000-01 (paragraphs 4.3 and 4.17).
- 18** One of the ways in which organisations can manage their financial position is through delaying payment of creditors. Under the Better Payment Practice Code, NHS organisations have been set a target of paying 95 per cent of undisputed bills within 30 days. However, as last year, health authorities paid only 88 per cent of bills within this period. The performance of NHS Trusts varied widely, from just over 18 per cent to just over 99 per cent (paragraphs 4.8 and 4.23).

Fraud

- 19** The Directorate of Counter Fraud Services, responsible for all work to counter fraud and corruption within the NHS, is continuing to develop its Risk Measurement Project to measure fraud and "incorrectness" across the main NHS services. The initial target date of March 2000 for completion of eight separate measurement exercises was not met; however one exercise is now complete, two are expected to be completed by summer 2001, one is ongoing and work is being carried out to determine the scope of the remaining exercises (paragraphs 5.10 to 5.12).

- 20** Since my last report, the Directorate has also:
- established a specialist team for pharmaceutical fraud (June 2000). A dental fraud team is expected to become operational early in 2001-2002;
 - trained Local Counter Fraud Specialists for all health authorities and NHS Trusts; and
 - developed a "hotline" initiative, to enable staff and professionals to report suspected cases of fraud and corruption confidentially. As part of this, a fraud reporting telephone line was opened in December 2000.
- 21** At the time of my last report, 239 cases of suspected fraud, with an estimated value of £14 million had been reported to the Directorate. As at 31 March 2001, this had risen to 484 cases under investigation, involving 542 people, and with a total estimated value of £18.3 million (paragraphs 5.13 to 5.15).
- 22** This year, the appointed auditors of the Dental Practice Board and the Prescription Pricing Authority qualified the regularity part of their opinion on the General Dental Services in England account and the Pharmaceutical Services for England account (paragraphs 5.17 to 5.19). Although these accounts are not published separately, the transactions reported are incorporated within the accounts of the health authorities.
- 23** I considered the impact of the reported levels of fraud and incorrectness in the context of my audit opinion on the summarised account of health authorities. In my view, the overall levels are not significant enough to affect the true and fair view of the accounts and I have therefore given an unqualified opinion (paragraph 5.20).

Clinical negligence

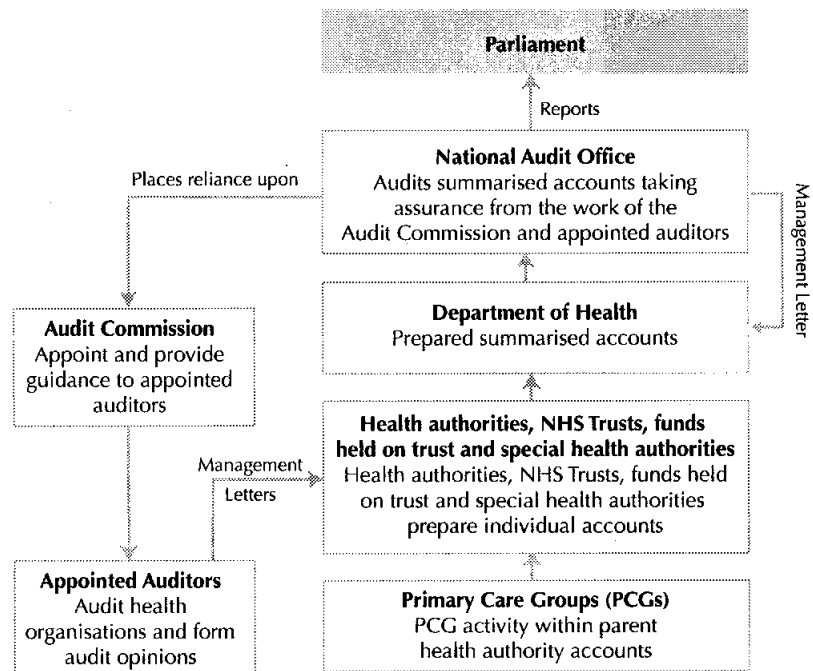
- 24** Provisions for the probable costs of clinical negligence to the NHS amounted to £3.9 billion at 31 March 2000. This represents the net present value of estimated costs for known cases and incidents incurred but not reported. Provisions have increased by £700 million since 31 March 1999, as a result of new claims, better estimation of existing liabilities, and general claims inflation arising from legal judgements (paragraph 6.5).
- 25** The NHS Litigation Authority included a provision of £1.3 billion for incidents incurred but not reported for the first time in its 1999-2000 accounts, based upon actuarial evaluation of the likely cost of cases yet to come to light but which had already occurred. I welcome this improvement in measurement and disclosure of these significant costs.
- 26** The NHS Performance Assessment Framework sets out how the NHS aims to set, deliver and monitor national care standards for clinical governance. This focuses on quality in the delivery of health care. The NHS has also been developing initiatives to streamline the claims process for cases that do occur, and there is evidence that these initiatives have had some effect, with a significant increase in the number of cases closed during 1999-2000 (paragraph 6.21).
- 27** I reported, in more detail, in my separate report on the management of clinical negligence claims by the NHS, in May 2001 (HC 403, 2000-2001).

Part 1

Basis of my audit

- 1.1 This part of my report sets out the scope of my audit of the NHS summarised accounts for England 1999-2000, under Section 98 of the National Health Service Act 1977. The NHS summarised accounts for Scotland and Wales, including auditors' reports, are laid before the Scottish Parliament and the National Assembly for Wales respectively.
- 1.2 Most of the funding for the health service is provided by the Department of Health. This funding is reported, on a cash basis, in the Appropriation Account for Class II, Vote 1 (hospital, community health, family health and related services, England) and, for the first time on an accruals basis, in the Resource Accounts for the Department of Health. Both of these accounts are also subject to my audit. The NHS summarised accounts presented here record, largely on an accruals basis, the financial affairs of the health authorities, special health authorities, the Dental Practice Board and NHS Trusts to whom these funds are made available.
- 1.3 The Audit Commission appoints the external auditors to all health authorities, special health authorities and NHS Trusts. These appointed auditors provide an audit opinion on the annual accounts of each health organisation, and the Department of Health¹ summarises these accounts for my audit. **Figure 1** shows the audit arrangements for the underlying and summarised accounts of the NHS in 1999-2000.

1 Audit arrangements in the National Health Service



¹ As of 1 November 2000, the posts of Permanent Secretary of the Department of Health and the Chief Executive of the NHS Executive were merged.

GP Fundholding was fully abolished on 1 October 1999 by the Health Act 1999, which received the Royal Assent in July 1999. The accounts of the health authorities include Primary Care Groups which began operating from 1 April 1999.

- 1.4 The foreword to the NHS summarised accounts describes the basis for their preparation and the background to the individual NHS organisations. My examination of the 1999-2000 accounts included assessing the reliability of the information contained in the audited accounts of these NHS organisations by reviewing the work of the auditors appointed by the Audit Commission, scrutinising their reports and findings and ensuring that acceptable quality control policies and procedures existed and operated effectively.
- 1.5 On the basis of my assessment of the work of the appointed auditors, and my audit at the Department of Health, I am able to give unqualified opinions on all of the summarised accounts for 1999-2000.
- 1.6 I also examine the economy, efficiency and effectiveness with which NHS organisations have used their resources, under section 6 of the National Audit Act 1983. The results of such value for money examinations are published in separate reports made to the House of Commons under section 9 of that Act.
- 1.7 My recent reports on issues affecting the NHS in England are:
- Hip replacements: Getting it right first time (HC 417, 1999-2000);
 - Charitable funds associated with NHS bodies (HC 516, 1999-2000);
 - National Blood Service (HC 6, 2000-2001);
 - Tackling Obesity in England (HC 220, 2000-2001);
 - Educating and training the future health professional workforce for England (HC 277, 2000-2001); and
 - Handling clinical negligence claims in England (HC 403, 2000-2001).
- 1.8 In addition, two of my reports on issues cutting across government departments are also of relevance to the NHS:
- Supporting Innovation: Managing Risk in Government Departments (HC 864, 1999-2000); and
 - Modernising Construction (HC 87, 2000-2001).
- 1.9 In Part 2 of this report, I describe in more detail the findings of the appointed auditors. The remaining parts of my report address current issues concerning financial control and accounting within the NHS, namely:
- Part 3: Developments in accounting and internal control;
 - Part 4: Financial performance of the NHS;
 - Part 5: Fraud; and
 - Part 6: Clinical negligence.

Part 2

Findings of the appointed auditors

Introduction

2.1 This part of my report summarises:

- the overall findings of the appointed auditors on the accounts of NHS organisations (paragraphs 2.2 to 2.16);
- findings which led to Section 19 referrals to the Secretary of State and Section 8 reports in the public interest (paragraphs 2.17 to 2.20); and
- the Audit Commission's work on value for money (paragraphs 2.21 to 2.22).

Audit of the 1999-2000 underlying accounts - work of the appointed auditors

2.2 In this Part of my report, I summarise the results of the work performed by the appointed auditors in forming their opinions on the accounts of the individual health organisations.

Introduction of the two-part audit opinion

2.3 Auditors of health authorities, NHS Trusts, funds held on trust and special health authorities are required to issue an opinion as to whether the statement of accounts for each individual body reflects a true and fair view of its state of affairs as at 31 March 2000 and of its income and expenditure for the year.

2.4 From 1999-2000, auditors of health authorities, special health authorities and the Dental Practice Board were also required to provide a separate assertion about the regularity of the transactions shown in the accounts (see paragraph 2.11 below).

2.5 I examine each of these two opinion requirements in paragraphs 2.6 to 2.16.

'True and Fair' view

2.6 For the sixth consecutive year, the appointed auditors gave unqualified opinions that the accounts of all individual NHS Trusts, health authorities and special health authorities reflected a true and fair view of their state of affairs as at 31 March 2000 and of their income and expenditure for the year.

2.7 In five cases, auditors drew attention to the financial health of the NHS Trust or other matters of concern. Part 4 of my report provides further analysis of the financial performance of health authorities and NHS Trusts and the action taken by the Department of Health.

Funds held on trust

- 2.8 NHS Trusts, health authorities and special trustees have the power to accept, hold and administer any property on trust and are required to prepare separate accounts for these funds. The summarised account for 1999-2000 shows total funds at 31 March 2000 of some £1.9 billion.
- 2.9 The appointed auditors gave qualified opinions on two of the 460 funds held on trust accounts in 1999-2000 on the basis of limitation of scope: the accounts of the Royal Liverpool & Broadgreen Hospital University NHS Trust and Salisbury Healthcare NHS Trust were qualified as a result of concerns over systems designed to ensure completeness of income. These concerns have now been addressed.
- 2.10 Given the small value of accounts involved, I have been able to give an unqualified audit opinion on the summarised account for the NHS funds held on trust.

Regularity opinion

- 2.11 Auditors were required to give an opinion on whether, in their view, "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".
- 2.12 In this first year, appointed auditors were able to provide unqualified regularity opinions on all but three of the underlying accounts.
- 2.13 The auditor of Newcastle and North Tyneside Health Authority qualified his opinion due to expenditure incurred on the provision of nursing care in residential homes. The auditor concluded that:
- three arrangements with private and voluntary sector bodies to purchase nursing care in residential homes did not comply with applicable statutory authorities; however
 - the expenditure incurred was capable of being within the powers of the Authority and the Authority has agreed, in discussion with the auditor, to put revised arrangements in place.
- 2.14 The Department of Health is currently seeking legal advice.
- 2.15 The auditors of the Prescription Pricing Authority and the Dental Practice Board qualified their opinions on the pharmaceutical services and general dental services accounts. This was because of the Directorate of Counter Fraud Services' calculation of the estimate of the shortfall of income caused by patients fraudulently evading prescription charges and by patient error, and the level of inappropriate expenditure in respect of fraudulent claims by patients and irregular claims by dentists which could not be quantified. I refer further to these qualifications in Part 5 of my report.
- 2.16 Despite these qualifications, I have not qualified my overall opinion on the health authorities summarised account because the overall level of fraud reported, whilst large, is not significant in relation to the total expenditure recorded in the account.

Reports and referrals

- 2.17 Section 19 of the Audit Commission Act 1998 requires an appointed auditor to refer matters to the Secretary of State if the auditor has reason to believe an NHS organisation has made a decision which involves, or may involve, unlawful expenditure. As this arrangement is used to give early warning of potential problems, which may not then materialise, these reports are addressed to the Secretary of State and are not published.
- 2.18 Since my report on the summarised accounts for 1998-99 (HC 356, 1999-2000), appointed auditors have referred one such matter to the Secretary of State. This concerned expenditure at a special health authority, relating to a payment made to a member of staff, in respect of settlement of a claim for compensation in relation to 'right to buy' legislation, which the auditor considered was unlawful.
- 2.19 The Department of Health has reviewed the action taken by the special health authority to ensure that all future exceptional payments are approved by the Authority's Board. NHS Estates have also looked at the guidance that relates to Departmental policy on the payments and consider that it is clear and adequate. They have, however, prepared an article for circulation to all NHS Chief Executives reminding them of the policy on the right to buy and advising them that payments made in lieu of the right to buy are not permitted.
- 2.20 Section 8 of the Act requires appointed auditors to consider whether, in the public interest, they should report on any matter coming to their notice. No such reports have been issued on those NHS bodies which comprise the summarised accounts in England since my report last year.

Audit Commission value for money work

- 2.21 In addition to the work of its appointed auditors on the accounts of NHS organisations, the Audit Commission also undertakes value for money work. My staff liaise closely with the Audit Commission so that, taken together, our studies avoid overlap and add value. I also undertake joint studies with the Audit Commission. For example, in March 2001 we published our linked reports on education and training of the clinical non-medical workforce.
- 2.22 Since my last report on the summarised accounts for 1998-99, the Audit Commission has published the following reports on national studies:
- Testing Times: A Review of diabetes services in England and Wales (April 2000);
 - The way to go: Rehabilitation and remedial services for older people (June 2000); and
 - Hidden Talents: Education, training and development for healthcare staff in NHS Trusts (March 2001).

Part 3

Developments in accounting and internal control

Introduction

3.1 This part of my report examines:

- the implementation of new Financial Reporting Standards (FRSs):
 - FRS11- Impairment of Fixed Assets and Goodwill (paragraphs 3.5 to 3.14);
 - FRS12 - Provisions, Contingent Liabilities and Contingent Assets (paragraphs 3.15 to 3.22); and
 - FRS15 - Tangible Fixed Assets (paragraph 3.23);
- accounting for the transfer of clinical negligence liabilities under the Existing Liabilities Scheme from the health authorities and the NHS Trusts to the NHS Litigation Authority on 1 April 2000 (paragraphs 3.24 to 3.29)
- accounting for Private Finance Initiative projects (paragraphs 3.30 to 3.36); and
- statements of internal financial control and the development of corporate governance in NHS organisations (paragraphs 3.37 to 3.42).

Implementation of new accounting standards

3.2 Treasury generally requires the accounts of NHS organisations to comply with UK Generally Accepted Accounting Practice (including the accounting and disclosure requirements of the Companies Act and all relevant accounting standards issued or adopted by the Accounting Standards Board), in so far as it is appropriate to the NHS.

3.3 However, Treasury also recognised that immediate implementation of some Financial Reporting Standards (FRSs) would involve a level of work that would create operational difficulties for NHS organisations. Furthermore, the Department of Health would need time to adjust NHS funding arrangements to respond to some of the changes in accounting policies and practices, to avoid an adverse impact on NHS Trusts' ability to meet their statutory break-even duty. As I described in my report on the summarised accounts for 1998-1999, Treasury therefore agreed to a delay of one year in the implementation of FRS11 (Impairment of Fixed Assets and Goodwill) and FRS12 (Provisions, Contingent Liabilities and Contingent Assets). These two standards have now been implemented for the first time in the NHS for the 1999-2000 accounts.

3.4 The Department of Health is in discussion with Treasury regarding a role for the Financial Reporting Advisory Board to Treasury (FRAB) in overseeing NHS Trust accounting. FRAB was set up in April 1996 and has advised Treasury on the development of Resource Accounting, which applies to health authorities and Primary Care Trusts. I welcome these discussions as an extended role for FRAB will help to harmonise accounting policies across the public sector and will be of benefit to the future development of "Whole of Government Accounts".

FRS11 - Impairment of Fixed Assets and Goodwill

Background

- 3.5 One of the major impacts of FRS11 is the requirement to distinguish between reductions in the value of assets which arise because of genuine loss of economic benefit (for example when an asset has been physically damaged) and those attributable to changes in market prices. An example of this is when advances in information technology drive down the value of computers. The FRS also places more stringent restrictions on when losses in value must be taken to the Income and Expenditure account and, therefore, when they impact on the in-year results reported by organisations.
- 3.6 Where a reduction in value is attributable to a loss of economic value, the FRS requires that this must be charged to the Income and Expenditure account. Where the loss is due to market fluctuations, this loss should be charged first against any previous credits to the revaluation reserve in respect of that asset and then, when those have been exhausted, to the Income and Expenditure account.
- 3.7 Prior to the implementation of FRS11, NHS accounting practice allowed the majority of losses on revaluation of assets to be charged to the revaluation reserve, even where the losses exceeded previous upward revaluations. This accounting practice allowed for "negative" revaluation reserves to be carried. Implementation of the FRS therefore was likely to lead to higher charges to the Income and Expenditure accounts than previous NHS accounting practices.

Valuation of assets in the NHS

- 3.8 As reported in the accounting policies, the majority of fixed assets are valued on a depreciated replacement cost basis; non-specialised buildings are carried at existing use value. Full revaluation exercises of property assets are carried out at five-yearly intervals by the District Valuer of the Inland Revenue, and adjustments are made in the intervening years by applying indices, provided by the District Valuer. In accordance with this accounting policy, a full revaluation exercise was carried out as at 1 April 2000.
- 3.9 The changes in valuation can be attributed to a number of factors, namely:
- reductions attributable to genuine loss in economic value;
 - changes in market prices different to those forecast and applied through indexation; and
 - increases in value due to enhancements.

Accounting for changes in valuation by individual health organisations

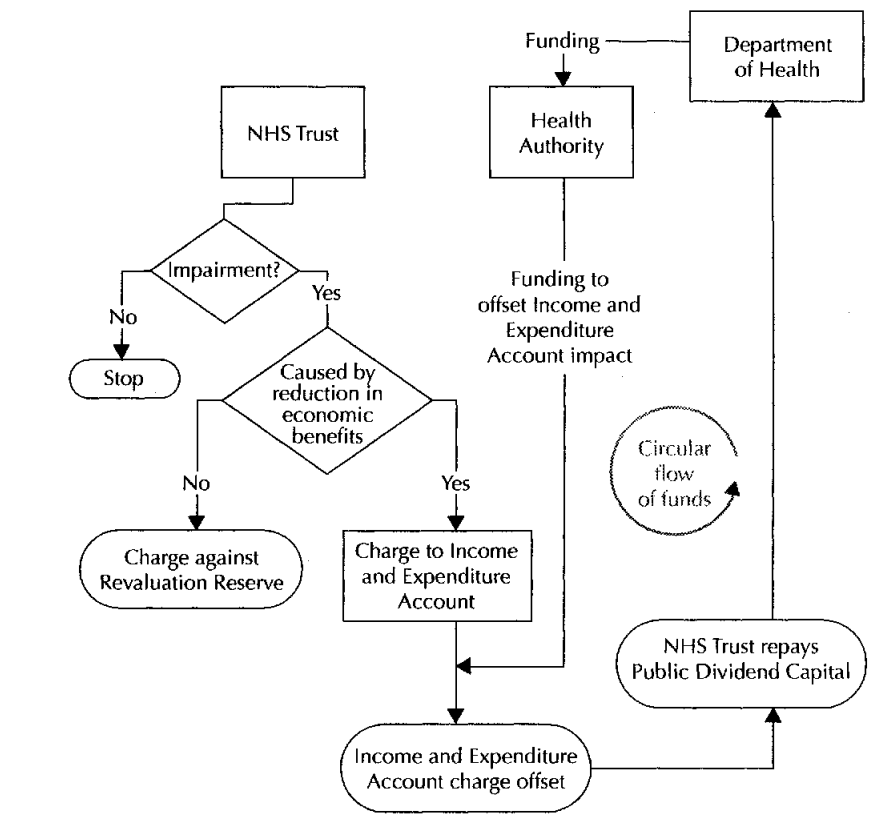
- 3.10 For 1999-2000, all NHS organisations were required to account for these changes in valuation in accordance with the requirements of FRS11. All reductions in value due to loss of economic value were charged to the Income and Expenditure accounts and all other losses were charged against existing related revaluation reserves, until exhausted, with any balances being charged to the Income and Expenditure accounts.

3.11 To avoid this approach leading NHS Trusts to accumulate cash balances, and thus divert money from patient care, the Department of Health introduced revised funding arrangements. These meant that funds would flow in a circular fashion around the NHS as:

- health authorities provided NHS Trusts with funds to cover their impairment losses;
- NHS Trusts were to use these funds to repay Public Dividend Capital to the Department of Health; and
- the Department of Health was to pass the funds to the health authorities to cover the additional payments that they had to make to NHS Trusts. The arrangement is similar to that for depreciation.

3.12 Figure 2 shows the flow of funds involved.

2 Funding for 'real' impairments (circular flow of funds)



3.13 Given the complexity of these accounting arrangements, in September 2000 Treasury and the Department of Health revisited the treatment of reductions in the value of assets in the NHS. They concluded that, in order to give a fair representation of health organisations' performance, only those losses in value attributable to real loss of economic value should be reflected in charges to the Income and Expenditure accounts. All other impairments should be treated as temporary and therefore could be charged to the revaluation reserves, even where this resulted in a negative reserve. These impairments would therefore not affect the stated surplus/deficit for the year. I am satisfied that this conclusion is consistent with the principles of central government accounting.

3.14 The Department of Health has therefore restated the summarised accounts for NHS Trusts, health authorities and special health authorities for 1999-2000 to reflect this decision, so that the value of impairments charged to the Income and Expenditure accounts is £510 million (Figure 3). As a result of this decision, the circular flow of funds therefore only applies to economic impairments of assets. I am satisfied that these charges were properly calculated and I note that NHS Trusts and health authorities will be asked to restate the 1999-2000 figures in their individual accounts in 2000-2001.

3 Impairments, both economic and due to change in prices

Individual accounts	Economic (charged to Income and Expenditure account)	Change in prices (charged to revaluation reserve)
	£ million	£ million
Health authorities	60	50
NHS Trusts	450	746
TOTAL	510	796

Source: Health authority and NHS Trust accounts 1999-2000

FRS12 - Provisions, Contingent Liabilities and Contingent Assets

Background

3.15 FRS12 changed the accounting requirements for provisions and contingencies.

For health authorities and NHS Trusts, these liabilities mainly relate to early retirements and clinical negligence cases. To comply with the FRS, only minor changes were required to early retirement provisions. However, the impact on clinical negligence liabilities was likely to be significant and the Department of Health issued revised guidance to health authorities and NHS Trusts for their 1999-2000 accounts.

3.16 Prior to the implementation of FRS12, and consistent with its predecessor Statement of Standard Accounting Practice (SSAP) 18, NHS accounting practice required that:

- where the probability of a clinical negligence claim being successful was assessed as 50 per cent or higher, full provision was made in the accounts; and
- where the probability was less than 50 per cent, no provision was made but the potential liability was noted as a contingent liability.

3.17 In applying FRS12 in 1999-2000, the Department of Health required all known claims to be accounted for in accordance with the "expected value method" whereby:

- provision is made in the accounts for the value of the claim pro-rated by the probability of success; and
- the balance on claims up to the full potential payout is then disclosed as a contingent liability.

3.18 The FRS also requires estimated future payments to be discounted to present value to reflect the effect of time on the current value of provisions. Furthermore, it requires that provisions should be provided for gross, with any amounts recoverable being included in debtors. Finally, where incidents have occurred which could eventually lead to a claim although no claim has as yet been made, these should be provided for if a reliable estimate can be made.

3.19 The NHS has successfully implemented FRS12 this year and this has resulted in total provisions of £3.9 billion as at 31 March 2000, including for the first time provisions for "incidents incurred but not reported" of some £1.3 billion. I provide further details in Part 6 of this report.

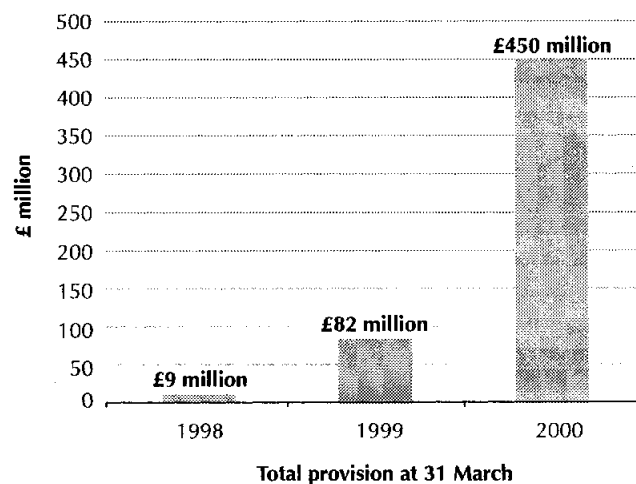
Accounting for provisions

3.20 There is often a delay of a number of years between recognition of the liability in the accounts and actual cash settlement. NHS Trusts have a statutory financial duty to break even taking one year with another and therefore are expected to generate sufficient income to cover the expenditure reported in the year, including charges to provisions. Where an NHS Trust achieves break even and where there are significant longer-term liabilities, such as clinical negligence provisions, there is a risk that the NHS Trusts will accumulate significant cash balances diverted from patient care until the claims are settled.

3.21 I reported last year that the NHS Executive had implemented a procedure for health authorities to agree to fund future liabilities, known as "back-to-back" provisions, to neutralise the impact of increased provisions in the accounts of NHS Trusts and avoid diverting funds from patient care in the short term. To ensure that all NHS Trusts and health authorities were accounting on a consistent basis, from 1 April 1999, it became mandatory for health authorities to agree funding arrangements for all provisions not reimbursed from central schemes.

3.22 **Figure 4** shows that the total "back-to-back" provisions reported by health authorities have increased sharply over the last three years. The changes in accounting practices referred to in paragraphs 3.15 to 3.19 above have significantly increased underlying provisions within NHS Trusts and this factor, together with the extension of back-to-back provisions to cover all authorities and all provisions, are the main reasons for the increase.

4 Back-to-back provisions have increased significantly



Source: Summarised account of the health authorities in England

FRS15 - Tangible Fixed Assets

3.23 FRS15 sets out the principles of accounting for the initial measurement, valuation and depreciation of tangible fixed assets and reiterates the requirements of FRS11 in respect of accounting for impairment losses. With the exception of the requirements in respect of impairment losses, there is little in FRS15 that is new to health authorities and NHS Trusts. Only minor changes to disclosure were required to implement the FRS, and these were reflected successfully in the 1999-2000 accounts.

Transfer of clinical negligence liabilities

3.24 The Department announced after the end of the 1999-2000 financial year that the NHS Litigation Authority would administer and account for all clinical negligence liabilities covered by the Existing Liabilities Scheme (ELS) with effect from 1 April 2000. Whilst the individual NHS organisations retained the legal responsibility for liabilities, the NHS Litigation Authority would assume responsibility for recording, handling and accounting for all outstanding cases.

3.25 For practical reasons, the physical transfer of cases was phased in between May and December 2000, although all payments agreed after 31 March 2000 were either made or refunded by the NHS Litigation Authority in full. Any payments agreed by NHS organisations prior to 31 March 2000 remained their responsibility under the existing funding arrangements (Part 6 of my report refers).

3.26 The Department of Health issued guidance on the transfer after the completion of the underlying accounts, but before my audit of the summarised accounts for the health authorities and NHS Trusts. The underlying accounts of the health authorities and NHS Trusts therefore included the provisions, debtors and creditors for ELS liabilities at 31 March 2000. However, knowing that these recorded balances no longer represented realisable assets and liabilities for those organisations, their inclusion in the summarised accounts for 1999-2000 would not present a true and fair view of the financial position.

3.27 The change in status of the provisions, debtors and creditors therefore represented an adjusting post balance sheet event, which required the restatement of the balances within the underlying accounts of health authorities and NHS Trusts. The summarised accounts show the adjusted assets and liabilities for the health authorities and NHS Trusts respectively at 31 March 2000.

3.28 To ensure consistency between the underlying accounts and the summarised accounts, the health authorities and NHS Trusts will effect prior year adjustments in their underlying accounts for 2000-2001 to restate the balances at 31 March 2000.

3.29 The income and expenditure recorded in the 1999-2000 accounts of the health authorities and NHS Trusts were properly incurred by those bodies, and the transactions have been correctly retained within the accounts. There has been no restatement of the NHS Litigation Authority accounts because the authority had no liability at 31 March 2000; the transfer of the ELS liabilities to the NHS Litigation Authority will be shown in the 2000-2001 accounts.

Private Finance Initiative

Background

- 3.30 The Private Finance Initiative (PFI) is the most common form of financing new capital projects in the NHS, with the majority of PFI schemes relating to the provision of hospital facilities. The role of private finance in the NHS extends beyond capital investment. Major PFI schemes are usually design, build, finance and operate (DBFO) where the contractor takes on a facilities management role for the duration of the contract. DBFO contracts are long-term commitments to contracts generally ranging from 25 to 35 years.
- 3.31 The estimated total capital value of major schemes, with individual capital values of over £25 million and which had reached financial close by 31 March 2000, was nearly £1.4 billion. There were also a further 70 schemes, with individual capital values of less than £25 million and greater than £1 million, with a total capital value of approximately £350 million.
- 3.32 During 2000-2001, a further 29 major schemes with a capital value of over £3.1 billion were submitted for assessment to the Capital Prioritisation Advisory Group. This group was established in 1997 to help Ministers prioritise both privately and publicly funded schemes on the basis of the nation's health care requirements, as well as assessing whether schemes are both affordable and achievable. In February 2001, Ministers approved all 29 schemes to go ahead. Although no major PFI schemes were operational by 31 March 2000, four became operational during 2000-2001.

Impact on the accounts of NHS bodies

- 3.33 The complex nature of PFI schemes led the Accounting Standards Board to issue, in September 1998, an amendment to FRS 5 - 'Reporting the substance of transactions: Private Finance Initiative and similar contracts'. The revised guidance determines the balance sheet treatment of a contract on the basis of the risks borne by the principals, focusing on risks 'inherent' in the contract.
- 3.34 The amendment applied to accounting periods ending on or after 10 September 1998 and required the accounting treatment of all existing PFI schemes to be reassessed. However, in view of the extensive review needed, Treasury gave a dispensation to public sector bodies to delay implementation until 1999-2000.
- 3.35 In 1999-2000, the Department of Health commissioned a review of a sample of PFI schemes with a view to developing a methodology that could be applied by NHS organisations and their appointed auditors to determine the correct accounting treatment. All PFI schemes were reassessed against the new guidance. As a result of these reviews, four PFI schemes with a capital value of £65 million were brought on-balance sheet in 1999-2000; 94 per cent of schemes, by value, remain off-balance sheet.
- 3.36 Current guidance requires costs incurred by NHS Trusts on PFI-related matters, including leasing charges, to be disclosed separately in the notes to the Income and Expenditure Account. In 1999-2000, NHS Trusts disclosed costs totalling £61 million; this figure is likely to increase significantly in future as PFI schemes become operational. In 2000-2001, costs are estimated to reach £115 million.

Statements on internal financial control and the development of corporate governance

- 3.37 Statements on internal financial controls within the NHS were introduced for the first time in the 1997-98 accounts, although they referred to the adequacy, rather than the effectiveness, of controls. Following my report on the 1998-99 summarised accounts, the Department of Health has now agreed to strengthen the statements from 2000-2001 to comment on the *effectiveness* of internal financial controls.
- 3.38 In 1999-2000, the appointed auditors did not qualify their opinions on any NHS Trust's statement on internal financial control. However, 45 NHS Trusts, six health authorities and four special health authorities identified weaknesses in their systems for some or all of the financial year. Half of these had incomplete or out-of-date financial procedures, whilst a small number were weaknesses in information technology arrangements or systems for safeguarding assets. None of these weaknesses represented fundamental flaws in the systems of internal financial control and, in each case, details were provided of remedial action being undertaken to rectify the weaknesses.
- 3.39 In response to further developments in corporate governance, Treasury issued additional guidance in December 2000, which encourages all public sector organisations to expand these statements from the 2001-2002 financial year. Statements will be required to cover all systems of internal control, incorporating areas such as operational and policy-making systems.
- 3.40 The NHS has developed a three-stage process to manage corporate governance, which involves:
- the development of a framework of corporate accountability;
 - improvements in the organisation and staffing of internal audit; and
 - the development of controls assurance, which requires the Board to satisfy itself that systems are in place to ensure that risks are assessed and properly managed.
- 3.41 As I reported last year, this is supported by a series of 18 "minimum control standards" and related criteria, published in November 1999, for adoption by all NHS bodies. The overall aim is to establish mechanisms to prioritise and manage identified risks and enable information on both clinical and non-clinical incidents and complaints to be reliably recorded, reported and analysed to determine underlying causes and enable lessons to be learnt from past experience.
- 3.42 For 1999-2000, the Accounting Officers for each NHS Trust and health authority were required to include an additional statement, providing assurance that their organisation had performed a baseline assessment against the organisational control standards and had developed prioritised action plans to manage risk. In this respect, the NHS is well advanced in tackling corporate governance issues, and specifically in considering wider internal controls.

Part 4

Financial performance of the NHS

Introduction

- 4.1 This part of my report looks at the financial performance of health authorities and NHS Trusts. In particular, I examine:
- the action taken by the Department of Health to monitor the financial position of health authorities and address any problems identified (paragraphs 4.2 to 4.14); and
 - the financial duties of NHS Trusts, their financial performance, the monitoring by the Department of Health, and action taken to address any problems identified (paragraphs 4.15 to 4.27).

Health authorities

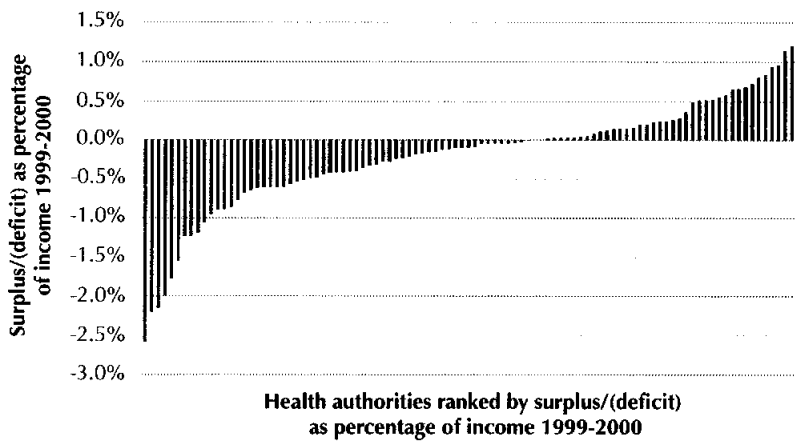
Financial performance

- 4.2 1999-2000 was the fourth year of operation of the 99 (1998-99: 100) health authorities in England. Paragraph 10 of the Foreword to the summarised accounts notes that all health authorities achieved their statutory financial duty of ensuring that net expenditure did not exceed their cash limit.
- 4.3 In total, health authorities reported an in-year deficit for 1999-2000 of £52 million (compared to a restated deficit of £25 million in 1998-99 - Note 1.10 to the health authority summarised account for 1999-2000 refers) and an accumulated deficit at the year-end of £963 million (compared with restated £911 million at 31 March 1999). The forecast financial position of health authorities has apparently subsequently improved and monitoring by the Department of Health indicates that, at the end of the second quarter of 2000-2001, the forecast year-end surplus was £45 million.
- 4.4 In Part 3 of this report, I have examined the way in which the NHS has applied FRS11 in 1999-2000. Implementation of the District Valuer's revised valuations of assets and FRS 11 accounted for £43 million reduction in the value of their fixed assets in the year.
- 4.5 In addition to health authorities' statutory duty to remain within their cash limit, the Department of Health had set them income and expenditure targets (paragraph nine of the Foreword refers). A key target for 1999-2000 was that all health authorities should break even, on an accruals basis, except where there were deep-seated problems that could not be resolved in a single year or where account needed to be taken of the financial effect of provisions. Recovery of accumulated deficits would largely depend upon when liabilities represented by the deficits needed to be settled, if at all.

4.6 **Figure 5** gives an indication of the relative financial performance of health authorities, by analysing surpluses and deficits as reported in their accounts, as a percentage of each health authority's income in 1999-2000:

- 59 out of the 99 health authorities reported a deficit in the year, compared with 48 out of 100 in 1998-99; and
- 94 of the 99 health authorities reported an accumulated deficit as at 31 March 2000, compared with 88 out of 100 at 31 March 1999.

5 Sixty per cent of health authorities reported an in-year deficit in 1999-2000



Source: NHS health authority accounts for 1999-2000

4.7 The highest in-year deficit was 2.58% of 1999-2000 income. Forty two health authorities had an accumulated deficit in excess of £10 million, and 12 exceeded five percent of total income. The five health authorities with the highest accumulated deficit as a percentage of total 1999-2000 income are shown in **Figure 6**.

6 The five health authorities with the highest accumulated deficits as a percentage of 1999-2000 income

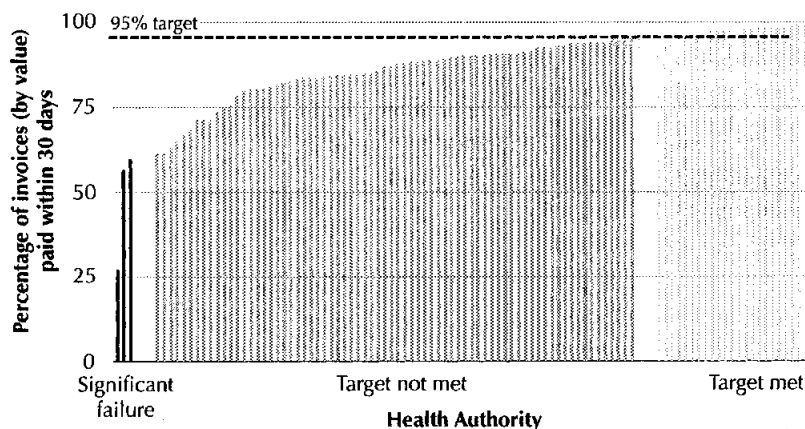
Health authority	Accumulated deficit as at 31 March 2000 (£ million)	Accumulated deficit as a percentage of total income in 1999-2000
West Surrey HA	42.1	9.1
Redbridge & Waltham Forest HA	28.2	8.2
Wakefield HA	18.1	7.3
Barnet HA	16.9	6.8
West Hertfordshire HA	25.0	6.5

Source: NHS health authority accounts 1999-2000

Better Payment Practice Code

- 4.8 The Better Payment Practice Code, applicable to both public and private sector organisations, was introduced following concerns that late payment of invoices could threaten the survival of businesses, result in higher prices and potentially reduce competition.
- 4.9 Following criticism of public sector payment performance, the then Prime Minister announced in March 1996 that he wanted all departments and their agencies to pay their bills promptly. The target set was to pay 95% of all non-disputed invoices within 30 days of receipt of goods or a valid invoice, whichever is later. This was known as the Public Sector Payment Policy.
- 4.10 In 1999-2000, only 24% of health authorities met the target (1998-99: 13%). About half achieved more than 90% compliance (1998-99: 38%), but 13% paid less than three quarters of all invoices within the target period. Overall, the average percentage paid within 30 days was 88% in both years. **Figure 7** shows health authorities' performance in 1999-2000.

7 On average, health authorities paid 88% of invoices within 30 days

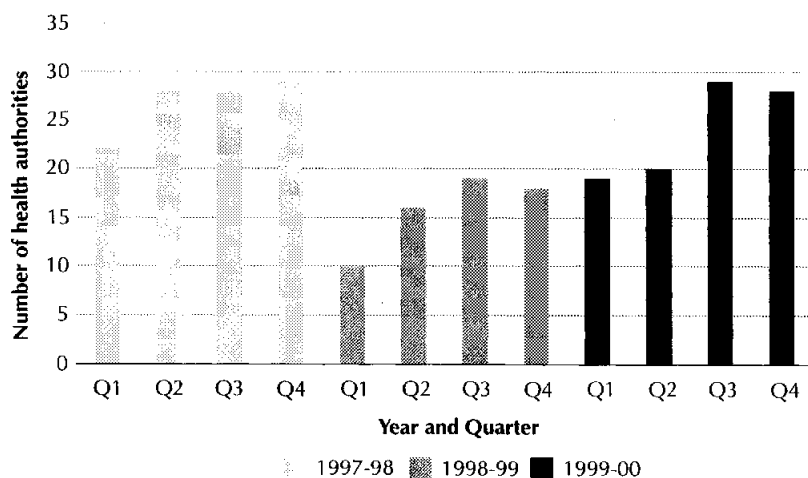


Source: Department of Health monitoring data

Monitoring of health authorities' financial position and action taken by the Department of Health

- 4.11 The Department of Health, through its eight regional offices, monitors the financial position of each health authority. The Department takes the view that in-year and cumulative deficits and identified future liabilities are not, in themselves, an indication of financial problems in all cases. The regional offices also take account of "non-recurrent" factors within a health authority's reported financial position in order to assess the underlying picture.
- 4.12 Paragraph 12 of the Foreword notes that, at the end of 1999-2000, the Department of Health considered that 28 health authorities were experiencing serious financial problems (defined as being an underlying deficit of more than the lower of one per cent of income or £1 million), 10 more than 1998-99 (**Figure 8**).

8 At Quarter 4 1999-2000, the Department of Health classed 28 health authorities as experiencing serious financial difficulties



Source: Department of Health monitoring data

4.13 The Department's regional offices identified a number of factors contributing to these financial difficulties, mainly:

- exceptional winter pressures;
- over-performance on service agreements with providers, leading to additional recurrent expenditure;
- in-year and recurrent cost pressures due to factors such as drug costs; and
- problems, which result from historical patterns of health services in the area, which can only be resolved by restructuring.

4.14 Paragraphs 13 and 14 of the Foreword describe the action taken by the Department of Health in cases where there was an underlying recurrent problem. These health authorities were required to prepare recovery plans; the appropriate regional office agrees these plans and monitors their implementation. Action plans for the 28 authorities include such steps as:

- review of treatment and prescribing protocols;
- reconfiguration and rationalisation of services;
- improvements in clinical practice; and
- tighter budgetary control.

NHS Trusts

NHS Trusts' financial duties

4.15 The Foreword to the NHS Trusts summarised account gives details of the financial duties of NHS Trusts (paragraph 18), in particular explaining the definition of the duty to break even "taking one financial year with another". This is the prime financial duty for NHS Trusts. Under new rules introduced in 1997, NHS Trusts are required to break even over a three-year period, or exceptionally five. 1999-2000 is the first year in which NHS Trusts are reporting on whether they have achieved break-even over the initial three-year period since 1997-98.

4.16 The two remaining financial duties of NHS Trusts are the capital cost absorption rate (which replaced the target rate of return in 1998-99) and the external financing limit.

Financial performance of NHS Trusts

4.17 In total, the in-year deficit for NHS Trusts deteriorated from £36 million at 31 March 1999 to £77 million at 31 March 2000. The forecast financial position has apparently subsequently improved and, at the end of the second quarter of 2000-2001, the Department of Health forecasts that the year-end position will be a deficit of £8 million.

4.18 As at 31 March 2000, regional offices identified 76 NHS Trusts (1998-99: 53) as having significant financial difficulties. The five NHS Trusts with the largest in-year deficits, expressed as a percentage of income, are noted in **Figure 9**:

9 The five NHS Trusts with the largest in-year deficits as a percentage of 1999-2000 income

NHS Trust	Deficit for the year to 31 March 2000 (£000)	In-year deficit as percentage of 1999-2000 income
Andover District Community Healthcare Trust	918	8.6%
Greenwich Healthcare NHS Trust	7,909	7.8%
Barnet Healthcare NHS Trust	4,927	7.0%
Oxfordshire Ambulance NHS Trust	647	7.0%
East Hertfordshire NHS Trust	5,167	5.4%

Source: NHS Trust accounts 1999-2000

4.19 NHS Trusts identified the main underlying causes of in-year deficits as:

- exceptional winter pressures;
- significant increases in the cost of drugs; and
- implementation of the European working time directive.

4.20 These pressures have since been recognised in the 2000-2001 financial settlement and detailed guidance to NHS Trusts, on the key elements of a financial recovery plan, was issued by the Department of Health in July 1999 (HSC1999/46 refers).

4.21 Whilst 150 NHS Trusts reported a deficit in 1999-2000, none breached their statutory financial duty to break even "taking one financial year with another". However, at 31 March 2000, regional offices have agreed extended periods of recovery under the "exceptional circumstances" rule to 41 NHS Trusts (around 10% of all NHS Trusts).

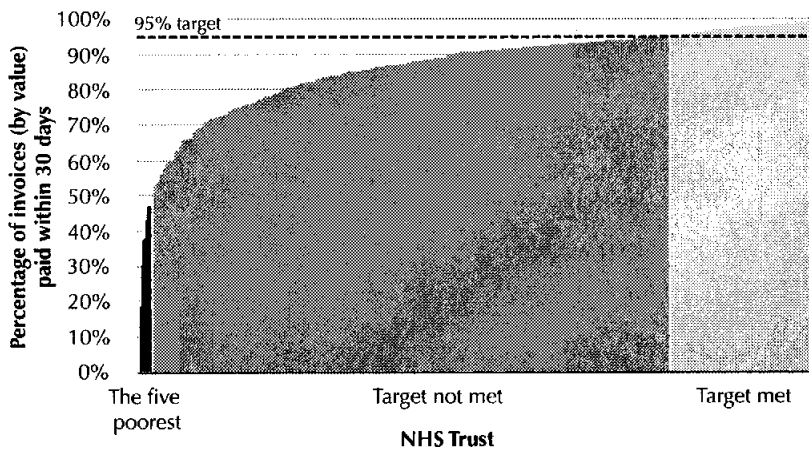
4.22 A Table at paragraph 26 of the Foreword summarises the performance by NHS Trusts against the remaining two financial duties: 97% of NHS Trusts met the capital cost absorption rate and 95% met the external financing limit, after adjusting for technical factors. Overall, 19 NHS Trusts failed to achieve one of these financial duties. Paragraph 28 of the Foreword outlines the main reasons for NHS Trusts failing to meet their financial duties.

Better Payment Practice Code

4.23 In 1999-2000, 21% of NHS Trusts achieved the target to pay 95% of non-disputed invoices within 30 days (1998-99: 17%). Fifty four percent achieved at least 90% compliance, which is an improvement since 1998-99 (41%).

4.24 Overall performance was little changed since last year: the average percentage of invoices paid within 30 days was 84% compared with 85% in 1998-99. As **Figure 10** shows, five NHS Trusts paid less than half of their invoices within 30 days.

10 On average, NHS Trusts paid 84% of invoices within 30 days



Source: Department of Health monitoring data

Interest on late payments

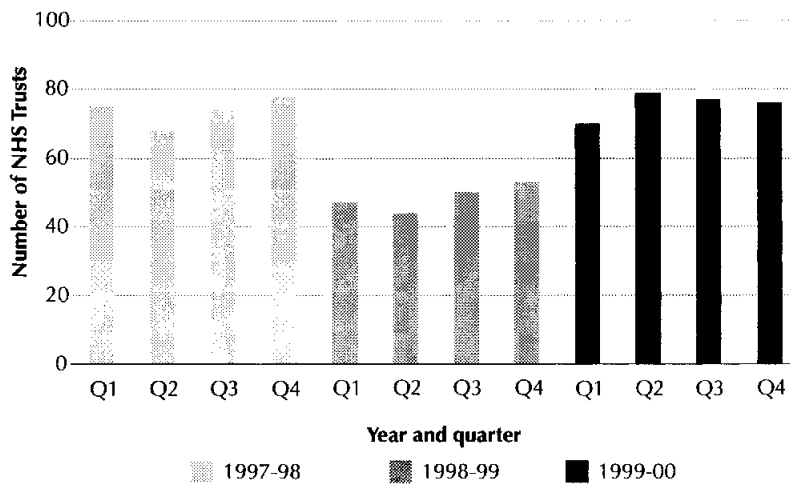
4.25 1999-2000 was the first full year in which legislation enacted in November 1998, on the statutory right to claim interest on late debt, came fully into effect. As page 12 of the NHS Trusts summarised account shows, NHS Trusts paid £26,000 in interest on late debt (1998-99: £14,000 for a five-month period, as the legislation came into force part way through the year). The poorest performing NHS Trust accounted for half of the interest paid in 1999-2000. No health authorities were required to pay interest on late debt.

