

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, Primary Care Trusts 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, Primary Care Trusts, NHS Trusts, Special Health Authorities and Special Trustees in England, for the year ended 31 March 2001 together with the Report of the Comptroller and Auditor General thereon.
(In continuation of House of Commons Paper No. 119 of 2001–02)

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

NHS (England) Summarised Accounts 2000–01

ORDERED TO BE PRINTED BY THE HOUSE OF COMMONS 22 APRIL 2002

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Summary and Conclusions

Introduction

- 1 The Department of Health prepares summarised accounts for the NHS in England, which for 2000-2001 covered the:
 - 99 health authorities, which spent some £41 billion in purchasing health care and related services from NHS Trusts and other contractors to the health service;
 - 40 Primary Care Trusts;
 - 356 NHS Trusts, which spent some £31 billion in delivering health care;
 - 431 charitable funds held on trust;
 - 15 special health authorities; and
 - the Dental Practice Board.

Issues covered in my Report

- 2 This 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 2.21*). The separate NHS summarised accounts for Wales and Scotland, including auditors' reports, are laid before the Welsh Assembly and the Scottish Parliament respectively.
- 3 I also report on the key developments in accounting and internal control (*paragraphs 3.1 to 3.28*), the overall financial performance of health authorities, Primary Care Trusts and NHS Trusts (*paragraphs 4.1 to 4.21*), progress in countering fraud (*paragraphs 5.1 to 5.23*), and on the financial costs facing the NHS for clinical negligence claims together with the latest accounting developments (*paragraphs 6.1 to 6.17*).

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 2000-2001 summarised accounts (*paragraphs 1.1 to 1.6*).

Findings of the Appointed Auditors

- 5 For the seventh consecutive year, the appointed auditors gave unqualified "true and fair" audit opinions on the accounts of all individual NHS Trusts and health authorities (*paragraphs 2.5 to 2.14*). They also gave unqualified audit opinions on all of the fifteen special health authorities, the Dental Practice Board and the separate charitable funds held on trust within the NHS.

- 6 Appointed auditors were also required to express an opinion on the regularity of the activities of health authorities, Primary Care Trusts and special health authorities. 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 two cases, they also gave unqualified regularity opinions (*paragraphs 2.10 to 2.14*).

Developments in accounting and internal control

- 7 **Changes in the structure of the NHS summarised accounts for 2000-2001:** Primary Care Trusts are to become the lead NHS organisations in assessing need, planning and securing all health services and improving health. For 2000-2001, the first year of their operation, there were 40 Primary Care Trusts, and this increased to 164 in 2001-2002. The main impact on my audit of the 2000-2001 NHS summarised accounts is the inclusion of an additional summarised account for Primary Care Trusts prepared by the Department for my audit.
- 8 Further restructuring is planned in line with *The NHS Plan* published in July 2000. With effect from 1 April 2002, the existing 95 health authorities will be merged and subsequently replaced, subject to legislation, by 28 strategic health authorities. These new authorities are intended to lead the development of the local health service on the basis of local accountability agreements.
- 9 The closure of existing health authorities and, again subject to legislation, the establishment of the new strategic health authorities will be significant to my audit of the summarised accounts and to the work of the appointed auditors of the underlying accounts for the 2001-2002 financial year (*paragraphs 3.2 to 3.5*).
- 10 **Introduction of the Resource Accounting Manual:** In 1999-2000 the Department of Health, in line with all other central government organisations, adopted a new method of accounting for its activities. This results in the production of annual "resource accounts" on an accruals basis, and replaces the Department's previously cash-based accounts.
- 11 In producing Resource Accounts, the Department applies the concepts set out in Treasury's Resource Accounting Manual, which interprets UK generally accepted accounting practice for the public sector. Health authorities, Primary Care Trusts, and certain special health authorities fall within the departmental boundary for resource accounting purposes and are consolidated within the Department's accounts. To ensure consistency, Treasury has now directed that such organisations should prepare their own accounts in accordance with the Manual from 2000-2001. This approach has also been reflected in the relevant summarised accounts, where health authorities and special health authorities have restated 1999-2000 balances to reflect the change in accounting basis (*paragraphs 3.6 to 3.9*).
- 12 **Extending the remit of the Financial Reporting Advisory Board:** The Board advises Treasury on the development of resource accounting for the central government sector. Thus the accounting policies of health authorities, Primary Care Trusts and certain special health authorities are determined by the recommendations of the Board as incorporated within Treasury's Resource Accounting Manual. With effect from January 2002, the remit of the Board has been extended to oversee NHS Trust accounting (*paragraphs 3.16 to 3.17*).
- 13 **The development of corporate governance and statements on the systems of internal financial control:** This is the fourth year for which all NHS organisations have been required to prepare statements on the systems of internal financial control. In response to my comments in my report on the

1998-99 summarised accounts, these statements have now been enhanced to comment on the *effectiveness*, rather than merely the adequacy, of the financial control systems.

- 14** The Accountable Officers of 20 NHS Trusts, 7 health authorities, and 22 Primary Care Trusts identified weaknesses in their systems for some or all of the financial year and highlighted them in their statements on internal financial control. These additional disclosures indicate that not all of the required policies and procedures were in place for the whole of the 2000-2001 financial year. The Department of Health has informed me that remedial action is being taken in these cases.
- 15** Statements have been included within the summarised accounts of health authorities, NHS Trusts, Primary Care Trusts and most special health authorities for the first time this year. The Accounting Officer of the Department of Health, drawing on the statements from his Accountable Officers on the underlying individual accounts, drew attention in six summarised accounts to weaknesses in systems or failures to meet all minimum control standards reported by the underlying organisations (*paragraphs 3.18 to 3.28*)

Financial performance of the NHS

- 16 Financial Duties:** All health authorities and Primary Care Trusts met the statutory duty to remain within their cash limits in 2000-2001. All but one health authority, which was preparing for a merger, met the departmental requirement to achieve financial balance in resource terms (*paragraphs 4.7 to 4.9*).
- 17** The Department considers that no NHS Trust failed its statutory break-even duty in 2000-2001. Nineteen NHS Trusts received an extension to the original period for recovering their cumulative deficits (*paragraphs 4.11 to 4.14*).
- 18** NHS Trusts are also subject to two departmental financial duties:
- For the capital cost absorption rate duty, the average return for 2000-2001 was 6.2 per cent, against the target of 6 per cent. Eighteen NHS Trusts failed this duty (*paragraphs 4.15 to 4.17*);
 - Overall, NHS Trusts were £9 million within their external financing limit of £224 million; seven NHS Trusts breached their individual limits by more than £10,000 (*paragraphs 4.18 to 4.19*).

Fraud

- 19** The NHS Counter-Fraud Service, formerly the Directorate of Counter Fraud services, is responsible for all work to prevent, detect and measure fraud and corruption within the NHS. It has continued to develop a Risk Measurement Project to measure fraud and "incorrectness" across the main NHS services.
- 20** By the end of February 2002, the Service had completed five full measurement exercises covering potential patient fraud and two baseline measurement exercises:

The progress made in fraud measurement exercises

Area of measurement	Current status	Fraud measured	Completion date
Pharmaceutical Patient Fraud	Two full measurement exercises completed	1998-1999: £117 million 1999-2000 : £69 million	December 2000
Pharmaceutical Contractor Fraud	First full measurement exercise nearing completion	Data currently with statisticians for analysis	-
Dental Patient Fraud	Two full measurement exercises completed	1999-2000 : £40.3 million 2000-2001 : £30 million	January 2002
Dental Contractor Fraud	First baseline measurement exercise completed	Sums found to be 'at risk'* 1999-2000: £59.7 million	January 2002
Optical Patient Fraud	First full measurement exercise completed	1999-2000: £13.25 million	January 2002
Optical Contractor Fraud	Baseline measurement exercise completed	Sums found to be 'at risk'* 1999-2000: £20.9 million	February 2002
GMS Fraud	Baseline measurement exercise nearing completion	Data currently with statisticians - for analysis	-
Health authorities and NHS Trusts	Initial work commenced		

NOTE

- * The 'at risk' figures quoted are not necessarily fraud; rather they represent sums where it was not possible to establish that no risk existed.

Source: NHS Counter Fraud Service

- 21** The published results of this work show that measured fraud in the areas of pharmaceutical and dental patient fraud has fallen from £157.3 million to £99 million between the first full measurement exercise and the follow-up exercises. In addition, a further £13.25 million suspected fraud and £80.6 million at risk have been identified by subsequent exercises. The results of the pharmaceutical contractor and fraud in General Medical Services exercises have yet to be finalised (*paragraphs 5.7 to 5.12*).
- 22** As at March 2001, 484 cases of suspected fraud with an estimated value of £18.3 million had been reported to the Service. Since then, they have received reports on an additional 445 cases, with an estimated value of £17 million (*paragraph 5.14*).
- 23** In my view, the overall levels are not significant enough to affect my opinions on the accounts and I have therefore given unqualified opinions (*paragraph 5.23*).

Clinical negligence

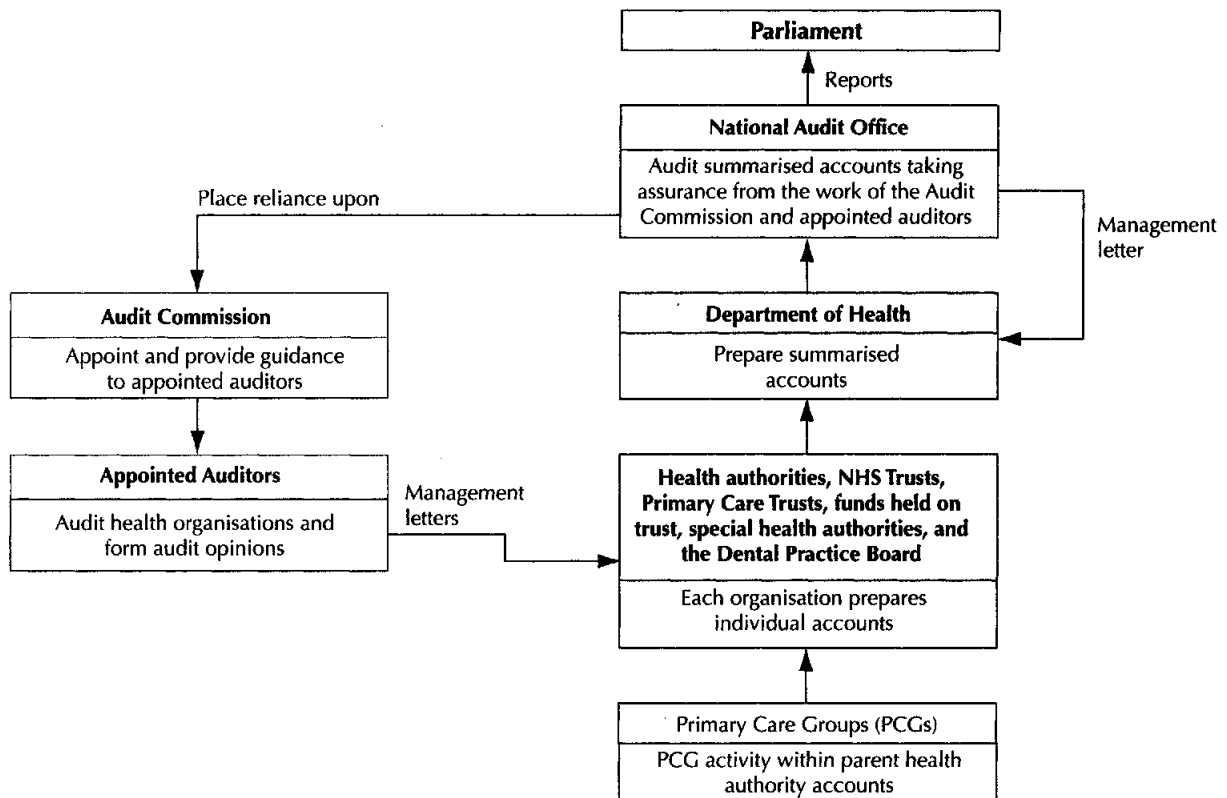
- 24 Total provisions:** provisions for the probable cost of clinical negligence within the NHS amounted to £4.4 billion at 31 March 2001, an increase of £0.5 billion since 31 March 2000. A key cause of this increase was the result of legal developments, which increased awards to fund the costs of future care and therefore required a reassessment of the level of provisions required (*paragraphs 6.3 to 6.7*).
- 25 Public Accounts Committee:** The Public Accounts Committee considered my report, *Handling Clinical Negligence Claims in England* (HC 403, 2000-2001), in October 2001. The Department of Health will issue a White Paper in 2002 which will describe its proposals in respect of the reform of clinical negligence (*paragraphs 6.15 to 6.16*).

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 2000-2001, under Section 98 of the National Health Service Act 1977. The separate NHS summarised accounts for Scotland and Wales, including auditors' reports, are laid before the Scottish Parliament and the Welsh Assembly 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, on an accruals basis, in the Resource Accounts for the Department of Health. Both of these accounts are also subject to my audit. This is the final year of the appropriation accounts, due to the introduction of resource accounting and budgeting.
- 1.3 The NHS summarised accounts presented here record the financial affairs of the:
- 99 health authorities;
 - 40 Primary Care Trusts;
 - 356 NHS Trusts;
 - 15 special health authorities; and
 - the Dental Practice Board
- to whom these funds are made available.
- 1.4 The Audit Commission appoints the external auditors to these organisations. These appointed auditors provide an audit opinion on the annual accounts of each body, and the Department of Health summarises these accounts for my audit. **Figure 1** shows the audit arrangements for the underlying and summarised accounts of the NHS in 2000-2001.

1 Audit arrangements in the National Health Service



- 1.5 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 2000-2001 accounts included assessing the reliability of the information contained in the audited accounts 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 over the appointed auditors' work existed and operated effectively.
- 1.6 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 2000-2001.
- 1.7 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.
- 1.8 My recent reports on issues affecting the NHS in England are:
- Department of Health: Inpatient and outpatient waiting in the NHS (HC 221, 2001-2002);
 - Inappropriate adjustments to NHS waiting lists (HC 452, 2001-2002); and
 - NHS Direct in England (HC 505, 2001-2002).
 - The Management of Surplus Property by Trusts in the NHS in England (HC 687, 2001-2002).
- 1.9 In addition, my reports on issues cutting across government departments are also of relevance to the Department of Health and the NHS. Recent relevant reports are:
- Measuring the Performance of Government Departments (HC 301, 2000-2001);
 - Purchasing Professional Services (HC 400, 2000-2001);
 - Giving confidently: The role of the Charity Commission in regulating charities (HC234, 2001-2002);
 - Modern Policy-Making: Ensuring Policies Deliver Value For Money (HC 289, 2001-2002);
 - Better Regulation - Making good use of Regulatory Impact Assessments (HC329, 2001-2002);
 - Managing the relationship to secure a successful partnership in PFI projects (HC 375, 2001-2002); and
 - Joining up to improve public services (HC 383, 2001-2002).
- 1.10 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 2.14); and
- findings which led to Section 19 referrals to the Secretary of State and Section 8 reports in the public interest (paragraphs 2.15 to 2.21).

Audit of the 2000-2001 underlying accounts - work of the appointed auditors

The two-part audit opinion

- 2.2 Auditors of the 99 health authorities, 356 NHS Trusts, 40 Primary Care Trusts, 431 funds held on trust, 15 special health authorities and the Dental Practice Board are required to issue an opinion as to whether the accounts for each individual organisation reflect a true and fair view of its state of affairs as at 31 March 2001 and of its income and expenditure for the year.
- 2.3 Auditors of health authorities, special health authorities, Primary Care Trusts and the Dental Practice Board are also required to provide a separate assertion about the regularity of the transactions shown in the accounts (see paragraph 2.10 below).
- 2.4 I examine each of these requirements in paragraphs 2.5 to 2.13.

'True and Fair' view

- 2.5 For the seventh 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 2001 and of their income and expenditure for the year. They also gave unqualified opinions on the accounts of individual Primary Care

Trusts in 2000-2001, their first year of operation. As a result, I was also able to give unqualified opinions on the summarised accounts for NHS Trusts, health authorities, Primary Care Trusts, special health authorities and the Dental Practice Board.

- 2.6 Part 4 of my report provides analysis of the financial performance of health authorities, NHS Trusts and Primary Care Trusts, and the Department of Health's central financial performance management activities.

Funds held on trust

- 2.7 NHS Trusts, Primary Care Trusts, health authorities, special 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 2000-2001 shows total funds at 31 March 2001 of some £1.7 billion.
- 2.8 The appointed auditors gave unqualified audit opinions on each of the funds held on trust accounts in 2000-2001. This represents an improvement on 1999-2000 when two accounts received qualified opinions on the grounds of limitation of scope as a result of concerns over systems designed to ensure the completeness of income.
- 2.9 Following my examination of the account, I have also been able to give an unqualified audit opinion that the summarised account for the NHS funds held on trust presents fairly the state of affairs of the funds at 31 March 2001 and their incoming resources and application of resources.

Regularity opinion

- 2.10 Health authorities, Primary Care Trusts and selected special health authorities are within the boundary for the Department of Health's Resource Accounts as they receive the majority of their funding directly from the Department. NHS Trusts and the remaining special health authorities are outside the boundary as they receive their main funding either indirectly or from external sources, for example from fees and charges.

2.11 For all special health authorities, and the other accounts included within the Resource Accounts, auditors are required to give a separate "regularity" 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". Appointed auditors were able to provide unqualified regularity opinions on all but two of the underlying accounts.

2.12 The auditors of the Prescription Pricing Authority and the Dental Practice Board qualified their opinions on the pharmaceutical services and general dental services financial statements. These statements are not separately published, but are incorporated into the summarised accounts of the health authorities.

2.13 The auditors qualified their opinions :

- On the Prescription Pricing Authority: because of the impact of the NHS Counter Fraud Services' calculation of the estimated shortfall of income caused by patients fraudulently evading prescription charges and by unintentional evasion;
- On the Dental Practice Board: because of the Board's probity unit's estimate of the level of inappropriate expenditure, almost half of which was in respect of irregular claims by patients and dentists.

2.14 Despite these qualifications, I have not qualified my overall opinion on the health authorities' or Primary Care Trusts' summarised accounts and discuss this further in part five of my report.

Reports and referrals

2.15 Section 19 of the Audit Commission Act 1998 requires an appointed auditor to refer matters to the Secretary of State if they have reason to believe that 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.

2.16 Since my report on the summarised accounts for 1999-2000 (HC 119, 2001-2002), appointed auditors have referred three such matters to the Secretary of State.

2.17 I reported last year that 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 has now issued a referral to the Secretary of State under section 19, concluding that arrangements with three private and voluntary sector bodies to purchase nursing care in residential homes did not comply with applicable statutory authorities. However, the auditor has also noted that 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.

2.18 The auditor of the Dental Practice Board also reported his qualification of the General Dental Services account (see paragraph 2.12) in a section 19 referral to the Secretary of State.

2.19 The auditor of Lambeth, Southwark and Lewisham Health Authority issued a section 19 referral regarding a payment in lieu of notice of termination of employment, and concluded that the Authority had made decisions that led to unlawful expenditure of some £46,000. This expenditure, to the extent that it is not recovered, constitutes a loss to the Authority.

2.20 As a result, the Department of Health has asked Lambeth, Southwark and Lewisham Health Authority to seek legal advice on the possibility of undertaking recovery.

2.21 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. Since my report last year, no such reports have been issued on those NHS organisations which comprise the summarised accounts in England.

Part 3

Developments in accounting and internal control

Introduction

3.1 This part of my report examines:

- **Changes in the structure of the NHS summarised accounts for 2000-2001** (3.2 to 3.5)
- **Developments in accounting:**
 - introduction of the Resource Accounting Manual (3.6 to 3.9)
 - late funding and deferred income (3.10 to 3.11); and
 - Charities SORP 2000 (3.12 to 3.15);
- **Extending the remit of the Financial Reporting Advisory Board** (3.16 to 3.17);
- **Statements on internal financial control and the development of corporate governance** (3.18 to 3.28).

Changes in the structure of the NHS summarised accounts for 2000-2001

- 3.2 Section 2 of The Health Act 1999 created Primary Care Trusts. Their role is to become the lead NHS organisations in assessing need, planning and securing all health services and improving health. For 2000-2001, the first year of their operation, there were 40 Primary Care Trusts, and this increased to 164 in 2001-2002.
- 3.3 The main impact of restructuring on my audit of the 2000-2001 NHS summarised accounts is the inclusion of a separate additional summarised account for Primary Care Trusts which has been prepared by the Department for my audit.
- 3.4 Further significant restructuring is planned in line with the proposals published by the Government in the NHS Plan in July 2000. With effect from 1st April 2002, the existing 95 health authorities will be merged and

subsequently, subject to legislation, replaced by 28 strategic health authorities. These new strategic health authorities are intended to lead the strategic development of the local health service and contribute to the management of the performance of Primary Care Trusts and NHS Trusts on the basis of local accountability agreements. This change in role will also result in a change in the funding mechanisms, whereby:

- the Department of Health will allocate most NHS revenue funding directly to Primary Care Trusts to ensure that the provision of services is matched to the needs of local people;
- the Department of Health will allocate capital funding, to maintain the estate, directly to NHS Trusts and Primary Care Trusts using nationally determined criteria; and
- strategic health authorities will manage the allocation of other capital funding to Primary Care Trusts and NHS Trusts. This will be used to fund strategic change, rather than ongoing maintenance.

3.5 The closure of existing health authorities and the establishment of the new strategic health authorities will be significant to my audit of the summarised accounts and to the work of the appointed auditors of the underlying accounts for the 2001-2002 financial year.

Developments in accounting

Introduction of the Resource Accounting Manual

3.6 In 1999-2000 the Department of Health, in line with all other central government organisations, adopted a new method of accounting for its activities. This results in the production of annual "resource accounts" on an accruals basis, and replaces the Department's previously cash-based accounts. For 1999-2000 and 2000-2001, the Department published both a cash-based appropriation account and an accruals-based resource account.

3.7 In producing resource accounts, the Department applies the concepts set out in Treasury's Resource Accounting Manual, which interprets UK generally accepted accounting practice for the public sector. Health authorities, Primary Care Trusts, and certain special health authorities fall within the departmental boundary for resource accounting purposes and are consolidated within the Department's accounts. To ensure consistency, Treasury has now directed that such organisations should prepare their own accounts in accordance with the Manual from 2000-2001. This approach has also been reflected in the relevant summarised accounts.

3.8 The impacts on the relevant accounts from this year include:

- An operating cost statement replaces the Income and Expenditure Account. Parliamentary funding is not shown as income, but is credited straight to the General Fund reserve. The operating cost statement therefore only shows transactions directly relating to the operating activities of the organisation;
- NHS organisations cannot anticipate parliamentary funding. This means that they cannot account for amounts specifically allocated for the year, but only for the cash received; and
- Other resultant changes have affected the presentation of the cashflow statement, statement of recognised gains and losses, and a number of notes to the accounts.

3.9 Health authorities and special health authorities have restated 1999-2000 balances to reflect the change in accounting basis. The changes to the way the departmental funding is accounted for have affected the net worth of health authorities, who have written out £876 million of debtors from the prior period relating to funding for drugs costs and other funding mechanisms. This is shown as a prior period adjustment in the summarised account for health authorities.

Late funding and deferred income

3.10 During the final quarter of 2000-2001, NHS Trusts received some £200 million additional funding from health authorities and directly from the Department of Health. They arranged for some of this funding to be applied to defined schemes relating to the 2001-2002 financial year.

3.11 The Department recognises that the provision of funding late in a financial year could have an adverse impact on an organisation's ability to plan and control its budget and services in the most effective way, and it aims to minimise such late funding in future years by increasing the proportion of health authority allocations issued in the first half of the year. This will give more time for

health authorities to plan spending and will reduce the need for NHS Trusts to treat income received as deferred income.

Charities SORP

3.12 The Charities Commission issued a new Statement of Recommended Practice (SORP) for charities in late 2000, updating previous guidance on financial reporting for charities. NHS organisations have applied this accounting guidance to the reporting of their charitable funds held on trust for 2000-2001.

3.13 The Department has provided guidance on the SORP for NHS charities in the Manual for Accounts, which dictates how trustees should account for their activities.

3.14 A significant impact of the SORP affects the recognition of liabilities. In particular, a charity is now required to recognise a liability when it has committed itself to making a transfer of value to a third party. Future costs cannot be charged to future years' income. The impact of this requirement on individual funds has varied, with some funds finding that their reserves have been greatly reduced. This reduction does not necessarily imply that the fund is having financial difficulties, but can indicate that trustees have undertaken to support projects that may require funds from future charitable donations. The Case Study below shows how the introduction of the SORP has had a significant impact on one charity's reserves.

CASE STUDY

The implementation of the SORP has reduced charity reserves

West Midland Air Ambulance NHS Trust

This Trust's sole activity is to fund the West Midland air ambulance. It is contractually committed to fund the ambulance for ten years. Under the requirements of the SORP, the contractual obligations for future costs have to be recognised in the 2000-2001 accounts. As a result, the Trust's funds have fallen from £4,790,000 at 31 March 2000 to £194,000 at 31 March 2001.

The effect of the SORP is particularly evident in this Trust because it is a single purpose charity, and so practically all of its reserves are committed to this one activity for which a long term contract is in place.

3.15 The summarised account for funds held on trust shows that outgoing resources have increased by 25 per cent since 1999-2000, whilst incoming resources have remained broadly constant. This disparity is due to the change in accounting for commitments in line with the SORP, which has seen grants payable increase by £75 million from £219 million in 1999-2000 to £294 million in 2000-2001.

Extending the remit of the Financial Reporting Advisory Board

3.16 The Financial Reporting Advisory Board to Treasury (FRAB) was set up in April 1996 to advise Treasury on the development of resource accounting for the central government sector. Because health authorities, Primary Care Trusts and certain special health authorities were defined as being within the Department's resource accounting boundary, this effectively meant that their accounting policies were determined by the recommendations of the FRAB as incorporated within Treasury's Resource Accounting Manual. However, the Department remained fully responsible for setting the accounting policies for the NHS organisations which were classified as being outside the resource accounting boundary, most notably the NHS Trusts.

3.17 In my report on the 1998-99 summarised accounts, I raised concerns about the inconsistencies in accounting practice which could arise from exemption of NHS Trusts from the requirements of resource accounting. I am pleased to note that the remit of FRAB has been extended to oversee NHS Trust accounting with effect from January 2002. The extended role for FRAB will help to harmonise accounting policies across the public sector and will facilitate the future development of Whole of Government Accounts.

The development of corporate governance and statements on the systems of internal financial control

3.18 Within both the public and private sectors, there has been a growing focus on corporate governance issues. The NHS has been one of the parts of the public sector which has responded quickly to good practice initiatives and is looking to further develop its corporate governance initiatives.

3.19 Since 1997-98, and ahead of targets set by Treasury, the Department of Health has required all NHS organisations to produce a separate statement on their systems of internal financial control as part of their annual accounts. From 2000-2001, and in response to my comments in my report on the 1998-99 summarised accounts, these statements have been enhanced to comment on the *effectiveness*, rather than merely the *adequacy*, of the financial control systems.

3.20 The statements prepared by NHS organisations refer to a set of minimum financial control standards specified by the Department in the following areas (**Figure 2**):

Categories of minimum financial control standards

- The control environment;
- Identification and evaluation of risks and control objectives;
- Information and communication;
- Control processes; and
- Monitoring and corrective action.

Source: Department of Health

3.21 Appointed auditors are required to comment in their opinions on the underlying accounts if they believe that the statement is not consistent with their own knowledge of the relevant NHS organisation. In 2000-2001, the appointed auditors did not qualify their opinions on any NHS organisation's statement on internal financial control. However, the Accountable Officers of 20 NHS Trusts, 7 health authorities, and 22 Primary Care Trusts identified weaknesses in their systems for some or all of the financial year and highlighted them in their statements on internal financial control. The majority of organisations reporting weaknesses were Primary Care Trusts which were in their first year of operation. The most commonly occurring issues are shown at **Figure 3**.

Issues in NHS organisations' Statements on Internal Financial Control

- Procedure notes were not in place for all fundamental financial systems;
- The Audit Committee did not review and monitor internal financial control and the implementation of agreed control improvements; and
- The systems in place did not produce wholly reliable financial information and proper accounting records.

Source: Analysis of results of the appointed auditors' work

3.22 These additional disclosures indicate that not all of the required policies and procedures were in place for the whole of the 2000-2001 financial year. The Department advises me that it raises the issues arising from the Statements on Internal Financial Control with the organisations concerned to ensure that action is taken to address any identified shortcomings.

Introduction of statements on internal financial control on the NHS summarised accounts

- 3.23 Although statements on internal financial control have been included in the underlying accounts since 1997-1998, statements have been included with the summarised accounts for the first time this year. Statements have been prepared for the summarised accounts of health authorities, NHS Trusts, Primary Care Trusts and most special health authorities.
- 3.24 The Accounting Officer of the Department of Health, drawing on the statements from his accountable officers on the underlying individual accounts, drew attention in six of the summarised accounts to weaknesses in systems or failures to meet all minimum control standards reported by the underlying organisations. Based on the work of the appointed auditors on the underlying accounts, and my own examination, I can also confirm that the various statements in respect of these summarised accounts are consistent with my own knowledge of the relevant NHS organisations.
- 3.25 There is no departmental or Charities Commission requirement for the NHS charitable funds held on trust to include Statements on Internal Financial Control with their annual accounts. The summarised account for funds held on trust therefore excluded an equivalent statement.

Introduction of statements on internal control

- 3.26 Treasury issued additional guidance on corporate governance in December 2000, requiring all public sector organisations to expand the statements to cover the whole system of internal control, incorporating such areas as operational and policy making systems. For 2001-2002 and 2002-2003, organisations should report on the progress being made towards achieving the 2003-2004 target of having all significant risks addressed by the statement.
- 3.27 In parallel, the NHS development of corporate governance this year has resulted in the original minimum control standards being updated and now including three sets of core controls assurance standards for 2001-2002 onwards. These are: governance; financial management; and risk management. The new financial management standard replaces the minimum financial control standards referred to in paragraph 3.21.
- 3.28 The overall aim of the NHS approach remains to establish mechanisms to prioritise and manage identified risks, and to enable information on both clinical and non-clinical incidents and complaints to be reliably recorded, reported and analysed to determine the underlying causes.

Part 4

Financial Performance of the NHS

Introduction

4.1 The Department monitors the performance of health organisations across a wide range of activities, for example the star ratings for acute NHS Trusts, first published in September 2001. The Department also closely monitors the financial performance of the NHS and this part of my report focuses on the performance of NHS organisations against their financial duties, which are:

For health authorities and Primary Care Trusts

- A statutory duty to remain within their cash limits; and
- A new financial duty to achieve financial balance in resource terms each year;

For NHS Trusts

- breaking even taking one financial year with another. This is the prime financial duty for NHS Trusts;
- absorbing the cost of capital at a rate of six per cent; and
- meeting the external financing limit set by the Department of Health.

Overall NHS Expenditure and Assets

4.2 During 2000-2001, health authorities spent £40.9 billion (1999-2000: £39.3 billion), commissioning primary and secondary healthcare. Primary healthcare refers to family health services provided by family doctors, dentists, pharmacists, optometrists and ophthalmic practitioners. Secondary healthcare refers to the care provided in hospitals.

4.3 In addition, forty Primary Care Trusts were established in 2000-2001 to commission primary and secondary healthcare, and they reported total spending of £2.3 billion. During 2001-2002, the number increased to 164, and is expected to increase by at least a further 139 in 2002-2003. In line with *The NHS Plan*, Primary Care Trusts will eventually replace health authorities as the lead NHS organisations in assessing need, planning and securing all health services and improving health. Part 3 of my report provides further details of the restructuring of the NHS.

4.4 There were also 356 NHS Trusts in 2000-2001, with total expenditure of £30.8 billion (1999-2000: £28.6 billion) delivering secondary healthcare for the NHS. They received their main funding from health authorities and Primary Care Trusts, but also smaller amounts directly from the Department as well as non-NHS sources.

4.5 In addition, the Department provided funding of £0.9 billion to the 16 special health authorities, including amounts to the NHS Litigation Authority to cover payments under the Existing Liabilities Scheme for clinical negligence. Part 6 of my report provides further details of NHS management arrangements for clinical negligence liabilities.

4.6 The NHS delivered these services with a net asset base of £17 billion (**Figure 4**).

4 Asset base for the NHS

£ billion	March 2001	March 2000
Fixed Assets	24.2	24.0
Current Assets	5.8	4.9
Total Liabilities	(13.0)	(11.3)
Net Worth	17.0	17.6

Source: NHS Summarised Accounts 2000-2001 for health authorities, Primary Care Trusts, NHS Trusts, special health authorities and the Dental Practice Board

Financial duties

(a) Health Authorities and Primary Care Trusts

4.7 Health authorities and Primary Care Trusts have a statutory duty to remain within their cash limits and a departmental requirement to achieve financial balance in resource terms each year. They are also required to apply the Better Payment Practice Code, which has a target of paying 95 per cent of undisputed invoices within 30 days of receipt of the goods/service or invoice, whichever is the later.

4.8 In 2000-2001, all Primary Care Trusts and health authorities remained within their cash limits, and all but one health authority achieved financial balance. The one exception, Bexley and Greenwich Health Authority, recorded a small overspend of £0.9 million (0.3 per cent of its expenditure limit) in the period leading up to a merger with a neighbouring authority.

4.9 In 2000-2001, 22 per cent of health authorities paid the target level of invoices within 30 days (1999-2000: 13 per cent). The average payment rate was 86 per cent (1999-2000: 84 per cent).

(b) NHS Trusts

4.10 NHS Trusts have three key financial duties, which are explained in the following paragraphs:

- To break even taking one financial year with another;
- To absorb the cost of capital at a rate of six per cent; and
- To meet the external financing limit set by the Department of Health.

Breaking even

4.11 NHS Trusts have a statutory duty to break even, taking one year with another. The legislation does not identify how this should be measured, and therefore the Department established a method, in consultation with the NHS Trusts and their auditors, for measuring whether the NHS Trusts were achieving the duty. This method, which is described in **Figure 5**, took effect on 1 April 1997. In previous periods there were significant differences in financial reporting within the NHS, which made comparison of NHS Trusts difficult, and only since the 1997-98 financial year has there been the necessary stability in the accounting regime to allow appropriate assessment against the break-even duty.

5 The Department has agreed a method for measuring break even

- Where an NHS Trust reports a cumulative deficit, the duty is met if this deficit is recovered within the following two financial years.
- Exceptionally, extensions of up to a total of four years are given to NHS Trusts, for example where recovery over two years would have unacceptable service consequences, and a recovery plan has been agreed with the Department.
- The Department determines break-even to be achieved if an NHS Trust has a cumulative deficit no greater than 0.5 per cent of turnover.

4.12 Based on this definition, no NHS Trust has failed its break-even duty as at 31 March 2001. **Figure 6** shows how this corresponds to the financial position of the NHS Trusts.

6 Analysis of NHS Trusts' financial position showing that no NHS Trust has failed its break-even duty

Number of NHS Trusts with a cumulative deficit in their balance sheet at 31 March 2001	116
Number of NHS Trusts reporting a cumulative deficit since 1 April 1997	90
Number of NHS Trusts with a cumulative deficit since 1 April 1997 in excess of 0.5 % of income	47
Of these trusts, at 31 March 2001:	
Number still within year 1 or 2 since incurring a deficit, who therefore have a further 1 or 2 years to achieve break-even	33 ¹
Number within year 3 or 4 who were dissolved on 31 March 2001	5
Number within year 3 or 4 who have been granted an extension to their recovery period beyond 31 March 2001	9
Total	47

NOTE

- 1 10 NHS Trusts within the initial period to achieve break-even have been granted extensions to this period to allow for expected impediments to achieving break-even within three years.

4.13 As part of the Department's analysis of financial performance, it identifies those having significant financial difficulties. The number has varied over time (**Figure 7**) but there were 33 at the end of 2000-2001. These NHS Trusts were required to prepare an agreed recovery plan with the appropriate Regional Office of the Department, who will monitor closely the financial progress of that NHS Trust.

7 The number of NHS Trusts with significant financial difficulties at 31 March 2001 is lower than in any of the three preceding years

	2000-2001	1999-2000	1998-1999	1997-1998
Numbers of NHS Trusts regarded by the Department as having significant financial difficulties	33	76	53	78

4.14 The Department indicates in the Foreword to the NHS Summarised Accounts that the improvement in the underlying position is indicative of the NHS benefiting from the Government's spending plans.

Capital cost absorption rate duty

4.15 In line with Treasury requirements across all departments, the Department requires NHS organisations to absorb the cost of their capital at a rate of six per cent of average relevant net assets. This represents a return on the capital employed and funding is set at a level designed to incorporate this charge.

4.16 The average return across NHS Trusts for 2000-01 was 6.2 per cent. The Department allows some tolerance, and considers that only NHS Trusts which have achieved less than 5.5 per cent have failed this duty. On this basis, 18 NHS Trusts were deemed to have failed the duty because they achieved a return of less than 5.5 per cent return (1999-2000: 10 NHS Trusts).