Monitoring of NHS Trusts by the Department of Health

4.26 Paragraphs 29 and 30 of the Foreword summarise the way in which the Department of Health agrees business plans with NHS Trusts and monitors their performance, and outlines the steps which the Department of Health takes when it considers that NHS Trusts have underlying financial difficulties.

4.27 By the final quarter of 1999-2000, the total number of NHS Trusts assessed by the Department of Health as facing serious in-year financial difficulties stood at 76 (1998-99: 53). **Figure 11** shows the trend.

11 At Quarter 4 1999-2000, the Department of Health assessed 76 NHS Trusts as experiencing serious financial difficulties



Notes: 1. On 1 April 1998, 15 of the 78 NHS Trusts were either merged or dissolved, which partly explains the reduction to 47 in the first quarter of 1998-99.
 2. On 1 April 1999, 10 of the 53 NHS Trusts were also merged or dissolved.

Source: Department of Health monitoring data

Part 5

Fraud

Introduction

5.1 This part of my report summarises:

- the role of the Directorate of Counter Fraud Services (paragraphs 5.4 to 5.12);
- suspected frauds reported to the Directorate of Counter Fraud Services (paragraphs 5.13 to 5.15);
- the estimated cost of fraud and incorrectness in the NHS (paragraph 5.16);
- the impact of fraud on the work of the appointed auditors (paragraphs 5.17 to 5.19); and
- the impact of fraud on my opinion on the summarised accounts (paragraph 5.20).

Background

5.2 In July 1999, the Public Accounts Committee published a report on a range of matters affecting the NHS (HC 128, 1999-2000), including financial performance, combating fraud, the millennium threat and clinical negligence. Considering the efforts made to combat fraud in the NHS, the Committee raised a number of concerns:

- the NHS lacked an overall estimate of the level of fraud it faced;
- the level of detected fraud at £2.6 million was very low, compared to the stock of fraud in the system of over £150 million; and
- there were some two million more people registered with GPs in England than the resident population and that this may to some extent be the result of fraudulent claims by GPs.

5.3 In my report on the NHS summarised accounts for 1998-99 (HC 356, 1999-2000), I examined work undertaken by the Department of Health to prevent, detect and measure fraud in the NHS. This part of my report looks at progress made in countering fraud since that time.

The role of the Directorate of Counter Fraud Services

5.4 In December 1998, the Department of Health published its fraud strategy "Countering fraud in the NHS". They established the Directorate of Counter Fraud Services as a directorate within the Department of Health, with overall responsibility for all work to prevent, detect and measure fraud and corruption within the NHS with particular priority for countering fraud in Family Health Services. The strategy gave three published commitments, to:

- achieve a 50% reduction in the level of prescription charge evasion by 2002-2003;
- prevent £9 million in contractor fraud and to recover £6 million by 2001-2002; and
- reduce fraud to an absolute minimum within ten years.

Countering fraud in the NHS

5.5 The strategy document was designed to focus work to reduce fraud in the NHS to an absolute minimum by focusing on seven generic areas. These were influencing the development of an anti-fraud culture, deterrence, prevention, detection, investigation, applying appropriate sanctions, and seeking redress. A key part of the strategy was the development of the Counter Fraud Operational Service, which came into operation in December 1999 and works alongside the Directorate in implementing the strategy at a local level and providing advice to individual NHS organisations.

5.6 Preliminary work undertaken by the Directorate since its establishment in 1998-99 included:

- requiring every health authority and NHS Trust to nominate a suitable officer to undertake the role of Local Counter Fraud Specialist;
- developing and implementing a professional training programme to equip those working in this new area to the NHS with specialist professional skills. This forms part of the accreditation process for Local Counter Fraud Specialists based in health organisations;
- delivering fraud awareness presentations to key individuals in the NHS to promote a broader understanding of the problem;
- working with others such as the Audit Commission to develop a memorandum of understanding outlining how information will be shared, and producing clear guidelines for the interaction of auditors and counter fraud specialists; and
- developing the first fraud measurement methodology for the NHS, which I reviewed in the first area of its application in my previous report.

5.7 At the time of my last report, the Directorate had also committed to:

- establish specialist teams for pharmaceutical fraud and dental fraud by April 2000;
- train Local Counter Fraud Specialists for all health authorities by March 2000 and for all NHS Trusts by March 2001; and
- develop a "hotline" initiative, to enable staff and professionals to report suspected cases of fraud and corruption confidentially.

- 5.8 A pharmaceutical fraud team became operational in June 2000. A dental fraud team is now expected to become operational early in 2001-2002 but, in the meantime, the Directorate has been using claims data provided by the Dental Practice Board to produce an estimate of the level of fraud. The Directorate informs me that it has met its target to ensure that Local Counter Fraud Specialists will be in place at all health organisations (health authorities and NHS Trusts) by the end of March 2001. The teams and specialists put in place will contribute to achieving the seven generic aims noted in paragraph 5.5 above.
- 5.9 On the "hotline" initiative, the Directorate opened a fraud reporting telephone line in December 2000. The line is open to all NHS staff and comes as an addition to procedures put in place in April 1999 under which all health organisations were required to report suspected frauds as they became known. The information gathered in this way has enabled the establishment of the first national database of NHS fraud. Details of suspected frauds reported are examined in paragraphs 5.13 to 5.15 below.

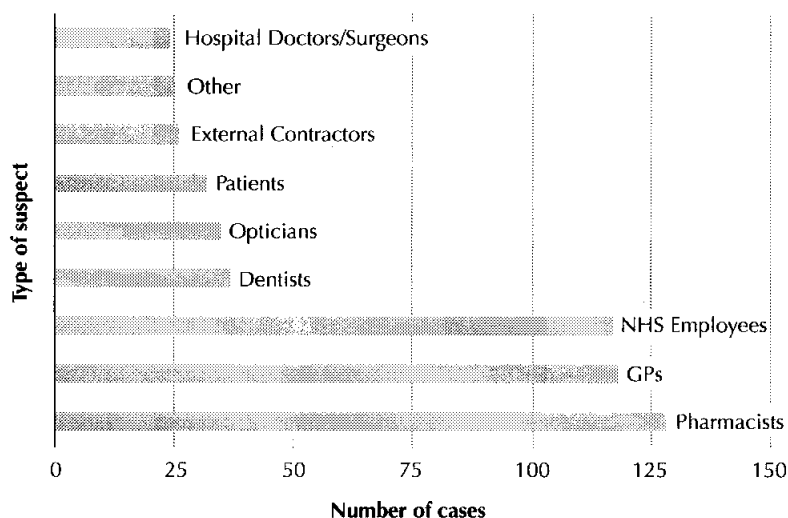
Measurement

- 5.10 To measure achievement against the stated targets for prescription charge evasion, the Directorate recognised the need to establish a baseline figure for fraud. To this end, they developed a Risk Measurement Project, which had the aim of accurately measuring fraud and incorrectness across all main services in the NHS by 31 March 2000.
- 5.11 The Directorate identified the following eight separate measurement exercises within the Risk Measurement Project:
- prescription exemption - patients;
 - prescription exemption - contractors;
 - prescription exemption - effect of point of dispensing checks;
 - dental services - contractor fraud and patient charge evasion;
 - optical services - contractor fraud and patient charge evasion;
 - General Medical Services;
 - procurement fraud across the NHS; and
 - fraud in health authorities and NHS Trusts.
- 5.12 The Directorate have completed their estimates for the cost of patient prescription charge evasion and now expect to publish estimates for the costs of both dental patient and optical patient charge evasion in summer 2001. The exercise for pharmaceutical and optical contractor fraud is being carried out. For the remaining measurement exercises within the Risk Measurement Project, work is still being carried out to determine their scope.

Suspected frauds reported to the Directorate of Counter Fraud Services

5.13 At the time of my last report, 239 cases of suspected fraud, with an estimated value of £14 million had been reported to the Directorate. There are now 484 cases under investigation, involving 542 people, and with a total estimated value of £18.3 million. The suspects involved in these cases are shown in **Figure 12** below.

12 Suspects involved in cases currently under investigation



5.14 The financial impact of action taken in cases of suspected fraud has increased since the Counter Fraud Operational Service became operational. Actions taken in cases that are now closed are shown in **Figure 13**.

13 Action taken in closed cases

	1999-2000	2000-2001
Sums recovered	£80,000	£3,067,055
Successful prosecutions	22	33
Civil cases	10	6
Disciplinary cases	34	50

As at April 2001, another £4.5 million has been offered for recovery and a further 43 prosecutions are currently awaiting a court hearing.

The sums recovered noted for 1999-2000 related mainly to the period before the Counter Fraud Operational Service became operational.

5.15 The ways in which fraud can be perpetrated against the NHS are numerous, covering each area of work, and involving a wide number of NHS staff, in primary care, NHS Trusts and health authorities. I list a selection of some of the most recent examples of completed cases that the Directorate has dealt with (**Figure 14**):

14 Some recent fraud cases

- A GP used stock items from his surgery for the treatment of private patients. The GP produced false prescriptions, usually for exempt patients under the age of 16, and asked practice staff to obtain the required items from local chemists. The GP was tried at Crown Court in December 2000; found guilty; and ordered to repay £7,000 to the Department of Health. Clinical aspects of the case will be addressed in a hearing of the General Medical Council.
- A dispensing GP admitted submitting false prescriptions to the Prescription Pricing Authority for payment over a nine-year period, and covering this up with false drug invoices. The value of the fraud was estimated at £1.2 million. The GP appeared in the Crown Court in February 2001, pleaded guilty to 14 charges of obtaining a money transfer by deception and 34 charges of false accounting, with a number of other instances also being taken into account. He was sentenced to 3 years and 9 months imprisonment (half of which was suspended).
- An optometrist claimed, over a two-year period, for sight tests not carried out and for glasses supplied to patients who were dead. In March 2000, the optometrist was found guilty on 29 counts of false accounting and asked for a further 102 counts to be considered. Civil action is now being taken to recover the estimated loss to the NHS of £600,000.

The estimated cost of fraud and incorrectness in the NHS

5.16 The Directorate's estimated annual cost to the NHS of patients fraudulently or incorrectly claiming prescription exemption has fallen from £164 million (+/-£19 million) at November 1998 to £107 million (+/-£14 million) at July 1999.

The impact of fraud on the work of appointed auditors

5.17 In 1999-2000, the appointed auditors of the Dental Practice Board and the Prescription Pricing Authority qualified the regularity part of their opinion on the General Dental Services in England account and the Pharmaceutical Services for England account.

5.18 On the General Dental Services in England account, the level of inappropriate expenditure on the account in respect of fraudulent claims by patients and irregular claims by dentists could not be quantified. The Directorate is aiming to publish, in summer 2001, an estimate of the cost of patient dental charge evasion.

5.19 The appointed auditor of the Pharmaceutical Services for England account qualified his regularity opinion on the basis of the disclosed estimate in the accounts that income received by the NHS was £69 million lower than it should have been. Of this, £59 million was accounted for by patients fraudulently evading prescription charges and £10 million was accounted for by patient error.

The impact of fraud on my opinion on the summarised accounts

5.20 I have considered the impact of the estimated cost of fraud and incorrectness identified by the Directorate in the context of my audit opinion on the summarised account of health authorities. In my view, although large, the estimated cost of fraud and incorrectness is not significant enough to affect the true and fair view of the summarised account and I have therefore given an unqualified opinion on the account.

Part 6

Clinical Negligence

Introduction

6.1 This part of my report:

- provides background information on clinical negligence (paragraphs 6.3 to 6.4);
- analyses the total potential clinical negligence liabilities for the NHS from the separate figures disclosed in the 1999-2000 summarised accounts (paragraphs 6.5 to 6.10);
- considers accounting developments affecting the treatment of clinical negligence and the need for consistency between NHS accounts (paragraphs 6.11 to 6.15); and
- sets out developments in improving the quality of clinical care aimed at minimising future costs of clinical negligence claims (paragraphs 6.16 to 6.21).

6.2 I also recently published a separate report resulting from my value for money investigation into this important area (*Handling Clinical Negligence Claims in England*, HC 403, 2000-2001).

Background

6.3 Clinical negligence is the term given to a breach of a duty of care by health care practitioners in the performance of their duties. Meeting the liabilities for clinical negligence is a major challenge facing the NHS and represents a drain of resources away from patient care.

6.4 NHS Trusts and health authorities are legally liable for the clinical negligence of their employees. To assist these bodies in meeting the cash impacts of large clinical negligence claims, there are three separate funding schemes:

- the Existing Liabilities Scheme provides assistance with the cost of claims for clinical negligence incidents which arose before 1 April 1995. Under this scheme the health authority or NHS Trust pays the first £10,000 of a valid claim, plus 20 per cent of the cost between £10,000 and £500,000. The remainder is paid from central funds provided by the Department of Health. As at 1 April 2000, the NHS Litigation Authority has assumed financial responsibility for making payments under the scheme, although legal responsibility has remained with the NHS Trusts and health authorities. Also, from the same date, health organisations no longer make, or account for, any part of the payment;

- the Clinical Negligence Scheme for Trusts is a membership scheme administered by the NHS Litigation Authority to provide support for clinical negligence claims in respect of incidents occurring in NHS Trusts after 1 April 1995. By 31 March 2000, all but one NHS Trust had become members of the scheme. Each NHS Trust can choose from a range of excesses and higher thresholds which, along with discounts for risk management, will determine its contribution levels. The scheme reimburses 80 per cent of the value of the settlement between the excess and the higher threshold and the full amount over the threshold chosen by the NHS Trust; and
- the Ex-Regional Health Authorities Scheme covers the liabilities of the hospitals and other services formerly managed at a regional level, prior to the authorities' abolition in April 1996. The NHS Litigation Authority has legal and financial responsibility for these claims.

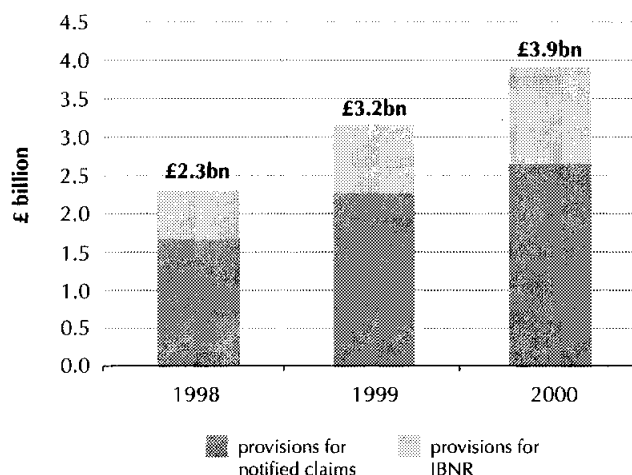
Liabilities and charges for clinical negligence 1999-2000

6.5 In total, the NHS summarised accounts show that:

- provisions for the likely cost of clinical negligence total £3.9 billion³ at 31 March 2000, taking account of known cases and estimates for claims incurred but not reported;
- these liabilities have increased by £0.7 billion since 31 March 1999;
- for reported claims, provisions amount to £2.6 billion³. This represents the discounted estimated cost for incidents reported. The distribution of these costs between the NHS bodies is shown in the **annex** to this part; and
- actuarial estimates for incidents incurred but not reported are £1.3 billion³ (paragraph 6.9).

6.6 **Figure 15** shows how provisions for the likely cost of clinical negligence have grown over the last three completed financial years. Where possible, prior year figures have been restated to take account of the recent actuarial estimates of incidents incurred but not reported (IBNR) and the new accounting requirements of FRS 12. The impact of FRS 12 on the NHS is discussed in Part 3. In particular, the accounting standard provides new guidance on the measurement of provisions and also requires the provisions to be gross of recoverable amounts.

15 Total provisions for clinical negligence within the NHS continue to increase



Source: NHS Summarised accounts

³ At today's prices. The Treasury discount factor of six per cent has been applied to take account of the time value of money. Refer to paragraph 6.7.

- 6.7 These provisions have been discounted to account for the time value of money, in accordance with FRS 12. The liabilities can mature over a lengthy time period, and the use of the Treasury standard discount factor for the public sector of six per cent allows the net present value to be recorded in the balance sheet.
- 6.8 The underlying provisions for notified claims have increased by £300 million since 31 March 1999 (from £2.3 billion to £2.6 billion - **Annex**). This increase largely results from new claims arising under the Clinical Negligence Scheme for Trusts, and better estimation of liabilities for existing claims through the application of FRS 12.
- 6.9 Estimates for incidents incurred but not reported have also increased rapidly, from £0.9 billion at 31 March 1999 to £1.3 billion at 31 March 2000. This may reflect increased litigiousness within society in general, as well as general claims inflation. The NHS has resolved considerably more cases in 1999-2000 than in previous years, but the average settlement costs have also risen substantially. Several recent legal judgements have significantly increased the value of damages paid and will affect similar future claims.
- 6.10 In addition to the provisions, the summarised accounts disclose contingent liabilities of £1 billion in respect of reported cases and £0.9 billion for IBNR. Thus, whilst the likely liability of clinical negligence to the NHS for incidents prior to 31 March 2001 amounts to £3.9 billion at today's prices, these costs could reach £5.8 billion if all contingent liabilities crystallised. However this scenario is, by nature, highly unlikely.

Accounting developments and consistency issues

- 6.11 The NHS Litigation Authority, which maintains a database of clinical negligence claims, has for the first time provided an estimate for the likely cost of incidents incurred but not reported. As noted above, it has included a provision for £1.3 billion and disclosed further contingent liabilities of £0.9 billion within its 1999-2000 accounts.
- 6.12 These estimates have been determined by an actuarial evaluation of the data within the database, and are valid at a national level across the whole of the NHS. Estimates cannot be calculated with sufficient reliability for individual NHS Trusts or health authorities, because of the relatively small number of claims for each organisation. NHS Trusts and health authorities have, therefore, not included provisions for such cases within their own accounts.
- 6.13 In my report on the NHS summarised accounts for 1998-99, I identified a number of inconsistencies in disclosure between NHS accounts. **Figure 16** summarises the progress made.

16 Progress within the NHS to correct inconsistencies in accounting treatment

Issue reported in 1998-99	Progress in 1999-2000	Remaining inconsistencies
Failure to implement FRS 12.	All NHS bodies have applied FRS 12 in 1999-2000.	Some minor inconsistencies remain in the interpretation of the FRS.
Lack of reliable evidence for liabilities relating to incidents incurred but not reported.	The NHS Litigation Authority have estimated and accounted for IBNR.	None.
Inconsistent reporting of amounts recoverable from the NHS Litigation Authority.	The appointed auditors have identified that discrepancies have arisen because different cut-off dates have been used throughout the NHS.	There is still a difference between the amounts reported by the NHS Litigation Authority and those reported by health authorities and NHS Trusts. However, such differences are much lower than in previous years.
Failure by some NHS organisations to report contingent liabilities in underlying accounts.	The introduction of FRS 12 has provided for uniform guidance to be applied across the NHS.	Some organisations still have not identified contingent liabilities at 31 March 2000, although there are fewer such organisations. The effect on the overall contingent liabilities is not likely to be significant.

6.14 As described in more detail in paragraphs 3.24 to 3.29, the NHS Litigation Authority assumed sole responsibility for recording, handling and accounting for payments made under the Existing Liabilities Scheme on 1 April 2000. Although the health authorities and NHS Trusts retain the legal responsibility for clinical negligence, the NHS Litigation Authority now undertakes all administration arrangements. In accordance with generally accepted accounting practice, the NHS Litigation Authority will account for all clinical negligence from 1 April 2000. The individual health authorities and NHS Trusts will, however, disclose in their 2000-2001 accounts the liability relating to them held by the NHS Litigation Authority.

6.15 With this transfer occurring on 1 April, the inclusion of the provisions, debtors and creditors at 31 March 2000 would no longer represent the true financial position for health authorities and NHS Trusts. Thus an adjusting post balance sheet event was effected in the summarised accounts for health authorities and NHS Trusts to reflect the transfer of functions to the NHS Litigation Authority. The individual underlying bodies will make a prior year adjustment in their 2000-2001 accounts to restate the opening balances, and to ensure consistency with the summarised accounts. The 1999-2000 summarised accounts for the NHS Litigation Authority have not been adjusted because the liabilities did not transfer until the new accounting period. It will account for the transfer during the 2000-2001 financial year.

Developments in improving the handling of claims for negligence and the quality of clinical care

6.16 In December 1999, the Public Accounts Committee reported on the NHS (England) Summarised Accounts 1997-98 (HC 128, 1999-2000). The Committee concluded that, where clinical negligence has occurred, the aim must be to ensure that the system for dealing with cases is cost-effective, quick, efficient, fair and humane. The Committee considered that the real issue was how to minimise the risks of negligence happening in the first place.

6.17 The report noted work in three key areas:

- wide consultation by the then Secretary of State about options for improving the system of handling claims for compensation;
- developments made by the NHS Litigation Authority; and
- a range of policy initiatives to improve standards of clinical governance.

6.18 The NHS has been developing initiatives to streamline the claims process. The NHS Litigation Authority was established in 1995 as one such initiative, to administer clinical negligence schemes. This centralisation has already aided the improvement in the administration of clinical negligence cases, and led to the significant increase in the number of claims closed in 1999-2000 compared to the previous year (paragraph 6.9). The Department expects the centralisation for the Existing Liabilities Scheme on 1 April 2000 to assist further improvement in managing clinical negligence cases.

6.19 Despite the good progress, the Department recognises the need and scope for further improvement. In my report on the Department's management of clinical negligence claims, I make a number of recommendations for further improvements. The main findings of my separate report are:

- **the number and value of claims continue to rise.** At 31 March 2000, there were 23,000 outstanding claims with a net present value of £2.6 billion;
- **on average, claims take a long time to settle.** The estimated average time taken to pay damages was five and a half years from the receipt of the claim;
- **nearly half the claims settled in 1999-2000 cost more in legal and other costs than the settlement itself;** and
- **there are indications that initiatives taken by the NHS and associated parties to improve the quality of solicitors advising on bringing and defending clinical negligence claims are having a positive impact.** The success rate for claims with legal aid backing rose, and the number of claims closed increased sharply between 1997-98 and 1999-2000.

6.20 The report identifies a number of areas where the bodies involved could build on the recent improvements:

- **dealing with outstanding claims:** an action plan should be drawn up with quantified targets and performance measures to address claims that have been open for more than five years;
- **patients' access to remedies:** alternative ways of satisfactorily resolving small and medium sized claims should be investigated by the parties involved; and
- **managing patients' claims:** quantified measures of performance should be developed for the solicitors they instruct or fund and incorporate these into selection procedures, contracts and monitoring arrangements.

6.21 The NHS Performance Assessment Framework, which came into effect from April 1999, sets out how the NHS aims to set, deliver and monitor national standards for clinical governance. This has been facilitated by the establishment of two key NHS organisations:

- the National Institute for Clinical Excellence was established on 1 April 1999 with the aim of helping professionals in the NHS give patients the best possible health care within the resources available, through setting and supporting national standards; and
- the Commission for Health Improvement started operating on 1 April 2000 to help the NHS guarantee, monitor and improve clinical care throughout England and Wales. At the local level, the Commission is responsible for providing independent scrutiny of clinical governance arrangements, in the form of clinical governance reviews.

Annex to Part 6

The following tables show how the costs for clinical negligence are distributed throughout the NHS.

Figure 1: Gross provisions reported by the NHS at 31 March 2000

Provisions	31 March 2000 £ million	Restated 31 March 1999 £ million
NHS Trusts	1,381	912
Health Authorities	1,443	1,340
Less back-to-back provisions for clinical negligence	(263)	(58)
	1,180	1,282
NHS Litigation Authority (Ex-RHA scheme)	79	65
National Blood Authority	5	6
Total Provisions	2,645	2,265

Back to back provisions have been excluded from clinical negligence provisions. Further details are provided in paragraph 3.20.

Source: Summarised Accounts for health authorities, NHS Trusts, the NHS Litigation Authority and the National Blood Authority.

Figure 2: Total contingent liabilities reported by the NHS at 31 March 2000

Contingent Liabilities	31 March 2000 £ million	Restated 31 March 1999 £ million
NHS Trusts (net of reimbursements)	252	283
Health Authorities (net of reimbursements)	123	166
NHS Litigation Authority	603	341
National Blood Authority	1	1
Total Contingent Liabilities	979	791

Source: Summarised Accounts for health authorities, NHS Trusts, the NHS Litigation Authority and the National Blood Authority.

Foreword

General

- 1 Section 98(2) of the National Health Service Act 1977 requires NHS organisations in England to prepare annual accounts and to transmit them to the Department of Health. The accounts must be audited by auditors appointed by the Audit Commission for Local Authorities and the National Health Service in England and Wales.
- 2 Section 98(4) of the Act also requires the Secretary of State to prepare summarised accounts from the individual accounts of the bodies, in such form as the Treasury may direct, and transmit them to the Comptroller and Auditor General. The Act requires him to examine, certify and report on those summarised accounts and permits him to examine the accounts of the individual bodies, any records relating to them and any report of the auditors on them.
- 3 The summarised accounts have been prepared from the accounts, for the year ended 31 March 2000 of:
 - the 99 Health Authorities
 - the 377 NHS Trusts in England
 - the funds held on trust by the Health Authorities, NHS Trusts, Special Health Authorities, and Special Trustees.

The accounts of the Health Authorities include Primary Care Groups which began operating from 1 April 1999.

- 4 In addition this Foreword covers the summarised accounts of the Dental Practice Board and the following Special Health Authorities, which are summarised individually:
 - the Ashworth Special Hospital Authority;
 - the Broadmoor Special Hospital Authority;
 - the Dental Vocational Training Authority;
 - the Family Health Services Appeal Authority;
 - the Health Education Authority;
 - the Microbiological Research Authority;
 - the Mental Health Act Commission;
 - the National Blood Authority;
 - the National Institute for Clinical Excellence;
 - the NHS Information Authority;
 - the NHS Litigation Authority;

- the NHS Supplies Authority;
 - the Prescription Pricing Authority;
 - the Rampton Special Hospital Authority; and
 - the United Kingdom Transplant Support Service Authority.
- 5 The audit of the annual accounts of all health organisations in England has been completed and these summarised accounts are therefore based on audited figures.
- 6 In my capacity as Accounting Officer, I have responsibility for Health Service expenditure covered by Class II, Vote 1 and Class II, Vote 2 (hospital, community health, family health and related services, England). Accordingly I have signed the summarised accounts listed above. The following sections provide background information on each of the accounts.

Health Authorities

- 7 The 99 Health Authorities are responsible for the commissioning of health care on behalf of their resident population. They receive their income almost entirely from the Department of Health. Primary Care Groups began operating from 1 April 1999. GP Fundholding was fully abolished on 1 October 1999 by the Health Act 1999, which received the Royal Assent in July 1999.
- 8 Health Authorities are required to keep their cash and bank balances at an absolute minimum level. They are expected to draw from the Department of Health on a day-to-day basis only as much cash as is required to meet cheques etc. presented to their bankers for payment. The accounts have been prepared on a full accruals basis.

Financial duties of Health Authorities

- 9 Health Authorities have a statutory duty, under Section 97A of the National Health Service Act 1977, to ensure that net expenditure does not exceed their cash limit(s). The cash limits for each Health Authority are set by the Secretary of State. The NHS Executive has set income and expenditure targets which aim to minimise the extent to which they spend more than their income. In 1999–2000 the key income and expenditure target was that all Health Authorities should break even on an accruals basis, except where there were deep-seated structural problems that could not be resolved in a single year, or account needed to be taken of the financial effect of provisions.

Overall financial performance of Health Authorities in 1999–2000

- 10 In 1999–2000 all Health Authorities achieved the statutory financial duty set. In 1999–2000 Health Authorities reported an income and expenditure deficit, on an accruals basis after adjusting for the post balance sheet transfer of Existing Liabilities Scheme liabilities to the NHS Litigation Authority, of £31 million. This compares with a deficit of £25 million in 1998–99.
- 11 The 1999–2000 financial position was influenced greatly by significant increases in the costs of generic drugs and clinical negligence provisions. The position was exacerbated by exceptional winter pressures.

12 At the end of 1999-2000, 28 Health Authorities (an increase of 10 on the 18 reported at the end of 1998-99) were assessed by the NHS Executive as having recurrent financial problems. These recurrent problems were due to a number of factors, similar to those reported in 1998-99 and included one or more of:

- over-performance on service agreements with providers, leading to additional recurrent expenditure;
- a range of in-year and recurrent cost pressures, but in particular drug costs; and
- problems which result from the historical pattern of health services in the area which can only be resolved by restructuring.

Action taken by NHS Executive in cases where Health Authorities face recurrent financial difficulties

13 Where analysis of a Health Authority's financial performance leads the NHS Executive to believe that there is an underlying recurrent financial difficulty, the Health Authority concerned is required to prepare a recovery plan. The appropriate NHS Executive Regional Office will agree the plan and monitor the results closely. This may involve monthly reporting to the Regional Office, regular meetings with senior managers and the Authority achieving specific milestones to ensure satisfactory progress is being made.

14 The Regional Offices will focus on the Health Authorities which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans are failing to deliver the desired results.

Better Payment Practice Code — Health Authorities

15 The percentage of bills paid in compliance with the Better Payment Practice Code in 1999-2000 is as follows:

Compliance Level	Number of Health Authorities	
	By Number of Bills	By Value of Bills
Between 95% and 100%	13	24
Between 85% and 94.9%	33	40
Between 75% and 84.9%	35	22
Between 65% and 74.9%	12	6
Less than 65%	6	7

	By Number of Bills	By Value of Bills
	% paid in compliance with the Better Payment Practice Code	% paid in compliance with the Better Payment Practice Code
Overall Performance 1999-2000	84	88

NHS performance in paying its bills promptly has improved over the last few years.

In 1999–2000 Health Authorities paid over 84% of their bills (in number) and 88% (in value) within 30 days. However, it is recognised that further improvement will be necessary to achieve the current target of 95% compliance. NHS Executive Regional Offices will continue to monitor the performance of individual Health Authorities and discuss with poor performing Health Authorities how their compliance with the policy can be improved.

NHS Trusts

- 16** NHS Trusts are responsible for the provision of health care. They receive most of their income from commissioners of health care (mainly Health Authorities and Primary Care Groups).
- 17** The summarised accounts have been prepared from the accounts of 377 NHS Trusts in England for the year ended 31 March 2000.

Financial Duties of NHS Trusts

- 18** NHS Trusts have three main financial duties, which are:
- (a) To ensure that revenue is not less than sufficient, taking one year with another, to meet outgoings properly chargeable to the revenue account. This is the prime financial duty for NHS Trusts.

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

This duty is assumed to have been met if a material cumulative deficit position (arising after 1 April 1997) on the income and expenditure account is recovered over a three year period (starting and including the year that the NHS Trust first goes into material cumulative deficit).

Exceptionally, and with the express agreement of the relevant NHS Executive Regional Office in the knowledge of the NHS Trust’s particular circumstances, the duty can be met if a material cumulative deficit position on the income and expenditure account is recovered over a five year period (starting and including the year that the NHS Trust first goes into material cumulative deficit).

In all cases NHS Trust plans, and hence the period over which break-even is to be achieved, must be agreed with the relevant NHS Executive Regional Office.

A deficit is regarded as material if it exceeds more than 0.5% of total annual income.

- (b) NHS Trusts are required to absorb the cost of capital at a rate of 6% of average relevant net assets.
- (c) To remain within the External Financing Limit (EFL) set for each NHS Trust by the NHS Executive.

Financial Monitoring of NHS Trusts by the NHS Executive

- 19 The eight Regional Offices of the NHS Executive are responsible for agreeing an annual business plan with each NHS Trust which indicates how it intends to meet its financial duties; and for monitoring the performance of NHS Trusts against their plans. Every quarter, NHS Trusts are required to provide returns to the relevant Regional Office in a standard format which includes expected outturn against their financial duties. The relevant Regional Office works with the NHS Trust to investigate the reasons, particularly whether an underlying financial difficulty exists.
- 20 The NHS Executive recognises that there are factors beyond the control of individual NHS Trusts which may affect the ease or difficulty in meeting their financial duties. These may include changes in accounting policies or the revaluation of fixed assets after prices have been set. When, after taking these factors into account, underlying financial difficulties remain, the NHS Trust is expected to agree with the Regional Office a recovery plan to bring it back into financial balance at the earliest opportunity.

Overall financial performance of NHS Trusts in 1999–2000

- 21 In 1999–2000 NHS Trusts reported an income and expenditure deficit, on an accruals basis, of £77m, compared to a £36m deficit in 1998–99.
- 22 76 NHS Trusts (an increase on the 53 reported at the end of 1998–99) out of the 377 were identified by Regional Offices as having significant financial difficulties at the end of 1999–2000. A Trust is assessed as having a significant financial difficulty if the underlying (which broadly means the recurrent) deficit being managed in any one year exceeds the lower of £1 million or 1% of total annual income.
- 23 As was generally the case for Health Authorities (see paragraph 11), the 1999–2000 financial position was influenced greatly by significant increases in the costs of generic drugs and exceptional winter pressures. NHS Trusts also had to manage the additional costs of implementing the European Union Working Time Directive.
- 24 The accounting arrangements operated by the NHS for clinical negligence provisions mean that these liabilities will be borne by the NHS Litigation Authority and Health Authorities rather than the NHS Trusts.
- 25 Whilst 150 NHS Trusts did report a deficit in 1999–2000, none breached their statutory financial duty to break-even “taking one financial year with another” (see paragraph 18a). However, at 31 March 2000 NHS Executive Regional Offices have agreed extended periods of recovery (see paragraph 18a) to 41 NHS Trusts.
- 26 The Table below summarises the performance of NHS Trusts against the two subsidiary financial duties (see paragraphs 18b and 18c).

Table: Financial performance of NHS Trusts in England 1999–2000

	Number	Percentage
Total NHS Trusts	377	100
NHS Trusts achieving targets:		
Capital Absorption Rate		
After adjusting for immaterial results	366	97
External Financing Limit		
Total meeting limit:	360	95
Total meeting after overshooting de minimus taken into account	369	98

Definition: Immaterial

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

External Financing Limit

Total meeting limit:

Total meeting after overshooting de minimus

taken into account

Definition: De Minimus Overshoot

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

Source: Analysis of audited NHS Trust Accounts Forms of individual NHS Trusts 1999–2000 by the NHS Executive.

- 27 Analysis of the 1999–2000 results show that the number of NHS Trusts meeting their financial targets in the Table above is broadly similar to 1998–99. This is despite the financial pressures noted throughout 1999–2000 by the NHS Executive in paragraphs 23 and 28, which made them more difficult to achieve.

Reasons for NHS Trusts failing financial duties

- 28 Reasons for NHS Trusts failing in their financial duties were similar to those reported in 1998–99 and included one or more of:
- shortfall of planned income due to optimistic planning assumptions, increased emergency admissions restricting the performance of full cost elective surgery, and difficulties in discharging elderly patients;
 - planned savings under cost improvement programmes not achieved owing to over-ambitious plans, unforeseen cost pressures or inadequate management action;
 - over performance on service agreements with purchasers not agreeing or not able to fund the extra activity undertaken;
 - cost pressures due to drug costs, combined therapies and/or utilisation of bank or agency staff;
 - financial problems in Health Authorities leading to NHS Trusts being unable to agree prices sufficient to cover their costs plus a six per cent capital absorption rate; and
 - recovery plans involving redundancies in the first year to produce recurrent savings in subsequent years.

Action taken by NHS Executive in cases where NHS Trusts face serious financial difficulties

- 29 Where analysis of an NHS Trust’s financial performance leads the NHS Executive to believe there is an underlying recurrent financial difficulty, the NHS Trust is required to prepare a recovery plan. The appropriate NHS Executive Regional Office will agree the plan and monitor the results closely. This may involve monthly reporting to the Regional Office, regular meetings with NHS Trust senior managers and the NHS Trust achieving specific milestones to ensure satisfactory progress is being made.
- 30 NHS Executive Regional Offices will focus on the NHS Trusts which are forecasting material problems and which either do not yet have plans to recover their positions or the agreed plans in place appear not to be producing the designed results.

Better Payment Practice Code — NHS Trusts

- 31 The percentage of bills paid in compliance with the Better Payment Practice Code in 1999–2000 is as follows:

Compliance Level	Number of Trusts	
	By Number of Bills	By Value of Bills
Between 95% and 100%	72	81
Between 85% and 94.9%	172	175
Between 75% and 84.9%	70	65
Between 65% and 74.9%	33	35
Between 55% and 64.9%	20	13
Between 45% and 54.9%	4	4
Between 35% and 44.9%	4	2
Less than 35%	2	2

	By Number of Bills	By Value of Bills
	% paid in compliance with the Better Payment Practice Code	% paid in compliance with the Better Payment Practice Code
Overall Performance 1999–2000	83	84

- 32 NHS performance in paying its bills promptly has improved over the last few years.
- 33 NHS Executive Regional Offices monitor the Better Payment Practice Code performance of individual NHS Trusts and work with poor performing NHS Trusts to improve compliance with the policy.
- 34 Over the last 12 months the focus has been on a small number of NHS Trusts that continued to demonstrate unacceptably poor Better Payment Practice Code compliance (six NHS Trusts reported in their 1999–2000 Annual Accounts a Better Payment Practice Code performance of less than 50%). As a consequence, the range between the best performing NHS Trusts and the worst performing is continuing to narrow.

- 35 NHS Executive Regional Offices will continue to work with all NHS bodies to achieve and maintain a level of payment performance consistent with Government Accounting Regulations and the Better Payment Practice Code.
- The funds held on trust by the Health Authorities, NHS Trusts, Special Health Authorities, and Special Trustees**
- 36 Health Authorities have power under section 90 of the National Health Service Act 1977 to accept, hold and administer any property on trust for all or any purposes relating to the health service. Section 11 of the National Health Service and Community Care Act 1990 extends this power to NHS Trusts. Under section 91 of the National Health Service Act 1977 any sum so paid to the appropriate hospital authority shall, so far as is practicable, be applied by them for the purpose specified in the trust instrument.
- 37 Some Health Authorities no longer hold funds on trust, following transfer of their funds to NHS Trusts. Also not all NHS Trusts hold funds on trust, because, for instance, Special Trustees hold funds for the relevant hospitals.
- 38 Funds held on Trust received £339,907,000 income, of which £329,244,000 was spent. The majority of the expenditure was on research, patients' welfare, staff welfare and contributions to the NHS. At 31 March 2000 the funds balances carried forward were £1,895,179,000.
- Ashworth Special Hospital Authority**
- 39 This Special Health Authority was established on 1 April 1996, under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. The main objective of the Authority is to provide excellence in the assessment, treatment, and rehabilitation of those legally detained patients experiencing mental health problems who require conditions of maximum security. The total number of in-patients at the end of the financial year was 417, 368 male and 49 female. The Authority recorded a £2,450,000 deficit on an income of £51,435,000.
- Broadmoor Special Hospital Authority**
- 40 Broadmoor Special Hospital Authority was established on 1 April 1996, as a Special Health Authority under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. It is proposed to merge the Authority with Ealing, Hammersmith and Fulham Mental Health NHS Trust by 1 April 2001. The Authority provides clinical care for mentally disordered patients in conditions of maximum security recognising the need to protect the safety of the public. The Authority had 403 patients, 75 female and 328 male at the end of the financial year. The Authority recorded a £7,000 surplus on an income of £48,288,000.
- Dental Practice Board**
- 41 This body was established as the Dental Estimates Board on 5 July 1948 under section 40 of the National Health Service Act 1946 which was later consolidated in section 37 of the National Health Service Act 1977. The Board's principal functions relate to the provision of general dental services including making payments to dentists, giving prior approval for certain treatments and relevant surveys and research. The expenses of the Board relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Class II Vote 1. A proportion of these expenses was met by the National Assembly for Wales.

42 During this year the number of payment application documents processed to completion was 44,500,000 (1998-99: 42,100,000) at an average unit cost of 51.8 pence (1998-99: 55.9 pence). 99.1 percent of payments were made on the first schedule with 99.9 percent of payments being correct. The Authority broke even on an income of £23,102,000.

Dental Vocational Training Authority

43 The Dental Vocational Training Authority was established on 1 October 1993 as a Special Health Authority under section 11 of the National Health Service Act 1977. The main aim of the Authority is to adjudicate applications for vocational training numbers for dentists who wish to join a Health Authority dental list, and to maintain a register of the vocational training numbers allocated to dentists who have satisfied the Authority. The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Class II Vote 1.

Family Health Services Appeal Authority

44 The Family Health Services Appeal Authority was established on 1 April 1995 as a Special Health Authority under section 11 of the National Health Service Act 1977. The main function of the Authority is to perform on behalf of the Secretary of State certain of his appellate and other functions, in connection with decisions and functions of Health Authorities, which were previously exercised on his behalf by the Northern and Yorkshire Regional Health Authority. The expenses of the Authority relate to the cost of administration; they were defrayed by the Secretary of State for Health out of monies charged to Class II Vote 1.

45 The Authority experienced a reduction in the number of appeals received from 684 to 561, a fall of 18 percent. This enabled the Authority to reduce its number of staff and level of accommodation. For cases determined the Authority achieved 98 percent target for time taken to completion. The Authority recorded a £67,000 surplus on an income of £1,038,000.

The Health Education Authority

46 The Health Education Authority (HEA) was established on 1 April 1987 to replace the former Health Education Council under Statutory Instrument 1987 No. 6. The HEA was established as a Special Health Authority under section 11 of the National Health Service Act 1977 with a statutory remit to:

- advise the Secretary of State on health education matters;
- undertake health education activity and for this purpose to carry out national, regional and local programmes and other activities in co-operation with health authorities, local authorities and local education authorities, voluntary organisations and other persons or bodies concerned with health education;
- sponsor research and evaluation in relation to health education;
- assist in the provision of appropriate training in health education;
- prepare, publish and distribute material relevant to health education;
- provide a national centre of information and advice on health education; and
- exercise certain of the Secretary of State's functions under sections 23(1), 23(2) and 23(3) of the National Health Service Act 1977.

- 47 On 6 July 1999 the Secretary of State for Health published the White Paper "Saving Lives, Our Healthier Nation", setting out the Government's health strategy for England. As part of that strategy he announced the establishment of a new body, the Health Development Agency (HDA), using the resources of the HEA to form the core resources of the new Agency.
- 48 The HDA was established in January 2000 by Statutory Instrument 1999 No. 3431. The Health Education Authority was abolished on 1 April 2000 by Statutory Instrument 2000 No. 604. The property, rights and liabilities of the Authority were transferred to the HDA, to Lambeth, Southwark and Lewisham Health Authority and to the Department of Health on that date. 32% of the Authority's staff were taken on by the HDA, 9% were transferred to Lambeth, Southwark and Lewisham Health Authority and 58% opted for voluntary redundancy. Only 1% of staff were made redundant on a compulsory basis.
- 49 The expenses of the Authority were defrayed by the Secretary of State for Health out of monies provided by Parliament and were accounted for through Class II, Vote 2.

**The
Microbiological
Research Authority**

- 50 The Microbiological Research Authority was established as a Special Health Authority on 1 April 1994 under section 11 of the NHS Act 1977 to manage the Centre for Applied Microbiology and Research (CAMR) which previously formed part of the Public Health Laboratory Service. It is required to contribute to the health of the UK population by conducting research on specified microbiological hazards with a view to the development and production of effective diagnostic, prophylactic and therapeutic products.
- 51 The Authority's funding is mainly derived through income from contracts for research, production and other services with separate funding for particular research and other purposes being defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II, Vote 2.
- 52 Revenue income generated by the Authority was £18.6 million which included £4.2 million vote funding from the Department of Health for key research projects. The operating deficit of £778,000 was in line with budgeted projections and cash limits agreed with the Department of Health were adhered to during the year.
- 53 The Authority's five-year Corporate Plan, which has been agreed with the Department of Health, outlines the Authority's projected trading activity. Key projections in the plan show that, providing that the Authority is able to achieve the predicted growth in commercial income and Department of Health research programmes, it will be trading on a commercially viable basis by the end of 2000-01.

**Mental Health Act
Commission**

- 54 This body was constituted as a Special Health Authority on 1 September 1983 under section 11 of the National Health Service Act 1977 to set standards and monitor the treatment of patients detained under the Mental Health Act 1983. The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II Vote 1. A proportion of the expenses of the Authority was met by the National Assembly for Wales.

National Blood Authority	55	On 1 April 1993 the National Blood Authority was formed to replace the Central Blood Laboratories Authority and was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977. On 1 April 1994 the National Blood Authority took over responsibility for the 13 Regional Transfusion Centres from Regional Health Authorities. The Authority now provides a national blood service from the collection of blood through to the testing and processing of blood products, manufacture of plasma products and the resultant distribution to hospitals. Over 95 percent of the revenue expenses of the Authority are defrayed by sales income generated, while the remainder of revenue expenses and all capital funds are defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II, Vote 1.
	56	The Authority increased the units of products supplied to hospitals by two percent from 2,877,696 units to 2,928,443. The Authority recorded a £7,217,000 surplus on an income of £305,173,000.
National Institute for Clinical Excellence	57	<p>The National Institute for Clinical Excellence was established on 26 February 1999 as a Special Health Authority, to become operational on 1 April 1999, under section 11 of the National Health Service Act 1977 to produce:</p> <ul style="list-style-type: none"> ● guidelines for the management of clinical conditions; ● advice on when to refer to specialist care; ● guidance on the use of medicines, medical equipment and clinical procedures; and ● information about and education in national audit, together with national audits. <p>The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II, Vote 1.</p>
	58	The Institute's objectives in its first year of operation reflect that it divided its effort between an initial work programme and the task of building capacity. They also take account of the importance of creating partnerships with all stakeholders and effectively communicating information about both the Institute and the products of its work. The Authority recorded a net operating cost of £9,557,000.
NHS Information Authority	59	<p>The NHS Information Authority was established on 9 March 1999 as a Special Health Authority, to become operational on 1 April 1999, under section 11 of the National Health Service Act 1977 to develop and produce:</p> <ul style="list-style-type: none"> ● access to information; ● information for personal health; ● information for population health and service management; ● knowledge management; ● information for organisation and business; and

- ways of working with information.

The expenses of the Authority relate solely to the cost of administration; they were defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II Vote 1.

60 Some of the achievements in the above areas were, respectively:

- put nhs.uk on-line;
- connected 4,500 GP practices to NHSnet;
- issued the 2000–2001 version of the Data Dictionary;
- developed a cancer information strategy in collaboration with clinicians, patients/ carers, cancer service providers and the National Cancer Director;
- successfully managed the Year 2000 date change; and
- developed a new professional qualification in IM&T (Health).

The Authority recorded a net operating cost of £45,985,000 after exceptional costs incurred for management restructuring and provision for geographic relocation.

NHS Litigation Authority

61 The NHS Litigation Authority is a Special Health Authority set up on 20 November 1995 under section 11 of the National Health Service Act 1977. Its principal task is to administer schemes set up under section 21 of the National Health Service and Community Care Act 1990 to help NHS organisations pool the costs of any loss or damage to property and liabilities to third parties for loss, damage or injury arising out of the carrying out of their functions. The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his 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 NHS Litigation Authority in respect of their schemes.