4.17 NHS Trusts can fail their capital cost absorption rate duty because of unexpected but necessary purchases or revaluations of assets. Of the 18 NHS Trusts, 11 failed to achieve this duty for this reason in 2000-2001.

External financing limit

4.18 The Department also sets an external financing limit for each NHS Trust as a way of controlling capital expenditure across the NHS. It represents the difference between what an NHS Trust is authorised to spend on capital items in a year and what it can generate through other resources. An NHS Trust's internally generated resources include:

- depreciation (because matching income is received from the health authority);
- cash proceeds from the disposal of assets; and
- any surplus for the year that remains after the payment of Public Dividend Capital dividends.

4.19 In 2000-2001, NHS Trusts overall were £9 million within the limit of £224 million at a national level. The Department allows some tolerance and considers that only Trusts which overshoot their external financing limit by more than £10,000 have failed this duty. On this basis, seven NHS Trusts, 1.9 per cent, exceeded their individual limits, an improvement on 1999-2000 (eight NHS Trusts, 2.1 per cent). Only one NHS Trust exceeded its limit by more than £100,000 in 2000-2001 (1999-2000: three).

Better Payment Practice Code

4.20 Twenty five per cent of NHS Trusts paid the target level of invoices within 30 days (1999-2000: 19 per cent), while 49 per cent achieved at least 90 per cent compliance (1999-2000: 45 per cent). The average payment rate was 84 per cent (1999-2000: 83 per cent).

4.21 Of the 345 NHS Trusts with comparable data for the two years, 142 (41 per cent) reported a poorer performance in 2000-2001 than the previous year, although in most cases the performance was only marginally poorer. This performance should be seen within the context of the NHS paying some 14 million invoices to external creditors.

Part 5

Fraud

Introduction

5.1 This part of my report summarises:

- Background to countering fraud in the NHS (*paragraphs 5.2 to 5.6*).
- Progress made by the NHS Counter Fraud Service, on the published commitments, including estimation of the cost of fraud and incorrectness in the NHS and achievements in countering fraud (*paragraphs 5.7 to 5.18*).
- Other anti fraud work (*paragraphs 5.19 to 5.20*).
- The impact of fraud on the audit opinions on accounts of the NHS in Wales and Scotland (*paragraphs 5.21 to 5.22*).
- The impact of fraud on my opinion on the summarised accounts (*paragraph 5.23*).

Background to countering fraud in the NHS

5.2 In December 1998, the Department of Health published its fraud strategy, *Countering fraud in the NHS*. It established the NHS Counter Fraud Service (formerly the Directorate of Counter Fraud Services) with a Central Unit within the Department. It has 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.

5.3 The NHS Counter Fraud Service has an annual budget of £5.4 million and employs some 115 staff. In addition, health organisations employ a further 400 local counter fraud specialists.

5.4 The fraud strategy gave three published commitments:

- to achieve a 50% reduction in the level of prescription charge evasion by the end of 2002-2003. The Department has to date achieved a reduction of some 41% which is a major step towards achieving this commitment by the end of 2002-2003 (*paragraph 5.10*);
- to prevent £9 million in contractor fraud and to recover £6 million by the end of 2001-2002. The NHS Counter Fraud Service is not in a position to report progress against the prevention target before April 2002. The £6 million recovery target has been exceeded (*Figure 10 and paragraph 5.17*); and
- to reduce fraud to an absolute minimum within ten years. The NHS Counter Fraud Service is undertaking a variety of activities, described in this report, to seek to achieve this target (*paragraphs 5.19 and 5.20*).

5.5 In July 1999, the Public Accounts Committee raised a number of concerns on the efforts made to combat fraud in the NHS. The principal concerns were that:

- 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.

5.6 In my report on the NHS summarised accounts for 1998-99 (HC356, 1999-2000) I examined work undertaken by the Department of Health to prevent, detect and measure fraud in the NHS. In my report on the NHS summarised accounts for 1999-2000, I reviewed the progress made and, this year, I consider the further achievements made against the Department's published commitments and work to address the concerns of the Public Accounts Committee.

Progress made by the NHS Counter Fraud Service on the published commitments

Establishing an overall estimate of the cost of fraud and incorrectness in the NHS

5.7 In order to focus anti-fraud work on key risk areas and to measure achievements in countering fraud, the NHS Counter Fraud Service recognised the need to establish a baseline figure for fraud. To do so, they developed a Risk Measurement Project to accurately measure fraud across all main NHS services by 31 March 2000.

Current position

5.8 **Figure 8** summarises the progress made on each of the separate measurement exercises within the Project:

5.9 This is the first time that such a broad based fraud loss measurement exercise has been attempted and the NHS Counter Fraud Service has encountered problems with the availability of suitable NHS data and has had to develop its methodology as it has progressed. Baseline measurement exercises estimate the percentage of claims that may or may not involve fraud. They are not as accurate as the monetary estimates of fraud and incorrectness to be derived from the subsequent full measurement exercises. The outcomes of these baseline measurement exercises will help to inform how to proceed in full measurement exercises.

5.10 At the time of my last report, the NHS Counter Fraud Service had completed two estimates for the cost of Pharmaceutical Patient Fraud. These indicated that the annual cost to the NHS of patients in England fraudulently evading the prescription charge had fallen from £117 million at November 1998 to £69 million at July 1999. The reduction of £48 million, some 41%, is a major step towards achieving the Department's first published commitment of a 50% reduction by 2002-2003.

The progress made in fraud measurement exercises

Area of measurement	Current status	Fraud measured	Completion date
Pharmaceutical Patient Fraud	Two full measurement exercises completed	1998-1999: £117 million 1999-2000: £69 million	December 2000
Pharmaceutical Contractor Fraud	First full measurement exercise nearing completion	Data currently with statisticians for analysis	-
Dental Patient Fraud	Two full measurement exercises completed	1999-2000: £40.3 million 2000-2001: £30 million	January 2002
Dental Contractor Fraud	First baseline measurement exercise completed	Sums found to be 'at risk' ¹ 1999-2000: £59.7 million	January 2002
Optical Patient Fraud	First full measurement exercise completed	1999-2000: £13.25 million	January 2002
Optical Contractor Fraud	Baseline measurement exercise completed	Sums found to be 'at risk' ¹ 1999-2000: £20.9 million	February 2002
GMS Fraud	Baseline measurement exercise nearing completion	Data currently with statisticians for analysis	-
Health authorities and NHS Trusts	Initial work commenced		

NOTE

1. The 'at risk' figures quoted are not necessarily fraud; rather they represent sums where it was not possible to establish that no risk existed.

Source: NHS Counter Fraud Service

5.11 By the end of February 2002, the NHS Counter Fraud Service had completed five full measurement exercises covering each area of potential patient fraud and two baseline measurement exercises covering dental contractor fraud and optical contractor fraud. A full measurement exercise covering pharmaceutical contractor fraud and a baseline measurement exercise covering fraud in General Medical Services are also nearing completion.

5.12 In respect of dental patient fraud, the NHS Counter Fraud Service has reported a measured reduction in losses from £40.3 million in 1999-2000 to £30 million in 2000-2001. This is a reduction of £10.3 million, some 25%.

Suspected frauds reported to NHS Counter Fraud Services

5.13 Suspected frauds reported to the NHS Counter Fraud Service have been uncovered by a variety of methods, including:

- The Fraud and Corruption Reporting Line initiative;
- The work of the local counter fraud specialists;
- Its own proactive counter fraud exercises; and
- Liaison with health organisations' auditors.

5.14 At the time of my last report, 484 cases of suspected fraud, with an estimated value of £18.3 million had been reported to the NHS Counter Fraud Service. Since then, an additional 445 cases, with an estimated value of £17 million have been reported to the Service.

5.15 The ways in which fraud can be perpetrated against the NHS are numerous. I list a selection of some of the most recent examples of completed cases that the Directorate has dealt with (**Figure 9**):

9 Some recent fraud cases

- A senior partner of a dispensing general medical practice submitted false invoices and fabricated drugs invoices from fictitious pharmaceutical companies. He pleaded guilty to 49 out of 50 charges of false accounting and obtaining money by deception, with another 1,018 further false accounting offences taken into consideration. He resigned from the practice, was sentenced to prison for three years and nine months and the judge granted a compensation order of some £800,000.
- A nurse submitted falsified time sheets purporting to have worked as a bank nurse for five years. She was charged with 10 counts of obtaining a pecuniary advantage, one of false accounting, one of theft of drugs from the employer and possession of Class C drugs. A further 159 offences involving dishonesty were taken into account. She pleaded guilty to some of the charges. Dismissed following an internal disciplinary hearing, she was also sentenced to 15 months imprisonment. The total value of alleged fraud was £89,000 and the Trust is considering pursuing civil recovery for losses and removal of her nursing registration.
- A businessman, owning and running a number of optical outlets, employed optometrists on a locum basis, paying them by the session. The Health Authority fraud specialist noted high levels of claims and found 1,551 false optical claims being presented for payment. The businessman was charged with 29 offences of false accounting with a further 849 offences taken into consideration. He pleaded guilty to the 29 offences, amounting to some £30,000. He received a 12 months custodial sentence, with compensation of £30,000 to be paid to the Health Authority. A confiscation hearing is to be held for the balance of £75,000.
- An NHS Trust manager authorised timesheets in respect of four relatives who did not work for the Trust. After an investigation by the NHS Counter Fraud Service all five were found guilty of fraud totalling £126,000. The manager was sentenced to three years imprisonment with her co-conspirators receiving six months each. A hearing to confiscate sums related to the crime and return them to the NHS has been arranged.

Source: NHS Counter Fraud Service

Countering fraud in the NHS

5.16 **Figure 10** shows the action that has been taken where fraud has been identified:

10 Actions taken in closed cases

	2001-2002 (to 31 Dec 2001)	2000-2001	1999-2000
Sums recovered	£4.37 million	£3.9 million	£0.8 million
Successful prosecutions	30	46	21
Civil and disciplinary cases	33	74	37

As at 31 December 2001, a further 32 prosecutions were awaiting a court hearing.

Source: NHS Counter Fraud Service

5.17 This means that the Department has met and exceeded the recovery target in its second published commitment to recover £6 million by 2001-2002.

5.18 Section 39 of the Health Act 1999 introduced a sanction of penalty charges for the evasion of pharmaceutical, optical, and dental charges. The penalty charges are five times the value of the prescription plus the charge which should have been paid, up to a maximum of £100. 18,361 of these penalty charges had been applied in respect of evasion of charges in Pharmaceutical Services by 31 December 2001, with a total value of £886,000.

Other anti-fraud work

5.19 The Department's counter-fraud strategy focused on seven generic areas: 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 developing the Operational Service, which works as a part of the NHS Counter Fraud Service in implementing the strategy at a local level and providing advice to individual NHS organisations.

5.20 The work of the NHS Counter Fraud Service represents further movement towards achievement of the published commitment to reduce fraud in the NHS to an absolute minimum by 2008. Some recent achievements are described below:

- Development of additional counter-fraud charters with the Royal College of Nursing, the Association of British Dispensing Opticians and with representatives of Patient Groups - a total of more than 400,000 NHS staff and professionals are now covered by such charter agreements;
- Clarification of rules and regulations for primary care contractors, including rules relating to claims for recalled dental attendance, and domiciliary optical visits and sight test optical services in February 2001; new rules regarding conflicts of interest and transparency were introduced in the Health and Social Care Act 2001;
- Introducing additional checks, including point of treatment checks in General Dental Services in November 2000 and point of service checks in General Optical Services in February 2001;
- In the last three years, almost 400 professionally trained and accredited counter fraud specialists have been put in place across the NHS;
- 580 fraud awareness presentations have been delivered to key NHS staff;
- This work has resulted in measured improvements of up to 40% in the numbers of staff understanding the importance of tackling fraud and their roles and responsibilities in this respect;
- There have been 91 successful prosecutions and 143 successful civil legal and disciplinary cases; and
- The NHS Counter Fraud Service has reported a 99% successful prosecution rate - having only lost one case.

Impact of fraud on the audit opinions on accounts of the NHS in Wales and Scotland

5.21 The Auditor General for Wales has qualified his opinion on the 2000-2001 summarised account for health authorities because of a material, but not fully quantified, shortfall in revenue from prescription charges due to the NHS in Wales.

5.22 In the same way, the regularity opinions on the 2000-2001 summarised accounts for the health boards and NHS Trusts in Scotland have been qualified by the Auditor General for Scotland. A limitation was placed on the scope of the opinion due to the absence of a comprehensive framework of post-payment verification covering both patient charges and payments to general medical, dental, ophthalmic and pharmaceutical contractors.

Impact of fraud on my opinions on the summarised accounts

5.23 I considered the impact of the estimated cost of fraud and incorrectness identified by the Service in the context of my audit opinions on the summarised accounts. In my view, although large, the estimated cost of fraud and incorrectness (£112 million, and £80.6 million "at risk") is not significant enough to affect my opinions on the NHS summarised accounts, which account for over £40 billion. I have therefore given unqualified opinions on the accounts.

Part 6

Clinical Negligence

Introduction

6.1 This part of my report:

- Analyses the total potential clinical negligence liabilities for the NHS, drawing together the balances recorded in the different organisations across the NHS (paragraphs 6.3 to 6.7);
- Explains the role of the NHS Litigation Authority and indicates how the administration and accounting for clinical negligence is being transferred to the Authority (paragraphs 6.8 to 6.14); and
- Reports developments since my report "*Handling Clinical Negligence Cases in England*" (paragraphs 6.15 to 6.16).

Background

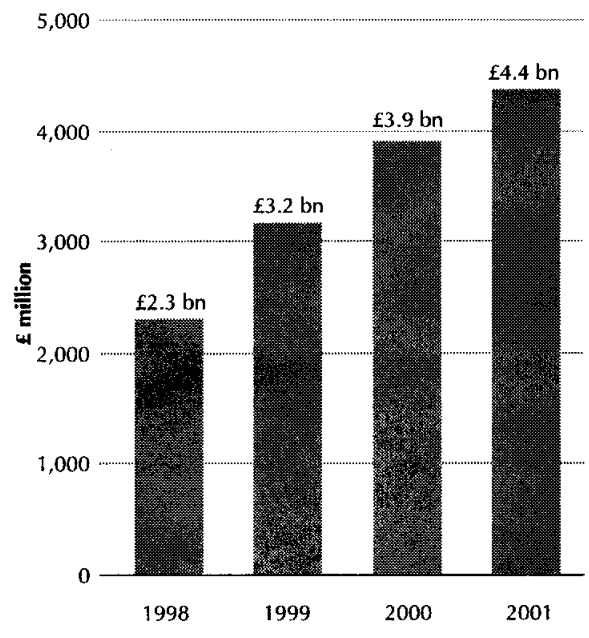
6.2 Clinical negligence is the term given to a breach of a duty of care by health care practitioners in the performance of their duties. Meeting the liabilities for clinical negligence continues to be a major challenge facing the NHS and represents a significant drain on resources away from patient care.

Liabilities and charges for clinical negligence

6.3 In total, the NHS Summarised Accounts show that provisions for the likely cost of clinical negligence amounted to £4.4 billion at 31 March 2001, an increase of £0.5 billion since 31 March 2000.

6.4 **Figure 11** shows that the provisions have continued to grow but that the rate of growth is steadily decreasing. These provisions have been calculated in accordance with Financial Reporting Standard 12, and so reflect the probability of outcome for each individual case. They include actuarially determined estimates for cases that have probably occurred but have yet to be reported to the appropriate authorities. All amounts are discounted by applying the Treasury standard discount factor for the public sector of six per cent, thereby reflecting the net present value of the potential costs.

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



6.5 The NHS Litigation Authority reported an increase in new claims, from 2,411 in 1999-2000, to 4,115 in 2000-2001 for the Clinical Negligence Scheme for Trusts. During the year, the Authority closed 1,547 cases (1999-2000: 866). In addition, changes in provisions arise because of revisions of the assumptions applied by the actuaries in calculating estimates.

6.6 Legal developments were a key cause of the size of the increase in provisions observed in 2000-2001. Two significant cases, *Wells v Wells* and *Heil v Rankin* have each increased the value of awards, and this has resulted in the Lord Chancellor adjusting the discount rate used in calculating the costs of future care, education and loss of earnings.

6.7 In addition to the provisions for likely costs, NHS organisations have disclosed other possible, but unlikely, costs of clinical negligence. These contingent liabilities, if they crystallised, would add an additional £4 billion, at today's prices, to the NHS liabilities, an increase of £1.1 billion since 31 March 2000. However, the provision of £4.4 billion, shown in **Figure 11** above, includes all liabilities, as at the balance sheet date, which the NHS expected to pay.

Accounting developments

6.8 Each NHS Trust is a separate legal entity and is therefore legally responsible for claims brought against it. The Department's aim is to streamline the claims process and to provide central co-ordination for clinical negligence claim handling.

6.9 The NHS Litigation Authority¹ provides a central focal point for clinical negligence within the NHS, with the aim of ensuring consistency in handling claims. As a first phase of streamlining the management of clinical negligence claims, since 1 April 2000, the NHS Litigation Authority has assumed responsibility for the administration of all negligence cases which occurred prior to 1 April 1995 (funded by the Department under the Existing Liabilities Scheme).

6.10 The NHS Litigation Authority now also accounts for all transactions and balances relating to this scheme, with the relevant NHS Trusts and health authorities reporting, in the notes to their accounts, the liabilities held by the Authority on their behalf. As a result, the NHS Litigation Authority accounts now show the total provisions for the NHS relating to incidents arising prior to April 1995.

6.11 For incidents that have occurred since 1 April 1995, the NHS Litigation Authority has been operating a risk pool, called the Clinical Negligence Scheme for Trusts (CNST). Under this scheme, members pay annual contributions to the NHS Litigation Authority, who administer and settle claims on behalf of the NHS Trust. The contributions are based on the Authority's risk assessment of the individual member, taking account of the claims history and the field in which the NHS Trust operates.

6.12 The NHS Litigation Authority aims to collect enough from contributions to cover the anticipated payments for the financial year. In 2000-2001, the first year of significant payments under the scheme, approximately £157 million was paid to claimants, partly by NHS Trusts and the remainder by the NHS Litigation Authority. Contribution income recorded by the NHS Litigation Authority, since the scheme was established, totalled £119 million.

6.13 To further streamline claims handling, from 1 April 2002, the operation of the Clinical Negligence Scheme for Trusts will change. In particular, all alleged incidents of clinical negligence will be administered and accounted for by the NHS Litigation Authority. Thus, NHS Trusts, health authorities and Primary Care Trusts will remove from their accounts all provisions as at 31 March 2002, and the NHS Litigation Authority will include an appropriate provision for the cases transferred.