62 During the year the Authority has administered three main clinical negligence schemes – the ex-Regional Health Authorities Scheme, the Clinical Negligence Scheme for Trusts and the Existing Liabilities Scheme, and two new Risk Pools. The two new Schemes, effectively replacing commercial insurance for most Trusts, proved extremely successful with 95% of Trusts belonging to the Property Expenses Scheme and 96% of Trusts to the Liability to Third Parties Scheme. Contributions to the new schemes represent a significant premium holiday compared to the former commercial insurance premiums for the majority of members.

63 The Schemes were either funded by the Department of Health from monies charged to Class II Vote 1, or, in the cases of the Clinical Negligence Scheme for Trusts, Property Expenses Scheme and Liability to Third Parties Scheme, funded by contributions from member Trusts.

NHS Supplies Authority

64 The National Health Service Supplies Authority was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977 on 1 October 1991 to assume strategic responsibility for NHS supplies and procurement at a

national level. The Authority assumed full responsibility for NHS supplies and procurement on 1 April 1992 and from that date the main source of funding is from the sales of goods and services to other NHS organisations. In 1999–2000, following a Cabinet Office review of NHS procurement, a restructuring of the NHS Supplies Authority was implemented. The main changes are that on site customer services staff were transferred to NHS trusts, and a new NHS Purchasing and Supply organisation was set up as an Executive Agency of the Department of Health on 1 April 2000. The Wholesaling Division continued as the NHS Logistics Authority.

- 65 During its final year of operation the Authority achieved purchasing savings of £133.3 million, exceeding its target by £26 million. This brings the total savings achieved by NHS Supplies since its inception to just under £700 million. During the year, an operating surplus of £1,240,000 was generated, after fully providing for redundancy and re-organisation costs arising from the Cabinet Office review. This surplus will be reinvested in the NHS.
- 66 This body was established as a Special Health Authority on 1 April 1974 under sections 5(6) and 6(3) of the National Health Service Act 1973, which was later consolidated in section 11 of the National Health Service Act 1977. The main function of the Authority is the pricing, on behalf of Health Authorities, of prescriptions for drugs, medicines and appliances. In 1993–94 the Prescription Pricing Authority took on the additional responsibility for the administration of the NHS Low Income Scheme by the Health Benefits Division. The expenses of the Authority were mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II Vote 1.
- 67 In April 1996 the Authority set up a Fraud Investigation Unit. During 1999–2000 the work of this unit, and its staff, were transferred to the Department of Health, Directorate of Counter Fraud Services. The directorate focuses on checking patient entitlement to exemption from prescription charges.
- 68 For 1997–98 and 1998–99 the Authority was responsible for the accounting arrangements for contractor payments. From 1 April 1999 this responsibility has passed to Health Authorities.
- 69 In 1999–2000 the number of generic medicines which became eligible to be reimbursed under the category D rules increased from the normal historic level of below 1% in a given month to a high of 17%. This resulted in an increase in the cost of generic medicines and a reduction in productivity which in turn led to PPA prescribing information falling behind schedule by three months. This backlog should significantly reduce during 2000–01 and should be eliminated entirely by September 2001.
- 70 Key performance targets in respect of contractor payments and drug tariff were fully met, however, due to delays caused by category D certain information targets were not met. The Authority Administration Accounts recorded a surplus of £186,000 on an income of £52,939,000.

**Prescription
Pricing Authority**

**Rampton Special
Hospital Authority**

- 71 This Special Health Authority was established on 1 April 1996, under section 11 of the National Health Service Act 1977, as one of three which replaced the Special Hospitals Service Authority which was abolished on 31 March 1996. It is

proposed to merge the Authority with existing local NHS trusts to create the Nottingham Healthcare Trust by 1 April 2001. The Authority serves a national population, currently having patients from 87 Health Authorities and Commissioners in England and Wales. It provides a full range of hospital based services for mentally disordered patients who require treatment and care in conditions of high security. The total number of patients at the end of the year was 446 of whom 380 were male and 66 female. The Authority recorded a surplus of £4,000 on an income of £49,879,000.

**United Kingdom
Transplant Support
Service Authority**

72 This body was established on 1 April 1991 as a Special Health Authority, under section 11 of the National Health Service Act 1977, to co-ordinate, support and advise on organ transplantation and related matters at national level. The expenditure of the Authority is mainly defrayed by the Secretary of State for Health out of monies provided by Parliament and charged to Class II, Vote 1.

73 Despite an increase in registrations on the NHS Organ Donor Register of over two million, patients awaiting a transplant increased from 6,539 to 6,716, an increase of three percent, while donor numbers fell by four percent to 815. The Authority recorded a deficit of £851,000 on an income of £5,514,000.

**Future
Developments**

74 Seventeen Primary Care Trusts (PCTs) began operating from 1 April 2000 and a further twenty three from 1 October 2000, as statutorily independent bodies, and an additional summarised account will be presented for them in the 2000–01 accounts. They are responsible for primary care development and for the commissioning of health care services for their local populations. Some PCTs will also themselves provide non-primary care services to their own or neighbouring populations.

75 Two new Special Health Authorities became operational on 1 April 2000, the National Clinical Assessment Authority and the NHS Appointments Commission. Summarised accounts will be presented for them from 2000–01 onwards.

Nigel Crisp
Accounting Officer

2 July 2001

Summarised Account of the Health Authorities

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

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 19 to 40 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 23 to 27.

Respective responsibilities of Accounting Officer and Auditor

As described on page 17, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the health authorities and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the health authorities, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the health authorities at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing operations

	Notes	Total £000	Re-stated 1998-99 £000
Income			
Department of Health revenue funding		38,380,473	35,424,784
Other income	2.2	<u>528,870</u>	<u>237,039</u>
		<u>38,909,343</u>	<u>35,661,823</u>
Expenditure			
Health care and related services commissioned	3	36,799,035	33,980,197
Authority administration and programme expenditure	4	<u>2,162,257</u>	<u>1,705,716</u>
		<u>38,961,292</u>	<u>35,685,913</u>
		(51,949)	(24,090)
Operating (deficit)			
Net revenue operating (deficit) of hosted services	5	-	(571)
Transfer of outstanding balances for ELS to the NHS Litigation Authority	25	<u>21,101</u>	<u>-</u>
(Deficit) for the financial year		<u>(30,848)</u>	<u>(24,661)</u>

The notes at pages 23 to 40 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	Notes	£000	Re-stated 1998-99 £000
(Deficit) for the financial year		(30,848)	(24,661)
Unrealised surplus on the revaluation of fixed assets	16	163,777	34,811
Transfer of residual estate to NHS bodies	14, 15	(84,229)	(339,044)
Fixed asset impairment losses	16	(49,723)	-
Total recognised losses relating to the year		(1,023)	(328,894)
Prior year adjustment	1.10	(212,731)	
Total recognised losses since the last annual report		(213,754)	

The notes at pages 23 to 40 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	Re-stated 1998-99 £000
Fixed assets			
Intangible assets	7	1,030	590
Tangible assets	7	657,696	742,829
		<u>658,726</u>	<u>743,419</u>
Current assets			
Debtors: amounts falling due beyond one year		447,269	–
Debtors: amounts falling due within one year	8	2,186,054	3,710,046
Cash at bank and in hand	19	82,078	46,059
		<u>2,715,401</u>	<u>3,756,105</u>
Current liabilities			
Creditors: amounts falling due within one year	9	(2,690,959)	(3,018,083)
Bank overdraft	19	(2,016)	(154)
		<u>(2,692,975)</u>	<u>(3,018,237)</u>
Net current assets		<u>22,426</u>	<u>737,868</u>
Total assets less current liabilities		681,152	1,481,287
Creditors: amounts falling due after more than one year	10	(493,058)	(44,768)
Provisions for liabilities and charges	11	(471,454)	(1,604,528)
Total net (liabilities)		<u>(283,360)</u>	<u>(168,009)</u>
Financed by:			
Capital and reserves			
Capital account	14	460,184	697,457
Donated assets reserve	15	1,959	2,182
Revaluation reserve	16	196,416	43,423
Income and Expenditure reserve	17	(941,919)	(911,071)
		<u>(283,360)</u>	<u>(168,009)</u>

The notes at pages 23 to 40 form part of this account.

Nigel Crisp
Accounting Officer

2 July 2001

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Net cash inflow/(outflow) from operating activities	18	33,827	(10,407)
Capital expenditure			
Payments to acquire tangible fixed assets		(19,319)	(8,592)
Receipts from the sale of tangible fixed assets		8,119	48,029
Net cash outflow/(inflow) from capital expenditure		<u>(11,200)</u>	<u>39,437</u>
Net cash flow before financing		<u>22,627</u>	<u>29,030</u>
Financing			
Capital funding		19,658	11,587
Surrender of receipts from sale of fixed assets		(8,119)	(48,029)
Donations		-	96
Capital element of finance lease rental payment		(9)	(125)
Net cash inflow/(outflow) from financing		<u>11,530</u>	<u>(36,471)</u>
Increase/(decrease) in cash	19	<u>34,157</u>	<u>(7,441)</u>

The notes at pages 23 to 40 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

FRS 11 was published in July 1998 and the amendments to FRS 5 and 12 in September 1998. Treasury agreed to defer the application of these standards to the NHS until 1999-2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of these Financial Reporting Standards. These standards have been implemented within the NHS for the accounting year 1999-2000.

1.2 Income allocations

The main source of funding for the health authorities is cash advances and allocations within an approved cash limit from the Department of Health's Class II, Vote 1 Appropriation Account.

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1999-2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more; and
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a historic cost, individually or as a group, equal to or greater than £5,000.

Accounting Policies (continued) (ii) Valuation

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount. Tangible fixed assets are valued at current cost as follows:

- land, buildings, installations and fittings. Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five-yearly intervals. A five-yearly revaluation as at 1 April 2000 has been carried out and is reflected in 31 March 2000 balance sheet values.

Between valuations price indices appropriate to the category of asset are applied to arrive at the current value.

The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the NHS Executive and HM Treasury. In accordance with the requirements of the NHS Executive, the asset valuations were undertaken in 1999 as at the prospective valuation date of 1 April 2000.

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

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

Specialised operational assets have been valued on a replacement rather than modern substitute basis;

the valuation figures reflect physical obsolescence and generally have not been reduced to reflect either functional obsolescence or obsolescence arising through environmental and market changes. The exception is where a building assessed using the Depreciated Replacement Cost approach is planned for replacement or disposal and where the application of the limited functional suitability provisions have been requested. In such cases the valuation figure has been reduced to reflect the limited life of the asset;

no adjustment has been made to the cost figures of operational assets in respect of dilapidations;

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

- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount;
- assets in the course of construction are valued at current cost, including indexation.

Accounting Policies (continued) (iii) Depreciation

Depreciation is charged on each main class of fixed asset as follows:

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated on a straight line basis on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- equipment is depreciated on a straight line basis over the estimated life of the asset:

	Years
Moveable engineering plant and equipment and long life medical equipment	15
Furniture and medium life medical equipment	10
Mainframe information technology installations	8
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	5

- intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible fixed assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

(iv) Disposal of Fixed Assets

Income from the sale of fixed assets was either returned to the Department of Health or retained and included within Department of Health revenue funding. As a result, no charge was incurred on the disposal of these assets. The notional loss on the total disposal of assets was £7,289,000 (1998-99: £5,407,000).

(v) Donated Assets

Donated assets are capitalised at their valuation on a full replacement cost basis on receipt and are revalued and depreciated as above for other fixed assets. The value of donated tangible fixed assets and the donated element of part-donated assets is reflected in a donation reserve which is credited with the value of the original donation and any subsequent revaluation. An amount equal to the depreciation charge on those assets is released from the reserve each year to the income and expenditure account.

(vi) Leases

Assets held under finance leases are capitalised at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is subject to indexation and revaluation and is depreciated on its current fair value over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of interest on the outstanding balance. Rentals under operating leases are charged on a straight line basis.

**Accounting Policies
(continued)****1.4 Losses and Special Payments**

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

1.5 Clinical Negligence Costs

All HAs are eligible for assistance from the Existing Liabilities Scheme, administered by the NHS Litigation Authority, towards the costs of clinical negligence incidents which occurred prior to 1 April 1995. Expected reimbursements from the Existing Liabilities Scheme is included in debtors.

Financial Reporting Standard 12 was adopted by the NHS from 1999–2000. Under this standard, clinical negligence obligations are viewed as a class of obligations. All claims are therefore provided for, whether or not the probability of settlement of an individual claim is over fifty per cent. The provision for each claim is the discounted expected value of its settlement, plus legal costs. The rate of discount is six per cent per year and the unwinding of the discount is treated as an interest charge. Where reliable estimates can be made, incidents of clinical negligence against which a claim has not, as yet, been received are provided for in the same way.

The difference between clinical negligence provisions and possible extra liabilities are disclosed as contingent liabilities.

1.6 Pensions Contributions

The authorities' employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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, prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at

Accounting Policies
(continued)

the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Auditors' Remuneration

Audit fees disclosed in Note 4 are for the audit of the accounts of the individual health authorities. Auditors' remuneration for other work is disclosed in Notes 4 and 5.

1.8 GP Fundholding

Health authority expenditure undertaken by GP Fundholders is disclosed in Note 3 of the accounts. Accumulated GP Fundholder savings are disclosed as a creditor in Note 9. The income and expenditure account at Note 20 represents the aggregate of the transactions of GP Fundholders reported in their accounts. The residual GP Fundholders scheme ceased to exist after 30 September 1999.

1.9 Stocks

Health authorities do not hold stock.

1.10 Prior year adjustment

In 1999 the NHS Executive issued guidance on the ultimate liability of NHS Trusts' provisions, Health Service Circular 1999/146. Under this guidance each health authority is required to make a full and matching provision for its share of the provisions in each relevant NHS Trust. Consequently the 1998-99 clinical negligence charged to expenditure increased by £43,011,000 from £79,041,000 to £122,052,000. Clinical negligence charged to earlier years increased by £169,720,000. The overall effect was to increase charges to the income and expenditure reserve as at the end of 1998-99 by £212,731,000 from £(698,340,000) to £(911,071,000).

In addition the expected recovery of clinical negligence provisions from the NHS Litigation Authority is now included in debtors and not, as in 1998-99, treated as a reduction in provisions. This change has increased the 1998-99 debtors by £1,050,433,000 from £2,659,613,000 to £3,710,046,000.

The effect of the above two changes is to increase the 1998-99 provisions by £212,731,000 and £1,050,433,000 from £341,364,000 to £1,604,528,000.

Reconciliation of
Cashflow
Statement to
Parliamentary
Funding**2.1**

	£000	1998-99 £000
Net cash inflow/(outflow) from operating activities	33,827	(10,407)
Expenditure	38,961,292	35,642,902
Adjusting post balance sheet event	(21,101)	-
Miscellaneous Income	(452,188)	(266,544)
Capital charges	(125,736)	(83,119)
Movement in working capital	(64,675)	29,014
Other	(221,678)	(23,418)
Total Parliamentary funding	38,109,741	35,288,428

		1998–99	
Other income	2.2	£000	£000
	External fees and charges	413,939	99,077
	Other miscellaneous income	114,931	137,962
		<u>528,870</u>	<u>237,039</u>
<hr/>			
Healthcare and related services commissioned	3	£000	£000
<i>Commission of healthcare by GP Fundholders:</i>			
	Hospital commissions	–	3,037,509
	Drugs	202	2,349,512
	Other expenses	1,580	491,505
	GP Fundholder savings for the year	(15,283)	45,735
		<u>(13,501)</u>	<u>5,924,261</u>
<i>Primary healthcare commissioned by health authorities:</i>			
	General medical services (cash limited)	167,224	527,919
	General medical services (non cash limited)	2,458,451	2,240,227
	Pharmaceutical services	914,899	2,555,645
	General dental services	1,060,255	1,025,263
	General ophthalmic services	285,961	242,238
	Department of Health initiative funding	60,303	40,228
		<u>4,947,093</u>	<u>6,631,520</u>
<i>Commission of healthcare by primary care act pilots:</i>			
	Personal medical services	99,857	75,960
	Personal dental services	12,393	4,081
		<u>112,250</u>	<u>80,041</u>
<i>Secondary healthcare commissioned by health authorities:</i>			
	Learning difficulties	952,241	1,322,135
	Mental illness	1,570,283	2,925,934
	Maternity	298,509	1,096,158
	General and acute	4,989,694	12,118,830
	Accident and emergency	412,091	780,245
	Community Health Services	757,165	2,347,124
	Other	717,092	753,949
		<u>9,697,075</u>	<u>21,344,375</u>
	Total healthcare commissioned by Primary Care Groups (Note 6.1)	22,056,118	–
	Total healthcare commissioned by health authorities	<u>14,756,418</u>	<u>28,055,936</u>
	Total healthcare commissioned	<u>36,799,035</u>	<u>33,980,197</u>

Administration and
other services

4

Re-stated
1998-99

£000 £000

The expenses of the authorities were:

Non-executive members' remuneration	4,430	4,304
Other salaries and wages	422,668	411,568
Premises and fixed plant	87,082	85,791
Establishment costs	59,830	53,964
Recharges from NHS Trusts	86,187	60,751
Non medical education and training	707,559	525,545
Clinical negligence	145,256	122,052
Agency services	34,071	25,891
Transport and moveable plant	3,415	3,322
Capital: depreciation	23,225	27,858
impairments	60,282	-
capital charge interest	42,229	55,261
Auditors' remuneration:		
Audit fee	7,822	8,709
Other fees	3,084	2,788
Interest payable	6,826	-
Primary care group preparatory costs	-	20,257
Primary care group non healthcare costs	153,847	-
Supplies and Services:		
clinical	15,258	11,356
general	3,507	2,496
Miscellaneous	295,679	283,803
	<u>2,162,257</u>	<u>1,705,716</u>

Hire and operating rentals included in expenses:

Hire of plant and machinery	1,591	1,520
Other operating leases	13,618	13,109
	<u>15,209</u>	<u>14,629</u>

	£000	Re-stated 1998-99 £000
<i>Expenses of the authorities include the following in respect of clinical negligence:</i>		
Settlements not previously accrued	23,036	16,422
(Over) provision in respect of previous accruals	(64,723)	(36,479)
In year provision for future settlements:		
Gross provision	721,457	538,868
Less expected from Existing Liabilities Scheme	(534,514)	(396,759)
	<u>145,256</u>	<u>122,052</u>
 <i>Authority members' remuneration:</i>		
Non-executive members' remuneration	4,430	4,304
 <i>Executive members' remuneration:</i>		
Basic salaries	32,821	30,779
Benefits	1,040	1,028
Performance related bonuses	879	1,919
Pension contributions	1,369	1,578
Compensation for loss of office	915	117
Pensions to former directors	796	792
	<u>42,250</u>	<u>40,517</u>
 <i>Executive members and staff costs (including hosted services):</i>		
Salaries and wages	450,174	369,539
Social security costs	34,472	28,827
Other pension costs	18,210	14,728
Agency staff	16,138	11,152
	<u>518,994</u>	<u>424,246</u>

The average number of employees (excluding agency staff) during the year was 21,557 (1998-99: 18,396).

Operating (deficit) of hosted services	5		1998-99
		£000	£000
		Income	28,268
			1,161
		<i>Operating expenses</i>	
		Salaries and wages	12,677
		Premises and fixed plant	3,183
		Establishment expenses	3,281
		Recharges from other NHS bodies	409
		Agency services	2,644
		Depreciation	125
		Capital charges interest	94
		Other auditors' remuneration	9
		Supplies and Services	81
		Miscellaneous	6,336
			<u>28,839</u>
			<u>1,161</u>
		Net (deficit)	(571)

Hosted services are services which are included in the accounts of a health authority but are independent of the health authority, being directly funded by the Department of Health. The only such service in 1999-2000 was the Counter Fraud Operational Services. Such services do not include expenditure incurred as a lead NHS body for other health authorities and trusts.

Expenditure of Primary Care Groups for year ended 31 March 2000	6.1		Advisory	Delegated	Total
			£000	£000	£000
		Commission of Primary Healthcare			
		GMS-infrastructure costs	40,657	725,882	766,539
		Local development schemes	166	6,430	6,596
		Prescribing costs	186,303	4,674,596	4,860,899
			<u>227,126</u>	<u>5,406,908</u>	<u>5,634,034</u>
		Commission of Secondary Healthcare			
		Learning difficulties	78,375	305,791	384,166
		Mental illness	290,670	1,272,029	1,562,699
		Maternity	66,006	716,005	782,011
		General and Acute	781,413	8,026,717	8,808,130
		Accident and Emergency	48,338	372,789	421,127
		Community Health Services	139,601	1,772,414	1,912,015
		Other contractual	53,875	278,547	332,422
			<u>1,458,278</u>	<u>12,744,292</u>	<u>14,202,570</u>

		£000	£000	£000
	Health authority commissions on behalf of Primary Care Groups	-	2,219,514	2,219,514
	Total healthcare commissioned	1,685,404	20,370,714	22,056,118
	Non healthcare costs			
	Staff costs	4,349	91,549	95,898
	Other costs	2,673	55,276	57,949
		7,022	146,825	153,847
	Total Expenditure	1,692,426	20,517,539	22,209,965
Analysis of health authorities' commissions on behalf of Primary Care Groups	6.2			
	Learning difficulties			75,514
	Mental illness			214,739
	Maternity			75,957
	General and Acute			1,310,969
	Accident and Emergency			112,703
	Community Health Services			350,838
	Other contractual			78,794
				2,219,514
Fixed assets			£000	
Intangible assets	7.1			
	Gross book value at 31 March 1999		799	
	Additions-purchased		722	
	Transfers		(21)	
	Disposals		(36)	
	Gross book value at 31 March 2000		1,464	
	Accumulated depreciation at 31 March 1999		209	
	Provided during the year:		246	
	Additions purchased		2	
	Transfers		-	
	Disposals		(23)	
	Accumulated depreciation at 31 March 2000		434	
	Net book value:			
	At 31 March 1999		590	
	At 31 March 2000		1,030	

Tangible assets	7.2	Land £000	Buildings, installations and fittings £000	Assets under Construction £000
	Net book value at 31 March 1999	311,286	409,172	3,328
	Additions-purchased	150	3,774	6,925
	Impairments	(33,317)	(76,981)	-
	Transfers	(54,355)	(24,020)	(2,560)
	Indexation	22,701	30,631	88
	Other revaluation	90,485	19,044	-
	Depreciation provided during the year:	-	(16,130)	-
	Disposals	(28,682)	(19,292)	(1,281)
	Net book value at 31 March 2000	<u>308,268</u>	<u>326,198</u>	<u>6,500</u>
The net book value of land and buildings at 31 March 2000 comprised:				
		£000		
	Freehold	613,019		
	Long leasehold	18,716		
	Short leasehold	2,731		
		<u>634,466</u>		
				£000
	Equipment			
	Gross book value at 31 March 1999			68,064
	Additions-purchased			4,249
	Impairments			(265)
	Transfers			(629)
	Indexation			1,470
	Disposals			(6,185)
	Gross book value at 31 March 2000			<u>66,704</u>
	Accumulated depreciation at 31 March 1999			49,021
	Provided during the year:			6,144
	Additions-purchased			22
	Impairments			(205)
	Transfers			(306)
	Indexation			845
	Disposals			(5,547)
	Accumulated depreciation at 31 March 2000			<u>49,974</u>
	Net book value:			
	At 31 March 1999			<u>19,043</u>
	At 31 March 2000			<u>16,730</u>

	Purchased	Donated	Net book value at 31 March 2000	Net book value at 31 March 1999
	£000	£000	£000	£000
Total fixed assets				
Intangible assets	1,030	-	1,030	590
Land	307,788	480	308,268	311,286
Buildings, installations and fittings	324,823	1,375	326,198	409,172
Equipment	16,626	104	16,730	19,043
Assets under construction	6,500	-	6,500	3,328
	<u>656,767</u>	<u>1,959</u>	<u>658,726</u>	<u>743,419</u>

Included in the amounts above are the following net book values relating to leased assets and assets acquired under hire purchase agreements:

	1998-99	
	£000	£000
Buildings, installations and fittings	3,123	1,360
Equipment	30	53
	<u>3,153</u>	<u>1,413</u>

The total amount of depreciation charged to the income and expenditure account in respect of assets held under finance leases and hire purchase contracts was £13,000 (1998-99: £63,000).

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

	Re-stated 1998-99	
	£000	£000
Department of Health, health authorities and NHS Trusts	1,703,066	2,240,831
Clinical negligence recoverable	241,947	1,193,422
Prepayments and accrued income	73,595	69,649
Provision for irrecoverable debts	(1,250)	(1,221)
Capital debtors	498	3,869
Pension prepayments—in respect of staff other than former directors	14,480	15,461
Other debtors	153,718	188,035
	<u>2,186,054</u>	<u>3,710,046</u>

Creditors: Amounts falling due within one year	9	1998-99	
		£000	£000
Department of Health, health authorities and NHS Trusts		861,539	825,529
FHS creditors (contractors)		1,088,056	1,570,089
GPFH savings		123,571	186,553
Non-NHS trade creditors		265,995	222,415
Payments received on account		53,012	35,963
Income tax and social security		9,669	7,891
Capital creditors		1,189	4,712
Rentals due under operating leases		365	327
Obligations under finance leases and contracts (Note 12)		126	139
Pensions – relating to former directors		607	74
– relating to other staff		3,534	3,609
Other creditors		283,296	160,782
		<u>2,690,959</u>	<u>3,018,083</u>
<hr/>			
Creditors: Amounts falling due after more than one year	10	£000	£000
NHS creditors		463,840	37,905
Obligations under finance leases and hire purchase contracts (Note 12)		1,029	1,164
Pensions – relating to former directors		701	639
– relating to other staff		1,319	723
Other		26,169	4,337
		<u>493,058</u>	<u>44,768</u>

Provisions for liabilities and charges**11**

	Pensions relating to former directors £000	Pensions relating to other staff £000	Clinical negligence £000	Other legal claims £000	Restructuring £000	Other £000	Total £000
At 31 March 1999	5,219	56,243	195,524	-	-	84,378	341,364
Reanalysed	136	285	4,518	16,842	1,933	(23,714)	-
At 31 March 1999	5,355	56,528	200,042	16,842	1,933	60,664	341,364
Implementation of HSC 1999/146	609	85,229	94,039	10,792	4,165	17,897	212,731
Adjustment to restate gross	-	571	1,046,090	1,925	1,129	718	1,050,433
Restated 1 April 1999	5,964	142,328	1,340,171	29,559	7,227	79,279	1,604,528
Arising during the year	2,616	24,941	722,041	18,020	4,288	52,542	824,448
Utilised during the year	(2,286)	(16,244)	(298,280)	(6,998)	(2,502)	(35,843)	(362,153)
Reversal unused	(58)	(4,469)	(348,296)	(4,850)	(76)	(6,744)	(364,493)
Unwinding of discount	561	8,379	27,696	134	-	169	36,939
Adjusting post balance sheet event	-	-	(1,267,815)	-	-	-	(1,267,815)
At 31 March 2000	6,797	154,935	175,517	35,865	8,937	89,403	471,454

Expected timing of cashflows

Within one year	1,371	21,722		19,054	2,125	40,586
Within 1 to 5 years	3,214	83,032		9,253	4,618	39,616
Over 5 years	2,212	50,181		7,558	2,194	9,201
Total	6,797	154,935		35,865	8,937	89,403
Future payments by NHS Trusts	1,143	84,838		30,465	6,095	64,018

An analysis of the expected timing of cash flows for the clinical negligence provisions of £175,517,000 is not available. This is because the adjusting post balance sheet event is not analysed in the underlying accounts which include, instead, an analysis of the figure, £1,443,332,000, before the adjusting post balance sheet event.

Finance lease obligations**12**

1998-99

£000 £000

Amounts payable:

Within one year	193	206
Between one and five years	779	793
After five years	799	987
	1,771	1,986
Less: finance charges allocated to future periods	(616)	(683)
	1,155	1,303

This total net obligation under finance leases can be analysed as follows:

Creditors: amounts falling due within one year	126	139
amounts falling due after more than one year	1,029	1,164
	1,155	1,303

Operating lease commitments	13	£000	1998-99 £000
<i>Land and Buildings</i>			
Commitments under non-cancellable operating leases which expire:			
Within one year		1,324	1,047
Between one and five years		5,465	5,134
After five years		42,775	44,655
		<u>49,564</u>	<u>50,836</u>
<i>Other leases</i>			
Commitments under non-cancellable operating leases which expire:			
Within one year		872	902
Between one and five years		5,166	5,531
After five years		174	203
		<u>6,212</u>	<u>6,636</u>
<hr/>			
Capital account	14		£000
		At 31 March 1999	697,457
		Additions	15,764
		Transfers	(84,042)
		Disposals	(32,113)
		Transfers from revaluation reserve – backlog depreciation	(880)
		– other	(52,621)
		Depreciation	(23,099)
		Impairments	(60,282)
		At 31 March 2000	<u>460,184</u>
<hr/>			
Donated assets reserve	15		£000
		At 31 March 1999	2,182
		Transfers	(187)
		Disposals	(5)
		Revaluation and indexation	319
		Depreciation	(126)
		Impairments	(224)
		At 31 March 2000	<u>1,959</u>

Revaluation reserve	16				£000	
		At 31 March 1999			43,423	
		Revaluation and indexation			163,777	
		Disposals			(14,562)	
		Transfers to capital account – backlog depreciation			880	
		– other			52,621	
		Impairments			(49,723)	
		At 31 March 2000		196,416		
<hr/>						
Income and expenditure reserve	17				£000	
		At 31 March 1999			(698,340)	
		Implementation of HSC 1999/146			(212,731)	
		Restated 1 April 1999			(911,071)	
		Transfer from Income and Expenditure account			(30,848)	
		At 31 March 2000		(941,919)		
<hr/>						
Reconciliation of operating (deficit) to net cash inflow/ (outflow) from operating activities	18				Re-stated	
					1998-99	
				£000	£000	
		(Deficit) for the financial year		(30,848)	(24,661)	
		Depreciation		83,507	27,983	
		Other capital charges		42,229	55,355	
		Capital charges allocation		(125,610)	(83,194)	
		Release from donation reserve		(126)	(144)	
		(Increase) in debtors		(173,362)	(341,623)	
Increase in creditors and provisions for liabilities and charges		238,037	355,877			
		33,827	(10,407)			
<hr/>						
Analysis of changes in net debt	19		As at 31		As at 31	
			March	Cash	Other	March
			1999	flows	changes	2000
			£000	£000	£000	£000
		Cash at bank and in hand	46,059	36,019	–	82,078
		Bank overdraft	(154)	(1,862)	–	(2,016)
				34,157		
Debt due within one year	(139)	139	(126)	(126)		
Debt due after one year	(1,164)	–	135	(1,029)		
	44,602	34,296	9	78,907		
<hr/>						

GP Fundholding accounts for the year ended 31 March 2000	20	Income and Expenditure account	1998-99	
			£000	£000
		Income		
		Practice budgets allocated by health authorities	<u>1,782</u>	<u>5,958,881</u>
		Expenditure		
		Hospital services	-	3,037,509
		Drugs and appliances	202	2,349,512
		Other costs	<u>1,580</u>	<u>491,505</u>
		Total expenditure	<u>1,782</u>	<u>5,878,526</u>
		Surplus for the financial year	-	80,355
		Surplus brought forward	186,553	207,071
		Transferred to Income and Expenditure Account	(1,306)	(15,492)
		Spent on other items	(47,700)	(66,253)
		Savings surrendered	<u>(13,976)</u>	<u>(19,128)</u>
		Surplus carried forward	<u>123,571</u>	<u>186,553</u>
Contingent liabilities	21		£000	1998-99 £000
		<i>Authorities reported contingent liabilities as follows:</i>		
		Clinical negligence:		
		Gross	(1,306,726)	(1,234,596)
		Less anticipated contribution from Existing Liabilities Scheme	<u>1,183,789</u>	<u>1,068,245</u>
			(122,937)	(166,351)
		Other	(13,080)	(16,378)
		Amounts recoverable	<u>1,354</u>	<u>1,515</u>
			<u>(134,663)</u>	<u>(181,214)</u>
		These contingent liabilities have not been accrued in this account due to uncertainty over the ultimate outcome. From 1 April 2000 all transactions relating to the Existing Liabilities Scheme will be reflected in the accounts of the NHS Litigation Authority (Note 25).		
Capital commitments	22		£000	1998-99 £000
		<i>Health authorities had the following capital commitments as at 31 March 2000:</i>		
		Contracted	3,503	6,414
		Authorised but not contracted	<u>1,692</u>	<u>11,240</u>
			<u>5,195</u>	<u>17,654</u>

Losses and special payments 23 There were 4,490 cases of losses and special payments (1998–99: 5,804 cases) totalling £136,672,000 (1998–99: £218,325,000) approved during 1999–2000. There were no clinical negligence cases where the net payment exceeded £1,000,000 (1998–99: 0 cases). There was one fraud case totalling £135,000 where the net payment exceeded £100,000 (1998–99: 0 cases). There were 9 personal injury cases where the payment exceeded £100,000 totalling £3,736,000 (1998–99: 12 cases totalling £2,518,000). There were 17 compensation under legal obligation cases where the payment exceeded £100,000 totalling £10,510,000 (1998–99: 30 cases totalling £19,315,000). There were no fruitless payment cases where the payment exceeded £100,000 (1998–99: 0 cases).

Related party transactions 24 Health Authorities are bodies corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year Health Authorities had a significant number of material transactions with the Department and potentially with other entities for which the Department is regarded as the parent Department, viz:

All NHS Trusts, all NHS agencies and all special health authorities.

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

Health Authorities also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the Health Authority Boards.

Details of all the Health Authorities’ related party transactions are shown in the individual Health Authority accounts.

Post balance sheet events 25 Whilst the Health Authorities retain the legal liability, as at 1 April 2000 managerial and financial responsibility for all liabilities covered by the Existing Liabilities Scheme (ELS) transferred to the NHS Litigation Authority. From 1 April 2000 all transactions relating to ELS will be reflected in the accounts of the NHS Litigation Authority, and it will assume all assets and liabilities previously accounted for by Health Authorities. This development therefore required an adjustment to the NHS summarised accounts for the Health Authorities as detailed below.

Prior to the transfer, the Health Authorities provided for the full liability and recognised debtors for the amount they expected to receive in reimbursement from the NHS Litigation Authority under the rules of the scheme. The Health Authorities also recognised provisions where there were agreements with their NHS providers to meet any of their share of ELS costs.

Adjustment to reflect the transfer of ELS balances to the NHS Litigation Authority.

	£000
Reversal of provisions for ELS	1,267,815
Reversal of debtors for recoverable amounts	(1,246,714)
Net credit to Income and Expenditure Account	21,101

The underlying accounts will reflect this transfer as a prior year adjustment in the 2000–2001 accounts.

The National Health Service in England

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

- | | |
|-----------------------------|---|
| Health Authorities | 1 The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of the Health Authorities. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules. |
| Basis of Preparation | 2 The summarised account of the Health Authorities shall be prepared from the audited accounts of the individual Health Authorities to which it relates and shall comply with: <ul style="list-style-type: none"> (a) generally accepted accounting practice in the United Kingdom (UK GAAP); (b) the accounting and disclosure requirements of the Companies Act; (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared; (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value. |
| Form and Content | 3 The summarised account of the Health Authorities shall comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Health Authorities. |
| | 4 For the financial year ended 31 March 1997, the summarised account of the Health Authorities shall present fairly the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses and cashflows during the year. |
| | 5 For financial years subsequent to that ended 31 March 1997, the summarised account of the Health Authorities shall give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, total recognised gains and losses and cashflows during the year. |
| | 6 The foreword and balance sheet shall be signed by the Accounting Officer and dated. |
| Miscellaneous | 7 The direction shall be reproduced as an appendix to the published accounts. |

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

Companies Act

- 1** The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.
- 2** The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.
- 3** The summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.
- 4** The summarised balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.
- 5** NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.

Accounting Standards

- 6** NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.
- 7** NHS bodies are not required to show the effects of revaluation on the historic cost depreciation charge as required by SSAP 12.

Schedule 2

Additional Requirements

- 1** The foreword shall include a statement that the summarised accounts have been prepared to comply with a Direction given by the Treasury in accordance with Section 98(4) of the NHS Act 1977.
- 2** The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities and, for years subsequent to 31 March 1997, a summary of their performance against targets.

Summarised Account of NHS Trusts

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 47 to 66 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 50 to 54.

Respective responsibilities of Accounting Officer and Auditor

As described on page 45, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the NHS Trusts and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

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

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

Opinion

In my opinion the financial statements give a true and fair view of the state of affairs of NHS Trusts at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Operating activities			
Income from activities	2	25,436,994	23,206,274
Other operating income	3	4,434,689	3,902,224
Operating expenses	4,5	(28,720,968)	(25,998,956)
Operating surplus		1,150,715	1,109,542
Transfer of outstanding balances for ELS from the NHS Litigation Authority	26	(1,795)	-
Profit/(loss) on disposal of fixed assets	6	14,704	(5,520)
Surplus before interest		1,163,624	1,104,022
Interest receivable		78,331	90,282
Interest payable	7	(234,427)	(668,858)
Surplus on ordinary activities		1,007,528	525,446
Public dividend capital dividends payable		(1,084,922)	(561,354)
Retained (deficit) for the year		(77,394)	(35,908)
Capital cost absorption rate	8	6.3%	6.2%

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Surplus on ordinary activities for the financial year		1,007,528	525,446
Fixed asset impairment losses		(2,292,020)	-
Unrealised surplus on fixed asset revaluations/indexation	16	2,992,982	1,417,962
Increase in the donation reserve due to receipt of donated assets	16	126,977	113,008
(Reduction) in the donation reserve due to depreciation, impairment and/or disposal of donated assets	16	(123,577)	(61,193)
Additions/(reductions) to other reserves	16	15,977	(1,272)
Total recognised gains for the financial year		1,727,867	1,993,951

The notes at pages 50 to 66 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	Restated 31 March 1999 £000
Fixed assets			
Intangible fixed assets	9	16,849	10,768
Tangible fixed assets	10	22,848,485	22,488,894
		<u>22,865,334</u>	<u>22,499,662</u>
Current assets			
Stocks		358,482	328,732
Debtors	11	3,172,690	2,275,216
Short-term investments	12	90	14,589
Cash at bank and in hand	19	94,827	138,085
		<u>3,626,089</u>	<u>2,756,622</u>
Current liabilities			
Creditors: Amounts falling due within one year	13	(3,239,318)	(2,463,425)
Bank overdrafts	19	(27,160)	(35,691)
		<u>(3,266,478)</u>	<u>(2,499,116)</u>
Net current assets		<u>359,611</u>	<u>257,506</u>
Total assets less current liabilities		23,224,945	22,757,168
Creditors: Amounts falling due after more than one year	13	(217,072)	(5,739,029)
Provisions for liabilities and charges	14	(1,239,461)	(1,157,600)
Total assets employed		<u>21,768,412</u>	<u>15,860,539</u>
Financed by:			
Capital and reserves			
Public Dividend Capital	15	17,318,193	11,999,331
Revaluation reserve	16	3,317,660	2,821,913
Donation reserve	16	835,774	807,031
Other reserves	16	17,180	17,679
Income and expenditure reserve	16	279,605	214,585
		<u>21,768,412</u>	<u>15,860,539</u>

The notes at pages 50 to 66 form part of this account.

Nigel Crisp
Accounting Officer

2 July 2001

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	£000	1998-99 £000
Operating activities				
Net cash inflow from operating activities	17		2,262,825	2,129,716
Returns on investments and servicing of finance				
Interest received		77,429		90,965
Interest paid		(224,093)		(674,753)
Interest element of finance lease rental payments		(5,572)		(4,049)
Net cash (outflow) from returns on investments and servicing of finance			(152,236)	(587,837)
Capital expenditure				
(Payments) to acquire tangible fixed assets		(1,307,136)		(1,123,799)
Receipts from sale of tangible fixed assets		282,842		157,351
(Payments) to acquire intangible assets		(3,710)		-
Net cash (outflow) from capital expenditure			(1,028,004)	(966,448)
Dividends paid			(1,084,639)	(561,391)
Net cash (outflow)/inflow before management of liquid resources and financing			(2,054)	14,040
Management of liquid resources				
(Payments) to acquire investments		(4,860,051)		(5,762,441)
Receipts from sale of investments		4,873,150		5,817,034
Net cash inflow from management of liquid resources			13,099	54,593
Net cash inflow before financing			11,045	68,633
Financing				
New Public Dividend Capital issued		643,564		2,691,019
Repayment of Public Dividend Capital		(708,863)		(69,113)
New short-term loans		-		136,198
Other loans received		500		-
Repayments of amounts borrowed		(19,449)		(2,926,787)
Other capital receipts		40,732		42,475
Capital element of finance lease rental payments		(3,363)		(2,732)
Net cash (outflow) from financing			(46,879)	(128,940)
(Decrease) in cash	18		(35,834)	(60,307)

The notes at pages 50 to 66 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

1.2 Fixed assets

(i) Capitalisation

Assets which are capable of being used for a period which exceeds one year, and have a cost equal to or greater than £5,000, are capitalised.

Groups of assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more are capitalised.

(ii) Valuation

Basis of valuation:

Intangible assets are valued at historical cost.

Land, buildings, installations and fittings held for operational use are stated at their depreciated replacement cost. Land and buildings which are surplus to requirements are valued at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. The last such valuations were on 1 April 2000 and these are incorporated in the 31 March 2000 closing balances. Between valuations, price indices appropriate to the category of asset are applied to arrive at a current value.

Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at net recoverable cost.

Assets in the course of construction are valued at current cost. This is derived from expenditure incurred to which an appropriate index is applied.

(iii) Depreciation

Depreciation is charged on a straight line basis on each main class of tangible fixed assets as follows:

- freehold land and assets in the course of construction are not depreciated. Buildings, installations, and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the District Valuer. Depending on the type of installation or fitting it is expected that the maximum useful lives will be in the range of 15-80 years;

- leaseholds are depreciated over the life of the lease remaining;
- equipment is depreciated on current cost on a straight line basis over the estimated life of the asset using the following standard lives:

	Years
Moveable engineering plant and equipment and long life medical equipment	15
Furniture and medium life medical equipment	10
Mainframe information technology installations	8
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	5

Intangible assets are amortised on a straight line basis over the estimated lives of the assets up to a maximum of 20 years. The carrying value of intangible fixed assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

(iv) Donated assets

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

The value of donated tangible fixed assets and the donated element of part donated assets is reflected in a donation reserve which is credited with the value of the original donation and any subsequent revaluation; an amount equal to the depreciation charge is released from this reserve each year to the income and expenditure account.

(v) Leasing

Assets held under finance leases are capitalised at the fair value of the asset with an equivalent liability categorised as appropriate under creditors due within or after one year. The asset is subject to indexation and revaluation and is depreciated on its current fair value over the shorter of the lease term and its useful economic life. Finance charges are allocated to accounting periods over the period of the lease to produce a constant rate of interest on the outstanding balance. Rentals under operating leases are charged on a straight line basis.

1.3 Stocks

Stocks comprise raw materials and consumables and are valued at the lower of cost and net realisable value.

1.4 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as it relates to a clearly defined project and the benefits therefrom can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit from the project. No such expenditure is currently being amortised.

1.5 Clinical negligence costs

Most NHS Trusts participate in the Clinical Negligence Scheme for Trusts, which is a cost sharing scheme that commenced on 1 April 1995. Under the scheme Trusts pay an annual contribution to the NHS Litigation Authority and in return receive assistance with the costs of claims arising provided they are members of the scheme at the date of the clinical negligence, at the date of the receipt of the related claim and at the date of the settlement of the claim. The annual contributions to the scheme are charged to operating expenses as and when they become due. From 1 April 1996 all Trusts are eligible for assistance from the Existing Liabilities Scheme, administered by the NHS Litigation Authority, towards the costs of clinical negligence incidents which occurred prior to 1 April 1995. The accounts show the costs net of any assistance from both schemes.

Trusts accrue for the best estimate of their expected share of future payouts in respect of known incidents for certain or probable clinical negligence which can be reasonably estimated. Trusts' share of other potential payments in respect of known incidents are disclosed in contingent liabilities.

1.6 FRS 11

FRS 11 was published in July 1998, to be effective for accounting periods ending on or after December 1998. HM Treasury agreed that NHS Trusts need not follow FRS 11 in 1998-99. To ensure consistency, the NHS Executive directed that NHS Trusts should not follow FRS 11 in 1998-99, but implement the standard in 1999-2000.

The interpretation of FRS 11 requires the analysis of the causes of impairment. Where impairment has been caused by a general fall in prices, e.g. the 5 yearly revaluation by the District Valuer, the impairment is still charged to the revaluation reserve and disclosed in the Statement of Total Recognised Gains and Losses.

Where impairment has been caused by a clear consumption of economic benefits, the downward revaluations of fixed assets which previously would have been debited to the revaluation reserve are instead charged to the income and expenditure account for the year. In 1999-2000, additional income has been recognised from health authorities in the income and expenditure account to fund the additional costs incurred as a result of the impairment of fixed assets caused by the consumption of economic benefits.

1.7 FRS 12

FRS 12 was published in September 1998, to be effective for accounting periods ending on or after 23 March 1999. HM Treasury agreed that NHS Trusts need not follow FRS 12 in 1998-99. To ensure consistency, the NHS Executive directed that NHS Trusts should not follow FRS 12 in 1998-99 but implement the standard from 1999-2000.

FRS 12 requires that similar obligations are viewed as a class, to discount where this has a material effect and to allow the use of the expected value concept. Provisions are accounted for gross with expected reimbursements against them included within debtors.

1.8 Pension costs

NHS Trusts' employees participate in the NHS pension scheme. This 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 NHS Trust is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due. The scheme is contributory with employees contributing six per cent (manual staff five per cent) of pensionable pay.

Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the NHS Trust. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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, prior to 6 March 1995, the additional costs are recharged to the NHS Trust and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the NHS Trust commits itself to the retirement, regardless of the method of payment.

1.9 Merged Trusts

At 31 March 1999 42 NHS Trusts were dissolved and subsequently reformed as 20 merged Trusts at 1 April 1999. In addition 5 further NHS Trusts were absorbed by 5 other NHS Trusts. On 1 June 1999 1 NHS Trust was absorbed into 1 other NHS Trust and as at 30 September 1999 6 NHS Trusts were dissolved and subsequently reformed as 3 merged Trusts at 1 October 1999 and 1 NHS Trust was absorbed into 1 other NHS Trust. In some cases the closing balances of the former NHS Trusts on 31 March 1999 were different from the opening balances of the new NHS Trusts on 1 April 1999. The aggregate balances at 1 April 1999 in this account therefore reflect the totals of closing balances at 31 March 1999 of continuing NHS Trusts, plus the opening balances of the new merged NHS Trusts at 1 April 1999.

1.10 FRS 5

HM Treasury issued interim guidance on accounting for Private Finance Initiative (PFI) transactions in September 1997 pending the deliberations of the Accounting Standards Board (ASB). On 10 September 1998 the ASB published its Application Note, Amendment to FRS 5—Reporting the Substance of Transactions: Private Finance Initiative and similar contracts. On 24 June 1999 HM Treasury issued revised PFI guidance on how to separately identify and account for revenue and capital arising from PFI transactions for financial years ending on or after 10 September 1998.

HM Treasury agreed that due to the practical difficulties of identifying separately revenue and capital it was not possible to implement the guidance issued on 24 June within the time available for submission of the 1998–99 accounts. The HM Treasury guidance on treatment of PFI transactions issued on 24 June 1999 has been implemented in the 1999–2000 accounts.

PFI schemes deemed to be off balance sheet

In this financial year, 57 NHS Trusts reported off balance sheet PFI schemes. The estimated capital value of schemes individually over £1 million is £1.7 billion. The amount included within operating expenses for these schemes is £49 million.

PFI schemes deemed to be on balance sheet

In this financial year, four NHS Trusts reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £65 million and the amount included with operating expenses is £12 million.

1.11 Auditors' remuneration

The audit fees disclosed in Note 4 are for the audit of the accounts of individual NHS Trusts.

Income from activities	2	1998–99	
		£000	£000
Health authorities and Primary Care Groups		24,679,561	19,610,730
General Practitioner fundholders		–	2,954,612
Department of Health		137,018	113,799
Non-NHS–private patients		304,826	290,840
–Road Traffic Act		91,402	19,616
–other		224,187	216,677
		<u>25,436,994</u>	<u>23,206,274</u>
Income recognised to offset impairments		447,269	–
Other operating income	3		
Education, training and research		2,258,785	2,011,205
Patient transport services		6,320	6,240
Charitable and other contributions to expenditure		83,665	71,085
Transfers from the donation reserve in respect of depreciation on donated assets		123,428	61,193
Other income from activities		1,962,491	1,752,501
		<u>4,434,689</u>	<u>3,902,224</u>

Operating expenses

4			1998-99
			£000
4.1	Operating Expenses include		
		Notes	£000
	Directors' costs	4.4	154,729
	Staff costs	5	18,033,452
	Supplies and services-clinical		3,420,015
	-general		751,371
	Premises		1,461,466
	Depreciation and amortisation	9,10	1,051,660
	Fixed asset impairments		449,818
	Contracts with other NHS bodies		691,791
	Establishment		699,570
	NMET expenditure		669,383
	Transport		194,586
	Clinical negligence	23	205,916
	Provision for irrecoverable debts		19,318
	Auditors' remuneration:		
	Audit fees		19,318
	Other auditors' remuneration		12,465
	Other		886,110
			28,720,968
			25,998,956
<hr/>			
4.2	Hire and operating lease rentals		
	Hire of plant and machinery		37,991
	Other operating leases		507,655
			545,646
			179,100
<hr/>			
4.3	Operating lease commitments		
	Land and buildings		
	Expiring within 1 year		9,899
	Expiring between 1 and 5 years		30,479
	Expiring after 5 years		30,336
			70,714
			64,781
	Other leases		
	Expiring within 1 year		29,035
	Expiring between 1 and 5 years		92,527
	Expiring after 5 years		11,357
			132,919
			121,667

4.4 Board Members' remuneration

	1998-99	
	£000	£000
Non-executive directors' remuneration	15,637	15,910
Executive directors' remuneration		
-Basic Salaries	122,048	121,576
-Benefits	3,941	4,238
-Performance related bonuses	1,946	2,503
-Pension contributions	5,476	5,542
-Compensation for loss of office	1,984	2,546
-Pensions to former directors (early retirees)	2,855	2,267
	<u>153,887</u>	<u>154,582</u>

£136,000 (1998-99: £169,000) remuneration was waived by 27 (1998-99: 26) directors.

£5,000 (1998-99: £28,000) of allowances were paid in lieu to 1 director (1998-99: 9).

Staff costs and numbers

5

5.1 Staff costs

Salaries and wages	15,813,123	14,524,821
Social security costs	1,115,785	1,045,329
Other pension costs	548,951	499,956
Agency staff	702,246	572,473
	<u>18,180,105</u>	<u>16,642,579</u>

5.2 Average number of total staff

	Number	Number
Medical and dental	61,703	59,027
Ambulance staff	18,621	18,334
Administration and estates	151,835	145,460
Healthcare assistants and other support staff	87,980	85,639
Nursing, midwifery and health visiting staff	322,282	314,656
Nursing, midwifery and health visiting learners	3,307	1,964
Scientific, therapeutic and technical staff	105,373	99,924
Other	12,599	14,185
	<u>763,700</u>	<u>739,189</u>

5.3 Staff Benefits

The amount spent on staff benefits during the year totalled £1,213,000 (1998-99: £1,724,000).

5.4 Pensions

Most NHS Trusts participate in the NHS pension scheme. This is a statutory, defined benefit scheme, the provisions of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS Trusts pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of Treasury. For 1999-2000, the contribution rate was four per cent (1998-99: four per cent). Contributions totalling £24,811,000 (1998-99: £32,224,000) are included within creditors.

Profit/(Loss) on disposal of fixed assets	6		1998-99
			£000
			£000
		Net profit on disposal of land and buildings	20,772 465
		Net (loss) on disposal of plant and equipment	(6,068) (5,985)
			<u>14,704</u> <u>(5,520)</u>
Interest payable	7	Interest payable is in respect of the following:	
		Government borrowing	201,894 664,383
		Finance leases	5,744 4,348
		Unwinding of provision discounts	26,101 -
		Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	26 14
		Other interest	662 113
			<u>234,427</u> <u>668,858</u>
Capital Cost Absorption Rate	8	NHS Trusts are required to absorb the cost of capital at a rate of six per cent of average relevant net assets. The rate is calculated as the percentage that interest paid on Government borrowing plus dividends paid on public dividend capital, totalling £1,305 million, bears to the average relevant net assets of £20,866 million, that is 6.3 per cent (1998-99: 6.2 per cent).	

Intangible fixed assets	9	£000		
Cost:				
As at 31 March 1999				18,038
Additions				7,197
Transfers				3,745
Disposals				(1,448)
At 31 March 2000				<u>27,532</u>
Amortisation:				
As at 31 March 1999				7,270
Additions				105
Transfers				641
Disposals				(410)
Provided during the year				3,077
At 31 March 2000				<u>10,683</u>
Net book value at 31 March 1999				10,768
Net book value at 31 March 2000				16,849
<hr/>				
Tangible fixed assets	10.1	Land £000	Buildings, installations & fittings £000	Equipment £000
Cost or valuation at 31 March 1999		3,949,633	16,385,219	5,057,379
Restatement to gross		7	294,784	-
Restated cost or valuation at 31 March 1999		<u>3,949,640</u>	<u>16,680,003</u>	<u>5,057,379</u>
Additions-Purchased		131,510	738,561	323,452
Additions-Donated		526	39,944	47,201
Transfers		(5,837)	490,035	62,023
Indexation and impairments		2,022	33,397	113,943
Other in-year revaluations		732,131	693,585	(3,731)
Disposals		(195,594)	(390,714)	(349,430)
Cost or valuation at 31 March 2000		<u>4,614,398</u>	<u>18,284,811</u>	<u>5,250,837</u>
Depreciation				
Accumulated at 31 March 1999		-	-	3,404,475
Restatement to gross		7	294,784	-
Restated accumulated at 31 March 1999		7	294,784	3,404,475
Additions-Purchased		-	10,296	44,269
Additions-Donated		-	350	1,019
Transfers		-	(92)	187
Indexation and impairments		119,174	1,130,711	99,045
Other in-year revaluations		-	-	(3,647)
Provided during the year		44	657,177	391,362
Disposals		(1,920)	(17,693)	(310,906)
Depreciation at 31 March 2000		<u>117,305</u>	<u>2,075,533</u>	<u>3,625,804</u>
Net book value at 1 April 1999		3,949,633	16,385,219	1,652,904
Net book value at 31 March 2000		4,497,093	16,209,278	1,625,033

	Assets under construction £000
Cost or valuation as at 31 March 1999	501,138
Additions-Purchased	515,887
Additions-Donated	34,881
Transfers	(549,232)
Indexation and impairments	23,525
Revaluation	6,076
Disposals	(15,194)
Cost or valuation as at 31 March 2000	517,081

10.2 Total fixed assets:				31 March 1999
Net book value:	Purchased £000	Donated £000	Total £000	£000
Intangible fixed assets	-	-	16,849	10,768
Land	4,473,684	23,409	4,497,093	3,949,633
Buildings, installations and fittings	15,641,430	567,848	16,209,278	16,385,219
Equipment	1,413,963	211,070	1,625,033	1,652,904
Assets under construction	485,603	31,478	517,081	501,138
	<u>22,014,680</u>	<u>833,805</u>	<u>22,865,334</u>	<u>22,499,662</u>

10.3 The net book value of land and buildings comprises:		31 March 1999
	£000	£000
Freehold	20,393,199	19,956,270
Long leasehold	295,822	372,646
Short leasehold	17,350	5,936
	<u>20,706,371</u>	<u>20,334,852</u>

10.4 The net book value of assets held under finance leases and hire purchase contracts comprises:		
Land	4,264	5,034
Buildings, installations and fittings	94,198	39,568
Equipment	2,512	1,955
Assets under construction	29,126	467
	<u>130,100</u>	<u>47,024</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £3,867,000 (1998-99: £2,751,000).

Debtors	11	Restated	
		£000	£000
			31 March 1999
11.1 Debtors: amounts falling due within one year:			
National Health Service debtors		1,561,409	1,477,120
Pension prepayments:			
in respect of former directors		6	7
in respect of other staff		393	480
Other prepayments and accrued income		246,475	193,723
Provision for irrecoverable debts		(46,053)	(37,406)
Other debtors		599,597	503,000
		<u>2,361,827</u>	<u>2,136,924</u>
11.2 Amounts due after more than one year:			
National Health Service debtors		623,531	40,810
Pension prepayments:			
in respect of former directors		7	12
in respect of staff		3,231	3,815
Other prepayments and accrued income		95,772	81,177
Other		88,322	12,478
		<u>810,863</u>	<u>138,292</u>
Total Debtors		<u>3,172,690</u>	<u>2,275,216</u>
Short-term investments	12		
Government securities		–	–
Local authorities		–	–
Other		90	14,589
		<u>90</u>	<u>14,589</u>
Creditors	13.1	Creditors: amounts falling due within one year:	
National Health Service creditors			460,843
Accruals and deferred income		1,364,553	455,156
Payments received on account		540,311	46,570
PDC dividend payable		70,908	370
Interest payable		313	23,039
Current instalments due on loans		3,087	302,958
Patients' money		936	35,748
Payroll and related creditors		33,059	252,637
Obligations under finance leases and hire purchase contracts		271,596	2,558
Non-NHS trade creditors–revenue		3,181	589,192
revenue–clinical negligence		590,783	–
capital		28,253	119,808
Pensions:			
relating to former directors		108,851	1,868
relating to other staff		1,854	10,691
Other creditors		10,521	161,987
		<u>211,112</u>	<u>3,239,318</u>
		<u>3,239,318</u>	<u>2,463,425</u>

	31 March 1999	
	£000	£000
13.2 Amounts falling due after more than one year:		
Long term loans	-	5,660,102
Obligations under finance leases and hire purchase contracts	127,824	38,833
National Health Service creditors	2,233	5,211
Non-NHS trade creditors—revenue—clinical negligence	14,072	-
Pensions:		
relating to former directors	100	884
relating to other staff	12,336	18,781
Other	60,507	15,218
	<u>217,072</u>	<u>5,739,029</u>

13.3 Loans

The payment of all the £936,000 principal is due within 1 year.

During 1999-2000, all Government interest bearing debt was converted into public dividend capital.

13.4 Finance lease obligations

Leases Payable:		
Within one year	11,659	5,801
Between one and five years	50,174	20,377
After five years	306,719	84,689
Finance charges allocated to future periods	(237,547)	(69,476)
	<u>131,005</u>	<u>41,391</u>

Provisions for liabilities and charges	14	Pensions:	Pensions:	Clinical Negligence	Other	Restructurings	Other	Total
		Relating to former directors	Relating to other staff		legal claims			
		£000	£000	£000	£000	£000	£000	£000
At 31 March 1999		6,317	130,990	209,616	37,904	10,345	50,720	445,892
Adjustment to restate gross*		181	2,944	702,592	6,055	1,913	(1,977)	711,708
Restated 31 March 1999		6,498	133,934	912,208	43,959	12,258	48,743	1,157,600
Arising during the year		2,415	26,350	895,077	29,126	22,565	32,514	1,008,047
Utilised during the year		(2,582)	(24,315)	(215,066)	(20,028)	(5,607)	(24,381)	(291,979)
Reversed unused		(276)	(3,465)	(226,542)	(9,539)	(2,200)	(9,616)	(251,638)
Unwinding of discount		560	18,469	15,968	294	-	105	35,396
At 31 March 2000		6,615	150,973	1,381,645	43,812	27,016	47,365	1,657,426
Adjusting post balance sheet event for the transfer of clinical negligence provisions to the NHS Litigation Authority								
				(417,965)				(417,965)
Restated balance		6,615	150,973	963,680	43,812	27,016	47,365	1,239,461
Expected timing of cashflows:								
Within 1 year		2,334	22,170		34,945	14,477	35,698	
1-5 years		2,226	67,586		7,746	9,358	7,476	
Over 5 years		2,055	61,217		1,121	3,181	4,191	

An analysis of the expected timing of cash flows for the clinical negligence provisions of £963,680,000 is not available. This is because the adjusting post balance sheet event is not analysed in the underlying accounts which include, instead, an analysis of the figure, £1,381,645,000, before the adjusting post balance sheet event.

Expected reimbursements of £769,735,000 for the Clinical Negligence Scheme for Trusts are expected from the NHSLA.

* The adjustment to restate provisions gross is as a result of the implementation of FRS 12.

Public dividend capital	15		31 March 1999 £000	£000
		Public dividend capital was issued as follows:		
		During previous years	11,999,331	9,109,142
		At the opening of the year/trust mergers	644,748	268,283
		Loans converted to PDC in year	5,449,811	-
		During the year/mid-year mergers	886,079	2,691,019
		Repaid or written off during the year	<u>(1,661,776)</u>	<u>(69,113)</u>
			<u>17,318,193</u>	<u>11,999,331</u>
<hr/>				
Movement on reserves	16			
	16.1	Revaluation Reserve	£000	
		At 31 March 1999 as originally stated	2,821,913	
		Write off on merger of Trusts	<u>(175,084)</u>	
		Restated as at 31 March 1999	2,646,829	
		Impairments	(2,231,336)	
		Other revaluations/indexation of fixed assets	<u>2,902,167</u>	
		As at 31 March 2000	<u>3,317,660</u>	
	16.2	Donation Reserve	£000	
		At 31 March 1999 as originally stated	807,031	
		Value of merged Trusts at 1 April 1999	(1,447)	
		Impairments	(60,684)	
		Other revaluations/indexation of fixed assets	90,815	
		Transfer of realised (losses)	(6,360)	
		Receipt of donated assets	126,977	
		Depreciation of donated assets	(117,217)	
		Transfers between reserves	<u>(3,341)</u>	
		As at 31 March 2000	<u>835,774</u>	
	16.3	Other Reserves		
		At 31 March 1999 as originally stated	17,679	
		Write off on merger of Trusts	(10,485)	
		Other	15,977	
		Transfers between reserves	<u>(5,991)</u>	
		As at 31 March 2000	<u>17,180</u>	
	16.4	Income and Expenditure Reserve		
		At 31 March 1999 as originally stated	214,585	
		Prior period adjustment	165,175	
		Write off on merger of Trusts	(1,566)	
		Transfer from income and expenditure account	(77,394)	
		Transfers between reserves	<u>(21,195)</u>	
		As at 31 March 2000	<u>279,605</u>	

Reconciliation of operating surplus to net cash inflow from operating activities	17			1998–99	
				£000	
				£000	
		Operating Surplus	1,150,715	1,109,542	
		Depreciation	1,051,660	998,481	
		Impairments	449,818	–	
		(Increase) in stocks	(29,812)	(21,792)	
		(Increase) in debtors	(1,609,182)	(163,685)	
		Increase in creditors and provisions for liabilities and charges	1,368,272	267,760	
		Transfer from donation reserve in respect of depreciation on donated assets	(123,428)	(61,193)	
Other non-cash movements	4,782	603			
Net cash inflow from operating activities	2,262,825	2,129,716			
Reconciliation of net cash flows to movement in net debt	18		£000	£000	
		Net debt at 31 March 1999		(5,887,468)	
		Net write off of debt on Trust mergers		376,950	
		Net debt at 1 April 1999		(5,510,518)	
		(Decrease) in cash in year	(35,834)		
		Cash inflow from new debt	(500)		
		Cash outflow from debt repaid and finance lease capital payments	22,812		
		Cash inflow from (decrease) in liquid resources	(13,099)		
		Changes in net debt resulting from cash flows		(26,621)	
		Adjustment for mid-year absorption mergers		2,569	
Non-cash changes in debt		5,470,386			
Net debt at 31 March 2000		(64,184)			
Analysis of the change in net debt	19	1 April 1999	Change in	31 March	
		(Adjusted)	year	2000	
		£000	£000	£000	
		Cash at bank and in hand	140,023	(45,196)	94,827
		Bank overdrafts	(36,522)	9,362	(27,160)
		Debt due within one year	(282,244)	281,308	(936)
		Debt due after one year	(5,286,813)	5,286,813	–
		Finance leases	(58,151)	(72,854)	(131,005)
Current asset investments	13,189	(13,099)	90		
	(5,510,518)	5,446,334	(64,184)		

Reconciliation of movements in government funds	20		£000	£000
		Government Funds at 31 March 1999		21,016,104
		Prior period adjustments/new PDC on merger		170,736
		Government funds at 31 March 1999 (Restated)		21,186,840
		Surplus for the financial year	1,007,528	
		Less public dividend capital dividends	(1,084,922)	
				(77,394)
		Gains from revaluation/indexation of purchased fixed assets	670,831	
		New public dividend capital	643,564	
		Public dividend capital and IBD repaid	(1,681,175)	
		Public dividend capital written off in year	(11,038)	
		Increase in Government funds on mid-year mergers	185,033	
		Increase in other reserves	15,977	
				(176,808)
		Net decrease in Government Funds		(254,202)
		Government Funds at 31 March 2000		20,932,638

Capital commitments	21			31 March 1999
			£000	£000
		Contracted at the balance sheet date	347,782	403,825
			<u>347,782</u>	<u>403,825</u>

Contingent liabilities **22** Potential net contingent liabilities totalling £252,368,000 (1998-99: £283,449,000) have not been accrued as the outcome of these cases is uncertain. These include cases of clinical litigation which are net of possible contributions from the Clinical Negligence Scheme for Trusts and the Existing Liabilities Scheme.

Clinical negligence	23		£000	£000	1998-99 £000
		Charges to operating expenses:			
		Contribution to CNST		32,201	14,913
		Settlements not previously accrued		45,572	19,016
		In-year provision for future settlements:			
		Gross provision	668,535		490,175
		Less expected from NHS Litigation Authority:			
		Clinical Negligence Scheme for Trusts	(403,647)		(228,977)
		Existing Liabilities Scheme	(136,745)	128,143	(173,510)
				<u>205,916</u>	<u>121,617</u>

Losses and special payments	24	<p>There were 91,319 (1998-99: 99,777) cases of losses and special payments totalling £143,315,000 (1998-99: £115,646,000) approved during 1999-2000. These included 4 personal injury cases (1998-99: 6), totalling £607,000 (1998-99: £1,129,000), 5 payments under legal obligation (1998-99: 6) totalling £1,427,000 (1998-99: £2,502,000), 99 clinical negligence cases (1998-99: 92) totalling £33,099,000 (1998-99: £30,922,000), 0 fraud cases (1998-99: 1 case totalling £904,000), and 0 fruitless payments (1998-99: 1 case totalling £526,000) where payments exceeded £100,000.</p>										
Related party transactions	25	<p>NHS Trusts are bodies corporate established by order of the Secretary of State for Health.</p> <p>The Department of Health is regarded as a related party. During the year NHS Trusts had a significant number of material transactions with the Department and potentially with other entities for which the Department is regarded as the parent Department, viz:</p> <p>All health authorities, all NHS agencies and all special health authorities.</p> <p>In addition NHS Trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.</p> <p>NHS Trusts also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the NHS Trust Boards.</p> <p>Details of all the NHS Trust related party transactions are shown in the individual NHS Trust accounts.</p>										
Post Balance Sheet Events	26	<p>With effect from 1 April 2000, 26 NHS Trusts and parts of 3 others merged to form 13 new NHS Trusts. With effect from 1 October 2000, 2 NHS Trusts dissolved and were established as 2 Primary Care Trusts.</p> <p>Whilst NHS Trusts retain the legal liability, as at 1 April 2000 managerial and financial responsibility for all liabilities covered by the Existing Liabilities Scheme (ELS) transfer to the NHS Litigation Authority. From 1 April 2000 all transactions relating to ELS will be reflected in the accounts of the NHS Litigation Authority, and it will assume all assets and liabilities previously accounted for by NHS Trusts. This development therefore required an adjustment to the NHS summarised accounts for NHS Trusts as detailed below.</p> <p>Prior to the transfer, the NHS Trusts provided for the full liability and recognised debtors for the amount they expected to receive in reimbursement from the NHSLA under the rules of the Scheme. The NHS Trusts also recognised provisions where there were agreements with their NHS commissioners to meet any of their share of ELS costs.</p> <p>Adjustment to reflect the transfer of ELS balances to the NHS Litigation Authority.</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td></td> <td style="text-align: right;">£000</td> </tr> <tr> <td>Reversal of provisions for ELS</td> <td style="text-align: right;">417,965</td> </tr> <tr> <td>Reversal of debtors for recoverable amounts</td> <td style="text-align: right;">(439,703)</td> </tr> <tr> <td>Reversal of creditors for ELS</td> <td style="text-align: right;">19,943</td> </tr> <tr> <td>Net (debit) to Income and Expenditure Account</td> <td style="text-align: right;">(1,795)</td> </tr> </table> <p>The underlying accounts will reflect this transfer as a prior year adjustment in the 2000-2001 accounts.</p>		£000	Reversal of provisions for ELS	417,965	Reversal of debtors for recoverable amounts	(439,703)	Reversal of creditors for ELS	19,943	Net (debit) to Income and Expenditure Account	(1,795)
	£000											
Reversal of provisions for ELS	417,965											
Reversal of debtors for recoverable amounts	(439,703)											
Reversal of creditors for ELS	19,943											
Net (debit) to Income and Expenditure Account	(1,795)											

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

- | | | |
|-----------------------------|---|---|
| NHS Trusts | 1 | The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 1997 and subsequent financial years in respect of the NHS Trusts. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules. |
| Basis of preparation | 2 | The summarised account of the NHS Trusts shall be prepared from the audited accounts of the individual NHS Trusts to which it relates and shall comply with: <ul style="list-style-type: none"> (a) generally accepted accounting practice in the United Kingdom (UK GAAP); (b) the accounting and disclosure requirements of the Companies Act; (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared; (d) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value. |
| Form and content | 3 | The summarised account of the NHS Trusts shall comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the NHS Trusts. |
| | 4 | The summarised account of the NHS Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and of the income and expenditure, total recognised gains and losses, and cashflows during the year. |
| | 5 | The foreword and balance sheet shall be signed by the Accounting Officer and dated. |
| Miscellaneous | 6 | The direction shall be reproduced as an appendix to the published accounts. |

Jamie Mortimer
Treasury Officer of Accounts

30 November 1997

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

- | | |
|-----------------------------|---|
| Companies Act | <ol style="list-style-type: none">1 The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.2 The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.3 The summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.4 The summarised balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.5 NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act. |
| Accounting Standards | <ol style="list-style-type: none">6 NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.7 NHS bodies are not required to show the effects of revaluation on the historic cost depreciation charge as required by SSAP 12. |

Schedule 2

- | | |
|--------------------------------|---|
| Additional requirements | <ol style="list-style-type: none">1 The foreword shall include a statement that the summarised accounts have been prepared to comply with Directions given by the Treasury in accordance with Section 98(4) of the NHS Act 1977.2 The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities and, for years subsequent to 31 March 1997, a summary of their performance against targets. |
|--------------------------------|---|

Summarised Account of the Funds Held on Trust

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

Section 98(4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared by the Accounting Officer on behalf of the Secretary of State on an accruals basis and must present fairly the state of affairs of the funds held on trust by health authorities, NHS trusts, special health authorities and special trustees at the year end and their incoming resources and application of resources for the financial year.

In preparing the accounts the Accounting Officer is required to:

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

The Treasury have appointed the Permanent Secretary and Chief Executive of the National Health Service as the Accounting Officer for the summarised account of funds held on trust. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for keeping proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in "Government Accounting".

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

Respective responsibilities of Accounting Officer and Auditor

I certify that I have audited the financial statements on pages 73 to 82 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 75 to 78.

As described on page 71, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibility, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements present fairly the state of affairs of the funds held on trust by health authorities, NHS Trusts, special health authorities and special trustees and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the funds held on trust by health authorities, NHS Trusts, special health authorities and special trustees, consistently applied and adequately disclosed.

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

Opinion

In my opinion the financial statements present fairly the state of affairs of the funds held on trust by health authorities, NHS Trusts, special health authorities and special trustees at 31 March 2000 and their incoming resources and application of resources for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Statement of Financial Activities for the year ended 31 March 2000

	Note	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	1998-99 Total Funds £000
Incoming resources						
Donations		74,220	87,593	7	161,820	159,264
Legacies		26,641	36,145	637	63,423	47,511
Grants receivable		4,228	6,169	538	10,935	2,824
Investment income		59,659	20,612	190	80,461	78,872
Income from non-charitable trading		1,197	243	-	1,440	2,435
Income from charitable trading		5,676	1,066	-	6,742	6,280
Other incoming resources		8,501	6,118	467	15,086	17,418
Total incoming resources		180,122	157,946	1,839	339,907	314,604
Resources expended						
Direct charitable expenditure:						
Grants payable	2.1	118,643	99,217	722	218,582	213,693
Other direct charitable expenditure	2.2	42,863	45,105	80	88,048	87,189
Total direct charitable expenditure		161,506	144,322	802	306,630	300,882
Other expenditure:						
Fundraising and publicity	3.1	3,918	2,095	-	6,013	5,665
Management and administration	3.1	11,391	5,179	31	16,601	15,424
Total other expenditure		15,309	7,274	31	22,614	21,089
Total resources expended	3.1	176,815	151,596	833	329,244	321,971
Net incoming resources before transfers		3,307	6,350	1,006	10,663	(7,367)
Gross transfer between funds		(325,213)	(1,082)	326,295	-	-
Net incoming/(outgoing) resources		(321,906)	5,268	327,301	10,663	(7,367)
Gains on assets						
Realised/unrealised gains on investments		55,387	24,014	29,127	108,528	59,638
Unrealised gains on tangible fixed assets		7,515	377	2,943	10,835	7,234
Total gains on assets		62,902	24,391	32,070	119,363	66,872
Net movement in funds		(259,004)	29,659	359,371	130,026	59,505
Fund balances brought forward at 31 March 1999		1,249,622	474,691	40,840	1,765,153	
Fund balances carried forward at 31 March 2000		990,618	504,350	400,211	1,895,179	

The notes at pages 75 to 82 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	31 March 2000 £000	Re-stated 31 March 1999 £000
Fixed Assets			
Tangible assets	6	102,648	89,053
Investments	7.1	1,673,471	1,540,588
Total Fixed Assets		<u>1,776,119</u>	<u>1,629,641</u>
Current Assets			
Stocks		121	131
Debtors	8	35,036	34,963
Short term investments and deposits		104,429	118,120
Cash at bank and in hand		81,068	74,836
		<u>220,654</u>	<u>228,050</u>
 Creditors: Amounts falling due within one year	 9.1	 (96,037)	 (86,398)
Net Current Assets		<u>124,617</u>	<u>141,652</u>
 Total Assets less Current Liabilities		 <u>1,900,736</u>	 <u>1,771,293</u>
 Creditors: Amounts falling due after more than one year	 9.2	 (5,278)	 (6,051)
Provisions for liabilities and charges		(279)	(89)
Net Assets		<u>1,895,179</u>	<u>1,765,153</u>
 Capital Funds:			
Endowment Funds		400,211	367,422
 Income Funds:			
Restricted		504,350	474,691
Unrestricted		990,618	923,040
Total Funds		<u>1,895,179</u>	<u>1,765,153</u>

The notes at pages 75 to 82 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Notes to the Account

Accounting policies 1.1 Accounting convention

This account has been prepared in accordance with the Statement of Recommended Practice—Accounting by Charities, and with accounting standards and policies for the NHS approved by the Secretary of State and the accounts direction issued by Treasury.

1.2 Cash flow statement

A cash flow statement is not provided within this account because the Statement of Recommended Practice—Accounting for Charities—does not require one except for charities categorised as “large”. The majority of individual accounts of funds held on trust fall below the relevant size criteria and so do not therefore include a cash flow statement.

1.3 Incoming resources

The policies followed, which deal with income, voluntary assistance and donations, are:

(i) Cash donations, gifts, legacies, investment income and cash collected from fund raising events are included in full in the statement of financial activities as soon as the conditions for receipt have been met and there is a reasonable assurance of receipt.

(ii) Gifts in kind

- Assets given for distribution by the funds are included in the Statement of Financial Activities only when distributed.
- Assets given for use by the funds (e.g. property for its own occupation) are included in the Statement of Financial Activities as incoming resources when receivable.
- Gifts made in kind but on trust for conversion into cash and subsequent application by the funds are included in the accounting period in which the gift is sold.

In all cases the amount at which gifts in kind are brought into account is either a reasonable estimate of their value to the funds or the amount actually realised. The basis of the valuation is disclosed in the annual reports of NHS organisations.

(iii) Intangible income

Intangible income (e.g. the provision of free accommodation) is included in the accounts with an equivalent amount in outgoing resources, if the funds would otherwise have to purchase the donated facilities and the benefit is quantifiable and material.

(iv) Deferred income

Income is shown on the Statement of Financial Activities net of deferred income. Deferred income as at 31 March 2000 is disclosed within Note 9.1.

1.4 Fixed assets

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

(ii) Valuation

Fixed assets are valued as follows:

- land, buildings, installations and fittings are stated at open market value for their existing use. Valuations are usually carried out professionally at five yearly intervals, although some accounts have valuations conducted annually. A five-yearly revaluation as at 1 April 2000 has been carried out and is reflected in 31 March 2000 balance sheet values. Between valuations an appropriate index is applied to revalue the assets;
- equipment is valued at the lower of estimated net replacement cost or recoverable amount;
- assets in the course of construction are valued at current cost.

(iii) Depreciation

Depreciation is charged on each main class of tangible asset as follows:

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the professional valuers;
- equipment is depreciated over the estimated life of the asset using the following standard lives:

	Years
Fittings, other engineering plant & equipment	15
Furniture	10
Mainframe IT installations	8
Vehicles	7
Soft furnishings	7
Office and IT equipment	5

(iv) Donated assets

Donated assets are capitalised at their valuation on full replacement cost basis on receipt and are revalued and depreciated as described above.

1.5 Investment fixed assets

Investment fixed assets are shown at market value.

- Property assets are not depreciated but are shown at market valuation. Valuations are carried out by a professional valuer at five yearly intervals. A five-yearly revaluation as at 1 April 2000 has been carried out and is reflected in 31 March 2000 balance sheet values. Between valuations trustees make a best estimate of market value. Valuation gains and losses are recorded in the Statement of Financial Activities with the balance sheet reflecting the revalued amounts.
- Quoted stocks and shares are included in the balance sheet at mid-market price, ex-dividend.
- Other investment fixed assets are included at trustees' best estimate of market value.

1.6 Pensions contributions

The cost of employer pensions contributions to the NHS Superannuation and other schemes is charged to the Statement of Financial Activities.

1.7 Non-charitable funds held on trust

Most funds held on trust are charitable; a few health bodies, however, hold non-charitable funds. Accounts are prepared for these funds on a similar format to charitable funds and they have been included in the overall total of funds held on trust. Of the total resources expended some £329,156,000 relates to charitable expenditure and £88,000 to non-charitable expenditure. Within the fund balances as at 31 March 2000, some £1,895,161,000 is attributable to charitable funds and £18,000 to non-charitable funds.

1.8 Inclusion of special health authorities

This account summarises the underlying accounts of the charitable and non-charitable funds held by health authorities, NHS Trusts, special trustees and special health authorities.

Funds held by the Health Education Authority are not included.

1.9 Transfers of pre-1948 funds

The Charity Commission decided that funds transferred to Guys and St Thomas Special Trustees and South Maudsley NHS Trust under S7 of the 1946 NHS Act should be treated as Expendable Endowment funds rather than Unrestricted funds. The transfer of £87,000,000 for Guys, £177,500,000 for St Thomas and £62,081,567 for South Maudsley represents the funds transferred and the gains and losses accruing since that date.

Details of resources expended—grants**2 2.1 Grants payable:**

	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	1998–99 Total Funds £000
Patients welfare and amenities	14,135	17,178	18	31,331	29,346
Staff welfare and amenities	10,506	9,565	1	20,072	16,638
Research	28,799	23,764	–	52,563	51,430
Contributions to NHS	57,916	44,623	166	102,705	100,265
Miscellaneous	7,287	4,087	537	11,911	16,014
	<u>118,643</u>	<u>99,217</u>	<u>722</u>	<u>218,582</u>	<u>213,693</u>

2.2 Other direct charitable expenditure:

	£000	£000	£000	£000	£000
Patients welfare and amenities	13,198	10,664	1	23,863	22,001
Staff welfare and amenities	7,601	6,905	6	14,512	14,766
Research	7,276	18,260	–	25,536	25,928
Contributions to NHS	5,133	5,340	73	10,546	10,869
Miscellaneous	9,655	3,936	–	13,591	13,625
	<u>42,863</u>	<u>45,105</u>	<u>80</u>	<u>88,048</u>	<u>87,189</u>

Total direct charitable expenditure (note 3.1)

	<u>306,630</u>	<u>300,882</u>
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Analysis of total resources expended	3	3.1	Direct Fundraising and Management			1998-99	
			Charitable Expenditure £000	Publicity and £000	Administration and £000	Total £000	Total £000
Staff			4,097	1,292	2,163	7,552	7,564
Depreciation			1,273	-	432	1,705	1,652
Auditors remuneration:							
Audit fee			-	-	1,146	1,146	1,101
Other fees			-	-	229	229	254
Indemnity insurance			-	-	52	52	44
Bought-in services from NHS			3,423	948	4,998	9,369	8,225
Other			297,837	3,773	7,581	309,191	303,131
			<u>306,630</u>	<u>6,013</u>	<u>16,601</u>	<u>329,244</u>	<u>321,971</u>

3.2 Analysis of staff costs

	1998-99	
	Total £000	Total £000
Salaries and wages	6,756	6,795
Social security costs	550	534
Other pension costs	246	235
	<u>7,552</u>	<u>7,564</u>

Average monthly number of employees in the year:

405 426

3.3 Senior employees

The following number of senior employees received emoluments falling within the following ranges:

	1998-99	
	Number	Number
£40,000 to £50,000	4	5
£50,001 to £60,000	5	-
£60,001 to £70,000	2	1

Changes in resources available for charity use

	4					1998-99	
		Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	Total Funds £000	
Net movement in funds for the year		67,578	29,659	32,785	130,022	59,505	
Net movement in tangible fixed assets:							
for direct charitable use		13,609	44	(7)	13,646	(6,020)	
for other purposes		43	(97)	-	(54)	59	
Net movement in funds available for future activities		<u>81,230</u>	<u>29,606</u>	<u>32,778</u>	<u>143,614</u>	<u>53,544</u>	

Analysis of net assets between funds	5	Unrestricted	Restricted	Endowment	Total	1998-99
		Funds	Funds	Funds	Funds	Total
		£000	£000	£000	£000	£000
Tangible fixed assets		84,909	7,055	10,684	102,648	89,053
Investments		874,019	420,601	378,851	1,673,471	1,540,588
Current assets		97,256	109,429	13,969	220,654	228,050
Current liabilities		(60,240)	(32,504)	(3,293)	(96,037)	(86,398)
Creditors: Amounts due after more than one year		(5,085)	(193)	-	(5,278)	(6,051)
Provisions for liabilities and charges		(232)	(47)	-	(279)	(89)
		<u>990,627</u>	<u>504,341</u>	<u>400,211</u>	<u>1,895,179</u>	<u>1,765,153</u>
Fixed assets	6	Freehold Land and Buildings	Other Interests in Land and Buildings	Plant and Machinery	Fixtures, Fittings and Equipment	Total
		£000	£000	£000	£000	£000
Gross Value						
Balance at 31 March 1999		81,486	3,203	1,184	6,977	92,850
Additions		5,678	377	228	1,484	7,767
Revaluations and indexation		12,153	597	(104)	953	13,599
Disposals		(4,113)	-	(1,247)	(67)	(5,427)
Balance at 31 March 2000		<u>95,204</u>	<u>4,177</u>	<u>61</u>	<u>9,347</u>	<u>108,789</u>
Accumulated Depreciation						
Balance at 31 March 1999		3,482	47	91	177	3,797
Disposals		(30)	-	-	(32)	(62)
Revaluations and indexation		632	106	(60)	23	701
Charge for the year		1,415	120	11	159	1,705
Balance at 31 March 2000		<u>5,499</u>	<u>273</u>	<u>42</u>	<u>327</u>	<u>6,141</u>
Net Book Value at 31 March 2000		<u>89,705</u>	<u>3,904</u>	<u>19</u>	<u>9,020</u>	<u>102,648</u>
Net Book Value at 31 March 1999		<u>78,004</u>	<u>3,156</u>	<u>1,093</u>	<u>6,800</u>	<u>89,053</u>
Historic cost at 31 March 2000						<u>30,261</u>

Analysis of fixed
asset investments

7	7.1 Fixed Asset Investments:			1999
			£000	£000
	Market value at 31 March		1,540,588	1,478,271
	Less: disposals at carrying value		(547,780)	(350,271)
	Add: acquisitions at cost		592,515	347,517
	Net gain on revaluation		88,148	65,071
	Closing market value		1,673,471	1,540,588
	Historic cost at 31 March		1,132,148	1,035,705
	7.2 Market value at 31 March:	Held	Held	31 March
		in UK	outside UK	1999
		£000	£000	£000
	Investment properties	254,494	-	254,494
	Investments listed on Stock Exchange	1,096,421	55,764	1,152,185
	Investments in a Common Deposit Fund or Common Investment Fund	140,735	2,852	143,587
	Unlisted securities	12,754	353	13,107
	Cash held as part of the investment portfolio	74,855	-	74,855
	Other investments	35,243	-	35,243
		<u>1,614,502</u>	<u>58,969</u>	<u>1,673,471</u>
				<u>1,540,588</u>

Analysis of debtors

8	8.1 Amounts falling due within one year:			31 March
			£000	£000
	Amounts due from subsidiary and associated undertakings		1,538	2,038
	Trade debtors		1,074	1,220
	Prepayments		561	546
	Accrued income		19,484	18,830
	Other debtors		10,645	10,059
	Total debtors falling due within one year		33,302	32,693
	8.2 Amounts falling due after more than one year:			
	Amounts due from subsidiary and associated undertakings		382	441
	Trade debtors		41	-
	Prepayments and accrued income		144	390
	Other debtors		1,167	1,439
	Total debtors falling due after more than one year		1,734	2,270
	Total debtors		35,036	34,963

Analysis of creditors	9	9.1 Amounts falling due within one year:		31 March
				1999
			£000	£000
		Loans and overdrafts	2,747	691
		Trade creditors	4,862	3,941
		Amounts due to subsidiary and associated undertakings	4,596	4,149
		Other creditors	54,326	51,920
		Accruals	28,006	23,865
		Deferred income	1,500	1,832
			96,037	86,398
	9.2 Amounts falling due after more than one year:			
	Loans and overdrafts	2,157	202	
	Other creditors	2,588	2,048	
	Accruals and deferred income	533	3,801	
	Total creditors falling due after more than one year	5,278	6,051	
	Total creditors	101,315	92,449	

Contingencies **10** Contingent liabilities totalling £859,000 (1998-99: £421,000) have not been accrued in the accounts. These mostly relate to grants which trustees expect to pay only if grant conditions are met.

Contingent gains amount to £2,517,000 (1998-99: £2,219,000) and relate to legacies and other potential income where the precise amount and timing of the receipt is unknown.

Commitments	11	The trusts have the following commitments:		1998-99
			£000	£000
		Charitable projects	30,324	32,605
		Capital	40,959	20,691
		Other	11,541	9,368
		82,824	62,664	

Related party transactions **12** Health authorities, NHS Trusts and special trustees have statutory authority to accept, hold and administer any property on trust for all or any purpose relating to the health service. This property is accounted through the Funds Held on Trust accounts managed by boards and trustees. Most of the trustees are also members of the associated NHS Trust boards and health authority boards. During the year, the Funds Held on Trust accounts had a significant number of material transactions with their associated health authorities and NHS trusts.

The National Health Service Funds Held on Trust (England) Accounts Direction given by the Treasury

The Treasury, in pursuance of Section 98(4) of the National Health Service Act 1977 hereby gives the following direction:

1. In this direction, unless the context otherwise requires—

“the Act” means the National Health Service Act 1977;

“the Authorities” refers to all Health Authorities, Special Health Authorities, NHS Trusts, all Special Trustees appointed in pursuance of Section 29(1) of the National Health Service Reorganisation Act 1973 and Section 95(1) of the National Health Service Act 1977 (as amended) and to any trustees for an NHS trust appointed in pursuance of Section 11 of the National Health Service and Community Care Act 1990.

2. The summarised account of the Authorities’ funds held on trust required by Section 98(4) of the Act to be prepared by the Secretary of State shall, in respect of the financial year ended 31 March 1997 and subsequent financial years, be as set out in the following paragraphs and Schedule.

3. The summarised account shall comprise:

- (a) a foreword;
- (b) a statement of financial activities;
- (c) a balance sheet;
- (d) such notes as may be necessary for the purposes referred to in paragraph 4 below.

4. The summarised account shall present fairly the financial activities for the year and the state of affairs as at the end of the financial year and separately show the charitable and non charitable funds held on trust. Subject to this requirement the summarised account shall also, without limiting the information given, meet:

- (a) the accounting and disclosure requirements of the Companies Act;
- (b) generally accepted accounting practice in the United Kingdom including accounting standards issued or adopted by the Accounting Standards Board;
- (c) all relevant guidance given by the Charity Commission;
- (d) any disclosure and accounting requirements which the Treasury may issue from time to time;

insofar as these are appropriate to the Authorities’ funds held on trust and are in force for the financial year for which the summarised account is to be prepared.

5. This accounts direction shall be reproduced as an appendix to the published summarised account.

Jamie Mortimer
Treasury Officer of Accounts

21 February 1997

Schedule

Foreword

1. The foreword shall include a statement that the summarised account has been prepared in accordance with a direction given by the Treasury in accordance with Section 98(4) of the National Health Service Act 1977.

Statement of Financial Activities and Balance Sheet

2. The statement of financial activities and balance sheet shall follow the prescribed format shown in SORP 2.

Notes to the Account

3. The notes to the account shall include details of the accounting policies adopted.

4. Further explanatory notes to the account shall be provided wherever they are necessary in order to give users a proper understanding of the accounts.

Application of the Requirements of the Companies Act and Accounting Standards

5. The disclosure exemptions permitted by the Companies Act shall not apply unless specifically authorised by the Treasury.

6. The summarised account is not required to include an income & expenditure account.

7. The summarised account is not required to include a cash flow statement as required by FRS 1.

8. The summarised account is not required to include a note showing historical cost profits and losses as described in FRS 3.

Other

9. The foreword and balance sheet shall be signed by the Accounting Officer and dated.

Summarised Account of Ashworth Special Hospital Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 89 to 102 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 92 to 95.

Respective responsibilities of Accounting Officer and Auditor

As described on page 87, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibility, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of Ashworth Special Hospital Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of Ashworth Special Hospital Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Ashworth Special Hospital Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

National Audit Office
157–197 Buckingham Palace Road
Victoria
LONDON SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Income			
Government funding		50,748	48,083
Miscellaneous income	2.2	687	2,166
		<u>51,435</u>	<u>50,249</u>
Expenditure			
Operating costs	3	(53,885)	(50,410)
(Deficit) for the year		<u>(2,450)</u>	<u>(161)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	£000
(Deficit) for the year		(2,450)	(161)
Unrealised surplus on fixed asset revaluation/indexation	9.2	9,308	5,642
Fixed asset impairment losses	9.2	(10,257)	-
Total recognised gains for the financial year		<u>(3,399)</u>	<u>5,481</u>

The notes at pages 92 to 102 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets			
Tangible fixed assets	5.1	73,105	75,173
Current assets			
Stocks		76	60
Debtors: amounts falling due within one year	6	766	948
Cash at bank and in hand	11	76	-
		918	1,008
Current liabilities			
Creditors: Amounts falling due within one year	7	(5,354)	(3,122)
Bank overdraft	11	-	(643)
		(5,354)	(3,765)
Net current liabilities		(4,436)	(2,757)
Total assets less current liabilities		68,669	72,416
Provisions for liabilities and charges	8	(3,692)	(3,056)
Total net assets		64,977	69,360
Financed by:			
Capital account	9.1	64,764	64,965
Revaluation reserve	9.2	8,305	10,037
Income and expenditure reserve	9.3	(8,092)	(5,642)
		64,977	69,360

The notes at pages 92 to 102 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

			1998-99
Operating activities	Notes	£000	£000
Net cash inflow/(outflow) from operating activities	10	719	(641)
 Capital expenditure			
Payments to acquire tangible fixed assets		<u>(1,427)</u>	<u>(910)</u>
Net cash (outflow) before financing		<u>(708)</u>	<u>(1,551)</u>
 Financing			
Capital funding		<u>1,427</u>	<u>910</u>
Net cash inflow from financing		<u>1,427</u>	<u>910</u>
 Increase/(decrease) in cash	 11	 <u>719</u>	 <u>(641)</u>

The notes at pages 92 to 102 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

FRS 11 was published in July 1998 and the amendments to FRS 5 and 12 in September 1998. The Treasury agreed to defer the application of these standards to the NHS until 1999–2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of these Financial Reporting Standards. These standards have been implemented within the NHS for the accounting year 1999–2000.

1.2 Income

The main source of funding is from the Department of Health, which is recorded on an accruals basis. Other income is net of VAT.

1.3 Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent.

i. Capitalisation

All assets falling into the following categories are capitalised:

assets which are capable of being used for a period which exceeds one year and which:

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

ii. Valuation

Fixed assets are valued at current cost as follows:

Land and buildings

Valuations are carried out by the District Valuer of the Inland Revenue at five-yearly intervals. Between valuations price indices appropriate to the category of asset are applied to arrive at a current value.

The large majority of buildings (including land, where not separable, installations and fittings) are valued by the District Valuer at depreciated replacement cost.

On an exception basis the District Valuer uses other valuation methods as follows:

- land separable from buildings, and land and building surplus to requirements, are valued at open market value for their alternative use; and
- certain non-specialised buildings in operational use are valued at open market value for existing use.

Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer.

Land and buildings assets held by the Authority were revalued as at 1 April 2000 by the District Valuer and this is reflected in 31 March 2000 balance sheet values.

Equipment

Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.

Assets in the course of construction

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

iii. Depreciation and amortisation

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

- freehold land, assets in the course of construction and land and buildings surplus to requirement are not depreciated;
- 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; and

- each equipment asset is depreciated evenly over the expected useful life:

	<i>Years</i>
Medical equipment and engineering plant and equipment	5 to 15
Furniture	10
Mainframe information technology installations	8
Soft furnishings	7
Office and information technology equipment	5
Vehicles	7
Set-up costs in new buildings	10

iv. Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as income. As a result no charge is incurred on the disposal of a fixed asset.

1.4 Stocks and work-in-progress

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

Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.5 Losses and special payments

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

1.6 Pension costs

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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 prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Leases

Rentals under operating leases are charged on a straight line basis over the term of the lease.

1.8 Research and development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as it relates to a clearly defined project and the benefits therefrom can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the income and expenditure account on a systematic basis over the period expected to benefit the project.