6.14 Once this transfer is complete, the NHS Litigation Authority will administer and account for all clinical negligence liabilities. Individual NHS Trusts, health authorities and Primary Care Trusts will continue to report their respective positions in notes to their accounts and will continue to pay contributions into the Scheme. Furthermore, this administrative arrangement will not affect these organisations' duty of care or the legal liability for cases arising.

Public Accounts Committee

6.15 The Public Accounts Committee considered my report, *Handling Clinical Negligence Claims in England* (HC 403, 2000-2001), on 17 October 2001. As I recorded in my report on the summarised accounts for 1999-2000, the Department and the NHS Litigation Authority have been developing initiatives to streamline the claims process and these initiatives had already brought about improvements in the handling of claims. With regard to areas for further improvement, the key recommendations arising from my investigation were:

- **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 various parties involved; and
- **Managing patients' claims:** quantified measures of performance should be developed for the solicitors whom the NHS Litigation Authority instruct or fund and these measures should be incorporated into selection procedures, contracts and monitoring.

6.16 The Department intends to issue a White Paper in the early summer which will describe its proposals in respect of the reform of clinical negligence. Other initiatives taken include:

- The consolidation of management of all claims by transferring responsibility to the NHS Litigation Authority (paragraphs 6.8 to 6.14 above refer);

¹ The NHS Litigation Authority is a Special Health Authority, set up under the NHS Act 1977 to administer clinical negligence and other pooled risk schemes for the NHS.

- "Building a Safer NHS for Patients", which sets out the Government's plans for promoting patient safety following the publication of the report *An Organisation with a Memory* and the commitment to implement it in the NHS Plan;
- Establishment of The National Patient Safety Agency in July 2001, which is implementing and operating the new national system for learning from error and adverse events;
- The issue of additional guidance by the NHS Litigation Authority, strengthening advice on providing apologies and explanations when treatment produces adverse results; and
- Reforming the NHS complaints procedure, following a national evaluation of existing practices.

6.17 I am planning a follow-up study to look at clinical governance in hospitals, and intend to review the implementation of these measures, including the impact they are having in NHS Trusts.

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 for England have been prepared from the accounts, for the year ended 31 March 2001 of:
 - the 99 Health Authorities;
 - the 40 Primary Care Trusts;
 - the 356 NHS Trusts;
 - the funds held on trust by the Health Authorities, NHS Trusts, Primary Care Trusts, Special Health Authorities, and Special Trustees.

The accounts of the Health Authorities include Primary Care Groups.
- 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 Development Agency;
 - the Mental Health Act Commission;
 - the Microbiological Research Authority;
 - the National Blood Authority;

- the National Institute for Clinical Excellence;
- the NHS Information Authority;
- the NHS Litigation Authority;
- the NHS Logistics Authority;
- the Prescription Pricing Authority;
- the Rampton Special Hospital Authority; and
- the United Kingdom Transplant.

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 As Permanent Secretary and Chief Executive of the NHS, and in my capacity as Accounting Officer, I have responsibility for Health Service expenditure covered by Class II, Vote 1 (hospital, community health, family health and related services, England) and Class II, Vote 2 (Department of Health, administration, miscellaneous health and personal social services, England). Accordingly I have signed the summarised accounts listed above. The following sections provide background information on each of the accounts.

Change in format of the annual accounts

7 HM Treasury and auditors agreed to a change in the format of the annual accounts for Health Authorities (HAs), and Primary Care Trusts (PCTs) in advance of the implementation of Resource Accounting & Budgeting (RAB) on 1 April 2001. Commencing 2000-01 the income and expenditure statement has been replaced with an Operating Cost Statement format which more accurately reflects the funding arrangements of public sector bodies like HAs and PCTs which receive the majority of their income direct from government.

8 In addition those Special Health Authorities that received their funding directly from the Department and not from “trading” activities also adopted a Resource Accounts format. The Special Health Authorities that continued to produce income and expenditure accounts were the Special Hospitals, National Blood Authority and NHS Logistics Authority.

Health Authorities 9 Health Authorities are responsible for the commissioning of health care on behalf of their resident population.

Financial duties of Health Authorities

10 Whilst still subjected to cash limit control, a new financial duty on HAs to achieve financial balance in resource terms was introduced on 1 April 2001. This means the concept of income and expenditure deficits is replaced by a measure which looks to ensure that HAs have kept their expenditure within the approved “resource” limits set by the Department.

Overall financial performance of Health Authorities in 2000-01

- 11** In 2000-01 all HAs achieved their statutory financial duty to remain within cash limits. HAs completed their final accounts on an operating cost statement basis and reported an overall operational financial balance underspend of £50 million.
- 12** The 2000-01 position is made up of 98 HAs reporting an aggregate underspend of £51.3 million and 1 HA, which has now ceased to exist, reporting an overspend of £0.9 million.
- 13** 11 HAs (a decrease on the 28 reported at the end of 1999-2000) out of the 99 were identified by Regional Offices as managing significant financial difficulties at the end of 2000-01. An HA is assessed as having a significant financial difficulty if the underlying (which broadly means recurrent) overspend being managed in any one year exceeds the lower of £1 million or 1% of gross expenditure.
- 14** The improvement in the underlying position is indicative of the NHS benefiting from the Government's new spending plans, in particular through the injection of significant extra resources—part of which are aimed at ensuring that the NHS operates in future on a sound financial footing.

Action taken by the Department of Health in cases where Health Authorities face recurrent financial difficulties

- 15** Where analysis of a Health Authority's financial performance leads the Department of Health to believe that there is an underlying recurrent financial difficulty, the Health Authority concerned is required to prepare a recovery plan. The appropriate 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.
- 16** The Regional Offices focus on the Health Authorities which are forecasting significant financial 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

- 17** The percentage of bills paid in compliance with the better payment practice code in 2000-01 is as follows:

Compliance Level	Number of Health Authorities	
	By Number of Bills	By Value of Bills
Between 95% and 100%	22	34
Between 85% and 94.9%	36	40
Between 75% and 84.9%	25	18
Between 65% and 74.9%	14	2
Less than 65%	2	5
Total	99	99

	By Number of Bills	By Value of Bills
	% paid in compliance with the public sector payment policy	% paid in compliance with the public sector payment policy
Overall Performance 2000-2001	86	91

- 18 NHS performance in paying its bills promptly has improved over the last few years.
- 19 In 2000-01 Health Authorities paid around 86% of their bills (by number) within 30 days. However, it is recognised that further improvement will be necessary to achieve the current target of 95% compliance.
- 20 Regional Offices continue to monitor the performance of individual Health Authorities and work with poor performing Health Authorities to improve compliance with the policy.

Primary Care Trusts 21

Primary Care Trusts came into existence in April 2000 as a consequence of section 2 of the Health Act 1999. They are responsible for the commissioning of health care on behalf of their resident population and some PCTs are also responsible for providing community services to their population. PCTs are accountable to the Health Authority who provides the majority of their income.

Financial duties of Primary Care Trusts

- 22 In the same way as Health Authorities, PCTs are subject to cash limit control and a financial duty to achieve financial balance in resource terms. The measure is whether PCTs keep their expenditure within approved "resource" limits.

Overall financial performance of Primary Care Trusts in 2000-01

- 23 In 2000-01 (the first year in which PCTs were established) all PCTs achieved their statutory financial duty to remain within cash limits.
- 24 PCTs completed their final accounts on an operating cost statement basis and reported an operational financial balance under-spend of £4 million. All 40 PCTs reported an under-spend.

Better Payment Practice Code-Primary Care Trusts

- 25 The percentage of bills paid in compliance with the better payment practice code in 2000-01 is as follows:

Compliance Level	Number of Primary Care Trusts	
	By Number of Bills	By Value of Bills
Between 95% and 100%	7	18
Between 85% and 94.9%	15	10
Between 75% and 84.9%	7	5
Between 65% and 74.9%	7	4
Less than 65%	2	1
Total	38 ¹	38 ¹

¹ Two PCTs were unable to provide data. Systems are in place for 2001-02.

	By Number of Bills	By Value of Bills
	% paid in compliance with the public sector payment policy	% paid in compliance with the public sector payment policy
Overall Performance 2000-2001	82	89

26 In 2000-01 PCTs paid around 89% of their bills (by value) within 30 days. This is consistent with the performance of established Health Authorities. It is recognised that improvement will be necessary to achieve the current target of 95% compliance.

27 Regional Offices and Health Authorities will continue to monitor the performance of individual PCTs and work with poor performing Primary Care Trusts to improve compliance with the policy.

NHS Trusts

28 NHS Trusts are responsible for the provision of health care. They receive most of their income from commissioners of health care (mainly Health Authorities, Primary Care Groups and Primary Care Trusts).

29 The summarised accounts have been prepared from the accounts of 356 NHS Trusts in England for the year ended 31 March 2001.

Financial duties of NHS Trusts

30 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 time-scale for matching income with those costs whose incidence is uneven, such as early retirement and clinical negligence, and when managing the recovery of an NHS Trust with serious financial difficulties.

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

Exceptionally, and with the express agreement of the relevant 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 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 Department of Health.

Overall financial performance of NHS Trusts in 2000-01

- 31** In 2000-2001 NHS Trusts reported an income and expenditure surplus, on an accruals basis, of £56 million, compared to a restated surplus of £33 million in 1999-2000.
- 32** The requirements of the statutory duty to break-even (i.e. to generate surpluses to offset previous year deficits) is the primary reason for the overall surplus in 2000-01.
- 33** The 2000-01 position is made up of 39 NHS Trusts reporting an aggregate deficit of £41 million, offset by 317 NHS Trusts reporting an aggregate surplus of £97 million.
- 34** While 39 NHS Trusts did report a deficit in 2000-01, none breached their statutory financial duty to break-even "taking one financial year with another".
- 35** At 31 March 2001 DoH Regional Offices have agreed extended periods of recovery with 19 NHS Trusts.
- 36** 33 NHS Trusts (a decrease on the 76 reported at the end of 1999-2000) out of the 356 were identified by Regional Offices as having significant financial difficulties at the end of 2000-01. 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.
- 37** The improvement in the underlying position is indicative of the NHS benefiting considerably from the Government's new spending plans, in particular through the injection of significant extra resources - part of which are aimed at ensuring that the NHS operates in future on a sound financial footing.
- 38** The Table below summarises the performance of NHS Trusts against the two subsidiary financial duties (see paragraph 30b,c).

Table: Financial performance of NHS Trusts in England 2000-01 against the two subsidiary financial duties		
	Number	Percentage
Total NHS Trusts	356	100
NHS Trusts achieving targets:		
	Number	Percentage
Capital Absorption Rate		
Total achieving 6% or more	243	68
After adjusting for immaterial results	338	95
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	342	96
After adjusting for de minimis overshoots	349	98
Definition: De Minimis 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 2000-01 by DoH.		

- 39 Analysis of the 2000-2001 results shows that the number of NHS Trusts meeting their financial targets has increased since 1999-2000:
- 39 (150 in 1999-2000) had an Income and Expenditure Deficit – 11% of all NHS Trusts (40% in 1999-2000);
 - 113 (120 in 1999-2000) did not make a 6% return on capital – 31% of all NHS Trusts (32% in 1999-2000);
 - 13 (17 in 1999-2000) overshoot their EFL – 4% of all NHS Trusts (5% in 1999-2000).
- Reasons for NHS Trusts failing financial duties**
- 40 Reasons for NHS Trusts failing in their financial duties were similar to those reported in 1999-2000 and included one or more of:
- shortfall of planned income/cost improvements due to optimistic planning assumptions;
 - increased emergency admissions restricting the performance of full cost elective surgery;
 - difficulties in discharging elderly patients;
 - increased use of locum medical and agency staff due to recruitment problems; and
 - costs incurred in order to achieve waiting list targets.

Action taken by Department of Health in cases where NHS Trusts face serious financial difficulties

- 41 Where analysis of an NHS Trust's financial performance leads the Department of Health to believe there is an underlying recurrent financial difficulty, the NHS Trust is required to prepare a recovery plan. The appropriate 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.
- 42 Regional Offices will focus on the NHS Trusts which are forecasting significant 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 desired results.

Better Payment Practice Code – NHS Trusts

- 43 The percentage of bills paid in compliance with the better payment practice code in 2000-01 is as follows:

Compliance Level	Number of Trusts	
	By Number of Bills	By Value of Bills
Between 95% and 100%	90	102
Between 85% and 94.9%	147	148
Between 75% and 84.9%	67	63
Between 65% and 74.9%	33	29
Between 55% and 64.9%	11	12
Between 50% and 54.9%	4	2
Less than 50%	4	0
Total	356	356

	By Number of Bills	By Value of Bills
	% paid in compliance with the public sector payment policy	% paid in compliance with the public sector payment policy
Overall Performance 2000-2001	84	85

- 44 NHS performance in paying its bills promptly has improved over the last few years.
- 45 In 2000-01 NHS Trusts paid around 85% of their bills within 30 days. However it is recognised that further improvement will be necessary to achieve the current target of 95% compliance.
- 46 Regional Offices will continue to monitor the performance of individual NHS Trusts and work with poorly performing NHS Trusts to improve compliance with the policy.

- The funds held on trust by the Health Authorities, NHS Trusts, Special Health Authorities, and Special Trustees**
- 47** 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. Section 7 of the Health Act 1990 extends this power to Primary Care Trusts. Under section 91 of the NHS 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. The summarised accounts have been prepared from the accounts of 431 (1999-2000 : 460) funds held on trust.
- 48** Some Health Authorities no longer hold funds on trust, following transfer of their funds to NHS Trusts and Primary Care Trusts. Also not all NHS Trusts hold funds on trust, because, for instance, Special Trustees hold funds for the relevant hospitals.
- 49** The 2000-01 Funds held on Trust account was prepared, for the first time, under the Statement of Recommended Practice (SORP) 2000. As a consequence of the introduction of this SORP the format of the Statement of Financial Activities (SOFA) has been revised and the Balance Sheet analyses the assets and liabilities between those relating to unrestricted funds, restricted funds and endowment funds.
- 50** The SORP also required that where trustees of a charity had made a "constructive obligation" the whole of that commitment must be charged to the SOFA in the period in which it was made. A "constructive obligation" is where trustees agree that they will support a specific project or charity and make a commitment to do so; such a commitment need not be a formal commitment in writing.
- 51** As a consequence of the introduction of a "constructive obligation" expenditure has increased from £329,244,000 in 1999-2000, to £410,227,000 in 2000-01 with grants payable increasing from £218,582,000 to £294,008,000. Income remained broadly constant at £327,200,000 compared to £339,907,000 in 1999-2000. The majority of the expenditure was on research, patients welfare, staff welfare and contributions to the NHS. At 31 March 2001 the funds balances carried forward were £1,738,335,000.
- Ashworth Special Hospital Authority** **52** Ashworth 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. From 1 April 2002, responsibility for the services provided by the Authority will be transferred in the main, to Mersey Care NHS Trust, with some to Mental Health Services at Salford NHS Trust. The total number of in-patients at the end of the financial year was 408, 360 male and 48 female. The Authority recorded a £17,000 surplus on an income of £61,169,000.

Broadmoor Special Hospital Authority	53	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. The Authority provided clinical care for mentally disordered patients in conditions of maximum security recognising the need to protect the safety of the public. The Authority was abolished on 31 March 2001 and its functions, from 1 April 2001, are part of the West London Mental Health NHS Trust. The Authority recorded an £8,000 surplus on an income of £52,359,000 in its final year.
Dental Practice Board	54	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.
	55	During this year the number of payment application documents processed to completion was a new record high of 47,100,000 (1999-2000 44,500,000) at an average unit cost of 48.6 pence (1999-2000 51.8 pence). 99.0 percent of claims were approved for payment on the first available schedule with payments being made on average 29.8 days after receipt of the claim. The Authority's net operating cost was £22,908,000 (1999-2000 £22,957,000).
Dental Vocational Training Authority	56	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	57	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.
	58	The Authority experienced a rise in the number of appeals received from 561 to 607 an increase of 8 percent. Despite this increase in cases the reduction in staff numbers in 1999-2000 enabled the Authority to reduce its costs. The Authority's net operating cost was £633,000 (1999-2000 £902,000). For cases determined the Authority achieved over 90 percent success against target for time taken to completion.

- The Health Development Agency**
- 59 The Health Development Agency was established in January 2000 by Statutory Instrument 1999 No. 3431 and became operational on 1 April 2000. The Agency's core resources were formed from the resources of the Health Education Authority that was itself abolished on 1 April 2000 by Statutory Instrument 2000 No. 604.
- 60 The Agency is a Special Health Authority with a remit to improve the health of people in England – in particular, to reduce inequalities in health between those who are well off and those in more disadvantaged circumstances. It achieves this by:
- Working with key statutory and non-statutory organisations at national, regional and local level;
 - Finding out what works and maintaining this evidence base;
 - Turning the evidence into action by building up the skills and capacity of those working to improve the public's health;
 - Advising on setting standards for public health planning and practice.
- 61 The Agency provides advice, guidance and training and development for key professionals involved in improving the health of the public. In its first year the Agency provided policy comment on a range of such papers and documents. The Agency also commissioned a number of reports to examine the skills, development and training required by different groups of public health practitioners.
- 62 A further major achievement of the Agency for the year was the establishment of eight regional Agency offices throughout the country in consultation with the Regional Directors of Public Health. These offices provide a more local presence at regional level and help to ensure that the Agency's work on gathering evidence and creating standards is informed by public health workers on the ground.
- 63 The Agency has been asked by the Department of Health to undertake a number of review and development programmes for which additional funding allocations have been made. These are: a review of pre-retirement interventions (£250,000); a review of the effectiveness of accident prevention interventions (£60,000); and the development of the new "sign up" programme (£160,000).
- 64 The Agency operated within its cash limit in 2000-01 and its net operating cost was £11,514,000. 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**
- 65 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 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.

- 66 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.
- 67 Revenue income generated by the Authority was £21,146,000 which included £4,207,000 vote funding from the Department of Health for key research projects. The accumulated deficit of £2,348,000 was £614,000 less than budgeted projections and cash limits agreed with the Department of Health were adhered to during the year.
- 68 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 from the 2002-03 financial year.
- Mental Health Act Commission** 69 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. The Authority's net operating cost was £3,289,000 (1999-2000 £3,142,000). A proportion of the expenses of the Authority was met by the National Assembly for Wales.
- National Blood Authority** 70 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 93 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.
- 71 The Authority was able to meet in full every hospital request for blood issuing 2,910,104 units (1999-2000 2,928,443 units). The Authority recorded a £5,109,000 surplus on an income of £326,373,000.
- National Institute for Clinical Excellence** 72 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:
- 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.