Reconciliation of cashflow statement to Parliamentary funding

	1998-99	
	£000	£000
2.1		
Net cash inflow/(outflow) from operating activities	719	(641)
Expenditure	53,885	50,410
Miscellaneous income	(687)	(2,166)
Capital charges	(6,696)	(6,813)
Capital payments	1,427	910
Change in working capital	(3,169)	480
Total Parliamentary funding	45,479	42,180
Comprising of:		
Department of Health high security psychiatric services funding	38,783	40,370
National Assembly for Wales	5,146	-
Direct funding from Department of Health Vote	1,550	1,810
2.2 Miscellaneous income		
	£000	£000
Fees and charges	184	1,698
Other	503	468
	687	2,166

Operating expenses	3	£000	1998-99 £000
Non-executive members' remuneration		45	45
Other salaries and wages		38,952	36,563
Supplies and services:			
clinical		918	856
general		839	771
Establishment costs		900	1,026
Transport costs		71	82
Premises and fixed plant costs		2,448	2,448
Provision for bad debt		(20)	23
Capital:			
depreciation		2,649	2,466
capital charges interest		4,047	4,347
Auditors' remuneration:			
audit fee		44	39
other auditors' remuneration		18	18
Recharges from NHS bodies		381	401
Interest		559	-
Legal costs		1,142	-
Miscellaneous		892	1,325
		<u>53,885</u>	<u>50,410</u>

Operating expenses include £152,822 (1998-99: £228,000) in respect of research and development, £208,000 (1998-99: £142,369) for other operating lease rentals.

Operating lease commitments	£000	£000
Commitments under non-cancellable operating leases which expire:		
Within one year	71	114
Between one and five years	47	69
After five years	93	-
	<u>211</u>	<u>183</u>

Authority members' remuneration	£000	£000
Non-executive members' remuneration	45	40
Executive members' remuneration:		
basic salaries	361	368
benefits	14	13
pension contributions	15	12
performance related bonuses	10	-
	<u>445</u>	<u>433</u>

	Chairmen	1998-99 Chairmen	Chief Executive	1998-99 Chief Executives
	£000	£000	£000	£000
Basic salaries	18	18	91	89
Benefits	2	2	9	4
Pension contributions	-	-	4	3
	20	20	104	96

During 1998-99 and 1999-2000 the post of chairman and during 1998-99 the post of chief executive was held by two persons. The appropriate figures are the aggregate remuneration for the two posts.

The remuneration of other board members fell within the following ranges:

Range £	Number	1998-99 Number
Up to 5,000	2	7
5,001 to 10,000	5	-
10,001 to 15,000	1	1
20,001 to 25,000	1	2
35,001 to 40,000	1	1
40,001 to 45,000	-	1
55,001 to 60,000	1	1
60,001 to 65,000	-	3
70,001 to 75,000	1	-
95,001 to 100,000	1	-
100,001 to 105,000	1	-

Executive members' remuneration and staff costs

	1999-2000 £000	1998-99 £000
Salaries and wages	34,853	32,730
Social security costs	2,651	2,467
Other pension costs	1,086	1,034
Agency staff	362	332
	38,952	36,563

The average number of employees was 1,389 (1998-99: 1,386).

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

Range £	Number	1998-99 Number
40,000 to 50,000	35	22
50,001 to 60,000	6	6
60,001 to 70,000	2	8
70,001 to 80,000	6	5
80,001 to 90,000	3	2

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior

managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

**Better Payment
Practice Code—
measure of
compliance**

- 4 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 66.4% (1998-99: 92.0%), representing 47.9% (1998-99: 84.0%) by value, were paid within the 30 days target.

5.1 Tangible fixed assets

	Freehold land £000	Buildings, installations and fittings £000	Assets under construction £000
Cost or valuation as at 31 March 1999			
	5,357	68,493	23
Indexation	409	5,124	2
Revaluation	453	3,289	-
Additions—purchased	25	989	9
Impairments	(1,550)	(8,707)	-
Transfers	-	25	(25)
Depreciation provided during the year	-	(2,382)	-
Disposals	(32)	(129)	-
Net book value as at 31 March 2000	<u>4,662</u>	<u>66,702</u>	<u>9</u>
		Equipment £000	
Gross replacement cost at 31 March 1999		2,987	
Indexation		71	
Additions—purchased		668	
Disposals		(55)	
Gross replacement cost at 31 March 2000		<u>3,671</u>	
Depreciation as at 31 March 1999		1,687	
Indexation		40	
Provided during the year		267	
Disposals		(55)	
Depreciation as at 31 March 2000		<u>1,939</u>	
Net book value as at 31 March 1999		1,300	
Net book value as at 31 March 2000		1,732	

All tangible fixed assets were purchased.

Included in the above is £388,000 in respect of land and £2,012,000 in respect of buildings valued at open market value. The net book value of land and buildings is entirely freehold.

5.2 Notional (loss) on disposal of fixed assets is made up as follows:

	1998-99	
	£000	£000
(Loss) on disposal of equipment	-	(22)
	<u>-</u>	<u>(22)</u>

Debtors: Amounts falling due within one year

6	31 March 1999	
	£000	£000
National Health Service debtors	164	578
Other debtors	356	205
Provision for irrecoverable debts	(41)	(60)
Prepayments and accrued income	287	225
	<u>766</u>	<u>948</u>

Creditors: Amounts falling due within one year

7	31 March 1999	
	£000	£000
National Health Service creditors	217	302
Non-NHS trade creditors-revenue	547	610
Non-NHS trade creditors-capital	36	171
Tax and social security	386	1,058
Patients' money	152	139
Receipts in advance	2,888	-
Other creditors	875	593
Accruals and deferred income	253	249
	<u>5,354</u>	<u>3,122</u>

Provisions for liabilities and charges	8	Pensions relating to directors	Pensions relating to staff	Other	Total
		£000	£000	£000	£000
At 31 March 1999		401	2,302	353	3,056
Arising during the year		-	-	1,142	1,142
Utilised during the year		(401)	(347)	(317)	(1,065)
Unwinding of discount		-	559	-	559
At 31 March 2000		-	2,514	1,178	3,692
Expected timing of cashflows:					
Within 1 year			266	308	574
1-5 years			1,064	870	1,934
Over 5 years			1,184	-	1,184
Total			2,514	1,178	3,692

9.1 Capital account

The movement on the capital account in the year comprised:

	£000
At 31 March 1999	64,965
Additions	1,825
Depreciation	(2,649)
Transfer from revaluation reserve: backlog depreciation	744
Disposals	(121)
At 31 March 2000	64,764

9.2 Revaluation reserve

The movement on the revaluation reserve in the year comprised:

	£000
At 31 March 1999	10,037
Impairments	(10,257)
Revaluation of fixed assets	9,308
Transfer to capital account: backlog depreciation	(744)
Disposals	(39)
At 31 March 2000	8,305

9.3 Income and expenditure reserve

The movement on the reserve in the year comprised:

	£000
At 31 March 1999	(5,642)
Transfer from income and expenditure account	(2,450)
At 31 March 2000	(8,092)

Reconciliation of operating (deficit) to net cash inflow/(outflow) from operating activities	10	1998-99	
		£000	£000
(Deficit) for the year		(2,450)	(161)
Depreciation		2,649	2,466
Other capital charges		4,047	4,347
Capital charge allocation		(6,696)	(6,813)
(Increase) in stocks		(16)	(10)
Decrease in debtors		187	34
Increase/(decrease) in creditors and other provisions		2,998	(504)
Net cash inflow/(outflow) from operating activities		<u>719</u>	<u>(641)</u>

Analysis of change in cash	11	At 31	Cashflow	At 31
		March		March
		1999		2000
		£000	£000	£000
(Overdraft)/cash at bank		(643)	719	76
		<u>(643)</u>	<u>719</u>	<u>76</u>

Capital commitments 12 Capital commitments contracts at balance sheet date were £562,000 (1998-99: £664,975).

Contingent liabilities 13 At 31 March 1999, Disability Living Allowance claims with a potential value of £400,000 were disclosed. The Authority successfully defended this claim.

The estimated future liability of potential early retirement costs is estimated to be £971,287 (1998-99: £1,106,358). No provision has been made in the accounts for these items.

At 31 March 2000, no clinical negligence claims had been made against the Authority. Other clinical litigation claims could arise in the future due to known incidents. The expenditure which may arise from such incidents cannot be determined and no provision has been made for them.

Losses and special payments 14 There were 85 cases of losses and special payments (1998-99: 83 cases) totalling £57,686 (1998-99: £262,556) approved during 1999-2000. There was no personal injury case (1998-99: 1 case) where the payment exceeded £100,000 (1998-99: £136,904).

Related party transactions 15 Ashworth Special Hospital Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year Ashworth Special Hospital Authority has had a significant number of material transactions with the Department and, potentially, with other entities for which the Department is regarded as the parent department, viz:

NHS Supplies Authority and NHS Executive.

In addition the Authority had a significant number of material transactions with other Government Departments and other central and local government bodies.

Most of these transactions have been with the Department of Social Security, Home Office, National Assembly for Wales and Sefton Metropolitan Borough Council.

During the year none of the Board Members or members of the key management staff or other related parties has undertaken any material transactions with Ashworth Special Hospital Authority.

The summarised accounts Direction is at page 342.

Summarised Account of Broadmoor Special Hospital Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 107 to 119 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 110 to 113.

Respective responsibilities of Accounting Officer and Auditor

As described on page 105, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of Broadmoor Special Hospital Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of Broadmoor Special Hospital Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Broadmoor Special Hospital Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1997 and with the directions made thereunder by the Treasury.
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General
6 July 2001

National Audit Office
157–197 Buckingham Palace Road
Victoria
LONDON SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Income			
Government funding		46,660	41,995
Other income	2.2	1,628	1,239
		48,288	43,234
Expenditure			
Operating costs	3	(48,281)	(43,804)
Surplus/(deficit) for the year		7	(570)

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	£000
Surplus/(deficit) for the year		7	(570)
Unrealised surplus on fixed asset revaluation/indexation	9.2	10,541	5,378
Impairments	9.2	(5,062)	-
Total recognised gains for the financial year		5,486	4,808

The notes at pages 110 to 119 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets			
Tangible fixed assets	5.1	69,302	65,395
Current assets			
Stocks		223	227
Debtors: Amounts falling due within one year	6	407	442
Cash at bank and in hand	11	122	162
		752	831
Current liabilities			
Creditors: Amounts falling due within one year	7	(3,145)	(2,921)
Bank overdraft	11	(12)	(54)
		(3,157)	(2,975)
Net current liabilities		(2,405)	(2,144)
Total assets less current liabilities		66,897	63,251
Provisions for liabilities and charges	8	(900)	(989)
Total net assets		65,997	62,262
Financed by:			
Capital account	9.1	55,530	55,973
Revaluation reserve	9.2	13,767	9,281
Income and expenditure reserve	9.3	(3,300)	(2,992)
		65,997	62,262

The notes at pages 110 to 119 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash inflow from operating activities	10	317	72
Capital expenditure			
Payments to acquire tangible fixed assets		<u>(2,662)</u>	<u>(1,828)</u>
Net cash (outflow) before financing		<u>(2,345)</u>	<u>(1,756)</u>
Financing			
Capital funding		<u>2,347</u>	<u>1,741</u>
Net cash inflow from financing		<u>2,347</u>	<u>1,741</u>
Increase/(decrease) in cash	11	<u>2</u>	<u>(15)</u>

The notes at pages 110 to 119 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

FRS 11 was published in July 1998 and the amendments to FRS 5 and 12 in September 1998. Treasury agreed to defer the application of these standards to the NHS until 1999-2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of these Financial Reporting Standards. These standards have been implemented within the NHS for the accounting year 1999-2000.

1.2 Income

The main source of funding is contracts from the Department of Health for the provision of high security psychiatric services, which is recorded on an accruals basis. Other income is net of VAT.

1.3 Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1999-2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

assets which are capable of being used for a period which exceeds one year and which:

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

(ii) Valuation

Fixed assets are valued at current cost as follows:

Land and buildings

Valuations are carried out by the District Valuer of the Inland Revenue at five-yearly intervals. Between valuations price indices appropriate to the category of asset are applied to arrive at a current value.

The large majority of buildings (including land, where not separable, installations and fittings) are valued by the District Valuer at depreciated replacement cost.

On an exception basis the District Valuer uses other valuation methods as follows:

- land separable from buildings, and land and building surplus to requirements, are valued at open market value for their alternative use; and
- certain non-specialised buildings in operational use are valued at open market value for existing use.

Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer.

Land and buildings assets held by the Authority were revalued as at 1 April 2000 by the District Valuer and this is reflected in 31 March 2000 balance sheet values.

Equipment

Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at net recoverable amount.

Assets in the course of construction

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

(iii) Depreciation and amortisation

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

- freehold land, assets in the course of construction and land and buildings surplus to requirements are not depreciated;
- 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; and
- each equipment asset is depreciated evenly over the expected useful life:

	<i>Years</i>
Medical equipment and engineering plant and equipment	5 to 15
Furniture	10
Mainframe information technology installations	8
Soft furnishings	7
Office and information technology equipment	5
Vehicles	7
Set-up costs in new buildings	10

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as income. As a result no charge is incurred on the disposal of a fixed asset.

1.4 Stocks and work-in-progress

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

Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.5 Losses and special payments

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

1.6 Pension costs

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Operating expenses	3	1998-99	
		£000	£000
Non-executive members' remuneration		46	38
Other salaries and wages		33,188	30,700
Supplies and services			
- clinical		977	903
- general		856	877
Establishment costs		799	743
Transport costs		193	208
Premises and fixed plant costs		2,463	2,139
Capital: depreciation		4,073	2,352
capital charges interest		3,841	3,872
Bad debts		10	3
Audit fee		30	33
Other Auditor's remuneration		13	16
Interest payable		25	-
Recharges from other NHS bodies		74	65
Miscellaneous		1,693	1,855
		<u>48,281</u>	<u>43,804</u>

Operating expenses include £1,465,000 for impairments shown in depreciation.

Annual commitments under non-cancellable operating leases, between 1 and 5 years, are £89,000 (1998-99: £97,000).

	1998-99	
	£000	£000
<i>Authority members' remuneration</i>		
Non-executive members' remuneration	46	38
Executive members' remuneration		
- basic salaries	355	326
- benefits	13	18
- performance related bonuses	2	10
- pension contributions	14	11
	<u>430</u>	<u>403</u>

	Chairman	Chairman	Chief Executive	Chief Executive	Highest Paid Member	Highest Paid Member
	1998-99	1998-99	1998-99	1998-99	1998-99	1998-99
	£000	£000	£000	£000	£000	£000
Basic salaries	18	17	86	83	85	82
Benefits	-	-	-	-	4	3
Performance related bonuses	-	-	-	-	2	2
Pension contributions	-	-	3	3	3	3
	<u>18</u>	<u>17</u>	<u>89</u>	<u>86</u>	<u>94</u>	<u>90</u>

The remuneration of other board members fell within the following ranges:

Range £	1998-99	
	Number	Number
Up to 5,000	3	7
5,001 to 10,000	3	-
15,001 to 20,000	1	3
20,001 to 25,000	-	1
55,001 to 60,000	-	1
60,001 to 65,000	2	-
65,001 to 70,000	1	1
80,001 to 85,000	-	1
85,001 to 90,000	1	1
90,001 to 95,000	1	-

Executive members' remuneration and staff costs

	1998-99	
	£000	£000
Salaries and wages	29,783	27,451
Social security costs	2,354	2,176
Other pension costs	854	818
Agency staff	197	255
	<u>33,188</u>	<u>30,700</u>

The average number of employees was 1,066 (1998-99: 1,052).

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

Range £	1998-99	
	Number	Number
40,000 to 50,000	15	8
50,001 to 60,000	7	8
60,001 to 70,000	4	4
70,001 to 80,000	6	3
80,001 to 90,000	2	2
90,001 to 100,000	2	-

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Better Payment Practice Code – measure of compliance 4 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 85% (1998-99: 84%), representing 80% (1998-99: 85%) by value, were paid within the 30 days target.

Tangible fixed assets	5.1	Freehold land	Buildings installations and fittings	Assets under construction
		£000	£000	£000
		Cost or valuation as at 31 March 1999		
		8,283	56,756	24
		631	4,247	-
		4,906	747	-
		-	1,950	-
		-	(6,527)	-
		-	-	(24)
		-	(2,489)	-
		(20)	(25)	-
		<u>13,800</u>	<u>54,659</u>	<u>-</u>
				Equipment
				£000
				879
				24
				596
				24
				<u>1,523</u>
				547
				14
				119
				<u>680</u>
				332
				843

All tangible fixed assets were purchased.

The net book value of land and buildings is entirely freehold.

Debtors: Amounts falling due within one year	6		31 March 1999	
			£000	£000
		National Health Service debtors	41	39
		Other debtors	204	250
		Provision for irrecoverable debts	(24)	(36)
		Prepayments and accrued income	186	189
		<u>407</u>	<u>442</u>	

Included in the above amount are debtors falling due after one year of £83,000 (1998-99: £86,000).

Creditors: Amounts falling due within one year	7		31 March 1999	
			£000	£000
		National Health Service creditors	122	628
		Non-NHS trade creditors – revenue	572	415
		Non-NHS trade creditors – capital	5	141
		Tax and social security	469	726
		Patients' money	106	122
		Pensions – relating to staff	168	99
		Accruals and deferred income	1,524	788
		Other creditors	179	2
		<u>3,145</u>	<u>2,921</u>	

Included in the above amount are creditors falling due after one year of £90,000 (1998-99: £34,000).

Provision for liabilities and charges	8		Pensions relating to staff		
			£000	Other	Total
				£000	£000
		At 31 March 1999	423	566	989
		Arising during the year	–	460	460
		Utilised during the year	(44)	(353)	(397)
		Reversed unused	–	(177)	(177)
		Unwinding of discount	25	–	25
		At 31 March 2000	<u>404</u>	<u>496</u>	<u>900</u>
		Expected timing of cashflows:			
		Within 1 year	–	429	429
		1-5 years	134	67	201
		Over 5 years	270	–	270
		Total	<u>404</u>	<u>496</u>	<u>900</u>

Capital account	9.1			£000
		The movement on the capital account in the year comprised		
		At 31 March 1999		55,973
		Additions		2,682
		Depreciation		(2,608)
		Impairments		(1,465)
		Transfer from revaluation reserve: backlog depreciation		993
		Disposals		(45)
		At 31 March 2000		55,530
Revaluation reserve	9.2			£000
		The movement on the revaluation reserve in the year comprised		
		At 31 March 1999		9,281
		Revaluation of fixed assets		10,541
		Impairments		(5,062)
		Transfer to capital account: backlog depreciation		(993)
		At 31 March 2000		13,767
Income and expenditure reserve	9.3			£000
		The movement on the income and expenditure reserve in the year comprised		
		At 31 March 1999		(2,992)
		Transfer from income and expenditure account		7
		Other		(315)
		At 31 March 2000		(3,300)
Reconciliation of operating surplus/ (deficit) to net cash inflow from operating activities	10			1998-99
			£000	£000
		Surplus/(deficit) for the year	7	(570)
		Depreciation	4,073	2,352
		Other capital charges	3,841	3,872
		Capital allocation	(7,914)	(6,224)
		Decrease in stocks	4	100
		Decrease/(increase) in debtors	35	(47)
		Increase in creditors and other provisions	271	589
		Net cash inflow from operating activities	317	72
Analysis of change in cash during the year	11			
		At 31 March 1999	Cashflow	At 31 March 2000
		£000	£000	£000
		Cash at bank and in hand	(40)	122
		Overdraft	42	(12)
			2	110

Capital commitments	12	<p>Capital commitments contracts at balance sheet date were £239,450 (1998-99: £197,230).</p> <hr/>
Contingent liabilities	13	<p>At 31 March 2000, litigation claims with a potential value of £251,000 (1998-99: £337,000) had been made against the Authority. These claims are disputed and until they are resolved, the Authority's financial liability, if any, cannot be determined. No provision has been made in the 1999-2000 accounts for these items.</p> <p>Other litigation claims could arise in the future due to known incidents. The expenditure which may arise from such claims cannot be determined and no provision has been made for them.</p> <hr/>
Related party transactions	14	<p>Broadmoor Special Hospital Authority is a body corporate established by order of the Secretary of State for Health.</p> <p>The Department of Health is regarded as a related party. During the year Broadmoor Special Hospital Authority has had a significant number of material transactions with the Department, and, potentially with other entities for which the Department is regarded as the parent Department, viz:</p> <p>NHS Supplies Authority and NHS Pensions Agency.</p> <p>In addition the Authority had a significant number of material transactions with other government departments and other central and local government bodies. Most of these transactions have been with the Department of Education and Employment in respect of the University of London and the National Assembly of Wales.</p> <p>The Authority also had some transactions with a number of charitable funds, certain of the trustees for which are also members of the Authority Board.</p> <p>During the year none of the Board Members or members of the key management staff or other related parties has undertaken any material transactions with Broadmoor Special Hospital Authority.</p> <hr/>
Post balance sheet event	16	<p>The proposed merger with Ealing, Hammersmith and Fulham Mental Health NHS Trust was approved in May 2000. It will be effective from 1 April 2001. There are no financial implications of the reconfiguration included in these accounts.</p> <hr/> <p>The summarised accounts direction is at page 342.</p>

Summarised Account of the Dental Practice Board

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 125 to 136 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 128 to 130.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 123, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Dental Practice Board and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Dental Practice Board, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Dental Practice Board at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Income			
Government Funding	1.3	22,338	22,185
Other	3	764	954
		23,102	23,139
 Expenditure			
Operating expenses	4	21,263	22,764
Early retirement provision	11	1,839	375
		23,102	23,139
 Surplus/(Deficit) for the year		-	-

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	1998-99 £000
Unrealised surplus on the indexation of fixed assets	12	247	329
Unrealised surplus on the revaluation of fixed assets	12	124	-
Total recognised gains		371	329

The notes at pages 128 to 136 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets	6.1	4,873	4,417
Current assets			
Debtors	7	3,234	2,159
Cash at bank and in hand	10	18	23
		3,252	2,182
Current liabilities			
Creditors: amounts falling due within one year	8	(1,087)	(1,093)
Net current assets		2,165	1,089
Provisions for liabilities and charges	11	(2,165)	(1,089)
Total net assets		4,873	4,417
Financed by			
Capital reserve	12	4,264	3,865
Revaluation reserve	12	609	552
		4,873	4,417

The notes at pages 128 to 136 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating Activities			
Net cash (outflow)/inflow from operating activities	9	(5)	1
Capital expenditure			
Payments to acquire fixed assets		(718)	(391)
Net cash (outflow) before financing		(723)	(390)
Financing			
Capital funding		718	400
(Decrease)/increase in cash	10	(5)	10

The notes at pages 128 to 136 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified to reflect changes in the value of fixed assets, and in accordance with directions issued by the Treasury.

1.2 Accounts

The Dental Practice Board prepares three sets of annual accounts; one dealing with the administration of the General Dental Service (GDS); and two dealing with the operation of GDS for England and Wales which together account for approximately £1.5 billion expenditure. This account deals with the administration of the GDS only.

1.3 Income

The main source of funding for the Dental Practice Board is income allocations from the Department of Health (Class II Vote 1) within an approved cash limit. This income is recorded in the accounts on an accruals basis.

The difference between cash funding received and actual expenditure is the responsibility of the Department of Health and is disclosed as a debtor or creditor.

1.4 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more;
- intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000. There were no intangible assets in 1999–2000.

(ii) Valuation

Fixed assets are valued as follows:

- valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals. These were revalued as at 1 April 2000 and these values are disclosed in the 31 March 2000 balance sheet. There was no significant change in the net value of the Authority's land and buildings as a result of the revaluation. Between valuations the appropriate NHS indices are applied to revalue the assets. There was no surplus land or buildings at the balance sheet date;
- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount;
- there were no assets in course of construction.

(iii) Depreciation

- land is not depreciated;
- buildings, installations and fittings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- each equipment asset is depreciated evenly over the expected useful life:

	Years
Furniture, fixtures, fittings, plant and machinery	10
Vehicles and soft furnishings	7
Office equipment	5
Computers including software development costs	5

(iv) Disposals

Any income from the sale of fixed assets is returned to the Department of Health. As a result, no charge is incurred on the disposal of an asset. However, a notional loss is disclosed in Note 6.3.

(v) Impairments

Following the introduction of FRS11, a continuing programme to review assets has been implemented and provision made for current impairments.

1.5 Stock

The supply of stationery has been outsourced during the year. Previously stationery and dental goods stock values have been included in prepayments.

1.6 Pension Contributions

The Board's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Board. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. Early retirements not funded by the scheme are treated as follows. Where retirement is prior to 6 March 1995, the additional costs are recharged to the Board and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Board commits itself to the retirement, regardless of the method of payment.

1.7 Losses and special payments

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

Reconciliation of cashflow statement to Parliamentary funding	2	1998-99	
		£000	£000
	Net cash (outflow)/inflow from operating activities	(5)	1
	Expenditure	23,102	23,139
	Capital payments	718	391
	Movement in working capital	5	(99)
	Capital charges	(898)	(1,099)
	Miscellaneous income	(145)	(125)
	Funding due from Department	(427)	(807)
	Capital funding movement or variance	-	107
	Total Parliamentary funding	22,350	21,508

Other income	3	1998-99	
		£000	£000
Isle of Man Health Service Board		30	30
Certification charges		49	41
Dental Data Services Receipts		8	2
Sundry Receipts		32	34
DPB Centre		14	13
Dental Profile		12	5
		<u>145</u>	<u>125</u>
Transfer from Reserves		619	829
		<u>764</u>	<u>954</u>

Operating Expenses	4	1998-99	
		£000	£000
Board members' fees		27	45
Salaries		10,584	11,381
Computer staff contractors		3,897	4,323
Bureau keying		1,211	1,279
Reference Service Agency Staff		409	362
Postage, stationery and telephone		1,259	1,219
Capital: depreciation		585	829
impairments		34	-
capital charges interest		279	270
Maintenance of equipment and premises		303	385
Transport, travel and subsistence		514	576
Rent and rates		305	485
Furniture and equipment		376	429
Consultants		370	323
Heat, light and power		81	106
Hire and leasing		36	41
Auditor's remuneration		89	85
Training		251	137
Other operating expenses		653	489
		<u>21,263</u>	<u>22,764</u>

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

	1998-99	
	£000	£000
Authority members' remuneration		
Non-executive members' remuneration	27	45
	Chairman	Chief Executive
	£000	£000
Basic salaries	17	72
Benefits	-	-
Compensation for loss of office	-	-
Performance related bonuses	-	-
Pension contributions	-	3
	<u>17</u>	<u>75</u>
1998-99 Totals	<u>33</u>	<u>73</u>

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme is the equivalent of four per cent of the Chief Executive's salary. The Chief Executive's remuneration and conditions of service are set by the Department of Health in accordance with NHS Guidelines for Senior Management Pay.

The Non-Executive Chairman has a Letter of Appointment for his third term of office which expires in March 2002.

The remuneration of other Board members fell within the following ranges:

	1998-99	
Range £	Number	Number
Up to 5,000	4	6

Executive members' remuneration and staff costs

	1998-99	
	£000	£000
Salaries and wages	9,025	9,295
Social security costs	695	713
Other pension costs	333	335
Redundancy payments and pension capitalisations	531	1,038
	<u>10,584</u>	<u>11,381</u>

The average monthly number of employees during the year was 442 (1998-99: 480).

The following number of senior employees received remuneration (excluding pension contributions) falling within the following ranges:

Range £	Number	1998-99 Number
40,001 to 45,000	10	31
45,001 to 50,000	33	7
50,001 to 55,000	11	14
55,001 to 60,000	4	2
60,001 to 65,000	-	1
65,001 to 70,000	-	1
70,001 to 75,000	1	-

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

**Better Payment
Practice Code-
measure of
compliance**

- 5 The Dental Practice Board is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 99.5% (1998-99: 98.3%) representing 99.4% (1998-99: 97.5%) by value, were paid within the 30 days target.

Fixed assets

	Freehold Land £000	Buildings, installations & fittings £000	Equipment £000	Total £000
Gross replacement cost or valuation as at 31 March 1999	819	2,138	5,578	8,535
Additions	-	-	751	751
Indexation	62	161	136	359
Revaluation and impairments	(131)	(49)	-	(180)
Disposals	-	-	(824)	(824)
As at 31 March 2000	750	2,250	5,641	8,641
Depreciation as at 31 March 1999	-	226	3,892	4,118
Indexation	-	17	95	112
Revaluation and impairments	-	(304)	34	(270)
Charge for the year	-	61	524	585
Disposals	-	-	(777)	(777)
As at 31 March 2000	-	-	3,768	3,768
Net book value as at 31 March 1999	819	1,912	1,686	4,417
Net book value as at 31 March 2000	750	2,250	1,873	4,873

Net book value of land and buildings 6.2 The net book value of land and buildings as at 31 March 2000 comprises £3,000,000, all of which is freehold.

Disposal of fixed assets 6.3

	£000
Notional (loss) on disposal of fixed assets	(8)

Debtors 7

	£000	31 March 1999 £000
Department of Health	2,048	1,598
National Assembly for Wales	2	2
NHS Pensions Agency	1	26
Other debtors	366	201
Capital prepayments	-	82
Prepayments and accrued income	817	250
	3,234	2,159

Prepayments and accrued income includes £NIL in respect of stock (1998-99: £76,000).

The Dental Practice Board makes payments on behalf of the Department of Health and National Assembly for Wales in respect of Electronic Data Interchange and the NHS Pensions Agency in respect of Widows'/Widowers' Pension. These payments are subsequently reimbursed. Amounts due to the Dental Practice Board at 31 March 2000 totalled £70,000 (1998-99: £77,000) of which £67,000 (1998-99: £48,000) is included in the Department of Health debtor.

Creditors: Amounts falling due within one year 8

	£000	31 March 1999 £000
NHS creditors	255	250
Capital creditors	-	48
Tax and social security	268	232
Other creditors	45	16
Accruals and deferred income	519	547
	1,087	1,093

Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	9	1998-99	
		£000	£000
Operating surplus		-	-
Depreciation and Impairments		619	829
(Increase)/Decrease in revenue debtors		(1,075)	533
(Decrease)/Increase in creditors		(6)	221
Increase/(Decrease) in pension provision		1,076	(655)
Transfer from reserves-Depreciation and Impairments		(619)	(829)
Transfer from reserves-Other		-	(98)
Net Cash (Outflow)/Inflow from Operating Activities		(5)	1

Analysis of changes in cash	10	At 31	Change	At 31
		March	during	March
		1999	the year	2000
		£000	£000	£000
Cash at bank and in hand		23	(5)	18
		<u>23</u>	<u>(5)</u>	<u>18</u>

Provisions	11	Pensions: relating to staff	£000
		At 31 March 1999	1,089
		Arising during the year	1,839
		Utilised during the year	(763)
		At 31 March 2000	2,165
		Expected timing of cashflows:	
		Within 1 year	1,080
		1-5 years	623
		Over 5 years	462

The provision is in respect of all early retirements where the decision has been made in the period 6 March 1995 to 31 March 2000 and includes retirements planned for 2000-2001 of £843,000 (1999-2000: £NIL).

Reserves	12	Capital	Revaluation	Total
		Reserve	Reserve	
		£000	£000	£000
Balance brought forward 31 March 1999		3,865	552	4,417
Revaluation of Land and Buildings		246	(122)	124
Indexation of Fixed Assets		-	247	247
Disposal of Fixed Assets		(37)	(10)	(47)
Capital Additions		751	-	751
Transfer to Income and Expenditure account		(561)	(58)	(619)
Balance as at 31 March 2000		4,264	609	4,873

Losses **13** There were no material losses in the year.

Contingent liability **14** At 31 March 2000, there were no known contingent liabilities.

Related parties **15** The Board is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Board has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, for example:

Health Authorities (for use of their facilities for Dental Clinics) and the NHS Supplies Authority.

Members of the Board who are also Dental Practitioners receive General Dental Services payments in respect of their professional services. These payments are in accordance with the Dental Statement of Remuneration for these services.

During the year none of the Dental Practice Board Members or members of the key management staff or other related parties has undertaken any material transactions with the parties listed above.

The summarised accounts direction is at page 342.

Summarised Account of the Dental Vocational Training Authority

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

Section 98(4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial year in the form and on the basis determined by the Treasury. The accounts are prepared on behalf of the Secretary of State by the Accounting Officer on a cash basis and must properly present the receipts and payments of the Dental Vocational Training Authority at the year end.

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

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

I certify that I have audited the financial statements on pages 141 to 142 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 142.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 139, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements properly present the receipts and payments and balances of the Dental Vocational Training Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Dental Vocational Training Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements properly present the receipts and payments of the Dental Vocational Training Authority for the year ended 31 March 2000 and its balances at that date and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

National Audit Office
157–197 Buckingham Palace Road
Victoria
LONDON SW1W 9SP

Receipts and Payments Account for the year ended 31 March 2000

	Note	£000	1998-99 £000
Receipts			
Advances from the Department of Health Class II, Vote 1		130	100
Payments			
Staff	2	78	62
Administration costs		18	16
Solicitors' fees		3	5
Appeal body	3	3	10
Audit fee		1	1
		<u>103</u>	<u>94</u>
Excess of receipts over payments		<u>27</u>	<u>6</u>

Statement of Balances as at 31 March 2000

	Balances at 31 March 2000	Movement	Balances at 31 March 1999
	£000	£000	£000
Cash and bank balances	<u>44</u>	<u>27</u>	<u>17</u>

The notes at page 142 form part of this account

Nigel Crisp
Accounting Officer

27 November 2000

Notes to the Account

- Accounting policies** 1 (a) This account has been prepared in the form directed by Treasury in accordance with section 98(4) of the National Health Service Act 1977.
- (b) The DVTA accounts for receipts and payments on a cash basis. Any unspent income is carried forward to the next year.
- Staff costs** 2 The DVTA consists of a Chairman, a Secretary/Member and up to 40 non-officer Members. Staff costs consist of expenses paid to DVTA Members, £48,936 (1998-99: £41,971), and the salary of two permanent (1998-99: 1) and temporary members of staff, £29,770 (1998-99: £19,569).
- Appeal body** 3 The DVTA administers the expenses for the Appeal body on the authorisation of the Appeal body secretariat.
-

The summarised accounts direction is at page 342.

Summarised Account of the Family Health Services Appeal Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 147 to 155 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 149 to 150.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 145, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Family Health Services Appeal Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report, if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Family Health Services Appeal Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Family Health Services Appeal Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

National Audit Office
157–197 Buckingham Palace Road
Victoria
LONDON SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Income			
Department of Health funding	1.2	971	1,045
Other miscellaneous income	2.2	67	53
		1,038	1,098
Expenditure			
Operating expenses	3	971	917
Operating surplus for the year		67	181

There were no other recognised gains and losses other than the surplus for the year.

The notes at pages 149 to 155 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets	5	-	-
Current assets			
Debtors	6	23	21
Cash at bank and in hand	11	201	143
		<u>224</u>	<u>164</u>
Current liabilities			
Creditors: amounts falling due within one year	7	(48)	(55)
Net current assets		<u>176</u>	<u>109</u>
Provision for liabilities and charges	8	-	-
Total net assets		<u>176</u>	<u>109</u>
Financed by			
Income and expenditure reserve	9	176	109
		<u>176</u>	<u>109</u>

The notes at pages 149 to 155 form part of this account.

Nigel Crisp

Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash inflow/(outflow) from operating activities	10	58	(86)
Increase/(decrease) in cash	11	58	(86)

There were no investing or financing activities.

The notes at pages 149 to 155 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

1.2 Income

The main source of funding for the FHS Appeal Authority is income allocations from the Department of Health (Class II Vote 1) within an approved cash limit. Additional income is generated from Health Authorities for training staff on Disciplinary Hearings and Pharmacy Applications.

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of health care. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more;
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

(ii) Valuation

Equipment is valued at estimated net current replacement cost using an appropriate NHS index.

(iii) Depreciation

The only class of tangible asset held is equipment, comprising office and information technology equipment, depreciated on a straight line basis over its estimated life of 5 years.

1.4 Losses and special payments

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

1.5 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the leases.

1.6 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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, prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

Reconciliation of cashflow statement to Parliamentary funding	2.1		1998-99	
			£000	£000
		Net cash inflow/(outflow) from operating activities	58	(86)
		Expenditure	971	917
		Miscellaneous income	(56)	(35)
		Movement in working capital	9	267
		Appropriations in aid	(11)	(18)
		Total Parliamentary funding	971	1,045
<hr/>				
Miscellaneous income	2.2	Fees and charges	11	18
		Other	56	35
			67	53
<hr/>				
Operating expenses	3	Authority members' fees	20	20
		Salaries	453	494
		External contractors	109	126
		Provision for early retirements	95	-
		Accommodation and computer	140	140
		Administration	44	66
		Travel and subsistence	41	48
		Redundancy payments	56	7
		Auditor's remuneration	7	7
		Other operating expenses	6	9
		971	917	

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

Annual commitments under non-cancellable operating leases (buildings), between 1 and 5 years, are £70,000.

	1998-99	
	£000	£000
<i>Authority members' remuneration:</i>		
Non-executive members' remuneration	20	20
<i>Executive members' remuneration:</i>		
Basic salaries	127	117
Benefits	-	3
Performance related bonuses	17	17
Pension contributions	5	5
Redundancy payments	35	--
	204	162

	Chairman	Chief Executive	Executive Director*
	£000	£000	£000
Basic salaries	10	83	44
Performance related bonuses	-	4	13
Pension contributions	-	3	2
Redundancy payments	-	-	35
	<u>10</u>	<u>90</u>	<u>94</u>
In 1998-99 the remuneration was:	10	83	-

** The Executive Director was the highest paid director due to redundancy payments.*

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of four per cent of the Chief Executive's salary. The Chief Executive's performance for the purposes of calculating his performance-related bonus is measured by his achievement in completing specified objectives. The Chief Executive does not have any other benefits, e.g. car. His contract is renewed subject to satisfactory performance, and currently expires on 30 September 2002.

The Chairman's term of office expires on 30 September 2000.

The remuneration, excluding pension contributions, of Board members fell within the following ranges:

Range £	Number	1998-99 Number
Up to 5,000	-	2
5,001 to 10,000	2	-
10,001 to 15,000	1	1
55,001 to 60,000	-	1
75,001 to 80,000	-	1
85,001 to 90,000	1	-
90,001 to 95,000	1	-

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

	£000	1998-99 £000
<i>Executive members' remuneration and staff costs:</i>		
Salaries and wages	404	441
Social security costs	35	37
Other pension costs	14	16
	<u>453</u>	<u>494</u>

The average monthly number of employees (excluding agency staff) during the year was 12.5 (1998-99: 16.5).

In addition to the Chief Executive, one other senior employee received remuneration in excess of £40,000 in the year.

Better Payment Practice Code – measure of compliance

- 4 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 90.9% of bills, representing 91.3% by value, were paid within the target (1998-99: 95.2% of bills, representing 95.8% by value, were paid within the 30 day target). Payments on behalf of the Family Health Services Appeal Authority were processed by Harrogate Health Care NHS Trust and the above represents the Trust's overall performance.

Fixed assets

	Equipment £000
Gross replacement cost at 31 March 1999	<u>14</u>
Gross replacement cost at 31 March 2000	<u>14</u>
Accumulated depreciation at 31 March 1999	14
Provided during the year	–
Accumulated depreciation at 31 March 2000	<u>14</u>
Net book value at 31 March 1999	–
Net book value at 31 March 2000	<u>–</u>

Debtors	6			31 March 1999
			£000	£000
		NHS debtors	-	5
		Other debtors	-	9
		Prepayments and accrued income	23	7
			<u>23</u>	<u>21</u>
<hr/>				
Creditors: Amounts falling due within one year	7	NHS creditors	9	17
		Other creditors	30	17
		Accruals	9	21
			<u>48</u>	<u>55</u>
<hr/>				
Provision for liabilities and charges	8			£000
		At 31 March 1999		-
		Arising during the year		95
		Utilised during the year		(95)
		At 31 March 2000		<u>-</u>
		This provision was in respect of the cost of early retirement.		
<hr/>				
Reserves	9			Income & Expenditure Reserve
				£000
		At 31 March 1999		109
		Transfer from income & expenditure account		67
		At 31 March 2000		<u>176</u>
<hr/>				
Reconciliation of operating surplus to net cash inflow/(outflow) from operating activities	10			1998-99
			£000	£000
		Operating surplus	67	181
		(Increase)/decrease in debtors	(2)	24
		(Decrease) in creditors	(7)	(41)
		(Decrease) in provision for liabilities and charges	-	(250)
		Net cash inflow/(outflow) from operating activities	<u>58</u>	<u>(86)</u>
<hr/>				

Analysis of changes in cash	11	At 31 March 1999 £000	Change during the year £000	At 31 March 2000 £000
	Cash at bank and in hand	<u>143</u>	<u>58</u>	<u>201</u>

Related parties 12 The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, viz:

All Health Authorities in England re: training of staff on Disciplinary Hearings and Pharmacy Applications.

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

The summarised accounts direction is at page 342.

Summarised Account of the Health Education Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 161 to 174 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 165 to 167.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 159, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Health Education Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Health Education Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Education Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Income			
Advances from the Department of Health		29,552	30,036
Transfer from capital grant	1.4	252	187
Other income	2	7,046	2,925
		36,850	33,148
Expenditure			
Staff costs	3	12,351	8,730
Other operating charges	4	24,897	22,328
Depreciation	5	295	326
		37,543	31,384
Surplus/(deficit) on ordinary activities			
		(693)	1,764
Transfer to capital grant		(40)	(164)
Surplus/(deficit) for the year			
		(733)	1,600
Accumulated deficit brought forward		(610)	(2,210)
Transfer to revaluation reserve	13	(89)	-
Accumulated deficit			
		(1,432)	(610)

Operations are continuing (see Notes 1.10 and 22).

The notes at pages 165 to 174 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Surplus/(deficit) for the financial year		(733)	1,600
(Loss)/profit on the revaluation of fixed assets	5	(25)	53
Total gains/(losses) related to the financial year		(758)	1,653

The notes at pages 165 to 174 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets			
Intangible assets	5.1	38	69
Tangible assets	5.2	990	1,186
		<u>1,028</u>	<u>1,255</u>
Current assets			
Stocks and work in progress	7	142	287
Debtors and prepayments	8	1,490	2,472
Cash at bank and in hand		781	766
		<u>2,413</u>	<u>3,525</u>
Creditors: amounts falling due within one year	9	<u>(2,396)</u>	<u>(3,042)</u>
Net current assets		<u>17</u>	<u>483</u>
Total assets less current liabilities		<u>1,045</u>	<u>1,738</u>
Provisions for liabilities and charges	10	<u>(927)</u>	<u>(579)</u>
Total net assets		<u>118</u>	<u>1,159</u>
Financed by:			
Deferred capital grant reserve	11	1,006	1,165
Deferred income reserve	12	153	276
Revaluation reserve	13	391	328
Accumulated deficit		<u>(1,432)</u>	<u>(610)</u>
		<u>118</u>	<u>1,159</u>

The notes at pages 165 to 174 form part of this account.

Nigel Crisp
Accounting Officer

2 July 2001

Cash Flow Statement for the year ended 31 March 2000

	Notes	1998-99 £000	1998-99 £000
Operating activities			
Net cash inflow from operating activities	15	15	366
Capital expenditure			
Payments to acquire fixed assets		<u>(93)</u>	<u>(217)</u>
Net cash (outflow)/inflow before financing		<u>(78)</u>	<u>149</u>
Financing			
Capital funding		<u>93</u>	<u>217</u>
Net cash inflow from financing		<u>93</u>	<u>217</u>
Increase in cash	16	<u>15</u>	<u>366</u>

The notes at pages 165 to 174 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention modified to reflect changes in the value of fixed assets, and in accordance with the Accounts Direction issued by the Treasury. It is a Department of Health requirement that the Authority should comply with guidance on disclosures given in “Executive NDPBs: Annual Reports and Accounts Guidance”.

1.2 Income allocations

Funding from the Department of Health (Class II, Vote 2) within approved cash limits and paid against specific contracts is recorded in the accounts on a cash basis. All other income in the accounts is recorded on an accruals basis.

1.3 Fixed assets

a. Capitalisation

All tangible and intangible assets which have a value exceeding £1,000 and an estimated useful life of one year or more are capitalised.

b. Revaluation

Fixed assets are revalued annually using the appropriate NHS indices.

c. Depreciation

Depreciation is provided on all fixed assets at rates calculated to write-off the cost or valuation to the estimated residual value of each asset on a straight line method from the date of the acquisition, as follows:

Computers	3 years
Tenants' Improvements	10 years
Furniture	5 years

Intangible assets are amortised on a straight line basis over the estimated lives of the assets up to a maximum of 20 years. The carrying value of intangible fixed assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

1.4 Capital grants

Capital grants received for capital expenditure are credited to a Deferred Capital Grant Reserve and then released to the Income and Expenditure account over the expected useful lives of the relevant assets. A specific capital grant is received each year. Where this grant is less than the value of assets capitalised during the year, the

excess is transferred to the Deferred Capital Grant Reserve from the Income and Expenditure account.

1.5 Stocks

Stocks are valued at the lower of cost, or net replacement cost if materially different, and net realisable value.

1.6 Losses and special payments

Losses and special payments are generally charged to the relevant functional headings.

1.7 Operating leases

Operating leases are charged in the accounts on a straight line basis over the lease term.

1.8 Pension Costs

The employees of the Authority are members of the NHS Pension Scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State and not the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society. Under the arrangement the Authority can make contributions to enhance an employee's pension benefits.

The benefits payable relate directly to the value of the investments made. The scheme is contributory with employees contributing six per cent (manual staff five per cent) of pensionable pay.

1.9 Compensation pensions

There are ten former employees to whom the Health Education Authority has an obligation to pay compensation pensions from retained funds. A provision of £477,121 has been created to reflect this obligation. This provision is reduced each year in line with actuarial forecasts of future pension payments.

1.10 Going concern basis

On 1 April 2000, the Health Education Authority ceased to exist as a corporate body. All rights and obligations of the HEA were assumed on that date by: the Health Development Agency; Lambeth, Southwark & Lewisham Health Authority; and by the Department of Health. These accounts have therefore been prepared on a going concern basis.

Other income	2	1998-99	
		£000	£000
Fee income		2,477	1,885
Publications and merchandise		867	671
Miscellaneous		402	369
Redundancy and closure funding (see Note 3)		3,300	-
Total		7,046	2,925

3 Staff costs

	£000	£000
Salaries and wages	7,462	7,436
Social Security costs	660	644
Other pension costs	228	224
Non-employee staff costs	430	401
Early retirement costs	1,520	-
Redundancy and related costs (see Note 3)	2,018	-
Non-executive Board members' emoluments and social security costs	33	25
Total	12,351	8,730

The average number of employees (excluding non-executive directors) during the year was 269 (1998-99: 290).

The number and remuneration of senior employees fell within the following ranges:

Range (£s)	1998-99	
	Number	Number
40,001-50,000	23	20
50,001-60,000	13	7
60,001-70,000	2	5
70,001-80,000	2	1
80,001-90,000	1	-
90,001-100,000	1	1

Board Members' remuneration:

	1998–99	1998–99
	£000	£000
Non-executive directors' fees	33	25
Executive directors' remuneration:		
Salaries	147	173
Pensions contributions	5	7
	185	205

A new Chair was appointed with effect from 1 May 1999; her emoluments for the year were £19,621. The previous Chairman retired on 30 April 1999; his emoluments were £1,744 (1998–99: £20,925).

A new Chief Executive was appointed in January 2000 following the resignation of the previous post-holder in July 1999; his remuneration for the part-year, including contributions to the National Health Services Superannuation Scheme (of which he is an ordinary member), was £25,189. The remuneration of the previous post-holder for the part-year, including contributions to the National Health Services Superannuation Scheme (of which he is an ordinary member), was £36,454 (1998–99: £99,826).

The Deputy Chief Executive, who was appointed as Acting Chief Executive for the period August 1999 to January 2000, was the highest paid employee during the year; her remuneration, including contributions to the National Health Services Superannuation Scheme (of which she is an ordinary member), was £90,377.

One executive director left the Authority in July 1999 and received a payment of £68,000 as compensation for loss of office.