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.

- 73 In 2000-01 the Institute published two clinical guidelines documents and twenty-one technology appraisals. In addition six inherited national audit projects were completed. The Institute also takes account of the importance of creating partnerships with all stakeholders and effectively communicating information about both the Institute and the products of its work. It has created a new version of its web site and senior staff have spoken to approximately 30,000 people at more than 250 events, providing the opportunity to "sound out" policies in development and gain feedback from key stakeholders. The Authority recorded a net operating cost of £10,470,000 (1999-2000 £9,557,000). A proportion of the expenses of the Authority was met by the National Assembly for Wales.

NHS Information Authority

- 74 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:

- 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.

- 75 Some of the achievements in the above areas were, respectively:
- new services for nhs.uk – the on-line gateway to NHS organisation;
 - more than 100,000 users connected to NHSnet including 95% of GP practices;
 - definition of Electronic Patient Record;
 - six specialty sets of Healthcare Resource Groups for outpatients produced, developed Healthcare frameworks for coronary heart disease and for female breast cancer.

The Authority recorded a net operating cost of £69,818,000 (1999-2000 £45,985,000).

- NHS Litigation Authority**
- 76 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 Litigation Authority in respect of their schemes.
- 77 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 (ELS) and two Risk Pools. The two Risk Pools effectively replace commercial insurance for most Trusts. Contributions to the new schemes represent a significant premium holiday compared to the former commercial insurance premiums for the majority of members.
- 78 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.
- 79 Prior to 1 April 2000 NHS Trusts and Health Authorities had financial responsibility for clinical negligence that occurred prior to 31 March 1995. The Department provided funding for such clinical negligence through the ELS which was managed by the NHS Litigation Authority. From 1 April 2000 the financial responsibility for clinical negligence cases covered by the ELS was transferred to the NHS Litigation Authority. The cost of these transferred cases is included in the net operating cost of £2,895,807,000 (1999–2000 £391,578,000).
- NHS Logistics Authority**
- 80 The National Health Service Logistics Authority was constituted as a Special Health Authority under section 11 of the National Health Service Act 1977 on 1 April 2000. It evolved from NHS Supplies wholesaling division with a remit to develop from a wholesale operation into the chain of supply operation for the NHS. The Cabinet Office Review of NHS Procurement, published in 1998, envisaged efficiency savings from this development, as the existing infrastructure of the Authority's national supply channel is increasingly utilised by the NHS and, as a result, supply volumes approach optimum levels.
- 81 The formation of the Authority has been seamless and, in the first year of operation, the new organisation has made considerable progress towards the strategic objectives outlined in the Cabinet Office Review.
- 82 During its first year of operation NHS Logistics achieved a surplus of £853,000 on turnover of £548,281,000. This surplus represents approximately half a day's (0.16%) turnover. Prices were reduced by 0.8% from 1 April 2000 and £5,000,000 was returned to Trusts in December 2000. The Authority receives funding for capital expenditure from the Department of Health Class II Vote 1.

- Prescription Pricing Authority** 83 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.
- 84 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 was significantly reduced during 2000-01 and should be eliminated entirely by September 2001.
- 85 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 achieved an overall accuracy of payments of 99.82%. The Authority Administration Accounts recorded a net operating cost of £60,696,000 (1999-2000 £51,638,000).
- Rampton Special Hospital Authority** 86 Rampton 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. The Authority provided clinical care for mentally disordered patients in conditions of maximum security recognising the need to protect the safety of the public. The Authority was abolished on 31 March 2001 and its functions, from 1 April 2001, are part of the Nottingham Healthcare NHS Trust. The Authority recorded a £46,000 surplus on an income of £54,070,000 in its final year.
- UK Transplant** 87 This body was established as the United Kingdom Transplant Support Service Authority 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. In response to the Quinquennial Review the Authority was reconstituted and renamed UK Transplant. 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.
- 88 In 2000-01 the Authority achieved 722 cadaveric donors, 1,622 cornea only donors and has undertaken 2,658 solid organ transplants. Patients awaiting a transplant fell from 6,716 to 5,532. The Authority recorded a net operating cost of £5,386,000 (1999-2000 £6,011,000).

**Better Payment Practice Code—
Special Health Authorities Measure
of Compliance**

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

	Percentage of bills paid within target —Compliance level			
	2000-2001		1999-2000	
	Number	£000	Number	£000
Ashworth Special Hospital Authority	79.01%	84.23%	66.40%	47.90%
Broadmoor Special Hospital Authority	95.00%	95.00%	85.00%	80.00%
Dental Practice Board	98.10%	99.20%	99.50%	99.40%
Family Health Services Appeal Authority	84.30%	84.90%	90.90%	91.30%
Health Development Agency Microbiology Research Authority	62.30%	61.10%	—	—
National Blood Authority	55.00%	Not stated	60.00%	Not stated
National Institute for Clinical Excellence	76.23%	77.73%	58.62%	66.24%
NHS Information Authority	79.90%	68.80%	91.50%	94.10%
NHS Litigation Authority	66.00%	84.00%	53.00%	53.00%
NHS Logistics Authority	59.51%	96.73%	58.60%	75.40%
Prescription Pricing Authority	88.00%	86.00%	—	—
Rampton Special Hospital Authority	93.58%	96.51%	95.00%	95.00%
UK Transplant	97.81%	97.91%	96.20%	95.70%
	98.00%	99.00%	98.00%	99.00%

Future Developments

90 A further 124 Primary Care Trusts (PCT) began operating from 1 April 2001. The Government has published a bill aimed at shifting the balance of power to the local level. As a consequence it is proposed to rename and merge health authorities as 28 Strategic Health Authorities and to establish PCTs in all areas of the country. It is proposed that the Bill will become effective in the 2002-03 financial year.

91 Four new Special Health Authorities became operational on 1 April 2001, the National Clinical Assessment Authority, the Retained Organs Commission, National Treatment Agency and the NHS Appointments Commission and one new Special Health Authority became operational on 1 July 2001, the National Patient Safety Agency. Summarised accounts will be presented for them from 2001-02 onwards.

Nigel Crisp
Accounting Officer

30 November 2000

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 their operating costs, recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to:

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

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

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officers for each of the 99 health authorities. It is their responsibility within their individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each Accountable Officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement on their system of internal financial control, supported by an auditor's report, with their annual accounts.

For the 2000-01 financial year, the Accountable Officers of all health authorities made a statement on the system of internal financial control. Seven such organisations indicated that they had weaknesses in their systems and had not met the minimum control standards throughout the year. I have reviewed these statements and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officers.

Nigel Crisp
Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 22 to 39 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 25 to 29.

Respective responsibilities of Accounting Officer and Auditor

As described on page 19, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 20 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the health authorities at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing operations			Total	Re-stated
	Notes		£000	1999-2000 £000
Expenditure				
Health care and related services commissioned	2	38,588,504		37,269,010
Authority administration and programme expenditure	3	2,315,247		2,069,749
Hosted services	4	1,611		1,161
		<u>40,905,362</u>		<u>39,339,920</u>
Miscellaneous Income	6	(1,253,816)		(998,845)
Net operating costs		<u>39,651,546</u>		<u>38,341,075</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Unrealised surplus on the revaluation of fixed assets	15	3,298	163,777
Transfer to NHS bodies and Department of Health	15,16	(28,829)	(84,229)
Fixed asset impairment losses	15	(3,224)	(49,723)
Recognised gains and losses relating to the year		<u>(28,755)</u>	<u>29,825</u>
Prior year adjustments	1.11	(818,975)	(212,731)
Losses recognised since the last annual report		<u>(847,730)</u>	<u>(182,906)</u>

The notes at pages 25 to 39 form part of this account

Balance Sheet as at 31 March 2001

	Notes	£000	Re-stated 1999-2000 £000
Fixed assets			
Intangible assets	7	1,107	1,030
Tangible assets	7	545,195	657,696
		546,302	658,726
Current assets			
Debtors: amounts falling due beyond one year		–	447,269
Debtors: amounts falling due within one year	8	1,367,163	954,020
Cash at bank and in hand	18	51,385	82,078
		1,418,548	1,483,367
Creditors: amounts falling due within one year	9	(2,939,688)	(2,297,116)
Net current liabilities		(1,521,140)	(813,749)
Total assets less current liabilities		(974,838)	(155,023)
Creditors: amounts falling due after more than one year	10	(35,914)	(475,858)
Provisions for liabilities and charges	11	(598,005)	(471,454)
		(1,608,757)	(1,102,335)
Taxpayers' equity			
General Fund	16	(1,761,520)	(1,300,710)
Donated assets reserve	14	542	1,959
Revaluation reserve	15	152,221	196,416
		(1,608,757)	(1,102,335)

The notes at pages 25 to 39 form part of this account

Nigel Crisp
Accounting Officer

19 December 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Re-stated 1999-2000 £000
Net operating cost		39,651,546	38,341,075
Adjustment for non-cash transactions	3	40,274	(37,604)
Adjustment for movements in working capital other than cash	17	(401,299)	(1,372,296)
Adjust for movement in provisions	11	(126,551)	1,133,074
Transfer from reserve	14	1,438	126
Net cash outflow from operating activities		<u>39,165,408</u>	<u>38,064,375</u>
Capital expenditure			
Payments to acquire tangible fixed assets		12,993	19,319
Receipts from the sale of tangible fixed assets		<u>(12,899)</u>	<u>(8,119)</u>
Net cash outflow from capital expenditure		<u>94</u>	<u>11,200</u>
Net cash outflow before financing		<u>39,165,502</u>	<u>38,075,575</u>
Analysis of Financing:			
Net Parliamentary funding	16	39,135,509	38,109,741
Capital element of finance lease rental payment		13	(9)
Decrease/(increase) in cash	18	<u>29,980</u>	<u>(34,157)</u>
Total		<u>39,165,502</u>	<u>38,075,575</u>

The notes at pages 25 to 39 form part of this account

Notes to the Account

1. Accounting policies

The financial statements have been prepared in accordance with the Resource Accounting Manual issued by HM Treasury. The particular accounting policies adopted by the authorities 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 their current costs.

1.2 Operating income

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

1.3 Taxation

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

1.4 Capital charges

A charge, reflecting the cost of capital utilised by the authorities, is included in operating costs. The Government's standard interest rate applied to capital charges in the financial year 2000-2001 was 6% on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1.5 Fixed assets

(i) Capitalisation

All assets falling into the following categories are capitalised:

- 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;
- assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;

**Accounting policies
(continued)**

- 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;
- donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.

(ii) Valuation

Fixed assets are valued as follows:

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

Valuations are carried out by the District Valuer of the Inland Revenue Government Department at five-yearly intervals. Between valuations the appropriate indices are applied to revalue the assets. Land and buildings are revalued annually, re-lifed and therefore accumulated depreciation carried forward is nil.

A valuation was undertaken as at 1 April 2000 in accordance with the Royal Institute of Chartered Surveyors' Appraisal and Valuation Manual. 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;

**Accounting policies
(continued)**

- assets in the course of construction are valued at net replacement cost using an appropriate index;
- 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 donated asset reserve which is credited with the value of the original donation and any subsequent revaluation.

(iii) Depreciation

- intangible assets are amortised on a straight line basis over their estimated 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;
- 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 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

- each year, an amount equal to the depreciation charge on donated assets is released from the donated asset reserve to the operating cost statement.

1.6 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).

1.7 Operating leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

1.8 Foreign exchange

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

**Accounting policies 1.9 Pensions contributions
(continued)**

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 each authority is required to pay an employer's contribution, currently 5 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 6 per cent (manual staff 5 per cent) of pensionable pay. Employer and employee 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 Research and development

Expenditure on research and development has been treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.11 Prior year adjustment

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures for the balance sheet, statement of recognised gains and losses and cash flow statement have been restated, and associated notes where necessary.

The main source of funding for the authorities is Parliamentary grant from the Department of Health (Class II, Vote 1) within an approved cash limit which is credited to the General Fund.

Accounting policies 1.11
(continued)

Prior year adjustment (continued)

Health authorities were required to apply the Resource Accounting Manual (RAM) for the first time in 2000-2001. Under the RAM, health authorities cannot anticipate funding and must account for departmental funding on a cash basis. In previous years, health authorities have accrued for additional funding from the Department in respect of drug costs and certain other expenditure. Health authorities have therefore reversed debtors relating to these items. At the same time, the brokerage system for distributing cash between health authorities has been replaced with a non-cash regime in respect of external financing limits. The debtors and creditors relating to brokerage have also been reversed as a prior year adjustment. The net effect of these adjustments to the opening reserves is a decrease of £989,776,000.

There has also been a change to the way the capital charge is calculated. The charge is on all assets less liabilities, whereas in previous years it has been calculated on fixed assets only. This has decreased the net operating cost by £88,132,000, although there is no impact on the reserves brought forward at 1 April 2000 due to a compensating debit to the General Fund.

On 1 April 2000, assets and liabilities relating to the Existing Liabilities Scheme for clinical negligence were transferred to the NHS Litigation Authority. This transfer was reflected as an adjusting post balance sheet event in the 1999-2000 Summarised Accounts. However, the adjustment to closing debtors subsequently proved to be too great, and as a result a prior period adjustment has been made to these amounts to increase debtors, and therefore reserves, by £170,801,000.

**Healthcare and
related services
commissioned**

2

	£000	Re-stated 1990-2000 £000
<i>Commission of healthcare by GP Fundholders</i>	-	(13,501)
<i>Primary healthcare commissioned by health authorities:</i>		
General medical services (cash limited)	131,768	167,224
General medical services (non cash limited)	2,507,329	2,458,451
Drug costs	872,991	844,679
Pharmaceutical services	106,939	99,574
General dental services	1,561,333	1,500,567
General ophthalmic services	289,942	285,961
Department of Health Initiative funding	106,397	60,303
	<u>5,576,699</u>	<u>5,416,759</u>
<i>Commission of healthcare by primary care act pilots:</i>		
Personal medical services	184,274	99,857
Personal dental services	20,764	12,393
	<u>205,038</u>	<u>112,250</u>
<i>Secondary healthcare commissioned by health authorities:</i>		
Learning difficulties	899,349	952,241
Mental illness	1,420,268	1,570,283
Maternity	79,796	291,725
General and acute	2,463,597	4,807,956
Accident and emergency	260,907	411,792
Community Health Services	425,429	757,165
Other	413,679	581,098
	<u>5,963,025</u>	<u>9,372,260</u>
Impairments and depreciation for Trusts	132,792	447,299
Total healthcare commissioned by health authorities	<u>11,877,554</u>	<u>15,335,067</u>
Total healthcare commissioned by Primary Care Groups (note 5.1)	26,710,950	21,933,943
Total healthcare commissioned	<u>38,588,504</u>	<u>37,269,010</u>

Administration and other services	3	<i>The expenses of the authorities were:</i>	<i>Note</i>	Re-stated 1999-2000
				£000
				£000
		Non-executive members' remuneration		4,646
		Other salaries and wages		449,499
		Premises and fixed plant		119,379
		Establishment costs		67,396
		Recharges from NHS Trusts		58,913
		Non medical education and training		907,356
		Clinical negligence		90,558
		Agency services		42,086
		Transport and moveable plant		4,541
		Capital - Depreciation		15,844
		- Impairments		11,762
		- Capital charge interest		(67,880)
		- Loss on disposal of fixed assets		1,174
		Auditors' remuneration:		
		- Audit fee		9,139
		- Other fees		2,463
		Interest payable		9,492
		Primary Care Trust preparatory costs		15,580
		Primary Care Group non-healthcare costs	5	239,438
		Supplies and services - clinical		13,020
		- general		7,619
		Recharges from PCTs		1,209
		Miscellaneous		312,013
				<u>2,315,247</u>
				<u>2,069,749</u>
		<i>Hire and operating rentals included in expenses:</i>		
		Hire of plant and machinery		1,752
		Other operating leases		14,191
				<u>15,943</u>
				<u>15,209</u>
		<i>Expenses of the authorities include the following in respect of clinical negligence:</i>		
		Settlements not previously accrued		(63,124)
		(Over) provision in respect of previous accruals		(39,642)
		In year provision for future settlements by Trusts		193,324
				<u>90,558</u>
				<u>124,155</u>
		<i>Authority members' remuneration:</i>		
		Non-executive members' remuneration		4,646
		<i>Executive members' remuneration:</i>		
		Basic salaries		33,893
		Benefits		1,064
		Performance related bonuses		576
		Pension contributions		1,809
		Compensation for loss of office		266
		Pensions to former directors		518
				<u>42,772</u>
				<u>42,250</u>

	£000	Re-stated 1999-2000 £'000
<i>Executive members and staff costs (including hosted services):</i>		
Salaries and wages	504,013	450,024
Social security costs	39,046	34,472
Employer contributions to NHS Pensions Agency	22,219	12,517
Other pension costs	2,830	6,703
Agency staff	23,460	15,278
	<u>591,568</u>	<u>518,994</u>

The average number of employees (excluding agency staff) during the year was 23,514 (1999-2000: 21,557).

**Operating expenses
of hosted services** 4

	£000	1999-2000 £000
<i>Salaries and wages</i>	997	428
Premises and fixed plant	211	438
Establishment expenses	185	37
Transport and moveable plant	19	-
Agency services	-	45
Depreciation	11	-
Capital charges interest	6	-
Other auditors' remuneration	-	2
Miscellaneous	182	211
	<u>1,611</u>	<u>1,161</u>

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 and 2000-2001 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 2001	5.1	Advisory	Delegated	Total	Re-stated
		£000	£000	£000	1999-2000 £000
Commission of Primary Healthcare					
GMS-infrastructure costs		5,370	795,055	800,425	766,539
Local development schemes		-	18,618	18,618	6,596
Prescribing costs		8,345	4,701,168	4,709,513	4,860,590
		<u>13,715</u>	<u>5,514,841</u>	<u>5,528,556</u>	<u>5,633,725</u>
Commission of Secondary Healthcare					
Learning difficulties		47,899	414,384	462,283	384,166
Mental illness		218,261	1,868,674	2,086,935	1,562,699
Maternity		25,426	999,455	1,024,881	782,011
General and acute		370,413	11,938,920	12,309,333	8,808,130
Accident and emergency		24,351	515,381	539,732	421,127
Community Health Services		76,988	2,470,630	2,547,618	1,912,015
Other contractual		10,849	325,126	335,975	257,231
		<u>774,187</u>	<u>18,532,570</u>	<u>19,306,757</u>	<u>14,127,379</u>
<i>Health authority commissions on behalf of primary Care Groups</i>		-	1,875,637	1,875,637	2,172,839
Total healthcare commissioned		<u>787,902</u>	<u>25,923,048</u>	<u>26,710,950</u>	<u>21,933,943</u>
Non-healthcare costs					
Staff costs		791	140,281	141,072	95,898
Other costs		132	98,234	98,366	57,949
		<u>923</u>	<u>238,515</u>	<u>239,438</u>	<u>153,847</u>
Total Expenditure		<u>788,825</u>	<u>26,161,563</u>	<u>26,950,388</u>	<u>22,087,790</u>
Analysis of health authorities' commissions on behalf of Primary Care Groups	5.2	Learning difficulties		109,283	75,244
		Mental illness		287,645	213,793
		Maternity		61,982	74,730
		General and acute		1,035,233	1,293,501
		Accident and emergency		66,658	112,025
		Community Health Services		203,396	345,672
		Other contractual		111,440	57,874
				<u>1,875,637</u>	<u>2,172,839</u>

Miscellaneous income	6		Re-stated 1999-2000
		£000	£000
Fees and charges		114,865	79,267
Prescription charge income		393,219	364,335
General dental services income		451,869	440,312
Other		293,863	114,931
		<u>1,253,816</u>	<u>998,845</u>

Fixed assets	7.1		£000
Intangible assets			
Gross book value at 31 March 2000			1,464
Additions-purchased			432
Gross book value at 31 March 2001			<u>1,896</u>
Accumulated depreciation at 31 March 2000			434
Provided during the year			341
Additions-purchased			14
Accumulated depreciation at 31 March 2001			<u>789</u>
Net book value at 31 March 2000			<u>1,030</u>
Net book value at 31 March 2001			<u>1,107</u>

Tangible assets	7.2	Land	Buildings, installations and fittings	Assets under construction
		£000	£000	£000
Net book value at 31 March 2000		308,268	326,198	6,500
Additions – purchased		-	5,680	2,808
Impairments		(1,242)	(13,662)	-
Transfers		(43,164)	(27,919)	(7,509)
Indexation		5	3,693	15
Other revaluation		(250)	(485)	-
Depreciation provided during the year		-	(10,627)	-
Disposals		(6,445)	(11,689)	(470)
Net book value at 31 March 2001		<u>257,172</u>	<u>271,189</u>	<u>1,344</u>
The net book value of land and buildings at 31 March 2001 comprised:		£000		
Freehold		505,529		
Long leasehold		20,066		
Short leasehold		2,766		
		<u>528,361</u>		

Fixed assets (continued)	7.2	£000
	Equipment	
	Gross book value at 31 March 2000	66,704
	Additions – purchased	3,989
	Impairments	(82)
	Transfers	(660)
	Indexation	1,167
	Disposals	(5,310)
	Gross book value at 31 March 2001	<u>65,808</u>
	Accumulated depreciation at 31 March 2000	49,974
	Provided during the year	4,887
	Additions – purchased	60
	Transfers	(403)
	Indexation	847
	Disposals	(5,047)
	Accumulated depreciation at 31 March 2001	<u>50,318</u>
	Net book value:	
	At 31 March 2000	<u>16,730</u>
	At 31 March 2001	<u>15,490</u>

	Purchased	Donated	Net book value at 31 March 2001	Net book value at 31 March 2000
	£000	£000	£000	£000
Total fixed assets				
Intangible assets	1,107	–	1,107	1,03
Land	257,142	30	257,172	308,26
Buildings, installations and fittings	270,760	429	271,189	326,19
Equipment	15,408	82	15,490	16,73
Assets under construction	1,344	–	1,344	6,50
	<u>545,761</u>	<u>541</u>	<u>546,302</u>	<u>658,72</u>

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

	1999–2000 £000	1999–2000 £000
Land	35	–
Buildings, installations and fittings	4,154	3,123
Equipment	18	30
	<u>4,207</u>	<u>3,153</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 £203,000 (1999–2000: £13,000).

Debtors: Amounts falling due within one year	8	Re-stated	
		1999-2000	1999-2000
		£000	£000
NHS Debtors		1,013,474	307,991
Clinical negligence recoverable		101,011	412,748
Prepayments and accrued income		68,516	73,595
Provision for irrecoverable debts		(1,135)	(1,250)
Capital debtors		2,164	498
Pension prepayments—in respect of staff and former directors		28,409	14,480
Other debtors		154,724	145,958
		<u>1,367,163</u>	<u>954,020</u>

Creditors: Amounts falling due within one year	9	1999-2000	
		1999-2000	1999-2000
		£000	£000
Bank overdrafts		1,303	2,016
NHS Creditors		1,056,545	479,054
FHS creditors (contractors)		1,213,010	1,149,037
GPFH savings		75,102	123,571
Non-NHS trade creditors		375,429	265,995
Payments received on account		11,075	53,012
Income tax and social security		8,477	9,669
Capital creditors		613	1,189
Rentals due under operating leases		410	365
Obligations under finance leases and contracts (Note 12)		134	126
Pensions – relating to former directors		568	607
– relating to other staff		16,916	3,534
Other creditors		180,106	208,941
		<u>2,939,688</u>	<u>2,297,116</u>

Creditors: Amounts falling due after more than one year	10	1999-2000	
		1999-2000	1999-2000
		£000	£000
NHS Creditors		21,072	467,191
Obligations under finance leases and hire purchase contracts (Note 12)		885	1,029
Pensions – relating to former directors		448	701
– relating to other staff		11,472	1,319
Other		2,037	5,618
		<u>35,914</u>	<u>475,858</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 2000	6,797	154,935	175,517	35,865	8,937	89,403	471,454
Reanalysed	1,402	6,708	13,403	(5,204)	3,538	(19,847)	
At 31 March 2000	8,199	161,643	188,920	30,661	12,475	69,556	471,454
Arising during the year	3,405	43,870	193,324	24,304	15,772	47,886	328,561
Utilised during the year	(1,539)	(36,787)	(78,064)	(9,403)	(2,959)	(22,282)	(151,035)
Reversal unused	(578)	(4,209)	(39,642)	(5,269)	(2,745)	(8,025)	(60,468)
Unwinding of discount	269	3,649	4,493	255	267	559	9,492
At 31 March 2001	9,756	168,166	269,031	40,548	22,810	87,694	598,005

Expected timing of cashflows

Within one year	2,658	24,127	99,998	15,065	15,484	47,584
Within 1 to 5 years	5,059	82,731	145,469	14,203	7,326	27,781
Over 5 years	2,039	61,308	23,564	11,280	-	12,329
Total	9,756	168,166	269,031	40,548	22,810	87,694

Future payments by NHS Trusts

4,386	91,479	269,031	32,411	12,073	39,300
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£911,570,000 is included in the accounts of the NHSLA for ELS liabilities in health authorities.

Finance lease obligations

12

	1999-2000	
	£000	£000
<i>Amounts payable:</i>		
Within one year	135	193
Between one and five years	493	779
After five years	392	799
	1,020	1,771
Less: finance charges allocated to future periods	(1)	(616)
	1,019	1,155
This total net obligation under finance leases can be analysed as follows:		
Creditors: amounts falling due within one year	134	126
amounts falling due after more than one year	885	1,029
	1,019	1,155

			1999-2000
		£000	£000
Operating lease commitments	13	<i>Land and buildings</i>	
		Commitments under non-cancellable operating leases which expire:	
		Within one year	1,324
		Between one and five years	5,465
		After five years	42,775
			<u>49,564</u>
		<i>Other leases</i>	
		Commitments under non-cancellable operating leases which expire:	
		Within one year	872
		Between one and five years	5,166
		After five years	174
			<u>6,212</u>
			<u>55,533</u>
			<u>55,533</u>
Donated asset reserve	14		£000
		At 31 March 2000	1,959
		Disposals	(1,371)
		Revaluation and indexation	21
		Depreciation	(67)
		At 31 March 2001	<u>542</u>
			<u>542</u>
Revaluation reserve	15		£000
		At 31 March 2000	196,416
		Revaluations and indexation	3,298
		Transfers to NHS Bodies	(10,895)
		Transfers to General Fund – realised elements	(33,374)
		Impairments	(3,224)
		At 31 March 2001	<u>152,221</u>
			<u>152,221</u>
General Fund	16		£000
		At 31 March 2000	(1,300,710)
		Net operating cost for the year	(39,651,546)
		Net Parliamentary funding	39,135,509
		Parliamentary funding for Trust impairments and depreciation	132,792
		Transfer to NHS bodies	(43,059)
		Transfers from revaluation reserve – realised elements	33,374
		Capital charges interest	(67,880)
		At 31 March 2001	<u>(1,761,520)</u>
			<u>(1,761,520)</u>

Movements in working capital other than cash	17				1999-2000
				£000	£000
		Decrease in debtors		167,824	879,219
		Increase in creditors		181,455	493,077
		Transfer of debtors/creditors to NHS bodies		52,050	-
		Net cash inflow from operating activities		401,299	1,372,296

Analysis of changes in net debt	18							
		As at		Cash		Other		As at
		31 March		flows		changes		31 March
		2000		£000		£000		2001
		£000		£000		£000		£000
		Cash at OPG	34,408	(21,314)		-		13,094
		Cash at commercial bank and in hand	47,670	(9,379)		-		38,291
		Bank overdraft	(2,016)	713		-		(1,303)
				(29,980)				
		Debt due within one year	(126)	118		(126)		(134)
		Debt due after one year	(1,029)	18		126		(885)
			<u>78,907</u>	<u>(29,844)</u>		<u>0</u>		<u>49,063</u>

Contingent liabilities	19	<i>Authorities reported contingent liabilities as follows:</i>				1999-2000
						£000
		Clinical negligence				-
		Other				(122,937)
		Amounts recoverable				(13,080)
						<u>30,183</u>
						<u>(15,876)</u>
						<u>1,354</u>
						<u>(134,663)</u>

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

Capital commitments	20	<i>Health authorities had the following capital commitments as at 31 March 2001</i>				1999-2000
						£000
		Contracted				£000
		Authorised but not contracted				2,538
						4,248
						<u>6,786</u>
						<u>5,195</u>

Losses and special payments	21	There were 3,008 cases of losses and special payments (1999-2000: 4,490 cases) totalling £(86,730,000) (1999-2000: £136,672,000) approved during 2000-2001. The negative value figures are due to the transfer of Existing Liability Scheme cases to the NHS Litigation Authority. This resulted in the repayment of health authority cash payments by the NHS Litigation Authority. There were no clinical negligence cases where the net payment exceeded £1,000,000 (1999-2000: 0 cases). There were 5 fraud cases totalling £2,076,000 (1999-2000: 1 case totalling £135,000) where the
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net payment exceeded £100,000. There were 6 personal injury cases where the payment exceeded £100,000 totalling £815,000 (1999-2000: 9 cases totalling £3,736,000). There were 2 compensation under legal obligation cases where the payment exceeded £100,000 totalling £290,000 (1999-2000: 17 cases totalling £10,510,000). There were no fruitless payment cases where the payment exceeded £100,000 (1999-2000: 0 cases).

Related party transactions

22 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, all Primary Care Trusts 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.

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 2001 and subsequent financial years in respect of the Health Authorities. The basis of preparation and the form and content shall be 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:
- (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** The summarised account of the Health Authorities for the year ended 31 March 2001 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of 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 2001 and subsequent years, 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 net operating costs, 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.
- 7** The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

David Loweth

Head of Central Accountancy Team HM Treasury

6 December 2001

SCHEDULE 1

Application to 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 operating cost statement and cash flow statement shall have regard to the format prescribed in the Resource Accounting Manual. |
| | 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. |

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 a summary of their performance against targets. |

Summarised Account of Primary Care Trusts

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

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

In preparing the accounts the Accounting Officer is required to:

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

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

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officers for each of the 40 Primary Care Trusts. It is their responsibility within their individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control, supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officers of all Primary Care Trusts made a statement on the system of internal financial control. 22 such organisations indicated that they had weaknesses in their systems and had not met the minimum control standards throughout the year. I have reviewed these statements and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officers.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 48 to 63 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 51 to 54.

Respective responsibilities of the 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 and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 46 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

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

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

Opinion

In my opinion:

the financial statements give a true and fair view of the state of affairs of the Primary Care Trusts at 31 March 2001 and the net operating costs recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.

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

Please see my report at Pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	£000
Programme costs	3.1	2,255,693
Operating income	2	<u>(19,732)</u>
Net operating cost		<u>2,235,961</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	£000
Unrealised surplus on the indexation and revaluation of fixed assets	408
Increase in the donated asset reserve due to receipt of donated assets	487
(Reduction) in the donated asset reserve due to depreciation, impairment and/or disposal of donated assets	(34)
Increase in the General Fund due to the transfer of assets from NHS bodies and the Department of Health	10,832
(Reductions) to other reserves	<u>(25,554)</u>
Recognised losses for the financial year	<u>(13,861)</u>

The notes at pages 51 to 63 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000
Fixed assets:		
Intangible assets	6.1	7
Tangible assets	6.2	<u>125,244</u>
		125,251
Current assets		
Stocks	7	224
Debtors	8	76,750
Cash at bank and in hand	9	<u>3,274</u>
		80,248
Creditors (amounts falling due within one year)	10.1	<u>(176,527)</u>
Net current liabilities		<u>(96,279)</u>
Total assets less current liabilities		<u>28,972</u>
Creditors (amounts falling due after more than one year)	10.2	(904)
Provisions for liabilities and charges	11	<u>(2,795)</u>
		25,273
Taxpayers' equity		
General Fund	13	24,055
Revaluation reserve	13	406
Donated asset reserve	13	812
		<u>25,273</u>

The notes at pages 51 to 63 form part of this account.

Nigel Crisp
Accounting Officer

19 December 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000
Net cash (outflow) from operating activities	14	(2,195,357)
Servicing of finance		
Interest element of finance leases		(16)
Net cash (outflow) from servicing of finance		<u>(16)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets		(83,838)
Net cash (outflow) from investing activities		<u>(83,838)</u>
Net cash outflow before financing		(2,279,211)
Financing		
Net Parliamentary funding		2,269,455
Capital grants received		87
Capital element of finance leases		(6)
Net cash inflow from financing		<u>2,269,536</u>
(Decrease) in cash in the period	9	<u>(9,675)</u>

The notes at pages 51 to 63 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 Primary Care Trusts 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 their current costs.
- 1.2 Operating income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of Class II, Vote 1 (hospital, community health, family health and related services, England) and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Taxation**
- The Primary Care Trusts are not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital charges**
- A charge, reflecting the cost of capital utilised by Primary Care Trusts, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-2001 was 6% on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.
- 1.5 Fixed assets**
- (i) Capitalisation*
- All assets falling into the following categories are capitalised:
- intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000;
 - 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;

**Accounting policies
(continued)**

- donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.

(ii) Valuation

Fixed assets are valued as follows:

- Intangible assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount.
- Valuations are 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 at Existing Use Value.

Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. Between valuations appropriate indices are applied to revalue the assets. Land and buildings are revalued annually, re-lifed and therefore accumulated depreciation carried forward is nil.

- Equipment held for operational use is valued at depreciated replacement cost. Surplus equipment is valued at the net recoverable amount.
- Assets in course of construction are valued at net current replacement cost using an appropriate index.
- Subsequent revaluations to donated fixed assets are taken to the donated asset reserve.

(iii) Depreciation

- Intangible assets are amortised on a straight line basis over their estimated 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.
- 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;

**Accounting policies
(continued)**

- 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 incl software development costs	5

- Each year, an amount equal to the depreciation charge on donated assets is released from the donated asset reserve to the operating cost statement.

1.6 Stocks and work-in-progress

Stocks and work-in-progress are valued as follows:

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

1.7 Pension contributions

The Primary Care 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 Primary Care Trusts are required to pay an employer's contribution, currently five 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 and employee 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 Primary Care 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. 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 Primary Care 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 operating cost statement at the time the Primary Care Trust commits itself to the retirement, regardless of the method of payment.

**Accounting policies 1.8 Research and Development
(continued)**

Expenditure on research and development has been treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.9 Foreign exchange

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

1.10 Operating leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

1.11 Clinical negligence costs

Most Primary Care Trusts participate in the Clinical Negligence Scheme for Trusts, which is a cost sharing scheme that commenced on 1 April 1995. Under the scheme Primary Care 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. The accounts show the costs net of any assistance from the scheme.

Primary Care 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. Primary Care Trusts' share of other potential payments in respect of known incidents are disclosed in contingent liabilities.

1.12 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 Primary Care Trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

1.13 Opening Balances

Primary care trusts were established on both 1 April 2000 and 1 October 2000. As a consequence the opening balances in the notes to the accounts refer to both dates and it is not possible to establish an opening balance sheet as at 1 April 2000 for all the PCTs.