The remuneration of other board members fell within the following ranges:

	1998–99	
Range (£s)	Number	Number
up to £5,000	7	6
70,001–80,000	–	1

Redundancy payments

In the White Paper "Saving Lives—Our Healthier Nation" published in July 1999 it was announced that the Health Education Authority would be abolished on 31 March 2000 and would be replaced by a new organisation, the Health Development Agency. This resulted in a redundancy programme, which was managed by the Directors and senior management of the HEA in close consultation with senior representatives of the Department of Health. To meet the costs of redundancy, extra funding of £3,300,000 was made available by the Department of Health.

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999–2000. The Treasury have agreed to delay the implementation of the disclosure until 2000–2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Other operating charges**4****4.1 General operating charges**

	1998-99	
	£000	£000
Direct project costs (see note 4.2)	22,202	19,802
Administration costs (see note 4.3)	3,064	2,181
(Decrease)/increase in stock provision	(581)	130
Provision for compensation pensions	477	-
(Decrease) in provision for compensation pensions for the year	(69)	-
Amortisation of rent-free period	(260)	137
Insurance charges	24	27
Auditor's remuneration	40	51
	<u>24,897</u>	<u>22,328</u>

4.2 Direct project costs

	£000	£000
Professional services	5,810	4,537
Publications	4,709	4,016
Research	3,579	1,884
Advertising	2,466	5,229
Warehousing and distribution	1,454	1,081
Conferences	1,020	708
Grants	828	520
Public relations	671	469
Travel and subsistence	472	388
Other operating costs	1,193	970
	<u>22,202</u>	<u>19,802</u>

4.3 Administration costs

	£000	£000
Office rent	533	533
Service costs	358	429
Training and general development	333	181
Business rates	260	313
Seconded staff	165	144
Postage and packing	146	165
Legal costs	93	77
Telephones and faxes	87	85
Subscriptions	63	85
Stationery and office sundries	58	74
Relocation expenses	(5)	7
Other	973	88
	<u>3,064</u>	<u>2,181</u>

Fixed assets	5				
	5.1	Intangible fixed assets			
			Software	Software Licences	Total
			£000	£000	£000
		Cost/Valuation			
		At 31 March 1999	15	61	76
		Additions	-	-	-
		Revaluation	(2)	(6)	(8)
		Disposals	-	-	-
		At 31 March 2000	13	55	68
		Depreciation			
		At 31 March 1999	1	6	7
		Charged in the year	5	20	25
		Backlog depreciation	(1)	(1)	(2)
		Disposals	-	-	-
		At 31 March 2000	5	25	30
		Net Book Value			
		At 31 March 1999	14	55	69
		At 31 March 2000	8	30	38
	5.2	Tangible fixed assets			
			Furniture	Tenants' Improvements	Computers
			£000	£000	£000
		Cost/Valuation			
		At 31 March 1999	459	811	395
		Additions	-	-	93
		Revaluation	(5)	(9)	(45)
		Disposals	-	-	-
		At 31 March 2000	454	802	443
		Depreciation			
		At 31 March 1999	115	108	256
		Charged in the year	92	81	97
		Backlog depreciation	(2)	(2)	(36)
		Disposals	-	-	-
		At 31 March 2000	205	187	317
		Net Book Value			
		At 31 March 1999	344	703	139
		At 31 March 2000	249	615	126
Capital Commitments	6	The Authority had no capital commitments at 31 March 2000, nor any at 31 March 1999.			

Stocks and work in progress	7		31 March	
			1999	
			£000	£000
		Publications	709	1,436
		Provision for free issue	(567)	(1,149)
		<u>142</u>	<u>287</u>	

The majority of the stock of publications are issued free of charge. A provision at 80 per cent is consequently applied to stock values.

Debtors and prepayments	8		31 March	
			1999	
			£000	£000
		Trade debtors	1,037	2,152
		Sundry debtors and prepayments	450	180
		Other debtors	37	140
		(34)	-	
		<u>1,490</u>	<u>2,472</u>	

Creditors: Amounts falling due within one year	9		£000	£000
		Trade creditors	1,322	1,920
		Other taxes and Social Security	-	28
		Accruals and deferred income	720	762
		Other creditors	354	332
		<u>2,396</u>	<u>3,042</u>	

Provisions for liabilities and charges	10		£000	
		Provision for Rent-Free Accommodation:		
		At 31 March 1999		579
		Rent paid in year		(793)
		Charge for year		533
		At 31 March 2000		<u>319</u>
		Provision for future compensation pensions (see note 1.9)		
		At 1 April 1999		477
		(Decrease)/increase in provision		(69)
		At 31 March 2000		<u>408</u>
		Provision for Inland Revenue costs		
		At 1 April 1999		-
		Increase in provision		200
At 31 March 2000		<u>200</u>		
Total provisions for liabilities and charges		<u>927</u>		

Deferred capital grant reserve	11		1998-99	
			£000	£000
		Balance brought forward	1,165	1,135
		Grant for purchase of fixed assets	53	53
		Transfer from income and expenditure account	40	164
		Released to income and expenditure account	(252)	(187)
		Balance at year end	1,006	1,165

Deferred income reserve	12	The deferred income reserve reflects income received by the Authority in respect of leases. The income is released to the Income and Expenditure account over the period of the lease up to the first rent review date.	1998-99	
			£000	£000
		At 31 March 1999	276	398
		Released to income and expenditure account	(123)	(122)
		At 31 March 2000	153	276

Revaluation reserve	13	At 31 March 1999	1998-99	
			£000	£000
		(Loss)/profit on revaluation of fixed assets in year	(68)	53
		Backlog depreciation	42	24
		Transfer from General Reserve	89	-
		At 31 March 2000	391	328

The transfer from the General Reserve represents the realised balance of indexation adjustments.

Lease commitments	14	Annual commitments under non-cancellable operating leases are:		
		Leasehold rent		
		Operating leases expiring:		
		within one year	-	-
		between one and five years	-	-
		after five years	793	793
			793	793
		Other leases		
		Operating leases expiring:		
		within one year	11	8
		between one and five years	38	72
		after five years	-	-
			49	80

Reconciliation of operating surplus to net cash inflow from operating activities	15	Operating surplus/(deficit)	(733)	1,600
		Depreciation	295	326
		Transfer from deferred capital grant	(252)	(187)
		Decrease/(Increase) in stocks	145	(32)
		Decrease in debtors	982	1,494
		(Decrease) in creditors	(647)	(2,850)
		Provisions for liabilities and charges	129	137
		Income deferred	(123)	(122)
		Net cash inflow/(outflow) from operating activities	(204)	366

Analysis of changes in cash	16		31 March	Cash	31 March
			1999	Flows	2000
			£000	£000	£000
		Cash at bank and in hand	766	15	781

Project expenditure	17	The Authority's total expenditure on projects (direct and indirect) was as follows:			
				1998–99	
				£000	£000
			Smoking	6,647	6,731
			Research and evaluation	5,578	4,784
			Immunisation	5,468	1,835
			Publishing and corporate publications	3,552	3,581
			Sexual health	2,267	1,909
			Drugs	2,209	2,043
			Nutrition	1,647	768
			Physical activity	1,585	2,613
			Mental health	1,211	830
			Health at work	1,197	937
			Schools and young people	1,055	608
			International	1,024	625
			Other health promotion	881	91
			Older people and accidents	811	365
			Alcohol	584	582
			Cancer	561	622
			Policy advice to Secretary of State	372	277
			Oral health	359	392
		Black and minority ethnic groups	341	3	
		Children and families	117	106	
		Professional development	64	1,018	
		Advice to purchasers	13	548	
		Folic Acid	–	116	
			37,543	31,384	

Contingent liabilities **18** There are no material contingent liabilities.

Losses and special payments **19** The Health Education Authority made a payment of £20,000 in March 2000 to the Licensing Company Limited on early termination of a Representation Agreement. No other cases of loss or special payment were reported during 1999–2000.

- Funds held on trust** 20 The Health Education Authority held funds on trust. In the year to 31 March 2000, those funds held as at 1 April 1999, and those received in the year, were expended in full on black and ethnic minority projects.
- Donations of £200 (1998–99: £1,060) and dividends and interest of £5,314 (1998–99: £12,819) were received in 1999–2000. There was no grants receivable income (1998–99: £0). Direct charitable expenditure on projects totalled £104,741 (1998–99: £38,855).
- The balance of the funds held on trust at 31 March 2000 was £0 (1998–99: £99,227). The Trust ceased business on 31 March 2000.
-
- Related party transactions** 21 The Health Education Authority is a body corporate established by order of the Secretary of State for Health.
- The Department of Health is regarded as a related party. During the year the Authority had a number of material transactions with the Department and with the National Health Service Executive for which the Department is regarded as the parent Department. The Authority also received revenue payments from the HEA Trust for which the Authority is a corporate trustee.
- During the year none of the Authority’s directors or members of its key management, staff or parties related to them has undertaken any material transactions with the Authority. During the year the Authority provided funds to two organisations whose Boards included representatives from the Authority: No Smoking Day (£250,000)–Ann McNeill, director; and the Pharmacy Healthcare Scheme (£845)–Cathy Stillman-Lowe, director.
-
- Post balance sheet events** 22 On 6 July 1999, the Secretary of State for Health published the white paper “Our Healthier Nation”, setting out the government’s health strategy for England. As part of that strategy he announced the establishment of a Health Development Agency (HDA), using the resources of the HEA to form the core of the new Agency. The HDA was established in January 2000 by Statutory Instrument 1999 No. 3431.
- The Health Education Authority was abolished on 1 April 2000 by Statutory Instrument 2000 No. 604. On that date, the staff, property, rights and liabilities of the Authority were transferred to: the Health Development Agency; Lambeth, Southwark & Lewisham Health Authority; and the Department of Health.
- There were no other material post-balance sheet events.
-
- The Better Payment Practice Code: measure of compliance** 23 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 72% representing 73% by value, were paid within the 30 days target (1998–99: 65% representing 68% by value, were paid within the 30 days target).

The summarised accounts direction is at page 342.

Summarised Account of the Mental Health Act Commission

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 179 to 185 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention and the accounting policies set out on pages 181 to 182.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 177, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Mental Health Act Commission and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Mental Health Act Commission, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Mental Health Act Commission at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Note	£000	1998-99 £000
Income			
Advances from the Department of Health and National Assembly of Wales	2.1	3,115	3,230
Other income		73	41
		3,188	3,271
Expenditure			
Commission members' fees and expenses	3	2,220	2,381
Administrative support staff costs	4	537	534
Other operating expenses	5	472	384
		3,229	3,299
(Deficit) for the year		(41)	(28)

The Commission had no recognised gains or losses other than the deficit for the year.

The notes at pages 181 to 185 form part of this account.

Balance Sheet as at 31 March 2000

	Note	£000	31 March 1999 £000
Current assets			
Debtors	6	36	61
Cash in hand		2	4
Current liabilities			
Creditors: Amounts falling due within one year	7	(290)	(276)
Total assets less current liabilities		<u>(252)</u>	<u>(211)</u>
Financed by:			
Income and Expenditure Reserve		<u>(252)</u>	<u>(211)</u>

The notes at pages 181 to 185 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Note	£000	1998-99 £000
Net cash (outflow) from operating activities	8	<u>(2)</u>	<u>(1)</u>
(Decrease) in cash	9	<u>(2)</u>	<u>(1)</u>

The notes at pages 181 to 185 form part of this account.

Notes to the Account

Accounting policies 1

1.1 Accounting convention

This account has been prepared under the historical cost convention, in accordance with the accounts directions issued by Treasury. The Commission's expenditure and balances are recorded on an accruals basis rather than a cash basis.

1.2 Income

The Department of Health make payments on behalf of the Commission within an approved cash limit; a recharge is made to the National Assembly of Wales. These payments on the Commission's behalf are recorded as income in the Commission's accounts on a cash basis rather than an accruals basis.

1.3 Fixed assets

The Commission does not have any fixed assets above the NHS capitalisation threshold of £5,000.

1.4 Leases

Rentals under operating leases are charged on a straight-line basis under the terms of the lease.

1.5 Better Payment Practice Code

The Department of Health pays all invoices on behalf of the Commission and therefore information on adherence to the Better Payment Practice Code is not available.

1.6 Pensions

The Commission participates in the Principal Civil Service Pension Scheme (PCSPS), the Civil Service Compensation Scheme (CSCS) and other statutory schemes under the Superannuation Act 1972.

Expenditure on the Civil Superannuation Vote covers the payment of pensions and other superannuation benefits and injury benefits to civil servants and staff of certain fringe bodies, to former civil servants or to their dependents. It also covers the payment of annual compensation arising from early retirements that are funded by lump sum payments made by departments and agencies in a previous financial year. In common with most other public service schemes the PCSPS is unfunded. The Civil Service Pensions Division of the Cabinet Office manages the Civil Service Superannuation Vote.

Individual members bear a share of the pension costs in two ways: through making an explicit contribution of one and a half per cent of salary, and by pay being set at levels lower than would be appropriate if the value of pension benefits were not taken into account. The balance of costs is met by departments and agencies through accruing superannuation liability charges, which are the equivalent of the contributions made by employers in the private sector to an occupational pension arrangement. The charges are based on the principle of meeting pension costs as they are incurred. The balance of pension costs is met on a pay-as-you-go basis from the Civil Service Superannuation Vote.

The Civil Service Additional Voluntary Contribution Scheme (AVC) is a money purchase arrangement linked to the Equitable Life Assurance Society and/or the Scottish Widows' Fund and Life Assurance Society. Members can choose to pay contributions, which can either be used to provide additional life cover, or to be paid into an individual fund where they build up until retirement when the fund is used to purchase a pension.

Expenditure on the Civil Superannuation Vote for the payments of pensions and other benefits to or in respect of former staff is not directly related to the current staff costs of each departmental programme. Departments, agencies and other bodies meet the cost of the pension cover provided through the PCSPS for their staff by payments of charges calculated on an accruals basis, the rates of which are reassessed every three years by the Government Actuary. Charges are specified for different groups of civil servants according to their grade. The costs of early retirement are met by the last employing Department under the CSCS.

		1998-99	1998-99
		£000	£000
Advances from the Department of Health and National Assembly of Wales	2.1		
	Advances from the Department of Health (Class II, Vote 1, Subhead: A2 (part))	3,047	3,163
	Advances from the National Assembly of Wales	68	67
		<u>3,115</u>	<u>3,230</u>
Reconciliation of cashflow statement to Parliamentary funding	2.2	£000	£000
	Net cash (outflow) from operating activities.	(2)	(1)
	Expenditure	3,229	3,299
	Appropriations in aid	(73)	(41)
	Movement in working capital	(39)	(27)
	Total Parliamentary funding	<u>3,115</u>	<u>3,230</u>
Commission members	3	£000	£000
	Members' fees	1,043	1,121
	Members' expenses	199	209
	Second opinion doctors' fees	855	924
	Second opinion doctors' expenses	123	127
		<u>2,220</u>	<u>2,381</u>

Included in the account is a central payment made by the Department of Health to the Inland Revenue to discharge the tax liability of members of MHAC committees. The amount paid on behalf of the Commission in 1999-2000 was £155,000 (1998-99: £301,000, of which approximately £201,000 was paid in respect of previous years).

Staff costs and numbers

	4			1998-99
			£000	£000
4.1		<i>Administrative support staff costs</i>		
		Salaries	451	443
		Social security costs	30	32
		Other pension costs	55	56
		Agency costs	1	3
			537	534
4.2		<i>Average number of staff</i>		

The average number of employees (excluding agency staff) was 32 (1998-99 33).

4.3 *Members' remuneration*

Executive members of the Management Board are civil service staff seconded from the Department of Health. The total remuneration paid to executive members was £90,000 (1998-99: £91,000).

From 1 April 1999 until 30 November 1999 a non-executive member acted as Chairman, the new Chairman started on 1 December 1999. Their respective remunerations as Chairman during the year were £5,709 and £6,881 (1998-99: £14,204). The remunerations exclude employer's pension contributions.

The Chief Executive's total remuneration, including the employer's contribution to the Principal Civil Service Pension Scheme, for the period 1 April 1999 to 31 January 2000 was £51,000 (1998-99: £55,000). He was the only employee who received in excess of £40,000. Between 1 February 2000 and 31 March 2000, the Chief Executive's role was jointly undertaken by a secondee from the Department of Health and the Director of Finance at an additional cost of £637.

The remuneration of other Board members fell within the following ranges:

			1998-99
Range £		Number	Number
up to £5,000		5	2
£5,001 - £10,000		1	1
£10,001 - £15,000		-	1

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Other operating expenses	5	1998-99	
		£000	£000
Non-executive Management Board members		38	70
Administration expenses		159	105
Accommodation and office equipment		226	146
Car hire		37	51
Appointed auditor's remuneration		12	12
		<u>472</u>	<u>384</u>

Hire and operating lease rentals amounted to £11,000 (1998-99 £6,000).

Debtors	6	31 March 1999	
		£000	£000
Prepayments		26	48
VAT recoverable		8	13
Other Debtors		2	-
		<u>36</u>	<u>61</u>

Creditors: Amount falling due within one year	7	£000	
		£000	£000
Staff Salaries		113	109
Income tax and social security		21	22
Other Creditors		156	145
		<u>290</u>	<u>276</u>

Reconciliation of operating (deficit) to net cash (outflow) from operating activities	8	1998-99	
		£000	£000
Operating (deficit)		(41)	(28)
Decrease/(increase) in debtors		25	(37)
Increase in creditors		14	64
Net cash (outflow)		<u>(2)</u>	<u>(1)</u>

Analysis of changes in cash	9	As at 31 March 1999 £000	Cash Flows £000	As at 31 March 2000 £000
		<u>4</u>	<u>(2)</u>	<u>2</u>

Related party transactions

10 The Mental Health Act Commission is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Commission has had a significant number of material transactions with the Department, and with another entity for which the Department is regarded as the parent, Gwent Community Health.

In addition the Commission has had a significant number of material transactions with other publicly funded bodies, The Treasury Solicitors and University of Central Lancashire.

Mr Kamlesh Patel, a non-executive Member of the Commission, is head of the Ethnicity and Health Unit (Faculty of Health) and Mr William Bingley, Chief Executive of the Commission until 31 January 2000, is Professor in the Faculty of Health from 1 February 2000 at the University of Central Lancashire. This University entered into financial transactions with the Commission totalling £50,000 during 1999-2000.

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

The summarised accounts direction is at page 342.

Summarised Account of the Microbiological Research Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 191 to 203 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 195 to 197.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 189, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Microbiological Research Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Microbiological Research Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Microbiological Research Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Notes	£000	1998-99 £000
Income			
Income from activities	2	14,361	14,933
Department of Health revenue funding		4,207	4,207
Transfer from deferred government grant	11	1,618	1,314
		20,186	20,454
Expenditure			
Staff costs	4	10,035	9,465
Other operating charges	3	8,413	8,173
Depreciation	5	2,516	2,123
		20,964	19,761
Operating deficit		(778)	(693)
Loss on fixed asset disposal		(150)	(6)
Transfer from revaluation reserve	12	1,048	813
Notional interest on capital		(2,212)	(2,046)
Interest receivable		36	47
Deficit on ordinary activities		(2,056)	(1,885)
Write back of capital interest		2,212	2,046
Surplus for the year		156	161
Transfer from/(to) capital grant	11	4	(811)
Retained surplus/(deficit) for the year		160	(650)
Retained (deficit) brought forward		(3,143)	(2,493)
Accumulated income and expenditure reserve		(2,983)	(3,143)

The notes at pages 195 to 203 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	1998–99	
	£000	£000
Surplus for the financial year	156	161
Unrealised (loss)/surplus on the revaluation of fixed assets	(2,817)	760
Total (losses)/gains related to the financial year	(2,661)	921
Prior year adjustment	1,404	–
Total recognised (losses)/gains for the financial year	(1,257)	921

The notes at pages 195 to 203 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	1998-99 Restated £000
Fixed assets	1.4, 5	36,577	34,242
Current assets			
Stocks and work-in-progress	7	1,862	811
Debtors and prepayments	8	4,035	3,526
Cash at bank and in hand		9	108
		<u>5,906</u>	<u>4,445</u>
Current liabilities			
Creditors: Amounts falling due within one year	9	(4,022)	(2,549)
Net current assets		<u>1,884</u>	<u>1,896</u>
Total assets less current liabilities		38,461	36,138
Creditors: Amounts falling due after more than one year	10	(349)	(521)
Total net assets		<u>38,112</u>	<u>35,617</u>
Financed by:			
Deferred government grant	11	26,840	20,587
Capital reserve	12	4,518	4,518
Revaluation reserve	1.4(v), 12	9,737	13,655
Income and expenditure account	12	(2,983)	(3,143)
		<u>38,112</u>	<u>35,617</u>

The notes at pages 195 to 203 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	14	(139)	730
Returns on investments and servicing of finance			
Interest received		36	47
Capital expenditure and financial investment			
Receipts from the sale of fixed assets		4	4
Payments to acquire tangible fixed assets		(7,871)	(3,661)
Net cash (outflow) before financing		(7,970)	(2,880)
Financing			
Department of Health capital funding		7,871	2,845
Decrease in cash	15	(99)	(35)

The notes at pages 195 to 203 form part of this account.

Notes to the Account

Accounting policies 1

1.1 Accounting convention

This account has been prepared under the historical cost convention modified to reflect changes in the value of fixed assets, and in accordance with the Accounts Direction issued by the Treasury. It is a Department of Health requirement that the Authority should comply with guidance on disclosures given in “Executive NDPBs: Annual Reports and Accounts Guidance”.

1.2 Income

Income comprises the amounts invoiced, excluding Value Added Tax (VAT), for goods and services supplied in the normal course of business.

1.3 Government grants

Funding from the Department of Health (Class II, Vote 2) of a revenue nature, and within approved cash limits, is recorded in the accounts on an accruals basis.

Grant funding for capital expenditure is credited to a deferred government grant account and released to the income and expenditure account over the expected useful lives of the relevant assets. Also included in the deferred government grant account is an amount that represents the value of capital expenditure in the year over the value of specific capital grants received in the year.

1.4 Fixed assets

(i) Land and buildings

- Land and buildings are treated as an asset of the Authority although legal ownership lies with the Secretary of State for Health. This reflects the Authority’s position as the principal beneficial user of the property.
- All land and buildings are freehold.

(ii) Capitalisation of plant, equipment, vehicles and computers

All tangible assets which have a value exceeding £5,000, including non-recoverable VAT, and an estimated useful life of one year or more are capitalised.

(iii) Valuation

Fixed assets are valued as follows:

- The Authority’s land and buildings were revalued on 31 March 1999 by the Valuation Office Agency (VOA). This valuation was prepared on the depreciated replacement cost of the assets and forms the basis of the valuation included in this account. The deficit arising is reflected in the revaluation reserve.
- Plant, machinery, vehicles and computers are revalued annually and adjustments made for technical obsolescence using specific industry indices following guidance from the NHS Executive. Any surpluses or deficits arising are reflected in the revaluation reserve.

(iv) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write-off the cost or valuation, to the estimated residual value, of each asset on a straight line method over its expected useful life, as follows:

Buildings	Average of 20 years
Scientific equipment	5–15 years
Plant and machinery	5–15 years
Vehicles	7 years
Office and IT equipment	5 years

(v) Restatement of 31 March 1999 values

The 1998–99 Summarised Account for the Authority included a post balance sheet adjustment in respect of the Valuation Office Agency’s report. At the time of the preparation of the account, the report showed that there had been a net reduction in the value of the Authority’s land and buildings of £2.675 million and the 31 March 1999 balance sheet was adjusted to reflect this material change.

It has subsequently transpired that certain valuations in the VOA’s report were incorrectly stated and the adjusted balance sheet in the 1998–99 Summarised Account was correspondingly incorrect. The 31 March 1999 balance sheet has therefore been restated to include the correct valuations in this account.

The revaluation reserve as at 31 March 1999 has also been restated to reflect the deficit arising from the corrected asset valuations.

1.5 Stocks and work-in-progress

Stocks are valued at the lower of cost or net replacement cost if materially different, and net realisable value.

1.6 Research and development

Expenditure on research and development is written off in the year in which it is incurred.

1.7 Losses and special payments

Losses and special payments are charged to the relevant functional headings.

1.8 Notional charges

So as to provide a complete picture of the costs associated with the Microbiological Research Authority, the income and expenditure account includes notional charges for interest on capital.

1.9 Value Added Tax

The Authority is registered for VAT. VAT is charged on invoices for commercial contracts relating to products, services and research activities. The Authority recovers part of its input VAT proportionate to commercial activities in relation to total income.

1.10 Operating leases

Operating leases are charged in the accounts on a straight line basis over the lease term.

1.11 Taxation

The Authority is exempt from Corporation Tax.

1.12 Pension costs

The Authority participates in the NHS Pension Scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society. Under the arrangement the Authority can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

Additional pension costs 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 prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income & expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

The scheme is contributory with employees contributing six per cent (manual staff five per cent) of pensionable pay.

Income from activities	2			1998-99
			£000	£000
		<i>By Category:</i>		
		Contracts services and grants	7,830	8,379
		Products and royalties	6,531	6,554
			<u>14,361</u>	<u>14,933</u>
		<i>By Territory:</i>		
		UK	11,711	12,982
		Other Europe	960	924
		USA/Canada	1,523	889
		Rest of the world	167	138
			<u>14,361</u>	<u>14,933</u>

Other operating charges	3		£000	£000
		<i>Other operating charges include:</i>		
		Operating lease charges	30	37
		Auditor's remuneration	31	31

Staff costs	4			1998-99
			£000	£000
		Salaries and wages	8,964	8,460
		Social security costs	689	654
		Other pension costs	321	309
		Non-executive Board members' emoluments and social security costs	61	42
			<u>10,035</u>	<u>9,465</u>

The average number of employees (excluding non-executive directors) during the year was 383 (1998-99: 390) made up as follows:

	Number	Number
Operating divisions	343	351
Service divisions	40	39
	<u>383</u>	<u>390</u>

The number and remuneration of senior employees fell within the following ranges:

Range (£s)	Number	Number
40,000-50,000	24	22
50,001-60,000	7	5
60,001-70,000	3	3
70,001-80,000	2	1
	<u>36</u>	<u>31</u>

<i>Board members' remuneration:</i>	£000	£000
Non-executive directors' fees	61	42
Other remuneration	23	8
	84	50
 <i>Executive directors' remuneration:</i>		
Salaries	175	172
Pensions contributions	6	6
	181	178

The remuneration of other board members fell within the following ranges:

Range (£s)	Number	1998-99 Number
up to £5,000	4	-
5,001-10,000	3	5
10,001-15,000	2	-
55,001-60,000	-	1
60,001-65,000	1	-

The emoluments of the Chief Executive (excluding pension contributions) were £114,000 (1998-99: £115,000). The Chief Executive is an ordinary member of the NHS Superannuation Scheme and was the highest paid member during the year.

A new Chairman was appointed in July 1999. The emoluments of the new Chairman were £21,000. The emoluments of the outgoing Chairman were £7,000 (1998-99: £17,000).

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

5 Fixed assets

	Land and buildings* £000	Plant and machinery £000	Vehicles £000	Computers and office equipment £000	Assets under construction £000	Total £000
Cost/valuation						
At 31 March 1999	58,308	10,963	31	637	4,825	74,764
Additions	-	-	-	-	7,871	7,871
Transfers	3,407	745	-	143	(4,295)	-
Disposals	(529)	(1,461)	-	(8)	-	(1,998)
Revaluation	1,997	267	-	16	-	2,280
At 31 March 2000	63,183	10,514	31	788	8,401	82,917
Depreciation						
At 31 March 1999	31,498	8,423	27	574	-	40,522
Provided during the year	1,922	529	1	64	-	2,516
Disposals	(377)	(1,410)	-	(8)	-	(1,795)
Revaluation	4,878	205	-	14	-	5,097
At 31 March 2000	37,921	7,747	28	644	-	46,340
Net Book Value						
At 31 March 1999	26,810	2,540	4	63	4,825	34,242
At 31 March 2000	25,262	2,767	3	144	8,401	36,577

* 31 March 1999 figures have been restated following revaluation of the Authority's land and buildings by the Valuation Office Agency (see Notes 1.4(iii) and 1.4(v)).

Historic cost of revalued assets:

	Revalued amount* £000	Historic cost £000
<i>Land and buildings:</i>		
Cost or valuation	63,183	30,425
Depreciation to date	(37,921)	(14,656)
Net book value	25,262	15,769
<i>Other assets:</i>		
Cost or valuation	11,334	7,758
Depreciation to date	(8,420)	(5,088)
Net book value	2,914	2,670

* See Note 1.4(iii).

Capital commitments	6	The Authority has the following capital commitments:			
					31 March
					1999
				£000	£000
		Contracted	2,667	303	
		Authorised but not yet contracted	332	3,129	
			<u>2,999</u>	<u>3,432</u>	
<hr/>					
Stocks and work-in-progress	7		£000	£000	
			Raw materials	281	295
			Work-in-progress	720	205
			Finished goods	861	311
				<u>1,862</u>	<u>811</u>
<hr/>					
There is no material difference between the stock values disclosed and their related replacement costs.					
<hr/>					
Debtors and prepayments	8				31 March
					1999
				£000	£000
			Trade debtors	2,602	2,640
			Other debtors	94	-
	Prepayments and accrued income	1,339	886		
		<u>4,035</u>	<u>3,526</u>		
<hr/>					
Creditors: Amounts falling due within one year	9		£000	£000	
			Trade creditors	58	90
			Other taxes and social security	-	181
			Accruals and deferred income	3,964	2,278
		<u>4,022</u>	<u>2,549</u>		
<hr/>					
Creditors: Amounts falling due after one year	10		£000	£000	
			Superannuation commitments in respect of former staff	349	521
<hr/>					
Deferred government grant	11		£000	£000	
			Balance brought forward	20,587	18,241
			Received in year	7,871	2,845
			Proceeds on disposals	4	4
			Released to income and expenditure account	(1,618)	(1,314)
			Transferred (to)/from income and expenditure account	(4)	811
	Balance at year end	<u>26,840</u>	<u>20,587</u>		
<hr/>					

Reserves	12	Revaluation reserve £000	I&E reserve £000	Capital reserve £000
		13,655	(3,143)	4,518
Balance at 31 March 1999*		-	160	-
Surplus for the year		(2,817)	-	-
Deficit on revaluation		(53)	-	-
Released on disposals				
Transfer of amount to income and expenditure account equal to annual depreciation on revalued assets		(1,048)	-	-
Balance at 31 March 2000		<u>9,737</u>	<u>(2,983)</u>	<u>4,518</u>

* The 31 March 1999 Revaluation Reserve balance has been restated (see Note 1.4(v)).

The capital reserve represents the fixed capital base of the Authority as at 1 April 1994.

Lease commitments	13	1998-99	
		£000	£000
The minimum commitments due in the next year under non-cancellable operating leases, none of which relate to land and buildings, are:			
<i>On operating leases expiring:</i>			
within one year		3	1
between one and five years		18	22
after five years		-	-
		<u>21</u>	<u>23</u>

Reconciliation of operating deficit to net cash (outflow)/ inflow from operating activities	14	1998-99	
		£000	£000
Operating deficit		(778)	(693)
Depreciation		2,516	2,123
Net transfer from deferred government grant reserve		(1,622)	(1,314)
Proceeds from fixed asset disposals transferred to deferred capital grants		4	4
(Increase)/decrease in stocks		(1,051)	414
(Increase)/decrease in debtors		(509)	1,262
Increase/(decrease) in creditors		1,301	(1,066)
Net cash (outflow)/inflow from operating activities		<u>(139)</u>	<u>730</u>

Analysis of changes in cash	15	31 March 1999 £000	Cash Flows £000	31 March 2000 £000
		Cash at bank and in hand	108	(99)
			9	
Losses and special payments	16	The Authority reports a single special payment of £2,000 to an employee in respect of a compensation claim (1998–99: losses of £27,132 reported due to bad debts and claims abandoned).		
Related parties	17	The Authority is a body corporate established by order of the Secretary of State for Health.		
		The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department and with the following other entities for which the Department is regarded as the parent:		
		<ul style="list-style-type: none"> • The Medicines Control Agency; • the NHS Pensions Agency; and • the Public Health Laboratory Service. 		
		During the year none of the Board Members or members of the key management staff, or parties related to them, has undertaken any material transactions with the Authority.		
Contingent liability	18	The Authority has a contingent liability relating to the refurbishment of one of its manufacturing suites. It is believed that the maximum potential financial liability would be £1 million, although the extent of the liability cannot be determined until the contractor's claims for additional costs are investigated.		
The Better Payment Practice Code: measure of compliance	19	The Authority recognises the Better Payment Practice Code (the Code) on prompt payment and has established as its policy the payment of creditors on a net monthly basis. On average, payments to creditors are made within 32 days (1998–99: 34 days) from invoice date, and 60% (1998–99: 31%) are made within the Code's target of 30 days. This percentage continues to reflect the impact of Department of Health cash limits on the process of balancing receipts from debtors and payments to creditors.		

The summarised accounts direction is at page 342.

Summarised Account of the National Blood Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 209 to 224 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 212 to 215.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 207, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the National Blood Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the National Blood Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Blood Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing operations			Restated 1998–99 £000
	Notes	£000	
Income			
Department of Health funding		18,547	58,418
Operating income	2.2	<u>286,626</u>	<u>180,262</u>
		<u>305,173</u>	<u>238,680</u>
Expenditure			
Operating expenses	3	<u>299,504</u>	<u>240,248</u>
Surplus/(deficit) for the year		<u>5,669</u>	<u>(1,568)</u>
Adjusting post balance sheet event	19	<u>1,548</u>	<u>–</u>
Surplus/(deficit) for the year		<u>7,217</u>	<u>(1,568)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	1998–99 £000
Surplus/(deficit) for the financial year		7,217	(1,568)
Unrealised surplus on the revaluation of fixed assets	11	1,344	11,379
Unrealised loss on the revaluation of fixed assets		<u>(1,513)</u>	<u>–</u>
Total recognised gains		<u>7,048</u>	<u>9,811</u>

The notes at pages 212 to 224 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets			
Intangible assets	6.1	541	275
Tangible assets	6.2	175,544	172,207
Current assets			
Stocks	7	40,387	30,858
Debtors	8	25,529	19,727
Cash at bank and in hand	13	453	475
		66,369	51,060
Current liabilities			
Creditors: Amounts falling due within one year	9	(23,896)	(12,888)
Net current assets		42,473	38,172
Provisions for liabilities and charges	10	(3,970)	(5,940)
Total net assets		214,588	204,714
Financed by:			
Capital reserve	11	156,000	152,509
Revaluation reserve	11	19,997	19,870
Donation reserve	11	88	103
Income and expenditure reserve	11	38,503	32,232
		214,588	204,714

The notes at pages 212 to 224 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	1998-99 £000	1998-99 £000
Operating activities			
Net cash (outflow) from operating activities	12	<u>(22)</u>	<u>(422)</u>
Capital expenditure			
Payments to acquire fixed assets		(17,777)	(13,931)
Receipts from sale of fixed assets		<u>62</u>	<u>30</u>
Net cash (outflow) before financing		<u>(17,737)</u>	<u>(14,323)</u>
Financing			
Capital funding		17,777	13,931
Surrender of receipts from sale of fixed assets		<u>(62)</u>	<u>(30)</u>
(Decrease) in cash	13	<u>(22)</u>	<u>(422)</u>

The notes at pages 212 to 224 form part of this

Notes to the Account

Accounting policies 1

1.1 Accounting convention

This account has been prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by Treasury.

1.2 Income

The main sources of funding for the Authority are income from sales to the NHS and cash-limited funding from Class II, Vote 1. The products and services provided to the NHS include Coagulation Factors, Albumin and Immunoglobulins from the Bio Products Laboratory (BPL) and blood components and services from Blood Centres. Other income includes such services as ante-natal screening, tissue typing for transplants and overseas trade by the Bio Products Laboratory.

All income is recorded on an accruals basis.

DoH funding has reduced substantially from the 1998–99 level. In 1998–99 funding was received to cover the cost of leucodepletion, the Waiting List Initiative and transferring the production at BPL to US sourced plasma. The additional cost of leucodepletion are now met within charges made to trusts for collection and processing of blood products. These charges are included within operating income.

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of health care in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to average fixed assets for the year, for capital charges in the financial year 1999–2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more;
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

(ii) Valuation

Fixed assets are valued as follows:

- valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals. These were revalued as at 1 April 2000 and these values are disclosed in the 31 March 2000 balance sheet. Between valuations the appropriate NHS indices are applied to revalue the assets. Surplus land and buildings are stated at open market value for their alternative use;
- equipment is valued at estimated net current replacement cost using an appropriate NHS index;
- assets in the course of construction are valued at current cost using an appropriate index.

(iii) Depreciation

Assets are depreciated over their expected useful lives on a straight line basis as follows:

	Years
Furniture, Fixtures, Fittings, Plant and Machinery	10
Vehicles	7
Office Equipment	5
Computers (including software development costs)	5

The District Valuer assesses the remaining useful life for buildings and these are used to calculate depreciation on a straight line basis.

(iv) Disposals

Income from the sale of assets is returned to the Department of Health. As a result no charge is incurred on the disposal of an asset.

(v) Impairments

When calculating the impairment of assets relating to land and buildings, in accordance with FRS11, the report of the District Valuer as at 1 April 2000 has been used. The impairment relating to land and buildings has been calculated using asset classes rather than individual assets.

1.4 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the lease.

**Accounting
policies—continued**

1.5 Stocks and work in progress

Bio Products Laboratory

Finished goods are valued at the lower of cost and net realisable value based on average price achieved in the year. Raw materials are valued at actual purchase price. Work in progress is valued at the cost of direct materials and labour plus attributable overhead based on normal level of activity.

Blood Centres

Stocks of blood products have been valued at the cost of collection and processing only. No value has been attributed to the blood itself.

Leucodepleted stocks are valued at cost, which for 1999–2000 is higher than net realisable value.

Other stocks are valued at the lower of net current replacement cost and net realisable value.

1.6 Foreign currency

Transactions in foreign currencies are translated into sterling at the rates of exchange current at the dates of the transactions. Resulting exchange gains and losses are taken to the income and expenditure account.

1.7 Research and development

Research and development expenditure is charged against income in the year in which it is incurred.

1.8 Clinical negligence

The Authority is eligible for assistance from the Existing Liabilities Scheme, administered by the NHS Litigation Authority, towards the cost of clinical negligence incidents which occurred prior to 1 April 1995. The Authority also participates in the Clinical Negligence Scheme for Trusts (CNST), under which it pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising provided that the Authority is a member of the scheme at the dates of the clinical negligence incident, receipt of the related claim and its settlement. The Authority joined the CNST on 1 April 1997. Unless otherwise stated, the accounts show costs to the Authority net of assistance from either scheme.

The Authority provides for the best estimate of its expected share of future payments for certain or probable clinical negligence liabilities which can be reasonably estimated and discloses its expected share of all other potential payments.

1.9 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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, prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.10 Losses and special payments

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

Reconciliation of cashflow statement to Parliamentary funding

2.1	£000	1998-99 £000
Net cash (outflow) from operating activities	(22)	(422)
Expenditure	299,504	240,248
Adjusting post balance sheet event	(1,548)	-
Miscellaneous Income	(279,537)	(174,715)
Movement in working capital	7,239	(1,146)
Capital expenditure (net)	17,715	13,901
Capital charges	(3,045)	780
Appropriations in aid	(7,089)	(5,547)
Total Parliamentary funding	33,217	73,099

Operating income	2.2	1998–99	
		£000	£000
	Blood Product income	216,008	128,346
	BPL Product sales	46,504	33,535
	Other income	24,114	18,381
		<u>286,626</u>	<u>180,262</u>

Segmental reporting	2.3	£000	
		£000	£000
	BPL income	64,989	77,611
	BPL surplus/(deficit)	5,935	(1,056)
	BPL fixed assets	75,077	73,902

BPL's surplus mainly relates to an increase of finished goods stocks. This build up was planned to allow sales to continue during 2000–01 when production will be interrupted to prepare the factory for the Haemacure project. BPL's DoH funding was higher in 1998–99 to cover the costs of converting to US plasma sourced products.

Operating costs	3	1998–99	
		£000	£000
	Authority members' fees	42	42
	Other salaries and wages	107,718	94,544
	Other staff costs	7,672*	–
	Consumable supplies	89,743	74,404
	Maintenance of buildings, plant and equipment	10,969	6,974
	Rent and rates	7,118	3,187
	Transport costs	5,345	4,267
	External contractors	8,743	4,706
	Purchase and lease of equipment and furniture	6,704*	–
	Utilities and telecommunications	4,910*	–
	Media advertising	3,224*	–
	Capital charges depreciation	12,989	11,083
	impairments	2,190	–
	interest	10,674	9,932
	Auditor's remuneration		
	Audit fees	168	118
	Non-statutory audit fees	20	111
	Reorganisation costs	3,148	1,496
	Miscellaneous	18,127	29,384
		<u>299,504</u>	<u>240,248</u>

* The additional analysis has been provided for 1999–2000 which has reduced the amount shown under the miscellaneous classification.

	1998-99	
	£000	£000
<i>Hire and operating rentals included in expenses:</i>		
Hire of plant and machinery	1,090	649
Other operating leases	1,741	1,612
	<u>2,831</u>	<u>2,261</u>

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

	£000	£000
<i>Authority members' remuneration:</i>		
Non-executive members' remuneration	42	42
Executive members' remuneration:		
Basic salaries	296	283
Benefits	15	10
Performance related bonuses	-	8
Pension contributions	12	8
Compensation for loss of office	-	65
Pensions of former Chief Executive	-	124
	<u>365</u>	<u>540</u>

	Chairman £000	Chief Executive £000	Highest Paid Director £000
Basic salary	22	93	115
Benefits	-	5	4
Pension contributions	-	4	5
	<u>22</u>	<u>102</u>	<u>124</u>
1998-99 totals	<u>22</u>	<u>290</u>	<u>116</u>

The remuneration of all Board members fell within the following ranges:

	1998-99	
Range £	Number	Number
Up to 5,000	-	5
5,001 to 10,000	4	-
15,001 to 20,000	1	-
20,001 to 25,000	-	1
40,001 to 45,000	-	1
55,001 to 60,000	-	1
90,001 to 95,000	1	1
More than 100,000	2	1

	1998-99	
	£000	£000
<i>Executive members' remuneration and staff costs:</i>		
Salaries and wages	93,888	82,513
Social security costs	6,450	6,198
Other pension costs	3,051	2,691
Agency staff	4,329	3,142
	<u>107,718</u>	<u>94,544</u>

**Operating costs—
continued**

The average monthly number of employees (excluding agency staff) during the year was 5,311 (1998–99: 5,151).

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

Range £	Number	1998–99 Number
40,001 to 50,000	69	50
50,001 to 60,000	31	36
60,001 to 70,000	24	17
70,001 to 80,000	4	9
80,001 to 90,000	8	6
90,001 to 100,000	5	2
More than 100,000	4	3

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999–2000. The Treasury have agreed to delay the implementation of the disclosure until 2000–2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Clinical Negligence

4 Charges to operating expenses in 1999–2000 in respect of clinical negligence are:

	£000	£000
Contribution to Clinical Negligence Scheme for Trusts		49
In-year provisions for future settlements:		
Gross movements on provision	(783)	
Less: expected from NHSLA	972	
		189
		238

**Better Payment
Practice Code –
measure of
compliance**

5 The Authority is required to pay its non-NHS creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 58.62% (1998–99: 68.05%), representing 66.24% (1998–99: 75.39%) by value, were paid within the 30 days target.

A new finance system was implemented in the Blood Centres during December 1999. This new system matches invoices received against orders raised before payment can be made. During the first part of the calendar year 2000 this led to some difficulties on paying supplier invoices within the target of 30 days while initial problems were rectified. During the first nine months of the financial year 70.43% of bills, representing 80.14% by value, were paid within the 30 days target.

Intangible fixed assets	6.1					£000	
		Gross book value as at 31 March 1999				275	
		Additions – purchased				106	
		Indexation				11	
		Transfers				219	
		Gross book value at 31 March 2000				611	
		Accumulated amortisation as at 31 March 1999				–	
		Provided during the year				68	
		Transfers				2	
		Accumulated amortisation at 31 March 2000				70	
		Net book value as at 31 March 1999				275	
Net book value as at 31 March 2000				541			
Tangible fixed assets	6.2		Freehold land	Buildings, installations & fittings	Assets under construction	Equipment	Total
			£000	£000	£000	£000	£000
		Gross replacement cost as at 31 March 1999	14,606	118,000	4,316	69,274	206,196
		Indexation	1,116	8,742	63	1,796	11,717
		Additions	–	5,871	3,848	9,437	19,156
		Impairments	(3,196)	(11,914)	–	–	(15,110)
		Transfers	–	498	(3,983)	3,001	(484)
		Disposals	–	–	–	(2,740)	(2,740)
		Other in year revaluation	549	1,383	–	–	1,932
		Gross replacement cost as at 31 March 2000	13,075	122,580	4,244	80,768	220,667
		Accumulated depreciation as at 31 March 1999	–	–	–	33,989	33,989
		Indexation	–	–	–	909	909
		Transfers	–	–	–	(2)	(2)
		Disposals	–	–	–	(2,385)	(2,385)
		Depreciation provided during year	–	5,063	–	7,549	12,612
Accumulated depreciation at 31 March 2000	–	5,063	–	40,060	45,123		
Net book value as at 31 March 1999	14,606	118,000	4,316	35,285	172,207		
Net book value as at 31 March 2000	13,075	117,517	4,244	40,708	175,544		
Net book value of land and buildings	6.3	The net book value of land and buildings as at 31 March 2000 comprises:				31 March 2000	
						£000	
		Freehold				123,426	
		Long leasehold				7,166	
				130,592			
Disposal of fixed assets	6.4					£000	
		Notional (loss) on disposal of fixed assets				(326)	

Stocks	7		31 March 1999
		£000	£000
Raw materials and consumables		10,427	13,210
Work-in-progress		2,791	11,081
Finished goods and goods for resale		27,169	6,567
		<u>40,387</u>	<u>30,858</u>

The value of finished goods has risen due to conversion of stock from work-in-progress and also increased levels of finished goods stock at BPL. The value of blood product stocks has increased due to higher volumes of stock, and increased costs to reflect the additional costs of leucodepletion.

Debtors	8	£000	£000
Department of Health, health authorities, and NHS Trusts		15,365	10,516
Other debtors		7,137	5,547
Provision for bad debts		(800)	(466)
Prepayments and accrued income		3,827	4,130
		<u>25,529</u>	<u>19,727</u>

Creditors: Amounts falling due within one year	9	£000	£000
Department of Health, health authorities, and NHS Trusts		2,667	1,409
Non-NHS trade creditors – revenue		8,845	5,115
Non-NHS trade creditors – capital		1,453	93
Tax and social security		16	11
Payments received on account		63	–
Other creditors		48	228
Accruals and deferred income		10,804	6,032
		<u>23,896</u>	<u>12,888</u>

Provisions for liabilities and charges	10	Early retirement costs	Clinical negligence	Other	Total
		£000	£000	£000	£000
		At 31 March 1999	947	1,925	3,068
Adjustment to restate gross	-	4,032	-	4,032	
Restated 1 April 1999	947	5,957	3,068	9,972	
Arising during the year	1,992	(559)	1,476	2,909	
Utilised during the year	(800)	(224)	(1,740)	(2,764)	
Reversed unused	(30)	-	(983)	(1,013)	
	2,109	5,174	1,821	9,104	
Adjusting post balance sheet event	-	(5,134)	-	(5,134)	
At 31 March 2000	2,109	40	1,821	3,970	

Expected timing of cashflows

Within 1 year	2,007	1,797
1-5 years	75	24
Over 5 years	27	-

An analysis of the expected timing of cash flows for the clinical negligence provisions of £40,000 is not available. This is because the adjusting post balance sheet event is not analysed in the underlying account which includes, instead, an analysis of the figure, £5,174,000, before the adjusting post balance sheet event.