**Operating
Income****2** Operating income analysed by classification and activity, is as follows:

	£000
Fees & charges to external customers	7,762
Other	11,970
	<u>19,732</u>

**Programme
Costs****3.1**

	£000	£000
Goods and services from NHS bodies		1,534,318
Staff costs		115,396
PCT Board members		6,308
Capital: Depreciation	2,226	
Capital charges interest	<u>2,885</u>	5,111
Premises and fixed plant		13,159
Establishment costs		11,551
Clinical negligence		336
Transport and moveable plant		857
Auditors' remuneration:		
- Audit fee	1,797	
- Other fees	<u>100</u>	1,897
Interest payable		16
Supplies and Services:		
- clinical	36,315	
- general	<u>3,798</u>	40,113
Prescribing costs		376,993
General Medical Services Infrastructure costs		62,357
Personal Medical Services and Personal Dental Services Pilots		19,985
Non-General Medical Services services from GPs		5,494
Miscellaneous		61,802
		<u>2,255,693</u>

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

3.2	<i>Operating costs include:</i>	£000
	Hire of plant and machinery	112
	Other operating leases	94,759
		94,871
<hr/>		
3.3	<i>Operating lease commitments</i>	£000
	Land and buildings	
	Expiring within 1 year	63
	Expiring between 1 and 5 years	17
	Expiring after 5 years	523
		603
	Other leases	
	Expiring within 1 year	300
	Expiring between 1 and 5 years	747
		1,047
3.4	<i>Charges to operating expenses in respect of clinical negligence are:</i>	
		£000
	Contribution to CNST	-
	In-year provision for future settlements:	
	Gross provision	260
	Less expected from NHS Litigation authority:	5
		255
		336
3.5	<i>Board members' remuneration</i>	£000
	Officer members' remuneration	
	Basic salaries	4,477
	Benefits	111
	Performance related bonuses	14
	Pension contributions paid	209
		4,811
	Non-officer members' remuneration	1,289
		6,100

Staff costs and numbers	4	4.1 Staff costs	£000	
		Salaries and wages	106,077	
		Social security costs	7,524	
		Other pension costs	5,160	
		Agency staff	2,951	
			<u>121,712</u>	
		4.2 Average number of total staff	Number	
		Medical and dental	178	
		Administration and estates	1,726	
		Healthcare assistants and other support staff	604	
	Nursing, midwifery and health visiting staff	4,945		
	Nursing, midwifery and health visiting learners	29		
	Scientific, therapeutic and technical staff	651		
	Other	195		
		<u>8,328</u>		
<hr/>				
Health care and related services commissioned	5	5.1 Primary healthcare commissioned by primary care trusts	£000	
		General medical services (discretionary)	92,665	
		Department of Health Initiative funding	827	
		Personal medical services	18,776	
		Personal dental services	983	
		Non-General Medical Services services from GPs	4,498	
		Other	21,580	
			<u>139,329</u>	
			5.2 Secondary healthcare commissioned by primary care trusts	
			Learning difficulties	45,815
		Mental illness	156,770	
		Maternity	91,560	
		General and acute	1,101,396	
		Accident and emergency	52,818	
		Community Health Services	149,675	
		Other	31,043	
			<u>1,629,077</u>	
		Total healthcare commissioned	<u><u>1,768,406</u></u>	

**Health care and
related services
commissioned
(continued)**

**5.3 Purchase of healthcare by health authorities on behalf
of primary care trusts included in above**

Learning difficulties	14,178
Mental illness	35,668
Maternity	10,787
General and Acute	184,036
Accident and Emergency	13,062
Community Health Services	22,858
Other Contractual	5,481
	<u>286,070</u>

Fixed Assets

6	6.1 Intangible fixed assets	£000
	Cost:	
	As at 1 April 2000	-
	Additions	12
	At 31 March 2001	<u>12</u>
	Amortisation:	
	As at 1 April 2000	-
	Additions	4
	Provided during the year	1
	At 31 March 2001	<u>5</u>
	Net book value at 1 April 2000	-
	Net book value at 31 March 2001	<u>7</u>

6.2 Tangible fixed assets

	Freehold land £000	Buildings, installations & fittings £000	Assets in course of construction £000
Net book value as at 1 April 2000	-	-	-
Additions-purchased	25,207	48,591	2,067
Additions-donated	-	193	-
Revaluation and indexation	-	397	-
Transfers	13,323	35,365	(626)
Depreciation provided during the year	-	(1,956)	-
Net book value as at 31 March 2001	38,530	82,590	1,441
			Equipment £000
Gross replacement cost or valuation as at 1 April 2000			-
Additions-purchased			1,770
Additions-donated			25
Transfers			3,393
Revaluation and indexation			16
As at 31 March 2001			5,204
Accumulated depreciation as at 1 April 2000			-
Transfers			2,249
Revaluation and indexation			3
Charge for the year			269
As at 31 March 2001			2,521
Net book value as at 1 April 2000			-
Net book value as at 31 March 2001			2,683

6.3 The net book value of land and buildings as at 31 March 2001 comprises:

	£000
Freehold	118,471
Long leasehold	2,649
	121,120

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

	£000
Land	165
Buildings, installations and fittings	1,225
	1,390

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £37,000.

Stocks and work in progress	7				£000
		Raw materials and consumables			136
		Finished processed goods			88
					<u>224</u>
<hr/>					
Debtors	8	8.1 Amounts falling due within one year			£000
		NHS Debtors			61,802
		Other Debtors			4,647
		Provision for irrecoverable debts			(4)
		Prepayments and accrued income			9,822
					<u>76,267</u>
		8.2 Amounts falling due after more than one year:			
		NHS Debtors			475
		Other Debtors			8
					<u>483</u>
		Total debtors			<u>76,750</u>
<hr/>					
Analysis of Changes in Debt	9		Opening Balance	Change during the year	At 31 March
			2000	year	2001
			£000	£000	£000
		Cash at OPG	12,606	(10,827)	1,779
		Cash at commercial banks and in hand	10	1,485	1,495
			12,616	(9,342)	3,274
		Bank overdraft	-	(333)	(333)
		Finance leases due within 1 year	(6)	-	(6)
		Finance leases due after 1 year	(138)	-	(138)
			<u>12,472</u>	<u>(9,675)</u>	<u>2,797</u>
<hr/>					

Creditors: Amounts falling due within one year	10	10.1		£000
		Overdrafts		333
		NHS creditors		102,779
		Non NHS trade creditors—revenue		42,708
		Non NHS trade creditors—capital		548
		Tax and social security		2,712
		Obligations under finance leases and HP contracts		6
		Payments received on account		904
		Other creditors		14,350
		Accruals and deferred income		12,187
			<u>176,527</u>	
Creditors: Amounts falling due after more than one year		10.2		£000
		Obligations under finance leases and HP contracts		138
		Other creditors		766
				<u>904</u>
		Total creditors		<u>177,431</u>

10.3 Finance lease obligations	£000
Leases payable:	
Within one year	6
Between one and five years	88
After five years	154
Finance charges allocated to future periods	(104)
	<u>144</u>

Provisions for liabilities and charges	11		Pensions for staff	Clinical negligence	Other legal claims	Restructuring	Other	Total
			£000	£000	£000	£000	£000	£000
		At 1 April 2000	—	—	—	—	—	—
		Arising during the year	228	260	148	198	1,961	2,795
		<u>228</u>	<u>260</u>	<u>148</u>	<u>198</u>	<u>1,961</u>	<u>2,795</u>	

Expected timing of cash flows:

Within 1 year	99	237	38	198	1,577	2,149
1-5 years	80	23	110	—	384	597
Over 5 years	49	—	—	—	—	49

Movements in working capital other than cash	12		£000
		(Increase) in stocks	(224)
		(Increase) in debtors	(76,750)
		Increase in creditors	109,706
			<u>32,732</u>
<hr/>			
Reserves	13	The movement on the General Fund in the year comprised:	£000
		Balance at 1 April 2000	-
		Net operating cost for the year	(2,235,961)
		Net Parliamentary funding	2,269,455
		Capital charge interest	2,885
		Transfer to other NHS bodies	(12,324)
		Balance at 31 March 2001	<u>24,055</u>
		The movement on the Revaluation Reserve in the year comprised:	£000
		Balance at 1 April 2000	-
		Indexation of fixed assets	406
		Balance at 31 March 2001	<u>406</u>
		The movement on the Donated Asset Reserve in the year comprised:	£000
		Balance at 1 April 2000	-
		Receipt of donated assets	846
		Depreciation of donated assets	(34)
		Balance at 31 March 2001	<u>812</u>
<hr/>			
Reconciliation of operating cost to operating cash flows	14	Note	£000
		Net operating cost for the year	2,235,961
		Adjust for non-cash transactions	3.1 (5,111)
		Transfer from donated asset reserve	13 34
		Adjust for movements in working capital other than cash	12 (32,732)
		(Increase) in provisions	11 (2,795)
		Net cash outflow from operating activities	<u>2,195,357</u>

Contingent Liabilities	15	At 31 March 2001, there were no known contingent liabilities.																		
<hr/>																				
Capital Commitments	16	At 31 March 2001 the value of contracted capital commitments was £5,325,000.																		
<hr/>																				
Commitments under operating leases	17	<p>The Authority is committed to make the following payments during the next year in respect of operating leases expiring:</p> <table border="0" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">2000-01</th> </tr> <tr> <th></th> <th style="text-align: center;">Land and buildings £000</th> <th style="text-align: center;">Other £000</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">within one year</td> <td style="text-align: center;">63</td> <td style="text-align: center;">300</td> </tr> <tr> <td style="padding-left: 20px;">between two and five years</td> <td style="text-align: center;">17</td> <td style="text-align: center;">747</td> </tr> <tr> <td style="padding-left: 20px;">after five years</td> <td style="text-align: center;">523</td> <td style="text-align: center;">-</td> </tr> <tr> <td></td> <td style="text-align: center; border-top: 1px solid black;">603</td> <td style="text-align: center; border-top: 1px solid black;">1,047</td> </tr> </tbody> </table>		2000-01			Land and buildings £000	Other £000	within one year	63	300	between two and five years	17	747	after five years	523	-		603	1,047
	2000-01																			
	Land and buildings £000	Other £000																		
within one year	63	300																		
between two and five years	17	747																		
after five years	523	-																		
	603	1,047																		
<hr/>																				
Losses and special payments	18	There were 99 cases of losses and special payments totalling £27,000 approved during 2000-01. There were no cases that exceeded £100,000.																		
<hr/>																				
Related parties	19	<p>Primary Care 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 the Primary Care 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, ie:</p> <p>All Health Authorities, all NHS Trusts, all NHS agencies and all special health authorities.</p> <p>In addition Primary Care Trusts had a significant number of material transactions with other Government Departments and other central and local Government bodies.</p> <p>Primary Care Trusts also had some transactions with a number of charitable funds, certain trustees for which are also members of the Primary Care Trust Board.</p> <p>Details of all the Primary Care Trusts' related party transactions are shown in the individual Primary Care Trust accounts.</p>																		
<hr/>																				
Post balance sheet events	20	With effect from 1 April 2001, parts of 55 health authorities and some NHS Trusts were established as primary care trusts. 17 other NHS Trusts were dissolved and subsequently established as 31 primary care trusts.																		

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

- Primary Care Trusts** 1 The Treasury directs that a summarised account shall be prepared for the financial year ended 31 March 2001 and subsequent financial years in respect of the Primary Care 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 Primary Care Trusts shall be prepared from the audited accounts of the individual Primary Care Trusts to which it relates 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 The summarised account of the Primary Care Trusts for the year ended 31 March 2001 and subsequent years shall comprise an operating cost statement, a balance sheet, a cash flow statement and a statement of 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 Primary Care Trusts.
- 4 For the financial year ended 31 March 2001 and subsequent years, the summarised account of the Primary Care Trusts shall give a true and fair view of the state of affairs as at the end of the financial year and the net operating costs, 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.
- 7 The notes to the accounts shall, inter alia, include details of the accounting policies adopted.

David Loweth

Head of Central Accountancy Team HM Treasury

6 December 2001

SCHEDULE 1

Application to 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 operating cost statement and cashflow statement shall have regard to the format prescribed in the Resource Accounting Manual. |
| | 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. |

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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officers for each of the 356 NHS Trusts. It is their responsibility within their individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control, supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officers of all NHS Trusts made a statement on the system of internal financial control. 20 such organisations indicated that they had weaknesses in their systems or had not met the minimum control standards throughout the year. I have reviewed these statements and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officers.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 72 to 91 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 79.

Respective responsibilities of Accounting Officer and Auditor

As described on page 69 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 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 my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 70 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by the Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts 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 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 the NHS Trusts at 31 March 2001 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 R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing operations	Notes	£000	Restated 1999-2000 £000
Operating activities			
Income from activities	2	27,422,557	25,407,285
Other operating income	3	4,674,069	4,434,689
Operating expenses	4, 5	<u>(30,819,374)</u>	<u>(28,583,024)</u>
Operating surplus		1,277,252	1,258,950
Profit on disposal of fixed assets	6	<u>21,880</u>	<u>14,704</u>
Surplus before interest		1,299,132	1,273,654
Interest receivable		75,682	78,331
Interest payable	7	<u>(29,528)</u>	<u>(234,427)</u>
Surplus on ordinary activities		1,345,286	1,117,558
Public dividend capital dividends payable		<u>(1,289,366)</u>	<u>(1,084,922)</u>
Retained surplus for the year		55,920	32,636
Capital cost absorption rate	8	6.2%	6.3%

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Surplus on ordinary activities for the financial year		1,345,286	1,117,558
Fixed asset impairment losses		(87,512)	(3,000,361)
Unrealised surplus on fixed asset revaluations/indexation	16	260,346	2,992,982
Increase in the donated asset reserve due to receipt of donated assets	16	152,964	126,977
(Reduction) in the donated asset reserve due to depreciation, impairment and/or disposal of donated assets	16	(73,362)	(123,577)
Additions to other reserves	16	1,892	15,977
Total recognised gains for the financial year		1,599,614	1,129,556

The notes at pages 75 to 91 form part of this account

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed Assets			
Intangible fixed assets	9	19,097	16,849
Tangible fixed assets	10	<u>23,280,887</u>	<u>22,848,485</u>
		23,299,984	22,865,334
Current assets			
Stocks		392,677	358,482
Debtors	11	3,853,528	3,049,310
Short-term investments	12	-	90
Cash at bank and in hand	19	<u>126,345</u>	<u>94,827</u>
		4,372,550	3,502,709
Creditors: amounts falling due within one year	13	(3,024,558)	(3,269,391)
Net current assets		<u>1,347,992</u>	<u>233,318</u>
Total assets less current liabilities		<u>24,647,976</u>	<u>23,098,652</u>
Creditors: amounts falling due after more than one year	13	(212,768)	(217,072)
Provisions for liabilities and charges	14	(1,487,146)	(1,214,195)
		<u>22,948,062</u>	<u>21,667,385</u>
Financed by:			
Capital and reserves			
Public Dividend Capital	15	18,386,109	17,398,100
Revaluation reserve	16	3,621,413	3,571,449
Donated asset reserve	16	920,818	834,579
Other reserves	16	22,782	20,839
Income and expenditure reserve	16	<u>(3,060)</u>	<u>(157,582)</u>
		22,948,062	21,667,385

The notes at pages 75 to 91 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	£000	1999-2000 £000
Operating activities				
Net cash inflow from operating activities	17	2,304,146	2,262,825	
Returns on investments and servicing of finance				
Interest received		74,491		77,429
Interest paid		(4,138)		(224,093)
Interest element of finance lease rental payments		(10,241)		(5,572)
Net cash inflow/(outflow) from returns on investments and servicing of finance			60,112	(152,236)
Capital expenditure				
(Payments) to acquire intangible assets		(4,678)		(3,710)
(Payments) to acquire tangible fixed assets		(1,681,282)		(1,307,136)
Receipts from sale of tangible fixed assets		377,970		282,842
Net cash (outflow) from capital expenditure			(1,307,990)	(1,028,004)
Dividends paid			(1,286,464)	(1,084,639)
Net cash (outflow) before management of liquid resources and financing			(230,196)	(2,054)
Management of liquid resources				
(Payments) to acquire investments		(1,812,900)		(4,860,051)
Receipts from sale of investments		1,812,990		4,873,150
Net cash inflow from management of liquid resources			90	13,099
Net cash (outflow)/inflow before financing			(230,106)	11,045
Financing				
New Public Dividend Capital issued		921,821		643,564
Repayment of Public Dividend Capital (not previously accrued)		(739,351)		(708,863)
Loans received		2,698		500
Repayments of amounts borrowed		(2,698)		(19,449)
Other capital receipts		57,867		40,732
Capital element of finance lease rental payments		(3,611)		(3,363)
Cash transferred to other NHS bodies		(1,704)		-
Net cash inflow/(outflow) from financing			235,022	(46,879)
Increase/(decrease) in cash	18		4,916	(35,834)

The notes at pages 75 to 91 form part of this account.

Notes to the Account

Accounting policies 1

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 fixed assets as follows:

- 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;

**Accounting policies
(continued)**

- 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

(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.

Accounting policies (continued) **1.5 Clinical negligence costs**

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. The accounts show the costs net of any assistance from the CNST scheme.

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

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 five yearly revaluation by the District Valuer, the impairment is charged to the revaluation reserve and disclosed in the Statement of 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 and 2000-01 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 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 five 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 and employee 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.

**Accounting policies
(continued)**

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.

1.8 Merged Trusts

At 31 March 2000 26 NHS Trusts and parts of three others merged to form 13 new NHS Trusts. With effect from 1 October 2000 two NHS Trusts dissolved and were established as two Primary Care Trusts. In some cases the closing balances of the former NHS Trusts on 31 March 2000 were different from the opening balances of the new NHS Trusts on 1 April 2000. The aggregate balances at 1 April 2000 in this account therefore reflect the totals of closing balances at 31 March 2000 of continuing NHS Trusts, plus the opening balances of the new merged NHS Trusts at 1 April 2000.

1.9 Private Finance Initiative (PFI) schemes**PFI schemes deemed to be off balance sheet**

In this financial year, 77 NHS trusts reported off balance sheet PFI schemes. The estimated capital value of schemes individually over £1 million is £2.1 billion. The amount included within operating expenses for these schemes is £91 million.

PFI schemes deemed to be on balance sheet

In this financial year, 9 NHS Trusts reported on balance sheet PFI schemes. The value of assets brought on balance sheet in respect of these schemes is £68 million and the amount included within operating expenses is £15 million.

1.10 Prior period adjustments**Transfer of ELS liabilities**

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 required an adjustment to the NHS Summarised Accounts For NHS Trusts for 1999-2000. However the underlying accounts reflected this transfer as a prior year adjustment in 2000-01.

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 debtors where there were agreements with their commissioner to meet any of their share of ELS costs.

Revised interpretation of FRS 11

A prior period adjustment has been made in the underlying accounts following a change in the interpretation of FRS 11. This development required an adjustment to the NHS summarised accounts for NHS Trusts for 1999-2000. However the underlying accounts reflected this transfer as a prior year adjustment in 2000-01. This recognises that impairments resulting from the revaluation by the District Valuer are considered to be price changes and these should be charged to the revaluation reserve rather than to expenditure.

Income from activities	2	£000	Restated 1999-2000 £000
Health authorities and Primary Care Groups		25,718,414	24,649,852
Primary Care Trusts		822,668	-
Department of Health		176,211	137,018
Non-NHS-private patients		316,627	304,826
-Road Traffic Act		122,684	91,402
-other		265,953	224,187
		<u>27,422,557</u>	<u>25,407,285</u>
Income recognised to offset impairments		115,472	446,509
Income recognised to offset accelerated depreciation		17,811	-
<hr/>			
Other operating income	3	£000	£000
Education, training and research		2,358,852	2,258,785
Patient transport services		7,754	6,320
Charitable and other contributions to expenditure		81,909	83,665
Transfers from the donation reserve in respect of depreciation on donated assets		73,362	123,428
Other income from activities		2,152,192	1,962,491
		<u>4,674,069</u>	<u>4,434,689</u>

Operating expenses	4	4.1 Operating Expenses include	Notes	£000	Restated 1999-2000 £000
		Directors' costs ¹	4.4 & 5.1	162,874	154,729
		Staff costs ²	5.1	19,648,962	18,033,452
		Supplies and services—clinical		3,829,447	3,420,015
		Supplies and services—general		797,471	751,371
		Premises		1,645,942	1,461,466
		Depreciation and amortisation	9,10	1,045,353	1,051,660
		Fixed asset impairments		115,472	446,509
		Contracts with other NHS bodies		658,738	616,791
		Establishment		776,077	699,570
		NMET expenditure		815,421	669,383
		Transport		215,217	194,586
		Clinical negligence	23	143,899	146,281
		Provision for irrecoverable debts		15,497	19,318
		Auditors' remuneration:			
		Audit fees		22,233	19,318
		Other auditors' remuneration		10,163	12,465
		Other		916,608	886,110
				<u>30,819,374</u>	<u>28,583,024</u>

¹ Directors' costs do not exactly equal the figures disclosed in Note 4.4 as the latter excludes employer's NIC costs but includes the value of benefits in kind, plus employer's pension contributions on a cash basis rather than on an accruals basis.