Early retirement and other provisions include potential costs of reorganisation. These include possible redundancy payments and the costs of capitalising the enhancements for pensions due to early retirement.

The adjustment to restate provisions gross is as a result of the implementation of FRS 11. The comparative figure for the provisions for liabilities and charges has not been grossed up on the face of the balance sheet.

Reserves	11	Capital Revaluation Reserve	Donation Reserve	Income & Expenditure Reserve
		£000	£000	£000
		At 31 March 1999	152,509	19,870
Transfer from income and expenditure account	-	-	-	7,217
Additions	18,997	-	-	-
Impairments charged to income and expenditure account	(2,190)	-	-	-
Impairments - revaluation	-	(12,920)	-	-
Revaluation & indexation	-	12,749	2	-
Disposals	(339)	(16)	-	-
Depreciation	(12,663)	-	(17)	-
Other transfers	(314)	314	-	(946)
At 31 March 2000	156,000	19,997	88	38,503

Reconciliation of operating surplus/ (deficit) to net cash (outflow) from operating activities	12			1998–99 £000	1998–99 £000
		Operating surplus/(deficit)		7,217	(1,568)
		Depreciation of donated assets		17	12
		Releases from donation reserve		(17)	(12)
		(Increase) in stocks		(9,529)	(1,900)
		(Increase) in debtors		(5,802)	(312)
		Increase in creditors & provisions		8,092	3,358
		Net cash (outflow) from operating activities		(22)	(422)
Analysis of changes in cash	13				
			At 31 March 1999 £000	Change during the year £000	At 31 March 2000 £000
		Cash at bank and in hand	475	(22)	453
			<u>475</u>	<u>(22)</u>	<u>453</u>
Contingent liabilities	14	A contingent liability of £992,000 (1998–99: £1,138,000) relates to outstanding Hepatitis C claims which have been registered under the Existing Liabilities Scheme with the NHS Litigation Authority. £2,679,000 represents the gross cost and £1,687,000 would be refunded by the NHS Litigation Authority. An additional contingent liability of £436,000 relates to outstanding legal claims which are of a non-clinical nature.			
Capital commitments	15				31 March 1999 £000
		<i>The Authority has the following capital commitments:</i>		£000	£000
		Contracted for		2,103	5,588
		Authorised but not contracted		3,123	2,738
				<u>5,226</u>	<u>8,326</u>
Operating lease commitments	16				
				Land and buildings £000	Other £000
		<i>Commitments under non-cancellable operating leases:</i>			
		Operating leases which expire:			
		Within one year		1,259	258
		Between one and five years		3,834	366
		In over five years		3,663	–
				<u>8,756</u>	<u>624</u>
Losses	17	There were 342 loss cases in 1999–2000 (1998–99: 430) amounting to £921,000 (1998–99: £477,000). There were two cases individually amounting to £100,000 or more.			

- Related parties** 18 The Authority is a body corporate established by order of the Secretary of State for Health.
- The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, viz:
- the majority of NHS acute trusts
- Mrs Jennie Gubbins is a partner of Trowers & Hamlins, solicitors and provides legal advice to the NHS Litigation Authority.
- The Authority has also received revenue payments from two charitable funds, the Trustees for which are also members of the Board.
- During the year none of the Authority Members or members of the key management staff or other related parties has undertaken any material transactions with the National Blood Authority.
-
- Post balance sheet events** 19 On 10 March 2000 BPL entered into a contract with Haemacure Corporation, a Canadian corporation based in Montreal. Under the agreement BPL will manufacture and supply a fibrin sealant product to be sold by Haemacure in the United States. The capital costs and set up costs of establishing the required production facility will be met by Haemacure. BPL will seek to obtain approval of the production facility from the United States Food and Drug Administration (FDA). The initial term of the contract is five years from the date of FDA approval.
- Insurance to cover product liability will be effected from the date of the first sale which is expected in 2003–2004. The Department of Health will underwrite any contingent liabilities in excess of the insurance risks.
- The net income from the contract is expected to substantially improve BPL's financial results.
-
- Existing Liabilities Scheme: transfer of claims management to NHS Litigation Authority**
- While the Authority retains the legal liability, as at 1 April 2000 managerial and financial responsibility for all liabilities covered by the Existing Liabilities Scheme (ELS) transfer to the NHS Litigation Authority. From 1 April 2000 all transactions relating to ELS will be reflected in the accounts of the NHS Litigation Authority, and it will assume all assets and liabilities previously accounted for by the Authority. This development therefore required an adjustment to the NHS summarised accounts for the Authority as detailed below.
- Prior to the transfer, the Authority provided for the full liability and recognised debtors for the amount they expected to receive in reimbursement from the NHSLA under the rules of the Scheme. The Authority also recognised provisions where there were agreements with their NHS providers to meet any of their share of ELS costs.

Adjustment to reflect the transfer of ELS balances to the NHS Litigation Authority.

	£000
Reversal of provisions for ELS	5,134
Reversal of debtors for recoverable amounts	<u>(3,586)</u>
Net credit to Income and Expenditure Account	<u>1,548</u>

The underlying account will reflect this transfer as a prior year adjustment in the 2000-2001 accounts.

The summarised accounts Direction is at page 342.

Summarised Account of National Institute for Clinical Excellence

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 229 to 238 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 232 to 234.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 227, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the National Institute for Clinical Excellence and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the National Institute for Clinical Excellence, consistently applied and adequately disclosed.

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

Opinion

In my opinion

- the financial statements give a true and fair view of the state of affairs of the National Institute for Clinical Excellence at 31 March 2000 and the operating cost statement, recognised gains and losses and cash flow for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Operating Cost Statement for the period ended 31 March 2000

	Notes	£000	£000
Administration Costs:			
Staff costs	2, 3	673	
Administrative costs	3	8,977	
Gross Administration Costs			9,650
Operating income	5		(93)
Net Administration Costs			9,557
Net operating cost			9,557

There were no recognised gains or losses in the year.

The notes at pages 232 to 238 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	£000
Fixed assets			
Tangible assets	6		20
Current assets			
Debtors	8	1,596	
Cash at bank and in hand	14	86	
		1,682	
Current liabilities			
Creditors: amounts falling due within one year	10	(726)	
Net current assets			956
Total net assets			976
Taxpayers' Equity			
General Fund	13		976
			976

The notes at pages 232 to 238 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the period ended 31 March 2000

	Notes	£000
Net cash (outflow) from operating activities		(8,690)
Capital expenditure and financial investment		(20)
Financing from the Department of Health	13	<u>8,796</u>
Increase in cash in the period		<u>86</u>
 Reconciliation of operating cost to operating cash flows		
Net operating cost		9,557
Adjust for non-cash transactions	3	(392)
Adjust for movements in working capital other than cash	7	<u>(475)</u>
Net cash outflow from operating activities		8,690
 Analysis of capital expenditure and financial investment		
Purchase of fixed assets		<u>20</u>
Net cash outflow from investing activities		<u>20</u>
Total cash outflow		<u>8,710</u>
 Analysis of financing		
From Department of Health		8,796
(Increase) in cash		<u>(86)</u>
Net cash requirement		<u>8,710</u>

The notes at pages 232 to 238 form part of this account.

Notes to the Account

Accounting policies

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

The Authority was established on 26 February 1999, therefore this account covers a period of more than one year and as it is the first account, there are no comparatives to be disclosed.

1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

1.2 Income

The main source of funding for the Authority is income from cash-limited funding from Class II, Vote 1.

All income is recorded on an accruals basis.

1.3 Fixed Assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Postmaster General, where the charge is nil.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more;
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

(ii) Valuation

Fixed assets are valued as follows:

- valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals. Between valuations the appropriate NHS indices are applied to revalue the assets. Surplus land and buildings are stated at open market value for their alternative use.
- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.
- assets in the course of construction are valued at current cost using an appropriate index.
- intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at net recoverable amount.

(iii) Depreciation

Depreciation is charged on a straight line basis on each individual fixed asset as follows:

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- each equipment asset is depreciated evenly over the expected useful life:

	Years
Moveable engineering plant and equipment, and long life medical equipment	15
Furniture and medium life medical equipment	10
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	5

- intangible assets are amortised over the estimated lives of the assets.

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included as Department of Health income. As a result no charge is incurred on the disposal of an asset.

1.4 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the lease.

1.5 Research and development

Research and development expenditure is charged to operating costs in the year in which it is incurred.

1.6 Pension Contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently 4 per cent pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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 from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Losses and special payments

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

Staff numbers and costs

- 2 The average number of whole-time equivalent persons employed (including senior management) during the year was 10.

The aggregate payroll and other staff costs of these persons were as follows:

	£000
Wages and salaries	480
Social security costs	43
Other pension costs	18
Agency staff	76
	617

Authority members' remuneration:

	£000
Non-executive members' remuneration	56
Executive members' remuneration:	
Basic salaries	242
Pension contributions	9
	307

Remuneration of Chairman and Chief Executive are as follows:

	Chairman	Chief Executive
	£000	£000
Basic salary	21	91
Pension contributions	-	3
Total	21	94

The Chief Executive, who joined the Authority on 12 July 1999, is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of four per cent of the Chief Executive's salary. The Chief Executive is entitled to compensation for loss of office in accordance with the standard Whitley Council agreements. His contract is on a permanent basis subject to satisfactory performance.

The Chairman's contract is for a period of three years expiring on 31 March 2002, which can be renewed at the discretion of the Secretary of State for Health.

The remuneration of all Board members fell within the following ranges:

Range £	Number
Up to 5,000	2
5,001 to 10,000	5
20,001 to 25,000	1
25,001 to 30,000	1
45,001 to 50,000	1
75,001 to 80,000	1
90,001 to 95,000	1

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

Range £	Number
Below 40,000	2
40,001 to 50,000	1

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Operating costs	3	£000
Non-executive members' remuneration		56
Other salaries and wages		617
Travel & subsistence		122
Consumable supplies		468
Maintenance of buildings, plant & equipment		46
Rent and rates		415
Transport costs		1
Premises & fixed plant		486
External contractors		7,126
Capital charges: Depreciation		1
Interest		1
Auditor's remuneration: Audit fees		15
Non-statutory audit fees		7
Miscellaneous		239
		<u>9,600</u>
Recharges from NHS bodies		50
		<u>9,650</u>

The Department of Health made a payment of £391,000 on behalf of the Authority for rent on its office accommodation which is included in the operating costs.

Better Payment Practice Code – measure of compliance

- 4 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 91.5%, representing 94.1% by value, were paid within the 30 days target. Payments were processed by Lambeth, Southwark & Lewisham Health Authority on NICE's behalf and the above represents Lambeth, Southwark & Lewisham's overall performance.

Late payment of Commercial Debts (Interest) Act 1998

Amounts included within interest payable arising from claims made by small businesses under this legislation was £nil.

Operating income	5	Operating income analysed by classification and activity, is as follows:		
			Appropriated in aid £000	Not appropriated in aid £000
				Total £000
		Administration income:		
		Fees & charges to external customers	5	64
		Other	–	24
		Total	5	88
Tangible Fixed Assets	6			Equipment £000
		Gross replacement cost at 26 February 1999		–
		Additions		21
		Gross replacement cost at 31 March 2000		21
		Accumulated depreciation at 26 February 1999		–
		Additions		1
		Accumulated depreciation at 31 March 2000		1
		Net book value as at 31 March 2000		20
Movements in working capital other than cash	7			£000
		Increase in debtors		251
		(Increase) in creditors and provisions		(726)
				(475)
Debtors	8	Amounts falling due within one year		31 March 2000 £000
		Department of Health		1,345
		Other debtors		140
		Prepayments and accrued income		111
				1,596
Creditors: Amounts falling due within one year	9			£000
		Department of Health, health authorities and NHS Trusts		146
		Non-NHS trade creditors–revenue		457
		Tax and social security		27
		Accruals and deferred income		96
				726
Capital Commitments	10	The Authority has no capital commitments at the balance sheet date.		

Operating Lease Commitments	11	The Authority had no operating leases.		
Contingent Liabilities	12	The Authority has no contingent liabilities at the balance sheet date.		
Reconciliation of net operating cost to changes in general fund	13			£000
		Net operating cost for the period		(9,557)
		Net parliamentary funding		8,796
		Non-cash charges-brokerage		1,345
		Non-cash charges-payment by DoH on behalf of NICE		391
		Non-cash charges-fixed assets		1
		Net increase in general fund		976
		General fund at 31 March 2000		976
Analysis of changes in cash	14	At 26 February 1999 £000	Change during the period £000	At 31 March 2000 £000
		-	86	86
Losses	15	There was 1 losses case in 1999-2000 amounting to less than £1,000.		
Related parties	16	<p>The Authority is a body corporate established by order of the Secretary of State for Health and the National Assembly for Wales.</p> <p>The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, viz:</p> <p>St George's Healthcare NHS Trust Other NHS Trusts Wiltshire Health Authority</p> <p>During the year Lambeth, Southwark & Lewisham Health Authority entered into a service level agreement with the Authority to provide financial and other support.</p> <p>During the year none of the Authority Members or members of the key management staff or other related parties has undertaken any material transactions with the National Institute for Clinical Excellence.</p>		
Post balance sheet events	17	There were no post balance sheet events.		
		The summarised accounts direction is at page 342.		

Summarised Account of the NHS Information Authority

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

Section 98(4) of the National Health Service Act 1977 requires the Secretary of State to prepare a statement of accounts for each financial period in the form and on the basis determined by the Treasury. The National Health Service Information Authority was established on 9 March 1999 as a Special Health Authority to become operational on 1 April 1999. The accounts are prepared by the Accounting Officer on behalf of the Secretary of State on an accruals basis and must give a true and fair view of the state of affairs of the National Health Service Information Authority, its operating cost statement, total recognised gains and losses and cash flows for the financial period.

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 243 to 254 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 246 to 248.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 241, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the NHS Information Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the NHS Information Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS Information Authority at 31 March 2000 and the operating cost statement, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Operating Cost Statement for the period ended 31 March 2000

	Notes	£000	£000
Operating Costs:			
Staff costs	2, 3	15,171	
Administrative costs	2	<u>34,381</u>	
Gross operating costs			49,552
Operating income	5		<u>(5,185)</u>
Net Administration Costs			44,367
Exceptional item—restructuring costs			<u>1,618</u>
Net operating cost			<u>45,985</u>

Statement of Recognised Gains and Losses for the period ended 31 March 2000

	Notes	£000
Unrealised surplus on the revaluation of properties	6, 11	<u>213</u>

There are no other recognised gains and losses for the financial period.

The notes at pages 246 to 254 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000
Fixed assets		
Tangible fixed assets	6	4,154
Current assets		
Work in progress		57
Debtors	8	5,817
Cash at bank and in hand	16	263
		6,137
Current liabilities		
Creditors: Amounts falling due within one year	9	(7,031)
		(894)
Net current liabilities		
		(894)
Total assets less current liabilities		
		3,260
Provisions for liabilities and charges	10	(1,339)
		1,921
Total net assets		
		1,921
Taxpayers' equity		
General Fund	15	1,708
Revaluation reserve	11	213
		1,921

The notes at pages 246 to 254 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the period ended 31 March 2000

	Notes	£000
Reconciliation of operating cost to operating cash flows		
Net operating cost		45,985
Adjust for non-cash transactions	2	(587)
Adjust for movements in working capital other than cash	7	52
Adjust for movements on provision	10	(1,258)
Net cash flow from operating activities		<u>44,192</u>
 Analysis of capital expenditure		
Purchase of fixed assets	6	1,120
		<u>1,120</u>
Net cash outflow from investing activities		<u>1,120</u>
Net cash outflow from all activities		<u>45,312</u>
 Analysis of financing		
From Department of Health		44,906
Decrease in cash	16	406
Net cash requirement		<u>45,312</u>

The notes at pages 246 to 254 form part of this account.

Notes to the Account

Accounting policies 1 The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the Authority are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

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

1.2 Income

The main source of funding for the Authority is income from cash-limited funding from Class II, Vote 1.

All income is recorded on an accruals basis.

1.3 Fixed assets

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more; and
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000.

(ii) Valuation

Fixed assets are valued as follows:

- valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five-yearly intervals. Between valuations the appropriate NHS indices are applied to revalue the assets. Surplus land and buildings are stated at open market value for their alternative use;
- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount;

- assets in the course of construction are valued at current cost using an appropriate index; and
- intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at net recoverable amount.

(iii) Depreciation

Depreciation is charged on a straight line basis on each individual fixed asset as follows:

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- each equipment asset is depreciated evenly over the expected useful life:

	Years
Moveable engineering plant and equipment, and long life medical equipment	15
Furniture and medium life medical equipment	10
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	5

- intangible assets are amortised over the estimated lives of the assets.

1.4 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the lease.

1.5 Work in progress

Work in progress is the cost of work done but not yet completed and will be charged to customers on completion. It is valued at the lower of cost, including appropriate overheads, and net realisable value. The Authority held no stock.

1.6 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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 from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Losses and special payments

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

1.8 Cost of capital

A charge, reflecting the cost of capital used by the Authority, is included in operating costs. The charge is calculated at the government's standard rate of six per cent in real terms on all assets less liabilities, except for donated assets and cash balances with PGO, where the charge is nil.

		£000	
Operating costs	2	Non-executive members' remuneration	42
		Other salaries and wages	15,129
		Consumable supplies	5,670
		Maintenance of buildings, plant and equipment	714
		Rent and rates	949
		Transport costs	732
		Premises and fixed plant	552
		External contractors	15,388
		Capital charges: – depreciation	477
		– cost of capital	110
		Auditors' fee – audit service	73
		Other auditors' remuneration	79
		Interest payable	1
		Recharges from NHS bodies	692
		Miscellaneous	8,944
	Total	49,552	

Staff numbers and costs**3.1 Authority members' remuneration:**

	£000
Non-executive members' remuneration	42
Executive members' remuneration:	
Basic salaries	133
Benefits	3
Pension contributions	7
	<u>185</u>

Remuneration of chairman and chief executive are as follows:

	Chairman	Chief Executive
	£000	£000
Basic salary	22	67
Benefits	-	3
Pension contributions	-	3
Total	<u>22</u>	<u>73</u>

The remuneration of all Board members fell within the following ranges:

Range £	Number
5,001 to 10,000	5
10,001 to 15,000	1
20,001 to 25,000	2
65,001 to 70,000	1

3.2 Executive members and other staff costs

The aggregate payroll costs of executive members and other staff costs were as follows:

	£000
Wages and salaries	13,305
Social Security costs	1,089
Other pension costs	466
Agency staff	269
	<u>15,129</u>

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

Range £	Number
40,001 to 50,000	37
50,001 to 60,000	13
60,001 to 70,000	5
70,001 to 80,000	1

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

The average number of whole-time equivalent persons employed (including senior management) during the period was as follows:

	Number
Total	485

3.3 Note on expenditure on staff benefits

During the period the Authority paid £473,000 for staff to use lease cars. This figure includes a National Insurance charge of £36,000. The total charge was reduced by employee contributions of £83,000.

Better Payment Practice Code—measure of compliance

- 4 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 53%, representing 53% by value, were paid within the 30 days target.

Operating income

- 5 Operating income analysed by classification and activity, is as follows:

	Appropriated in aid £000
Administration income:	
Fees and charges to external customers	4,731
Other	454
Total	5,185

Tangible fixed assets	6	Freehold land	Buildings, installations and fittings
		£000	£000
Gross replacement cost or valuation as at 9 March 1999		575	2,025
Additions		-	-
Indexation		44	152
Gross replacement cost or valuation as at 31 March 2000		619	2,177
Accumulated depreciation as at 9 March 1999		-	-
Depreciation provided during the period		-	63
Accumulated depreciation at 31 March 2000		-	63
Net book value as at 9 March 1999		575	2,025
Net book value as at 31 March 2000		619	2,114
		Equipment	Total fixed assets
		£000	£000
Gross replacement cost or valuation as at 9 March 1999		698	3,298
Additions		1,120	1,120
Indexation		17	213
Gross replacement cost or valuation as at 31 March 2000		1,835	4,631
Accumulated depreciation as at 9 March 1999		-	-
Depreciation provided during the period		414	477
Accumulated depreciation at 31 March 2000		414	477
Net book value as at 9 March 1999		698	3,298
Net book value as at 31 March 2000		1,421	4,154
The net book value of land and buildings is entirely freehold.			

Movements in working capital other than cash	7	31 March 2000
		£000
Increase in stocks		32
Increase in debtors		3,449
(Increase) in creditors		(3,429)
		52

Debtors	8				31 March 2000 £000
		Amounts falling due within one year:			
		Department of Health, health authorities, and NHS Trusts			1,215
		Trade debtors			576
		Other debtors			1,538
		Provision for bad debts			(18)
		Prepayments and accrued income			2,506
					<u>5,817</u>
Creditors: Amounts falling due within one year	9				£000
		Department of Health, health authorities, and NHS Trusts			3,287
		Non-NHS trade creditors-revenue			1,939
		Tax and social security			509
		Other creditors			230
		Accruals and deferred income			1,066
					<u>7,031</u>
Provisions for liabilities and charges	10		Early retirement costs	Other	Total
			£000	£000	£000
		At 9 March 1999	81	-	81
		Arising during the year	1,500	200	1,700
		Utilised during the year	(361)	-	(361)
		Reversed unused	(81)	-	(81)
		At 31 March 2000	<u>1,139</u>	<u>200</u>	<u>1,339</u>
		It is intended that these provisions will be utilised during the first six months of the financial year 2000-2001.			
Reserves	11				Revaluation Reserve £000
		At 9 March 1999			-
		Arising on revaluation during the period			213
		At 31 March 2000			<u>213</u>
Capital commitments	12	The Authority has no capital commitments.			

Operating lease commitments	13	Commitments under non-cancellable operating leases:	Land and buildings	Other
			£000	£000
		Operating leases which expire:		
		Within one year	195	-
		Between one and five years	228	242
		In over five years	99	-
			<u>522</u>	<u>242</u>
<hr/>				
Contingent liabilities	14	The Authority is in dispute with a service provider for £1,228,000. The Authority expects to fully defend this item and no provision has been made in these accounts.		
<hr/>				
Reconciliation of net operating cost to changes to general fund	15			£000
		Net operating cost for the year		(45,985)
		Net Parliamentary funding		44,906
		Non-cash charges		<u>110</u>
		Net (decrease) in general fund		(969)
		General fund at 9 March 1999		<u>2,677</u>
		General fund at 31 March 2000		<u>1,708</u>
		The Parliamentary funding is net of £402,000 refunded to the Department of Health in respect of estimated funding of capital charges.		
<hr/>				
Analysis of changes in cash	16		At 9	Change
			March	during
			1999	the year
			£000	£000
			<u>669</u>	<u>(406)</u>
		Cash at bank and in hand		<u>263</u>
		In addition to bank accounts reported above the Authority holds accounts in trust for the European Union. The balance held at 31 March 2000 was 159,491 Euros.		
<hr/>				
Losses and special payments	17	There were 78 loss and special payment cases in 1999-2000 amounting to £91,119. There were no cases individually amounting to £100,000 or more.		

Related parties 18 The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, viz:

all NHS Trusts and all health authorities.

During the year none of the Authority Members or members of the key management staff or other related parties has undertaken any material transactions with the National Health Service Information Authority.

Post balance sheet event 19 The Authority has announced the intention to rationalise the number of Authority sites down to seven and has identified the areas in which these sites will be located. Provision has been made for this restructuring as an exceptional item.

The summarised accounts direction is at page 342.

Summarised Account of the NHS Litigation Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 259 to 272 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 262 to 266.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 257, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the NHS Litigation Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the NHS Litigation Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS Litigation Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing Operations

	Note	£000	Re-stated 1998-99 £000
Income			
Department of Health funding	2	15,490	21,434
Schemes income	2	44,587	15,214
		<u>60,077</u>	<u>36,648</u>
Expenditure			
Authority and claims administration	2,4	9,646	8,501
Claims and associated costs	2	497,420	563,855
		<u>507,066</u>	<u>572,356</u>
(Deficit) for the year		<u>(446,989)</u>	<u>(535,708)</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	Re-stated 1998-99 £000
(Deficit) for the year		(446,989)	(535,708)
Unrealised surplus on indexation of fixed assets	11	4	4
Total recognised (losses) relating to the financial year		<u>(446,985)</u>	<u>(535,704)</u>
Prior year adjustment	9, 12	(896,000)	
Total (losses) recognised since last annual report		<u>(1,342,985)</u>	

The notes at pages 262 to 272 form part of this account.

Balance Sheet as at 31 March 2000

	Note	£000	Re-stated 31 March 1999 £000
Fixed assets			
Intangible assets	6	94	-
Tangible assets	6	244	178
	5	338	178
Current assets			
Debtors	7	25,394	1,075
Cash at bank and in hand	18	47,667	33,228
		73,061	34,303
Current liabilities			
Creditors: amounts falling due within one year	8	(3,485)	(1,996)
Net current assets		69,576	32,307
Total assets less current liabilities		69,914	32,485
Provisions for liabilities and charges	9	(1,862,430)	(1,378,172)
Total net (liabilities)		(1,792,516)	(1,345,687)
Financed by:			
Capital account	10	330	174
Revaluation reserve	11	8	4
CNST reserve	12	(1,718,906)	(1,280,961)
PES reserve	14	2,950	-
LTPS reserve	15	1,608	-
Income and expenditure reserve	13	(78,506)	(64,904)
		(1,792,516)	(1,345,687)

The notes at pages 262 to 272 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Note	£000	1998-99 £000
Operating activities			
Net cash inflow from operating activities	17	14,439	13,697
Capital expenditure			
Payments to acquire fixed assets		(211)	(70)
Financing			
Capital funding		211	70
Increase in cash	18	14,439	13,697

The notes at pages 262 to 272 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

1.2 Income

The Authority had two sources of funding during 1999-2000: payments receivable from NHS Trusts who are members of the Clinical Negligence Scheme for Trusts (CNST), Property Expenses Scheme (PES) or Third Party Liability Scheme (LTPS), and income allocations from the Department of Health to fund the Ex-Regional Health Authorities (RHAs) Scheme and the administration costs of the Existing Liabilities Scheme (ELS). Department of Health revenue funding is from Class II, Vote 1, subhead A2 and capital funding is from Vote 1, subhead A3.

1.3 Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of health services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1999-2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories have been capitalised:

- assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more; and
- computer software licences are capitalised as intangible assets where they are capable of being used for more than one year and have a historic cost, individually or as a group, equal to or greater than £5,000. 1999-2000 is the first year computer software licences have been capitalised.

(ii) Valuation

Intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount. Tangible fixed assets are valued at current cost as follows:

Equipment held for operational use is valued at depreciated replacement cost.

(iii) Depreciation

- Equipment is to be depreciated over the estimated life of the asset:-

	Years
Furniture	10
Office, information technology and other equipment	3

- intangible assets are amortised on a straight line basis over their estimated useful lives up to a maximum of 20 years. The carrying value of intangible fixed assets is reviewed for impairment at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

1.4 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health.

1.5 Leases

The Authority had no finance leases during the year.

1.6 Claims expenditure

Claims expenditure includes the settlement of claims, costs of payments into court, plaintiffs' costs (where relevant), fees to legal firms and the costs of associated professional fees.

1.7 Allocation of costs

The apportionment of administration expenditure to the various segments in the income and expenditure account has been made on the basis of actual costs where known, with the remainder based pro rata to the number of registered claims under the individual schemes.

1.8 Outstanding claims liabilities

Existing Liabilities Scheme (ELS)

The Authority is responsible for the administration of the ELS on behalf of the Department of Health. The Authority only accounts for the administration costs of ELS and does not make any provisions or report any contingent liabilities in respect of ELS. The relevant NHS bodies record gross provisions and contingent liabilities for unsettled claims and, separately, the amount expected to be reimbursed by ELS. The account excludes payments made directly by the Authority under ELS, amounting to £264,584,000 (1998–99: £55,926,000), and the equivalent amount has been deducted from the Authority's cash limit in the calculation of income.

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 2000. The calculation is made using:

- i. probability factors. The probability of each claim having to be settled at estimated gross value is assessed for probability between 0% and 100%. This probability is applied to the gross value to give the probable cost of each claim; and
- ii. a discount factor of six per cent per annum applied to the probable cost, taking 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 16.

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 Trusts remain members of the scheme.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his 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 this scheme.

Ex-Regional Health Authorities (RHAs) Scheme

The Authority undertook a review of all outstanding Ex-RHA claims, as at 31 March 2000, to identify those that were likely to result in settlement at some stage in the future. The Authority has assumed full liability for these claims and made a provision of £78,805,080 (Note 9) for their total amount. No contingent liabilities have been included for the scheme as other cases are considered very remote. This review also identified claims where no action had been taken by the plaintiff for a number of years and further action was unlikely to be taken by the plaintiff to resurrect the claim.

FRS12 requires that provisions and contingent liabilities are provided at probable cost and discounted to reflect the time value of money. The provisions made for Ex-RHA are made on the basis of probable outcome in court discounted for the time value of money as required by FRS12.

The NHS (Residual Liabilities) Act 1996 requires the Secretary of State to exercise his 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 this scheme.

Property Expenses Scheme (PES) and Liability to Third Parties Scheme (LTPS)

In April 1999 the Authority introduced the PES and LTPS following the Secretary of State's decision that NHS Trusts should not insure with commercial companies for non-clinical risks, other than motor vehicles and other defined areas (eg. PFI schemes).

The schemes are managed and funded via the same mechanisms as the CNST and the accounts for these schemes have been prepared in accordance with FRS12.

Incurred but not reported (IBNR)

FRS12 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 2000 where the following can be reasonably forecast:

- a. that an adverse incident has occurred;
- b. that a transfer of economic benefit will occur; and
- c. that a reasonable estimate of the likely value can be made.

The provisions and contingent liabilities for the CNST have, therefore, been adjusted to include IBNR which will subsequently be replaced by actual provisions as and when they are notified to the Scheme. The sums concerned are accounting estimates based on the Authority's detailed records of claims history and are provided by the Authority's actuaries.

Due to the nature of the claims and the immaturity of the schemes the Authority has not included any IBNR provisions or contingent liabilities for PES or LTPS within these accounts.

1999-2000 is the first year IBNR provisions and contingent liabilities have been included in the accounts.

1.9 Prior year adjustment

The Authority has changed its accounting policy to include liabilities in respect of incidents incurred but not reported (IBNR) in the accounts. In accordance with FRS3 a prior year adjustment is included in these accounts. The effect is to increase CNST provisions by £896,000,000, Notes 9 and 12, and to increase the CNST claims and associated costs in the 1998-99 Income and Expenditure Account by £254,000,000 to £563,855,000.

Allocation of income and expenditure to the clinical negligence funding schemes

2	CNST	ex-RHAs	ELS	PES	LTPS	Total	Re-stated Total 1998-99
	£000	£000	£000	£000	£000	£000	£000
Income							
Department of Health funding	-	8,972	6,518	-	-	15,490	21,434
Scheme income	32,115	-	-	6,229	6,243	44,587	15,214
	<u>32,115</u>	<u>8,972</u>	<u>6,518</u>	<u>6,229</u>	<u>6,243</u>	<u>60,077</u>	<u>36,648</u>
Expenditure							
Authority and claims administration	1,615	347	6,518	419	747	9,646	8,501
Claims and associated costs	468,445	22,227	-	2,860	3,888	497,420	563,855
	<u>470,060</u>	<u>22,574</u>	<u>6,518</u>	<u>3,279</u>	<u>4,635</u>	<u>507,066</u>	<u>572,356</u>
(Deficit)/surplus for the year	<u>(437,945)</u>	<u>(13,602)</u>	<u>-</u>	<u>2,950</u>	<u>1,608</u>	<u>(446,989)</u>	<u>(535,708)</u>

Expenses of the Authority include the following in respect of claims and associated costs:

	Re-stated 1998-99 £000	£000
Settlements not previously accrued	138,582	(2,659)
In-year provision for future settlements	358,838	566,514
	<u>497,420</u>	<u>563,855</u>

Reconciliation of cashflow statement to Parliamentary funding	3	1998-99	
		£000	£000
Net cash inflow from ordinary activities		14,439	13,697
Revenue expenditure		507,066	572,356
Capital expenditure		211	70
Capital charges		(65)	(44)
ELS claims payments		264,584	55,926
Schemes income		(44,587)	(15,214)
Change in working capital		(461,428)	(549,405)
Total Parliamentary funding		280,220	77,386

Authority administration	4	4.1 Authority administration costs include:	1998-99		
			Note	£000	£000
		Non-executive members' remuneration	4.2	32	31
		Other salaries and wages	4.3	1,881	1,052
		External contractors		6,723	6,912
		Premises		649	285
		Establishment expenses		230	145
		Transport and moveable plant		23	6
		Capital-depreciation		43	34
		-capital charges interest		10	10
		Auditors' remuneration-audit fee		37	19
		Miscellaneous		18	7
				<u>9,646</u>	<u>8,501</u>

Operating leases of £5,000 (1998-99: £4,000), in respect of the Chief Executive's car, and £18,000 (1998-99: £2,000) in respect of other vehicles are included in the costs of the Authority.

Commitments under non-cancellable operating leases are:

	1998-99	
	£000	£000
Land and buildings		
Expiring between 1 and 5 years	68	114
Expiring after 5 years	353	-
Other leases		
Expiring between 1 and 5 years	23	8

4.2 Authority members' remuneration:

The Chairman's remuneration was £18,365 (1998-99: £19,285). Other members received remuneration in the range:

Range £	Number	1998-99 Number
£0 to £5,000	3	2
£10,001 to £20,000	1	1

4.3 Executive members and other staff costs:

	1998-99 £000	1998-99 £000
Salaries and wages	1,583	860
Social security costs	131	71
Other pension costs	49	25
Agency staff	118	96
	<u>1,881</u>	<u>1,052</u>

The average number of employees, excluding agency staff, during the year was 57 (1998-99: 33).

The Chief Executive's remuneration was £96,344 (1998-99: £85,137), including basic salary of £87,388 (1998-99: £76,963) benefits of £5,250 (1998-99: £4,900) and pension contributions of £3,706 (1998-99: £3,274). In 1998-99 one other member of staff received remuneration in the range £75,001 to £85,000.

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in this note.

**Better Payment
Practice Code—
measure of
compliance**

- 5 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 58.6% (1998-99: 83.3%) representing 75.4% (1998-99: 79.1%) by value, were paid within the 30 day target.

Fixed assets	6	Intangible fixed assets	£000	
		Historic cost at 1 April 1999	-	
		Additions	97	
		Historic cost at 31 March 2000	97	
		Accumulated depreciation at 1 April 1999	-	
		Provided during the year	3	
		Accumulated depreciation at 31 March 2000	3	
		Net book value at 1 April 1999	-	
		Net book value at 31 March 2000	94	
		Tangible fixed assets		Equipment
				£000
		Gross replacement cost at 31 March 1999	222	
		Indexation	4	
		Additions	114	
		Disposals	(19)	
		Gross replacement cost at 31 March 2000	321	
		Accumulated depreciation at 31 March 1999	44	
		Provided during the year	40	
		Disposals	(7)	
		Accumulated depreciation at 31 March 2000	77	
		Net book value at 31 March 1999	178	
		Net book value at 31 March 2000	244	
Debtors	7			31 March
				1999
			£000	£000
		Schemes debtors	24,817	460
		Other NHS debtors	102	-
		Other debtors	475	615
			25,394	1,075
Creditors: Amounts falling due within one year	8			31 March
				1999
			£000	£000
		Department of Health	-	9
		Other NHS creditors	797	338
		Other creditors	2,688	1,649
			3,485	1,996

Provision for liabilities and charges	9	ex-RHA	CNST	PES	LTPS	Total
		scheme	scheme	scheme	scheme	
		£000	Restated £000	£000	£000	£000
At 31 March 1999		64,567	417,605	-	-	482,172
Prior year adjustment		-	896,000	-	-	896,000
Restated at 31 March 1999		64,567	1,313,605	-	-	1,378,172
Arising during year		20,671	430,430	2,501	3,857	457,459
Utilised during year		(11,284)	-	-	-	(11,284)
Unwinding of discount		4,851	33,232	-	-	38,083
At 31 March 2000		78,805	1,777,267	2,501	3,857	1,862,430
Expected timing of cashflows:						
Within 1 year		36,476	291,819	2,448	2,566	333,309
1-5 years		41,061	470,351	53	1,291	512,756
Over 5 years		1,268	1,015,097	-	-	1,016,365
Total		78,805	1,777,267	2,501	3,857	1,862,430
Capital account	10					£000
At 31 March 1999						174
Additions						211
Disposals						(12)
Depreciation						(43)
At 31 March 2000						330
Revaluation reserve	11					£000
At 31 March 1999						4
Indexation						4
At 31 March 2000						8
CNST reserve	12					£000
At 31 March 1999						(384,961)
Prior year adjustment						(896,000)
Restated at 31 March 1999						(1,280,961)
Transfer from Income and Expenditure Account						(437,945)
At 31 March 2000						(1,718,906)
Income and expenditure reserve	13					£000
At 31 March 1999						(64,904)
Transfer from Income and Expenditure Account						(13,602)
At 31 March 2000						(78,506)

PES reserve	14		£000
		At 1 April 1999	-
		Transfer from Income and Expenditure Account	<u>2,950</u>
		At 31 March 2000	<u>2,950</u>

LTPS reserve	15		£000
		At 1 April 1999	-
		Transfer from Income and Expenditure Account	<u>1,608</u>
		At 31 March 2000	<u>1,608</u>

Contingent liabilities **16**

Contingent liabilities in respect of the various schemes represents the difference between the gross value of claims and the amount of the provision, Note 9, adjusted for the time value of money, are set out below:

	31 March 2000
	£000
CNST scheme	1,513,796
PES scheme	886
LTPS scheme	<u>3,321</u>
	<u>1,518,003</u>

The provision for claims, based on the probable costs of settlement and adjusted in accordance with FRS12, is included in the accounts because there is a high degree of certainty that the member trusts of the schemes will be reimbursed. The basis for this status is that the notified claims have been registered and evaluated by the Authority claims managers. As with conventional insurance companies the claim is against the member trust and the liability only transfers to the scheme if the conduct and settlement of the claim has been effected in accordance with the rules.

Reconciliation of operating (deficit) to net cash inflow from operating activities	17		1998-99
		£000	£000
		Operating (deficit) for the financial year	(446,989) (535,708)
		Depreciation	43 34
		Other capital charges	10 10
		Capital charges allocation	(53) (44)
		(Decrease) in net balances with the Department and NHS	
		Trusts	(24,009) (323)
		Decrease/(increase) in other debtors	140 (200)
		Increase in other creditors	1,039 223
		Increase in provision for liabilities and charges	<u>484,258</u> <u>549,705</u>
		Net cash inflow	<u>14,439</u> <u>13,697</u>

Analysis of changes in cash during the period	18	As at 31 March 1999 £000	Cash Flows £000	As at 31 March 2000 £000
		33,228	14,439	47,667

Losses and special payments 19 No losses or special payments were made in the year.

Related party transactions 20 The NHS Litigation Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the NHS Litigation Authority has had a significant number of material transactions with the Department and, potentially, with other entities for which the Department is regarded as the parent Department, viz:

All English Health Authorities, all English NHS Trusts and National Blood Authority.

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

Post balance sheet event 21 Whilst the Health Authorities and NHS Trusts retain the legal liability, as at 1 April 2000, managerial and financial responsibility for all liabilities covered by the Existing Liabilities Scheme (ELS) transfer to the NHS Litigation Authority. The transfer of responsibility will be accounted for in 2000–2001.

Prior to the transfer, the Health Authorities and NHS Trusts provided for the full liability and recognised a debtor for the amount they expected to receive in reimbursement from the NHS Litigation Authority under the rules of the Scheme.

Had the new arrangements been in place in 1999–2000, expenditure would have been increased by £178,560,000.

The Authority commissioned a review of the ELS as at 31 March 2000 by its actuaries. The review states that although the forecast could be £3,266 million the likely cost to the scheme is more likely to be £1,731 million, including £243 million for claims not reported as at 31 March 2000. This expenditure is likely to be incurred over a period of up to 22 years.

By 31 March 2001 the Authority will have transferred all outstanding ELS claims from Health Authorities and NHS Trusts and established actual values for outstanding reserves. The account of the Authority for 2000–2001 will include provisions and contingent liabilities for ELS.

The summarised accounts direction is at page 342.

Summarised Account of the NHS Supplies Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 277 to 290 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 280 to 282.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 275, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the NHS Supplies Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the NHS Supplies Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the NHS Supplies Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

	Notes	1998-99 £000	1998-99 £000
Operating income	2.1, 3	750,409	601,775
Expenditure			
Cost of sales	3	658,864	497,407
Staff costs and administration expenses	3, 4	85,327	98,962
		<u>744,191</u>	<u>596,369</u>
Operating surplus		6,218	5,406
Cost of fundamental reorganisation or restructuring		(4,978)	-
Surplus for the financial year		<u>1,240</u>	<u>5,406</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	1998-99 £000	1998-99 £000
Surplus for the financial year	1,240	5,406
Unrealised surplus on the revaluation and indexation of fixed assets	1,914	2,614
Transfers to NHS bodies and Department of Health	(190)	-
Total recognised gains for the financial year	<u>2,964</u>	<u>8,020</u>

The notes at pages 280 to 290 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Tangible fixed assets	6	29,674	29,359
Current assets			
Stocks		41,145	42,692
Debtors: amounts falling due within one year	7	66,699	65,129
Cash at bank and in hand		155	3,130
		107,999	110,951
Current liabilities			
Creditors: amounts falling due within one year	8	(38,175)	(40,467)
Net current assets		69,824	70,484
Provision for liabilities and charges	9	(8,811)	(10,711)
Total net assets		90,687	89,132
Financed by:			
Capital account	11	21,841	25,070
Revaluation reserve	12	7,833	4,289
Income and expenditure reserve	13	61,013	59,773
		90,687	89,132

The notes at pages 280 to 290 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	1998-99 £000	1999-2000 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	14	(2,776)	1,327
Capital expenditure			
Payments to acquire fixed assets		(477)	(2,142)
Receipts from sale of fixed assets		22	31
Net cash (outflow) before financing		<u>(3,231)</u>	<u>(784)</u>
Financing			
Capital funding		256	250
(Decrease) in cash	15	<u>(2,975)</u>	<u>(534)</u>

The notes at pages 280 to 290 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

FRS 12 was published in September 1998. Treasury agreed to defer the application of this standard to the NHS until 1999-2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of this Financial Reporting Standard. This standard has been implemented within the NHS for the accounting year 1999-2000.

1.2 Income

The main source of funding for the Authority is from the sale of goods and services, net of VAT, to other health authorities and NHS Trusts.

1.3 Tangible fixed assets

(i) Capitalisation

The treatment of fixed assets in the accounts is in accordance with the principal capital charge objective to ensure that such charges are fully reflected in the pricing of health care. The interest rate applied to average fixed assets, for the year, for capital charges in the financial year 1999-2000 was six per cent.

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

(ii) Valuation

Fixed assets are valued as follows:

- operational land, buildings, installations and fittings are stated at depreciated replacement cost, except for non-specialised properties which are stated at open market value for their existing use. Surplus land and buildings are stated at open market value for their alternative use. Valuations are carried out by the District Valuer of the Inland Revenue at five-yearly intervals. Between valuations, an appropriate index is applied to the assets.

Land and buildings assets held by the Authority were revalued as at 1 April 2000 by the District Valuer and this is reflected in 31 March 2000 balance sheet values.

- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at net recoverable amount;
- assets in the course of construction are valued at current cost.

(iii) Depreciation

Depreciation is charged on each main class of tangible asset as follows:

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated evenly on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- equipment is evenly depreciated over the estimated life of the asset using standard lives specified by the Department;

	Years
Moveable engineering plant and equipment	15
Furniture	10
Mainframe information technology installations	8
Vehicles and soft furnishings	7
Office, information technology, and other equipment	5

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as income. As a result no profit or (loss) is incurred on the disposal of an asset.

1.4 Stocks

Stocks are valued at the lower of cost and net realisable value.

1.5 Losses and special payments

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

1.6 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the leases.

1.7 Pension costs

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

**Accounting policies
(continued)**

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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 from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

Operating income	2.1	£000	1998-99 £000
	Sales to NHS customers	712,146	547,586
	Fees	20,313	36,115
	Sales to non-NHS customers	13,303	13,161
	Discounts received	4,645	4,850
	Other	2	63
		<u>750,409</u>	<u>601,775</u>
Reconciliation of cash flow statement to Parliamentary funding	2.2	£000	£000
	Net cash (outflow)/inflow from operating activities	(2,776)	1,327
	Expenditure	749,169	596,369
	Income net of advances	(750,409)	(601,775)
	Change in working capital	4,016	4,079
	Capital funding	256	250
	Total Parliamentary funding	<u>256</u>	<u>250</u>

Cost of sales and administration	3	1998-99	
		£000	£000
Cost of sales		658,864	497,407
Authority Members' remuneration		547	416
Other salaries and wages		47,638	58,441
Depreciation		1,455	1,417
Capital charges		1,456	1,665
Auditors' remuneration:			
Audit services		136	153
Non audit services		21	54
Interest		260	-
Maintenance		5,754	1,153
Miscellaneous		28,060	35,663
		<u>744,191</u>	<u>596,369</u>
<i>Hire and operating rentals included in expenses:</i>			
Hire of plant and machinery		1,292	1,973
Other operating leases		1,772	1,795
		<u>3,064</u>	<u>3,768</u>
Staff costs	4	£000	£000
<i>Authority members' remuneration:</i>			
Non-executive members' remuneration		46	43
<i>Executive members' remuneration:</i>			
Basic salaries		457	344
Benefits		10	9
Performance related bonuses		19	6
Pension contributions		15	14
		<u>547</u>	<u>416</u>
<i>Executive members' remuneration and staff costs:</i>			
Salaries and wages		42,480	51,358
Social security costs		2,998	4,020
Other pension costs		1,350	1,631
Agency staff		1,311	1,805
		<u>48,139</u>	<u>58,814</u>

The average monthly number of employees (excluding agency staff) during the year was 2,423 (1998-99: 3,270), of which 121 (1998-99: 133) were employed in the headquarters function and 2,302 (1998-99: 3,137) in support services.

	Chairman	1998-99 Chairman	Chief Executive	1998-99 Chief Executive
	£000	£000	£000	£000
Basic salary	20	20	108	105
Benefits	-	-	-	1
Performance related bonuses	-	-	9	3
Compensation for loss of office	-	-	94	-
Pension contributions	-	-	4	4
	<u>20</u>	<u>20</u>	<u>215</u>	<u>113</u>

During 1998-99 the post of chairman was held by two persons. The comparative figures are the aggregate remuneration for the two posts.

The chief executive retired at the end of March 2000 following the Cabinet Office review, see note 21.

The remuneration of other board members fell within the following ranges:

Range £	Number	1998-99 Number
up to 5,000	4	5
5,001 to 10,000	3	-
80,001 to 85,000	-	1
85,001 to 90,000	-	2
90,001 to 95,000	3	-

The following number of senior employees received remuneration (excluding pension contributions) falling within the following ranges:

Range £	Number	1998-99 Number
40,000 to 50,000	56	48
50,001 to 60,000	17	14
60,001 to 70,000	8	3
70,001 to 80,000	2	1
80,001 to 90,000	-	5
90,001 to 100,000	5	-
100,001 to 110,000	-	1
110,001 to 120,000	1	-

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

Better Payment Practice Code: measure of compliance

- 5 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 84.1% (1998-99: 60.4%), representing 83.9% by value (1998-99: 61.1%), were paid within the 30 day target.

Tangible fixed assets

6	Land	Buildings, installations and fittings	Assets under construction
	£000	£000	£000
Net book value at 31 March 1999	7,206	20,360	10
Additions	-	212	146
Transfers	(30)	(60)	(156)
Indexation and revaluation	670	1,169	-
Depreciation provided during the year	-	(649)	-
Net book value at 31 March 2000	7,846	21,032	-
			Equipment
			£000
Gross book value at 31 March 1999			10,684
Additions			119
Indexation and revaluation			(564)
Transfers			(55)
Disposals			(6,550)
Gross book value at 31 March 2000			3,634
Accumulated depreciation at 31 March 1999			8,901
Provided during the year			806
Indexation and revaluation			(639)
Transfers			(111)
Disposals			(6,119)
Accumulated depreciation at 31 March 2000			2,838
Net book value at 31 March 1999			1,783
Net book value at 31 March 2000			796
Notional (loss) on disposal of fixed assets is made up as follows:			
Equipment			(409)

		Net book value at 31 March 2000 £000	Net book value at 31 March 1999 £000
Total tangible fixed assets			
	Land	7,846	7,206
	Buildings, installations and fittings	21,032	20,360
	Equipment	796	1,783
	Assets under construction	-	10
		<u>29,674</u>	<u>29,359</u>
Net book value of land and buildings at 31 March 2000			
		£000	£000
	Freehold	27,178	25,953
	Long leasehold	1,700	1,580
	Short leasehold	-	33
		<u>28,878</u>	<u>27,566</u>
<hr/>			
Debtors: Amounts falling due within one year	7		31 March 1999 £000
	Department of Health, health authorities and NHS Trusts	60,780	58,120
	Non-NHS trade debtors	3,177	3,572
	Other debtors	360	973
	Provision for bad debts	(314)	(280)
	Prepayments and accrued income	2,696	2,744
		<u>66,699</u>	<u>65,129</u>
<hr/>			
Creditors: Amounts falling due within one year	8	£000	£000
	Department of Health, health authorities and NHS Trusts	453	2,744
	Income tax and social security	61	59
	Non-NHS trade creditors	22,897	28,954
	Pensions relating to other staff	1,094	367
	Other creditors	13,670	8,343
		<u>38,175</u>	<u>40,467</u>

Provision for liabilities and charges	9	Pensions relating to other staff		Reorganisation and restructure		Other	Total	
		£000	£000	£000	£000			
At 31 March 1999		8,631	-	-	2,080	10,711		
Re-analysis of opening balances		(1,535)	580	2,545	(1,590)	-		
Re-analysed balances at 31 March 1999		7,096	580	2,545	490	10,711		
Arising during the year		27	398	7,002	137	7,564		
Utilised during the year		(682)	(64)	(5,232)	(485)	(6,463)		
Reversed unused		(2,758)	(488)	(9)	(6)	(3,261)		
Unwinding of discount		260	-	-	-	260		
At 31 March 2000		3,943	426	4,306	136	8,811		
Expected timing of cashflows:								
Within 1 year							3,178	
1-5 years							2,140	
Over 5 years							3,493	
Total							8,811	
Operating lease commitments	10	<i>Commitments under non-cancellable operating leases are as follows:</i>						
							31 March 1999	
							£000	
Land and buildings							£000	
Operating leases which expire:								
Within one year				213			74	
Between one and five years				765			2,900	
In over five years				4,528			9,508	
				5,506			12,482	
Other							£000	
Operating leases which expire:							£000	
Within one year				66			304	
Between one and five years				821			3,702	
In over five years				2,418			-	
				3,305			4,006	

Capital account	11	<i>The movement on the capital account in the year comprised:</i>		
			£000	
		At 31 March 1999	25,070	
		Additions	477	
		Transfers	60	
		Disposals	(355)	
		Depreciation	(1,455)	
		Transfer from revaluation reserve	(1,956)	
		As at 31 March 2000	21,841	
Revaluation reserve	12	<i>The movement on the revaluation reserve in the year comprised:</i>		
			£000	
		At 31 March 1999	4,289	
		Revaluations and indexation	1,914	
		Transfers	(250)	
		Disposals	(76)	
		Transfer to capital account	1,956	
		As at 31 March 2000	7,833	
Income and expenditure reserve	13	<i>The movement on the income and expenditure reserve in the year comprised:</i>		
			£000	
		At 31 March 1999	59,773	
		Transfer from income and expenditure account	1,240	
		As at 31 March 2000	61,013	
Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	14			1998-99
			£000	£000
		Surplus for the financial year	1,240	5,406
		Depreciation	1,455	1,417
		Other capital charges	1,456	1,665
		Capital charges allocation	(2,911)	(3,082)
		(Increase) in NHS balances	(4,624)	(4,952)
		Decrease/(increase) in stocks	1,547	(228)
		Decrease in other debtors	962	942
		(Decrease)/increase in other creditors and provisions	(1,901)	159
		Net cash (outflow)/inflow from operating activities	(2,776)	1,327
Analysis of changes in cash	15	31 March 1999	Cash flows	31 March 2000
		£000	£000	£000
		Cash at bank and in hand	(2,975)	155

Contingent liabilities	16	As at 31 March 2000 outstanding legal claims totalling approximately £798,050 (31 March 1999: £717,000) have been made against NHS Supplies. These claims are disputed and until they are resolved it is not possible to determine the NHS Supplies' liability in this regard, if any. £425,750 (31 March 1999: £579,500) has been provided in this account for these items. The balance of £373,300 (31 March 1999: £137,500) has not been provided.		
<hr/>				
Capital commitments	17	<i>The Authority has the following capital commitments:</i>	31 March 1999	
			£000	£000
		Authorised but not contracted	57	398
<hr/>				
Losses and special payments	18	There were 7,685 (1998-99: 9,706) cases of losses and special payments totalling £645,046 (1998-99: £1,121,000) approved during 1999-2000.		
<hr/>				
Related party transactions	19	National Health Service Supplies Authority is a body corporate established by order of the Secretary of State for Health.		
		The Department of Health is regarded as a related party. During the year National Health Service Supplies Authority has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, viz:		
		Sales and services to other health authorities and NHS Trusts during the year were valued at approximately £733 million (1998-99: £584 million), which represented trading with 918 (1998-99: 1,020) individual organisations.		
		Purchases of goods and services from other health authorities and trusts during the year were valued at £1.6 million (1998-99: £1.5 million), which represented trading with 225 (1998-99: 230) individual organisations.		
		During the year none of the Board Members or members of the key management staff or other related parties has undertaken any material transactions with National Health Service Supplies Authority.		
		Members of the Board of NHS Supplies Authority are on record as having interests in a small number of organisations with which the NHS Supplies Authority has, in the ordinary course of its activities, engaged in non material transactions during the financial year. Members of the Board were not involved in the decision making process associated with these transactions.		

**Restructure of NHS
Supplies Authority**

- 20 In June 1999 the NHS Executive published Health Service Circular 1999/143 which set out new arrangements for procurement in the NHS. The circular stated that:
- on 1 April 2000 the NHS Supplies Authority was to be renamed the NHS Logistics Authority,
 - the wholesale function of the new Authority was to be reorganised and become an integrated supply chain organisation with its head office at Alfreton, Derbyshire, and
 - the procurement function of the NHS Supplies Authority was to be transferred, from 1 April 2000, to a new agency of the Department of Health named the NHS Purchasing and Supply Agency. It assumed responsibility for the Reading and Chester sites, previously occupied by the head office and purchasing functions of NHS Supplies Authority.

The NHS Supplies Authority transferred prepayments, receivables and capital assets with a total value of £2,950,000 on 1 April 2000 to the new Agency. In addition, on the same date, 288 staff from the NHS Supplies Authority transferred to the new Agency.

The customer services division of the NHS Supplies Authority was transferred to NHS Trusts. This was completed by October 1999 and involved the transfer of approximately 1,200 staff.

The annual turnover and operating loss of the transferred operations, together with the costs of the restructuring, is disclosed in the income and expenditure account.

The summarised accounts direction is at page 342.

Summarised Account of the Prescription Pricing Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 295 to 307 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 298 to 300.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 293, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of the financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the Prescription Pricing Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Prescription Pricing Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Prescription Pricing Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing operations

	Notes	1998-99 £000	1998-99 £000
Income			
Department of Health funding		48,478	45,197
Other	3	4,461	4,069
		<u>52,939</u>	<u>49,266</u>
Expenditure			
Operating expenses	4	52,753	48,574
Surplus for the year		<u>186</u>	<u>692</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		1998-99 £000	1998-99 £000
Surplus for the financial year		186	692
Unrealised surplus on the revaluation of fixed assets	14	955	884
Unrealised losses on the revaluation & indexation of fixed assets	14	(2,032)	-
(Reductions) to capital reserve	14	(491)	(685)
Total recognised (losses)/gains		<u>(1,382)</u>	<u>891</u>

The notes at pages 298 to 307 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Tangible fixed assets	6.1	15,757	18,684
Current assets			
Stock	7	181	197
Debtors	8	3,429	3,424
Cash at bank and in hand	11	33	73
		3,643	3,694
Current liabilities			
Creditors: amounts falling due within one year	9	(947)	(856)
Net current assets		2,696	2,838
Provisions for liabilities and charges	13	(1,257)	(1,586)
Total net assets		17,196	19,936
Financed by:			
Capital reserve	14	15,757	15,888
Revaluation reserve	14	-	2,795
Income and expenditure reserve	14	1,439	1,253
		17,196	19,936

The notes at pages 298 to 307 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash inflow from operating activities	10	16	112
Capital expenditure			
Payments to acquire fixed assets		<u>(1,323)</u>	<u>(2,582)</u>
Net cash (outflow) before financing		<u>(1,307)</u>	<u>(2,470)</u>
Financing			
Capital funding		<u>1,267</u>	<u>2,476</u>
(Decrease)/increase in cash	11	<u>(40)</u>	<u>6</u>

The notes at pages 298 to 307 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

1.2 Income

The main source of funding for the Authority is income allocations from the Department of Health (Class II, Vote 1) within an approved cash limit. Other income is recorded net of VAT.

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

(ii) Valuation

Fixed assets are valued as follows:

- valuations of land and buildings are carried out by the District Valuer of the Inland Revenue at five yearly intervals. These were revalued as at 1 April 2000 and these values are disclosed in the 31 March 2000 balance sheet. Operational land and buildings are valued on the basis of existing use. Between valuations the appropriate NHS indices are applied to revalue these assets;
- equipment is valued at estimated net current replacement cost using an appropriate NHS index;
- assets in course of construction are regarded as having not yet started their lives and therefore are valued at cost and are indexed but not depreciated;
- intangible assets held for operational use are valued at depreciated replacement cost. Surplus intangible assets are valued at the net recoverable amount. No intangible assets have been capitalised in 1999–2000 or in previous years.

(iii) Depreciation

Assets are depreciated on a straight line basis over their estimated lives by using the standard lives specified in the Capital Accounting Manual, as follows:

	Years
	as advised by District Valuer
Buildings	10
Furniture, fixtures, fittings, plant and machinery	8
Mainframe IT installations	7
Vehicles	5
Office equipment	5
Computers including software development costs	5

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

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as Department of Health income. As a result, no charge is incurred on the disposal of an asset. However, any notional profit/(loss) is disclosed in Note 6.4.

(v) Intangible assets

The Authority has not capitalised software licences as:

- any licences purchased for operating software are included in the cost of the asset;
- licences bought to operate software on the mainframe are paid on an annual basis and include an element for software maintenance.

1.4 Leases

Rentals under operating leases are charged on a straight line basis over the terms of the lease. Leases held on properties are operating leases rather than finance leases.

1.5 Stocks

Stocks are valued at cost.

1.6 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

The scheme is contributory with employees contributing six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost

of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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, prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Losses and special payments

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

1.8 Provision for liabilities and charges

A provision has been made in the accounts for early retirements – see Note 13. Pension costs in the year have been charged against this provision.

1.9 Accounts

The Prescription Pricing Authority prepares two sets of annual accounts; one dealing with the administration of the Authority; and another dealing with the operation of Pharmaceutical Services which account for £751 million expenditure. This account deals with the administration of the Prescription Pricing Authority only.

Reconciliation of cash flow statement to Parliamentary funding	2	1998–99	
		£000	£000
Net cash inflow/(outflow) from operating activities		16	112
Expenditure		52,753	48,574
Miscellaneous income		(1,106)	(1,132)
Capital charges		(4,457)	(4,052)
Movement in working capital		170	580
Capital expenditure		1,267	2,476
Appropriations in aid		(9)	(12)
Other		–	(211)
Total Parliamentary funding		48,634	46,335
<hr/>			
Other income	3	£000	£000
Scottish Executive funding		822	806
Pricing for other authorities		284	314
Appropriations in aid		9	12
		<u>1,115</u>	<u>1,132</u>
Transfer from capital reserve–depreciation (Note 14)		3,346	2,937
		<u>4,461</u>	<u>4,069</u>
<hr/>			
Operating costs	4	£000	£000
Board members' fees		40	39
Salaries		34,333	31,230
Contract staff		1,361	962
Capital: Depreciation		3,346	2,937
Capital: Capital charges interest		1,111	1,115
Equipment and furniture		1,919	2,896
Stationery, printing, postage and telephone		2,990	2,453
Maintenance, fuel, power and cleaning		3,306	3,574
Rent and rates		1,544	1,499
Transport		376	411
Staff training, advertising and removal expenses		711	530
Travel and subsistence		462	407
Auditor's remuneration:			
Audit fee		85	85
Non-statutory audit fees		57	56
Other operating expenses		1,112	380
		<u>52,753</u>	<u>48,574</u>

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

	£000	1998-99 £000
Annual commitments under non-cancellable operating leases:		
Less than 1 year	-	231
Between 1 and 5 years	110	110
Over 5 years	890	655
	<u>1,000</u>	<u>996</u>

	£000	£000
<i>Authority members' remuneration:</i>		
Non-executive members' remuneration	40	39
<i>Executive members' remuneration:</i>		
Basic salaries	75	78
Benefits	2	3
Pension contributions	3	5
	<u>120</u>	<u>125</u>

	Chairman £000	Chief Executive £000	Highest Paid Director* £000
Basic salary	16	75	79
Benefits	-	2	1
Bonuses	-	-	-
Pension contributions	-	3	3
	<u>16</u>	<u>80</u>	<u>83</u>
1998-99 totals	15	86	-

* Where the Chief Executive was not the highest paid director.

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of four per cent of the Chief Executive's salary. The Chief Executive is employed on a personal contract with reviews on performance linked to increases in remuneration undertaken by the Remuneration Committee.

The Chairman is contracted for a period of three years expiring in October 2002.

Three authority members received remuneration in the range £0 to £5,000 and three in the range £5,001 to £10,000 for 1999-2000 (all were in the range £0 to £5,000 for 1998-99).

	£000	1998-99 £000
Salaries and wages	31,179	28,155
Social security	2,057	2,083
Pension costs	1,097	992
Contract staff	1,361	962
	<u>35,694</u>	<u>32,192</u>

The average monthly number of employees (excluding agency staff) during the year was 2,145 (1998-99: 2,018).

The following number of senior employees received remuneration (excluding pension contributions) falling within the following ranges:

Range £	Number	1998-99 Number
40,000 to 50,000	9	9
50,001 to 60,000	3	3
60,001 to 70,000	1	-
70,001 to 80,000	2	1
80,001 to 90,000	-	1

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

**Better Payment
Practice Code:
measure of
compliance**

- 5 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of total relevant bills, 95% representing 95% by value, were paid within the 30 days target (1998-99: 94% representing 92% by value, were paid within the 30 days target).

Fixed assets	6.1	Freehold land £000	Buildings, installations & fittings £000	Assets under construction £000	Equipment £000	Total £000
	Gross replacement cost as at 31 March 1999	787	7,661	76	24,745	33,269
	Indexation and revaluation	135	599	2	602	1,338
	Additions	-	512	-	1,583	2,095
	Transfers	-	-	(78)	78	-
	Impairments	(157)	(2,687)	-	-	(2,844)
	Disposals	-	-	-	(2,184)	(2,184)
	Gross replacement cost as at 31 March 2000	765	6,085	-	24,824	31,674
	Depreciation as at 31 March 1999	-	574	-	14,011	14,585
	Indexation & revaluation	-	43	-	340	383
	Impairments	-	(812)	-	-	(812)
	Depreciation provided during the year	-	195	-	3,151	3,346
	Disposals	-	-	-	(1,585)	(1,585)
	Depreciation as at 31 March 2000	-	-	-	15,917	15,917
	Net book value as at 31 March 1999	787	7,087	76	10,734	18,684
	Net book value as at 31 March 2000	765	6,085	-	8,907	15,757

Land and buildings were revalued as at 1 April 2000 and these values are disclosed in the 31 March 2000 balance sheet. The report showed there had been a £1.1m net reduction in the value of the Authority's land and buildings. Between valuations the appropriate NHS indices are applied to revalue the assets.

Net book value of land and buildings

6.2 The net book value of land and buildings as at 31 March 2000 comprises:

	£000
Freehold	6,850

In addition to the value attributed to land and buildings in the accounts, the Authority has also held leases on seven other buildings during the 1999-2000 financial year. The total value of these leases is £7,439,250. The leases have been determined as operating leases as defined by Accounting Standards and the buildings have consequently not been capitalised in the Authority's Balance Sheet.

Finance leases and hire purchase contracts

6.3 There are no assets held under finance leases or hire purchase contracts.

Disposal of fixed assets	6.4		1998-99
			£000
		(Loss) on disposal of equipment	<u>(599)</u>
<p>The notional loss on disposal has been incurred in respect of asset replacement contracts. The loss is offset by equipment additions of £599,000 supplied under these contracts.</p>			
Stock	7		31 March 1999
			£000
		Information technology	137
		Print room	7
		Health benefits	23
		Purchasing	14
			<u>181</u>
			<u>197</u>
Debtors	8		1998-99
			£000
		NHS debtors	69
		Other debtors	665
		Prepayments and accrued income	2,695
			<u>3,429</u>
			<u>3,424</u>
Creditors: Amount falling due within one year	9		£000
			£000
		Non-NHS trade creditors	142
		Tax and social security	1
		Staff pensions	2
		Other creditors	605
		Accruals and deferred income	197
			<u>947</u>
			<u>856</u>
Reconciliation of operating surplus to net cash inflow from operating activities	10		£000
			£000
		Operating surplus	186
		Depreciation	3,346
		Decrease in stocks	16
		(Increase) in debtors	(5)
		(Decrease) in creditors and provisions	(181)
		Transfer from reserves-depreciation	(3,346)
		Net cash inflow from operating activities	<u>16</u>
			<u>112</u>

Analysis of changes in cash	11		At 31 March 1999	Change during the year	At 31 March 2000
			£000	£000	£000
		Cash at bank and in hand	73	(40)	33

Capital Commitments 12 At 31 March 2000, the Authority had contracted capital commitments of £311,917 (£568,700 at 31 March 1999).

Provisions for liabilities and charges	13	Early retirements relating to staff:		£000
		At 31 March 1999		1,586
		Utilised during the year		(329)
		At 31 March 2000		1,257
		Expected timing of cash flows:		
		Less than 1 year		300
		1-5 years		927
		Over 5 years		30
				1,257

The above liability consists of full retirement costs to employees up to the age of 60. At aged 60, the liability relates only to the enhanced element of retirements costs. In cases of death, the liability would relate only to continuing but reduced payment to a legal spouse. For these reasons, uncertainties exist as to the cash flow timings and amounts. No other assumptions have been made concerning future events.

Reserves	14		Capital reserve	Income and expenditure reserve	Revaluation reserve	Total
			£000	£000	£000	£000
		Balance brought forward at 31 March 1999	15,888	1,253	2,795	19,936
		Additions	599	-	-	599
		Indexation and revaluation of fixed assets	-	-	955	955
		Impairments	-	-	(2,032)	(2,032)
		Capital Grant	1,497	-	-	1,497
		Disposals	(599)	-	-	(599)
		Transfer to income and expenditure account: depreciation	(3,346)	-	-	(3,346)
		Transfers: backlog depreciation	1,718	-	(1,718)	-
		Surplus for the year	-	186	-	186
		Balance at 31 March 2000	15,757	1,439	0	17,196

Contingent liability 15 The Authority is facing no litigation claims for which a contingent liability would be appropriate.

Related parties 16 The Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year the Authority has had a significant number of material transactions with the Department. The Authority has had a small number of material transactions with The Scottish Executive during the year.

Losses and special payments 17 The Authority reported no losses and special payments in the year which exceeded delegated limits.

The summarised accounts direction is at page 342.

Summarised Account of Rampton Special Hospital Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 313 to 325 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 316 to 319.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 311, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of Rampton Special Hospital Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of Rampton Special Hospital Authority, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Rampton Special Hospital Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing operations

	Notes	£000	1998-99 £000
Income			
Department of Health funding		48,169	44,204
Other income	2.2	1,710	1,199
		<u>49,879</u>	<u>45,403</u>
Expenditure			
Operating costs	3	(49,875)	(45,392)
Surplus for the year		<u>4</u>	<u>11</u>

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

		£000	1998-99 £000
Surplus for the year		4	11
Unrealised surplus on fixed asset revaluation/ indexation	9.2	4,719	4,668
Impairments	9.2	(12,364)	-
Total recognised (losses)/gains for the financial year		<u>(7,641)</u>	<u>4,679</u>

The notes at pages 316 to 325 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Fixed assets			
Tangible fixed assets	5	55,132	64,199
Current assets			
Stocks		235	229
Debtors: Amounts falling due within one year	6	389	316
Cash at bank and in hand	11	293	187
		917	732
Current liabilities			
Creditors: Amounts falling due within one year	7	(2,508)	(2,159)
Net current liabilities		(1,591)	(1,427)
Total assets less current liabilities		53,541	62,772
Provisions for liabilities and charges	8	(1,063)	(1,232)
Total net assets		52,478	61,540
Financed by:			
Capital account	9.1	54,968	55,805
Revaluation reserve	9.2	165	8,394
Income and expenditure reserve	9.3	(2,655)	(2,659)
		52,478	61,540

The notes at pages 316 to 325 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash inflow/(outflow) from operating activities	10	106	(17)
Capital expenditure			
Payments to acquire tangible fixed assets		(1,363)	(1,785)
Receipts from the sale of tangible fixed assets		155	78
Net cash (outflow) before financing		<u>(1,102)</u>	<u>(1,724)</u>
Financing			
Capital funding		1,208	1,707
Net cash inflow from financing		<u>1,208</u>	<u>1,707</u>
Increase/(decrease) in cash	11	<u>106</u>	<u>(17)</u>

The notes at pages 316 to 325 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Treasury.

FRS 11 was published in July 1998 and the amendment to FRS 5 and 12 in September 1998. Treasury agreed to defer the application of these standards to the NHS until 1999-2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of these Financial Reporting Standards. These standards have been implemented within the NHS for the accounting year 1999-2000.

1.2 Income

The main source of funding is from the Department of Health for the provision of high security psychiatric services, which is recorded on an accruals basis. Other income is net of VAT.

1.3 Fixed assets

The treatment of fixed assets in the accounts is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of hospital services in order to promote fair competition within the NHS and also between the NHS and the private sector. The interest rate applied to capital charges in the financial year 1999-2000 was six per cent.

(i) Capitalisation

All assets falling into the following categories are capitalised:

tangible assets which are capable of being used for a period which exceeds one year and which:

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

**Accounting policies
(continued)***(ii) Valuation*

Fixed assets are valued at current cost as follows:

Land and buildings

Valuations are carried out by the District Valuer of the Inland Revenue at five-yearly intervals. Between valuations price indices appropriate to the category of asset are applied to arrive at a current value.

The large majority of buildings (including land, where not separable, installations and fittings) are valued by the District Valuer at depreciated replacement cost.

On an exception basis the District Valuer uses other valuation methods as follows:

- land separable from buildings, and land and building surplus to requirements, are valued at open market value for their alternative use; and
- certain non-specialised buildings in operational use are valued at open market value for existing use.

Land and buildings held under finance leases are capitalised at inception at the fair value of the asset but may be subsequently revalued by the District Valuer.

Land and buildings assets held by the Authority were revalued as at 1 April 2000 by the District Valuer and this is reflected in 31 March 2000 balance sheet values.

Equipment

Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.

Assets in the course of construction

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

(iii) Depreciation and amortisation

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

- freehold land, assets in the course of construction and land and buildings surplus to requirements are not depreciated;
- 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; and
- each equipment asset is depreciated evenly over the expected useful life:

	Years
Medical equipment and engineering plant and equipment	5 to 15
Furniture	10
Mainframe information technology installations	8
Soft furnishings	7
Office and information technology equipment	5
Vehicles	7
Set-up costs in new buildings	10

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as income. As a result no charge is incurred on the disposal of a fixed asset.

1.4 Stocks and work-in-progress

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

Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.

1.5 Losses and special payments

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

1.6 Pension costs

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs 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 prior to 6 March 1995, the additional costs are recharged to the Authority and included within operating expenses as they arise. For early retirements not funded by the scheme from 6 March 1995, the full amount of the liability for the additional costs is charged to the income and expenditure account at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.7 Leases

Rentals under operating leases are charged on a straight line basis over the term of the lease.

		1998-99		
		£000	£000	
Reconciliation of cashflow statement to Parliamentary funding	2.1			
		Net cash inflow/(outflow) from operating activities	106	(17)
		Expenditure	49,875	45,392
		Other income	(1,710)	(1,199)
		Capital charges	(5,873)	(6,297)
		Capital payments	1,363	1,785
		Movement in working capital	(102)	28
		Capital receipts	(155)	(78)
		Total Parliamentary funding	43,504	39,614
		Comprising of:		
	Department of health high security psychiatric services funding	42,648	37,798	
	Direct funding from Department of Health Vote	856	1,816	
Miscellaneous income	2.2			
		Fees and charges	1,444	1,145
		Other	266	54
		1,710	1,199	

Operating expenses	3	1998-99 £000	1998-99 £000
Non-executive members' remuneration		46	46
Other salaries and wages		36,608	32,147
Supplies and services:			
Clinical		534	550
General		1,577	1,542
Establishment costs		1,241	1,145
Transport costs		45	41
Premises and fixed plant costs		2,470	2,296
Interest payable		136	-
Capital:			
Depreciation		2,467	2,178
Capital charges interest		3,406	4,119
Auditors' fee:			
Audit services		30	28
Other remuneration		29	28
Recharges from other NHS bodies		128	86
Miscellaneous		1,158	1,186
		<u>49,875</u>	<u>45,392</u>
		£000	£000
<i>Authority members' remuneration:</i>			
Non-executive members' remuneration		46	46
<i>Executive members' remuneration:</i>			
Basic salaries		372	346
Benefits		15	18
Performance related bonuses		1	4
Pension contributions		15	13
		<u>449</u>	<u>427</u>

	1998-99		1998-99		1998-99	
	Chairman	Chairman	Chief Executive	Chief Executive	Highest Paid Member	Highest Paid Member
	£000	£000	£000	£000	£000	£000
Basic salaries	18	17	91	83	114	94
Benefits	4	4	3	2	4	4
Pension contributions	-	-	4	3	5	3
	<u>22</u>	<u>21</u>	<u>98</u>	<u>88</u>	<u>123</u>	<u>101</u>

The remuneration of other board members fell within the following ranges:

Range £	Number	1998-99 Number
Up to 5,000	4	5
5,001 to 10,000	3	-
15,001 to 20,000	-	1
50,001 to 55,000	1	-
55,001 to 60,000	-	3
60,001 to 65,000	1	-
65,001 to 70,000	1	-

	1998-99
	£000
<i>Executive members' remuneration and staff costs:</i>	
Salaries and wages	32,031
Social security costs	2,538
Other pension costs	1,070
Agency staff	969
	<u>36,608</u>
	<u>28,260</u>
	<u>2,247</u>
	<u>969</u>
	<u>671</u>
	<u>32,147</u>

The average number of employees was 1,242 (1998-99: 1,185).

The following number of senior employees received remuneration (excluding pension contributions) within the following ranges:

	1998-99
Range £	Number
40,000 to 50,000	37
50,001 to 60,000	9
60,001 to 70,000	5
70,001 to 80,000	1
80,001 to 90,000	4
90,001 to 100,000	2
100,001 to 110,000	4
110,001 to 120,000	2
120,001 to 130,000	1

The Resource Accounting Manual requires the Authority to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Authority, subject to the individuals concerned consenting to disclosure. This requirement was published in March 2000 to be implemented for 1999-2000. The Treasury have agreed to delay the implementation of the disclosure until 2000-2001 owing to the short notice to obtain permission from the relevant individuals.

The salaries of the senior managers of the Authority are included in the table above.

**Better Payment
Practice Code:
measure of
compliance**

- 4** The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 96% (1998-99: 95%), representing 96% (1998-99: 96%) by value, were paid within the 30 days target.

Tangible fixed assets	5.1	Freehold land	Buildings installations & fittings	Assets under construction
		£000	£000	£000
Cost or valuation as at 31 March 1999				
		2,898	58,854	755
		221	4,404	52
		-	1,028	22
		(562)	(11,313)	(490)
		(19)	(543)	524
		-	(2,151)	-
		(101)	(216)	-
		<u>2,437</u>	<u>50,063</u>	<u>863</u>

	Equipment £000
Gross replacement cost as at 31 March 1999	2,447
Indexation	60
Additions - purchased	313
Transfers	38
Gross replacement cost as at 31 March 2000	<u>2,858</u>
Depreciation as at 31 March 1999	755
Indexation	18
Depreciation provided during the year	316
Depreciation as at 31 March 2000	<u>1,089</u>
Net book value as at 31 March 1999	1,692
Net book value as at 31 March 2000	<u>1,769</u>

All tangible fixed assets were purchased.

The net book value of land and buildings is entirely freehold.

5.2	£000
<i>Notional (loss) on disposal of fixed assets is made up as follows:</i>	
Land, buildings, installations and fittings	<u>(162)</u>

Debtors: Amounts falling due within one year	6	31 March	
		1999	2000
		£000	£000
National Health Service debtors		24	61
Other debtors		287	174
Prepayments and accrued income		78	81
		<u>389</u>	<u>316</u>

Income and expenditure reserve	9.3			£000
		<i>The movement on the reserve in the year comprised:</i>		
		At 31 March 1999		(2,659)
		Transfer from income and expenditure account		4
		At 31 March 2000		(2,655)
Reconciliation of operating surplus to net cash inflow/(outflow) from operating activities	10			1998-99
			£000	£000
		Surplus for the year	4	11
		Depreciation	2,467	2,178
		Other capital charges	3,406	4,119
		Capital allocation	(5,873)	(6,297)
		(Increase) in stocks	(6)	(15)
		(Increase) in debtors	(72)	(23)
		Increase in creditors and other provisions	180	10
		Net cash inflow/(outflow) from operating activities	106	(17)
Analysis of changes in cash during the year	11			
		As at	Cash	As at
		31 March	flows	31 March
		1999		2000
		£000	£000	£000
		Cash at bank and in hand	187	293
Capital commitments	12	Capital commitments contracts at balance sheet date were £15,000 (1998-99: £10,585).		
Contingent liabilities	13	At 31 March 2000, the estimated future liability of early retirement costs that have not been capitalised is £738,172 (1998-99: £821,945).		
Losses and special payments	14	There were 50 (1998-99: 39) cases of losses and special payments totalling £10,335 (1998-99: £37,562) approved during 1999-2000.		
Related party transactions	15	<p>Rampton Special Hospital Authority is a body corporate established by order of the Secretary of State for Health.</p> <p>The Department of Health is regarded as a related party. During the year Rampton Special Hospital Authority has had a significant number of material transactions with the Department, and, potentially with other entities for which the Department is regarded as the parent Department, viz:</p> <p>NHS Pensions Agency</p> <p>During the year none of the Board Members or members of the key management staff or other related parties has undertaken any material transactions with Rampton Special Hospital Authority.</p>		

Post balance sheet event

- 16** The formal consultation period for the proposed reconfiguration of mental health and learning disability services in Nottingham concluded on 20 June 2000. The Secretary of State's decision on the proposed reconfiguration is anticipated later in 2000.

If the reconfiguration proceeds, it will be effective from 1 April 2001. There are no financial implications of the reconfiguration included in these accounts.

The summarised accounts direction is at page 342.

Summarised Account of the United Kingdom Transplant Support Service Authority

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

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

I certify that I have audited the financial statements on pages 331 to 341 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 334 to 336.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 329, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report to you my opinion as to whether the financial statements give a true and fair view of the state of affairs of the United Kingdom Transplant Support Service Authority and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

Basis of opinion

I conducted my audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the United Kingdom Transplant Support Service Authority consistently applied and adequately disclosed.

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

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the United Kingdom Transplant Support Service Authority at 31 March 2000 and the income and expenditure, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material aspects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R36.

John Bourn
Comptroller and Auditor General

6 July 2001

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

Income and Expenditure Account for the year ended 31 March 2000

Continuing operations

	Notes	£000	1998-99 £000
Income			
Funding		5,269	5,066
Income from activities	2.2	245	246
		5,514	5,312
Expenditure			
Operating costs	3	6,365	5,569
(Deficit) for the financial year		(851)	(257)

Statement of Total Recognised Gains and Losses for the year ended 31 March 2000

	Notes	£000	1998-99 £000
(Deficit) for the financial year		(851)	(257)
Unrealised surplus on the revaluation of fixed assets	12	467	397
Fixed asset impairment losses	2	(1,252)	-
Total recognised (losses)/gains for the financial year		(1,636)	140

The notes at pages 334 to 341 form part of this account.

Balance Sheet as at 31 March 2000

	Notes	£000	31 March 1999 £000
Tangible fixed assets	7	4,537	5,428
Current assets			
Stocks		5	9
Debtors	8	252	487
Cash at bank and in hand	15	8	5
		265	501
Current liabilities			
Creditors: Amounts falling due within one year	9	(258)	(103)
Net current assets		7	398
Total assets less current liabilities		4,544	5,826
Provisions for liabilities and charges	10	(460)	-
Total net assets		4,084	5,826
Financed by:			
Capital account	11	4,442	4,516
Revaluation reserve	12	95	912
Income and expenditure reserve	13	(453)	398
		4,084	5,826

The notes at pages 334 to 341 form part of this account.

Nigel Crisp
Accounting Officer

27 November 2000

Cash Flow Statement for the year ended 31 March 2000

	Notes	£000	1998-99 £000
Operating activities			
Net cash (outflow) from operating activities	14	(62)	(11)
Capital expenditure			
Payments to acquire tangible fixed assets		(201)	(400)
Net cash (outflow) before financing		(263)	(411)
Financing			
Funding for capital expenditure		266	400
Increase/(decrease) in cash	15	<u>3</u>	<u>(11)</u>

The notes at pages 334 to 341 form part of this account.

Notes to the Account

Accounting policies 1.1 Accounting convention

This account is prepared under the historical cost convention, modified by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by Treasury.

FRS 11 was published in July 1998. Treasury agreed to defer the application of this standard to the NHS until 1999–2000 to allow patient care, financial discipline and the practical implications of funding to be properly considered within the context of these Financial Reporting Standards. This standard has been implemented within the NHS for the accounting year 1999–2000.

1.2 Income allocations

The main source of funding for health authorities is cash advances within an approved cash limit from the Department of Health's Class II Vote 1 Appropriation Account: these advances are recorded in the accounts on a receipts rather than an accruals basis.

1.3 Fixed assets

The treatment of fixed assets in the account is in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the pricing of services. The interest rate applied to capital charges in the financial year 1999–2000 was six per cent. The effect of the capital charges on the Authority's finances is neutral, with a compensating credit being shown in the Income and Expenditure account.

(i) Capitalisation

All assets falling into the following categories are capitalised:

- tangible assets which are capable of being used for more than one year and have a cost equal to or greater than £5,000; and
- groups of tangible fixed assets which are interdependent or would normally be provided or replaced as a group with a total value in excess of £5,000 and an individual value of £250 or more.

(ii) Valuation

Fixed assets are valued as follows:

- land, buildings, installations and fittings held for operational use are stated at their depreciated replacement cost. Surplus land and buildings are stated at open market value for their alternative use. Valuations are carried out by the

District Valuer of the Inland Revenue at five yearly intervals. Between valuations, an appropriate index is applied to the assets;

- equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount; and
- assets in the course of construction are valued at current cost, including indexation.

Land and Buildings assets held by the Authority were revalued as at 1 April 2000 by the District Valuer and this is reflected in 31 March 2000 balance sheet values.

(iii) Depreciation

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

- land and assets in the course of construction are not depreciated;
- buildings, installations and fittings are depreciated on their revalued amount over the assessed remaining life of the asset as advised by the District Valuer;
- each equipment asset is depreciated evenly over the expected useful life:

	Years
Moveable engineering plant and equipment	15
Furniture	10
Mainframe information technology installations	8
Vehicles and soft furnishings	7
Office and information technology equipment	5

(iv) Disposals

Any income from the sale of fixed assets is either returned to the Department of Health or included in the income and expenditure account as income. As a result no charge is incurred on the disposal of an asset.

1.4 Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Work in progress comprises goods in intermediate stages of production.

1.5 Losses and special payments

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

1.6 Pension contributions

The Authority's employees participate in the NHS pension scheme. This 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 Authority is required to pay an employer's contribution, currently four per cent of pensionable pay, as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due.

Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer contributions are used to defray the cost of providing the scheme benefits. These are guaranteed by the Exchequer, with the liability to pay benefits falling to the Secretary of State, not to the Authority. Index linking costs under the Pensions (Increase) Act 1971 are met directly by the Exchequer.

The scheme is notionally funded. Scheme accounts are prepared annually by the Department of Health and are examined by the Comptroller and Auditor General. The Government Actuary values the scheme every five years and his quinquennial reports are published.

The scheme has a money purchase Additional Voluntary Contribution (AVC) arrangement linked to the Equitable Life Assurance Society, which is available to employees to enhance their pension benefits.

Additional pension costs arising from early retirements are not funded by the scheme except where the retirement is due to ill-health.

1.7 Donor reimbursement scheme

The Authority is responsible for the administration of a donor reimbursement scheme for England. The Authority only accounts for the administration costs of the scheme. The account excludes payments made directly by the Authority under the scheme, amounting to £585,000 (1998–99: £595,000), and the equivalent amount has been deducted from the Authority's cash limit in the calculation of income in respect of funds directly received for the scheme in England.

Reconciliation of cash flow statement to Parliamentary funding	2.1		1998-99	
			£000	£000
		Net cash (outflow) from operating activities	(62)	(11)
		Income from non vote sources	(245)	(246)
		Revenue expenditure	6,365	5,569
		Capital charges	(654)	(627)
		Capital expenditure	266	400
		Appropriations in aid	(820)	(902)
		Recoverable VAT payments	142	168
		Donor reimbursement scheme	585	595
		Movement in vote working capital	(820)	(217)
Total Parliamentary funding	4,757	4,729		

Total Parliamentary funding includes £337,500 from the Scottish Parliament, £184,500 from the National Assembly for Wales and £94,500 from the Northern Ireland Assembly.

Miscellaneous income	2.2		£000	£000
		Fees and charges	17	13
		Other	228	233
			245	246

Operating costs	3		£000	£000
		Non-executive directors	21	21
		Salaries and wages	2,394	2,307
		Capital:		
		Depreciation	343	325
		Capital charge interest	311	302
		Agency activities	577	533
		Premises	298	279
		Computers and IT	489	390
		Laboratory costs	414	263
		Auditors remuneration:		
		Audit services	21	46
		Non-audit services	8	18
		Other	1,489	1,085
			6,365	5,569

Better Payment Practice Code: measure of compliance

- 6 The Authority is required to pay its non-NHS trade creditors in accordance with the Better Payment Practice Code. The target is to pay non-NHS trade creditors within 30 days of receipt of goods or a valid invoice (whichever is the later) unless other payment terms have been agreed with the supplier. Of relevant bills, 98%, (1998-99: 99%) representing 99% (1998-99: 99%) by value, were paid within the 30 days target.

Fixed Assets

	Land £000	Buildings £000	Equipment £000	Assets under construction £000	Total £000
Gross book value at 31 March 1999	688	4,173	1,336	680	6,877
Revaluation	109	-	-	-	109
Indexation	53	312	36	4	405
Transfers	-	-	617	(617)	-
Impairments	-	(1,872)	-	-	(1,872)
Additions in the year	-	-	266	-	266
Disposals	-	-	(364)	-	(364)
Gross book value at 31 March 2000	850	2,613	1,891	67	5,421
Depreciation at 31 March 1999	-	461	988	-	1,449
Impairments	-	(620)	-	-	(620)
Indexation	-	35	12	-	47
Depreciation charged in the year	-	124	219	-	343
Disposals	-	-	(335)	-	(335)
Depreciation at 31 March 2000	-	-	884	-	884
Net book value at 31 March 1999	688	3,172	348	680	5,428
Net book value at 31 March 2000	850	2,613	1,007	67	4,537

The net book value of land and buildings at 31 March 2000 was entirely freehold.

Debtors

	31 March	
	1999	1999
	£000	£000
Trade debtors	3	41
Provision for bad debts	-	(2)
Other debtors	115	210
Prepayments and accrued income	134	238
	252	487

Creditors: Amounts falling due within one year	9		31 March 1999
		£000	£000
		Trade creditors	62 54
		Tax and social security	69 -
		Other creditors	12 16
		Capital creditors	65 -
		Accruals	50 33
		<u>258</u>	<u>103</u>
<hr/>			
Provisions for liabilities and charges	10		£000
		At 31 March 1999	-
		Arising during the year	460
		At 31 March 2000	460
<hr/>			
The provisions are in respect of early retirement and redundancy for two executive members of the authority.			
<hr/>			
Capital account	11		£000
		<i>The movement of reserves in the year comprised:</i>	
		At 31 March 1999	4,516
		Additions	266
		Depreciation charge	(343)
		Disposals	3
		At 31 March 2000	4,442
<hr/>			
Revaluation reserve	12		£000
		<i>The movement of reserves in the year comprised:</i>	
		At 31 March 1999	912
		Revaluation	109
		Indexation	358
		Impairments	(1,252)
		Disposals	(32)
		At 31 March 2000	95
<hr/>			
Income and expenditure reserve	13		£000
		<i>The movement of reserves in the year comprised:</i>	
		At 31 March 1999	398
		Transfer from income and expenditure account	(851)
		At 31 March 2000	(453)
<hr/>			

Reconciliation of operating (deficit) to net cash (outflow) from operating activities	14	1998-99	
		£000	£000
Operating (deficit)		(851)	(257)
Depreciation		343	325
Other capital charges		311	302
Capital allocation		(654)	(627)
Decrease in stocks		4	-
Decrease in debtors		235	184
Increase in creditors and provisions		550	62
Net cash (outflow) from operating activities		(62)	(11)

Analysis of changes in cash	15	As at 31	Cash	As at 31
		March 1999	flows	March 2000
		£000	£000	£000
Cash at bank and in hand		5	3	8

Capital commitments 16 The authority had no contracted (31 March 1999: £61,000) capital expenditure and had authorised but not contracted £165,000 (31 March 1999: £174,000) capital expenditure.

Contingent liabilities 17 As at 31 March 2000 there were no contingent liabilities (31 March 1999: £0).

Related party transactions 18 United Kingdom Transplant Support Service Authority is a body corporate established by order of the Secretary of State for Health.

The Department of Health is regarded as a related party. During the year United Kingdom Transplant Support Service Authority has had a significant number of material transactions with the Department, and, potentially with other entities such as:

Any English NHS Trust, Royal College of Surgeons, University of Bristol and South Gloucestershire Council, National Institute for Biological Standards and Control.

The United Kingdom Transplant Support Service Authority received additional funding from the Scottish Executive £320,000, National Assembly of Wales £174,000, National Assembly of Northern Ireland £89,000.

During the year none of the other Board Members or members of the key management staff or other related parties has undertaken any material transactions with United Kingdom Transplant Support Service Authority.

The summarised accounts direction is at page 342.

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

**Dental Practice
Board and Special
Health Authorities**

- 1** The Treasury directs that summarised accounts shall be prepared for the financial year ended 31 March 2000 and subsequent financial years in respect of each and every Special Health Authority and the Dental Practice Board. The basis of preparation and the form and content shall be as set out in the following paragraphs and Schedules.

**Basis of
preparation**

- 2** The summarised accounts of the Special Health Authorities and the Dental Practice Board shall be prepared from the individual audited accounts and shall comply with:
- (a) generally accepted accounting practice in the United Kingdom (UK GAAP);
 - (b) the accounting and disclosure requirements of the Companies Act;
 - (c) all relevant accounting standards issued or adopted by the Accounting Standards Board, in so far as they are appropriate to the NHS and are in force for the financial year for which the accounts are to be prepared;
 - (d) accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding schedules 1 and 5;
 - (e) the historical cost convention modified by the inclusion of fixed assets at their value to the business by reference to current costs; and stocks at the lower of net current replacement cost (or historical cost if this is not materially different) and net realisable value.

Form and content

- 3** For the year ended 31 March 2000 the summarised accounts of the Special Health Authorities and the Dental Practice Board shall, with the exceptions noted below, comprise an income and expenditure account, a balance sheet, a cash flow statement and a statement of total recognised gains and losses, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Special Health Authorities and the Dental Practice Board. The summarised account of the Dental Vocational Training Authority shall only comprise a receipts and payments account and a statement of balances. The summarised accounts of the National Institute for Clinical Excellence and the National Health Service Information Authority shall include an operating cost statement in place of the income and expenditure account and a statement of recognised gains and losses in place of a statement of total recognised gains and losses.

- 4 The summarised accounts of the Special Health Authorities and the Dental Practice Board for the year ended 31 March 2001 and subsequent years shall, with the exceptions noted below, comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of recognised gains and losses as long as these statements are required by FRAB, including such notes as are necessary to ensure a proper understanding of the accounts. The main foreword to all the summarised accounts shall include the Special Health Authorities and the Dental Practice Board. For the year ended 31 March 2001 and subsequent years, the Dental Vocational Training Authority account shall only comprise a receipts and payments account and a statement of balances. For the year ended 31 March 2001 and subsequent years, the summarised accounts of the National Blood Authority, the National Health Service Logistics Authority, Ashworth Special Hospital, Broadmoor Special Hospital and Rampton Special Hospital shall include an income and expenditure account in place of the operating cost statement.
- 5 For financial years ended 31 March 2000 and subsequent years, the summarised accounts of the Special Health Authorities and the Dental Practice Board shall give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure or operating costs as appropriate, recognised gains and losses and cashflows during the year. For the Dental Vocational Training Authority accounts only, the accounts shall properly present the receipts and payments and balances of the Authority.
- 6 The foreword and balance sheet shall be signed by the Accounting Officer and dated.
- 7 The direction shall be reproduced as an appendix to the published accounts.
- 8 The notes to the accounts shall, inter alia, include details of the accounting policies adopted.
- 9 Notes providing further explanations of figures in the accounts shall be made where it is considered appropriate for a proper understanding of the accounts.

Miscellaneous

T G Hull

2nd Treasury Officer of Accounts

24 November 2000

Schedule 1

Application of the Accounting and Disclosure Requirements of the Companies Act and Accounting Standards

- | | |
|-----------------------------|---|
| Companies Act | <p>1 The disclosure exemptions permitted by the Companies Act shall not apply to the NHS unless specifically approved by the Treasury.</p> <p>2 The Companies Act requires certain information to be disclosed in the Director's Report. To the extent that it is appropriate, the information relating to NHS bodies shall be contained in the foreword.</p> <p>3 Each summarised income and expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act.</p> <p>4 Each summarised balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act.</p> <p>5 The operating cost statement and cashflow statement shall have regard to the format prescribed in the Resource Accounting Manual.</p> <p>6 NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act.</p> |
| Accounting Standards | <p>7 NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3.</p> |

Schedule 2

- | | |
|--------------------------------|--|
| Additional requirements | <p>1 The foreword shall include a statement that the summarised accounts have been prepared to comply with a Direction given by the Treasury in accordance with section 98(4) of the NHS Act 1977.</p> <p>2 The foreword shall also contain a description of the statutory background and main functions of the NHS bodies to which it relates together with a fair review of their operational and financial activities and, for years subsequent to 31 March 2000, a summary of their performance against targets.</p> |
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