² Staff costs do not equal the figures disclosed in Note 5.1 as the latter excludes expenditure relating to executive directors.

4.2 Hire and operating lease rentals

	£000	£000
Hire of plant and machinery	48,994	37,991
Other operating leases	166,171	507,655
	<u>215,165</u>	<u>545,646</u>

4.3 Operating lease commitments

Land and buildings	£000	£000
Expiring within 1 year	9,996	9,899
Expiring between 1 and 5 years	21,584	30,479
Expiring after 5 years	30,195	30,336
	<u>61,775</u>	<u>70,714</u>
Other leases		
Expiring within 1 year	31,651	29,035
Expiring between 1 and 5 years	98,906	92,527
Expiring after 5 years	12,457	11,357
	<u>143,014</u>	<u>132,919</u>

		1999-2000
4.4 Board Members' remuneration	£000	£000
Non-executive directors' remuneration	15,160	15,637
Executive directors' remuneration:		
– Basic salaries	126,521	122,048
– Benefits	3,429	3,941
– Performance related bonuses	1,841	1,946
– Pension contributions	6,269	5,476
– Compensation for loss of office	3,386	1,984
– Pensions to former directors (early retirees)	6,264	2,855
	<u>162,870</u>	<u>153,887</u>

£96,000 (1999-2000: £136,000) remuneration was waived by 15 (1999-2000: 27) directors. £18,000 (1999-2000: £5,000) of allowances were paid in lieu to 3 directors (1999-2000: 1).

Staff costs and numbers

5	5.1 Staff costs	£000	£000
	Salaries and wages	16,942,973	15,813,123
	Social security costs	1,223,613	1,115,785
	Pension costs	695,079	548,951
	Other pension costs	65,791	–
	Agency staff	880,363	702,246
		<u>19,807,819</u>	<u>18,180,105</u>
	5.2 Average number of total staff	Number	Number
	Medical and dental	63,136	61,703
	Ambulance staff	19,799	18,621
	Administration and estates	155,350	151,835
	Healthcare assistants and other support staff	88,254	87,980
	Nursing, midwifery and health visiting staff	321,008	322,282
	Nursing, midwifery and health visiting learners	4,050	3,307
	Scientific, therapeutic and technical staff	106,654	105,373
	Other	11,195	12,599
		<u>769,446</u>	<u>763,700</u>

5.3 Staff Benefits

The amount spent on staff benefits during the year totalled £1,421,000 (1999-2000: £1,213,000).

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 2000-01, the contribution rate was five per cent (1999-2000: four per cent).

Profit/(Loss) on disposal of fixed assets	6	1999-2000	
		£000	£000
	Net profit on disposal of land and buildings	30,415	20,772
	Net (loss) on disposal of plant and equipment	(8,535)	(6,068)
		21,880	14,704
<hr/>			
Interest payable	7	1999-2000	
		£000	£000
	Interest payable is in respect of the following:		
	Government borrowing	-	201,894
	Finance leases	11,771	5,744
	Unwinding of provision discounts	17,450	26,101
	Interest due under the Late Payment of Commercial Debts (Interest) Act 1998	51	26
	Other interest	256	662
		29,528	234,427
<hr/>			
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 dividends paid on public dividend capital, totalling £1,286 million, bears to the average relevant net assets of £20,876 million, that is 6.2 per cent (1999-2000: 6.3 per cent).	
<hr/>			
Intangible fixed assets	9	£000	
	Cost:		
	As at 31 March 2000		27,532
	Additions-donated		6,184
	Additions-purchased		138
	Transfers		1,386
	Disposals		(965)
	At 31 March 2001		34,275
	Amortisation:		
	As at 31 March 2000		10,683
	Additions-purchased		124
	Transfers		436
	Disposals		(774)
	Provided during the year		4,709
	At 31 March 2001		15,178
	Net book value at 31 March 2000		16,849
	Net book value at 31 March 2001		19,097

Tangible fixed assets	10	Land	Buildings, & fittings	Equipment
	10.1	£000	£000	£000
Cost or valuation at 31 March 2000		4,614,398	18,284,811	5,250,837
Prior period adjustments		(7,814)	(21,109)	191
Adjustment to restate accumulated depreciation		(98,527)	-	-
Additions—Purchased		84,387	629,709	392,209
Additions—Donated		571	33,760	68,215
Transfers		(5,411)	460,762	59,426
Indexation and impairments		(3,276)	132,043	117,956
Other in-year revaluations		10,660	(13,252)	(704)
Disposals		(154,705)	(2,070,287)	(285,859)
Cost or valuation at 31 March 2001		4,440,283	17,436,437	5,602,271
Depreciation				
Accumulated at 31 March 2000		117,305	2,075,533	3,625,804
Adjustment to restate accumulated depreciation		(98,527)	-	-
Additions—Purchased		-	1	2,213
Additions—Donated		-	-	147
Transfers		-	(22)	(414)
Indexation and impairments		13,920	95,995	89,639
Reversal of impairments		(108)	(1,013)	-
Other in-year revaluations		-	-	296
Provided during the year		59	648,542	392,043
Disposals		(194)	(1,820,962)	(270,611)
Depreciation at 31 March 2001		32,455	998,074	3,839,117
Net book value at 1 April 2000		4,497,093	16,209,278	1,625,033
Net book value at 31 March 2001		4,407,828	16,438,363	1,763,154
			Assets under construction £000	
Cost or valuation as at 31 March 2000			517,081	
Prior period adjustment			(874)	
Additions—Purchased			640,213	
Additions—Donated			50,469	
Transfers			(516,170)	
Indexation and impairments			(3,875)	
Other in year revaluation			16,244	
Disposals			(31,546)	
Cost or valuation as at 31 March 2001			671,542	

10.2	Total fixed assets:	Purchased	Donated	Total	31 March 2000
	Net book value:	£000	£000	£000	£000
	Intangible fixed assets	-	-	<u>19,097</u>	<u>16,849</u>
				19,097	16,849
	Land	4,383,931	23,897	4,407,828	4,497,093
	Buildings, installations and fittings	15,821,138	617,225	16,438,363	16,209,278
	Equipment	1,523,559	239,595	1,763,154	1,625,033
	Assets under construction	630,836	40,706	671,542	517,081
		<u>22,359,464</u>	<u>921,423</u>	<u>23,299,984</u>	<u>22,865,334</u>

10.3	The net book value of land and buildings comprises:	£000	£000
	Freehold	20,520,851	20,393,199
	Long leasehold	316,585	295,822
	Short leasehold	8,755	17,350
		<u>20,846,191</u>	<u>20,706,371</u>

10.4	The net book value of assets held under finance leases and hire purchase contracts comprises:	£000	£000
	Land	4,332	4,264
	Buildings, installations and fittings	126,453	94,198
	Equipment	1,512	2,512
	Assets under construction	47,180	29,126
		<u>179,477</u>	<u>130,100</u>

Depreciation charged in respect of assets held under finance leases and hire purchase contracts was £19,154,000 (1999-2000: £3,867,000).

Debtors

11

			31 March 2000
		£000	£000
11.1	Amounts falling due within one year:		
	National Health Service debtors	1,973,945	1,561,808
	Other prepayments and accrued income	310,343	246,475
	Provision for irrecoverable debts	(45,952)	(46,053)
	Other debtors	657,673	599,597
		<u>2,896,009</u>	<u>2,361,827</u>

11.2 Amounts due after more than one year:		Restated 31 March 2000	
	£000	£000	
National Health Service debtors	712,097	503,389	
Provision for irrecoverable debts	(2,104)	-	
Other prepayments and accrued income	158,164	95,772	
Other	89,362	88,322	
	<u>957,519</u>	<u>687,483</u>	
Total Debtors	3,853,528	3,049,310	

**Short-term
investments**

12 There were no short term investments held at the balance sheet date (1999-2000: £90,000).

Creditors

13		Restated 31 March 2000	
	£000	£000	
13.1 Amounts falling due within one year:			
Overdrafts	54,051	27,160	
National Health Service creditors	785,015	1,379,841	
Accruals and deferred income	753,641	540,311	
Payments received on account	54,495	70,908	
PDC dividend payable	4,404	313	
Interest payable	694	3,087	
Current instalments due on loans	936	936	
Patients' money	31,595	33,059	
Payroll and related creditors	262,221	271,596	
Obligations under finance leases and hire purchase contracts	5,111	3,181	
Non-NHS trade creditors – revenue	699,977	590,783	
– revenue – clinical negligence	2,716	28,253	
– capital	177,365	108,851	
Other creditors	192,337	211,112	
	<u>3,024,558</u>	<u>3,269,391</u>	
13.2 Amounts falling due after more than one year:		£000	31 March £000
Obligations under finance leases and hire purchase contracts	161,801	127,824	
National Health Service creditors	34,178	14,669	
Non-NHS trade creditors – revenue – clinical negligence	340	14,072	
Other	16,449	60,507	
	<u>212,768</u>	<u>217,072</u>	

13.3 Finance lease obligations

	£000	31 March £000
Leases Payable:		
Within one year	17,044	11,659
Between one and five years	58,628	50,174
After five years	356,929	306,719
Finance charges allocated to future periods	(265,689)	(237,547)
	<u>166,912</u>	<u>131,005</u>

Provisions for liabilities and charges**14**

	Pensions: Relating to former directors	Pensions: Relating to other staff	*Clinical Negli- gence	Other legal claims	Restruct- urings	Other	Total
	£000	£000	£000	£000	£000	£000	£000
At 31 March 2000	6,615	150,973	963,680	43,812	27,016	47,365	1,239,461
Revaluation of balances by NHS Litigation Authority	-	-	(26,953)	-	-	-	(26,953)
Arising during the year	5,338	35,979	561,660	33,335	11,933	52,153	700,398
Utilised during the year	(2,537)	(26,050)	(106,907)	(13,913)	(12,505)	(20,847)	(182,759)
Reversed unused	(211)	(3,888)	(248,071)	(12,451)	(2,932)	(9,213)	(276,766)
Unwinding of discount	222	6,355	26,305	569	120	194	33,765
At 31 March 2001	<u>9,427</u>	<u>163,369</u>	<u>1,169,714</u>	<u>51,352</u>	<u>23,632</u>	<u>69,652</u>	<u>1,487,146</u>
Expected timing of cashflows:							
Within 1 year	3,732	21,771	409,646	34,877	16,787	41,418	528,231
1-5 years	2,881	68,860	704,101	12,412	6,203	12,733	807,190
Over 5 years	2,814	72,738	55,967	4,063	642	15,501	151,725

* Reimbursements of £916,890,000 for the Clinical Negligence Scheme for Trusts are expected from the NHS Litigation Authority.

* £915,224,000 is included in the accounts of the NHS Litigation Authority for Existing Liabilities Scheme Liabilities in NHS Trusts.

Public dividend capital**15**

	£000	Restated 31 March 2000 £000
Public dividend capital was issued as follows:		
During previous years	17,398,100	11,999,331
FRS11 prior period adjustment	762,663	-
At the opening of the year/Trust mergers	(371,638)	644,748
Loans converted to PDC in year	-	5,449,811
Other in-year movement in PDC	596,984	(695,790)
	<u>18,386,109</u>	<u>17,398,100</u>

Movement on reserves	16	16.1 Revaluation reserve	£000
		At 31 March 2000 as originally stated	3,317,660
		Write off on merger of Trusts	253,789
		Restated as at 31 March 2000	3,571,449
		Impairments	(84,507)
		Other revaluations/indexation of fixed assets	246,904
		Transfer of realised gains to I&E reserve	(26,292)
		Other transfers between reserves	(79,061)
		Reserve eliminated on mid-year merger	(7,080)
		As at 31 March 2001	3,621,413
<hr/>			
		16.2 Donated asset reserve	£000
		At 31 March 2000 as originally stated	835,774
		Value of merged Trusts at 1 April 2000	(1,195)
		Impairments	(3,005)
		Other revaluations/indexation of fixed assets	13,442
		Transfer of realised gains to I&E reserve	(532)
		Receipt of donated assets	152,964
		Depreciation of donated assets	(73,362)
		Other transfers between reserves	(1,982)
		Reserve eliminated on mid-year merger	(1,286)
		As at 31 March 2001	920,818
<hr/>			
		16.3 Other reserves	£000
		At 31 March 2000 as originally stated	17,180
		Write off on merger of Trusts	3,659
		Other movements on reserves	1,892
		Transfers between reserves	242
		Reserve eliminated on mid-year merger	(191)
		As at 31 March 2001	22,782
<hr/>			
		16.4 Income and expenditure reserve	£000
		At 31 March 2000 as originally stated	279,605
		Write off on merger of Trusts	(437,187)
		Transfer from income and expenditure account	55,920
		Transfers of realised profits	26,736
		Other transfers between reserves	72,119
		Reserve eliminated on mid-year merger	(253)
		As at 31 March 2001	(3,060)

Reconciliation of operating surplus to net cash inflow from operating activities	17	1999-2000	
		£000	£000
Operating surplus		1,277,252	1,258,950
Depreciation		1,045,353	1,051,660
Impairments		115,472	449,818
(Increase) in stocks		(34,195)	(29,812)
(Increase) in debtors		(699,411)	(1,609,182)
(Decrease)/increase in creditors and provisions for liabilities and charges		(82,280)	1,368,272
Transfer from donation reserve in respect of depreciation on donated assets		(73,362)	(123,428)
Other non-cash movements		590,757	4,782
Net cash inflow from operating activities		2,304,146	2,371,060

Reconciliation of net cash flows to movement in net debt	18	Restated	
		£000	£000
Net debt at 31 March 2000			(64,281)
Increase in cash in year		4,916	
Cash inflow from new debt		(2,698)	
Cash outflow from debt repaid and finance lease capital payments		6,308	
Cash (inflow) from (decrease) in liquid resources		(90)	
Changes in net debt resulting from cash flows			8,436
Non-cash changes in debt			(39,709)
Net debt at 31 March 2001			(95,554)

Analysis of the change in net debt	19	Restated	Cash	Non-cash	31 March 2001
		1 April 2000	changes in year	changes in year	
		£000	£000	£000	£000
Cash at bank and in hand		97,794	28,551	-	126,345
Bank overdrafts		(30,174)	(23,636)	(241)	(54,051)
Debt due within one year		(936)	-	-	(936)
Finance leases		(131,055)	3,611	(39,468)	(166,912)
Current asset investments		90	(90)	-	0
		(64,281)	8,436	(39,709)	(95,554)

Reconciliation of movements in government funds	20	£000	£000
Government Funds at 31 March 2000			20,932,638
Prior period adjustments			<u>275,124</u>
Government funds at 31 March 2000—restated			21,207,762
Surplus for the financial year		1,345,286	
Less public dividend capital dividends		<u>(1,289,366)</u>	
			55,920
Gains from revaluation/indexation of purchased fixed assets		162,397	
New public dividend capital		921,821	
New public dividend capital (transfer from dissolved NHS Trust)		15,879	
Public dividend capital repaid		(739,351)	
Public dividend capital repayable (accrual)		427,157	
Public dividend capital written off in year		(28,522)	
Transfer from the donated asset reserve		2,672	
Increase in other reserves		<u>1,892</u>	
			763,945
Net increase in Government Funds			<u>819,865</u>
Government Funds at 31 March 2001			<u>22,027,627</u>

Capital commitments	21	£000	31 March 2000
Contracted at the balance sheet date		<u>422,825</u>	<u>347,782</u>
		<u>422,825</u>	<u>347,782</u>

Contingent liabilities 22 Potential net contingent liabilities totalling £217,331,000 (1999-2000: £252,368,000) 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.

Clinical negligence	23		£000	£000	Restated 1999-2000 £000
		Charges to operating expenses:			
		Contribution to CNST		49,368	32,201
		Settlements not previously accrued		11,503	45,572
		In-year provision for future settlements:			
		Gross provision	313,589		472,155
		Less expected from NHS Litigation Authority:			
		Clinical Negligence Scheme for Trusts	(230,561)		(403,647)
				83,028	
				143,899	146,281

Losses and special payments **24** There were 73,606 (1999-2000: 91,319) cases of losses and special payments totalling £117,188,000 (1999-2000: £143,315,000) approved during 2000-2001. These included 0 personal injury cases (1999-2000: 4 cases totalling £607,000), 1 payment under legal obligation of £100,000 (1999-2000: 5 cases totalling £1,427,000), 78 clinical negligence cases (1999-2000: 99) totalling £24,956,000 (1999-2000: £33,099,000), 0 fraud cases (1999-2000: 0 cases), and 0 fruitless payments cases (1999-2000: 0 cases) where payments exceeded £100,000.

Related party transactions **25** NHS Trusts 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 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:

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

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

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

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

Post balance sheet events **26** **With effect from 1 April 2001, 48 NHS Trusts, parts of 13 other NHS Trusts and 2 special hospital special health authorities merged to form 29 new NHS Trusts. 17 other NHS Trusts dissolved and were established as 31 Primary Care Trusts.**

The value of post balance sheet events disclosed in the individual NHS Trust accounts represented a net decrease in income of £111,930,000. This is principally due to the transfer of services from NHS Trusts to Primary Care Trusts and the reorganisation of the responsibility for funding education and training.

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

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 & expenditure account shall have regard to the profit & 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 FRS3.
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 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 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, Primary Care Trusts, special health authorities, special trustees, and Section 11 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; 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 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

I certify that I have audited the financial statements on pages 99 to 109 under the National Health Service Act 1977. These financial statements have been prepared under the historical cost convention as modified by the revaluation of fixed assets and the accounting policies set out on pages 101 to 103.

Respective responsibilities of Accounting Officer and Auditor

As described on page 97, 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 direction 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 Practice 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, Primary Care Trusts, 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 audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts 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, Primary Care Trusts, NHS Trusts, 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 Fund Held on Trust by health authorities, Primary Care Trusts, NHS Trusts, special health authorities and special trustees at 31 March 2001 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 R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Statement of Financial Activities for the year ended 31 March 2001

		Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	Restated 1999-2000 Total Funds £000
	Note					
Incoming resources						
Donations, legacies and similar resources						
Donations		72,239	80,071	4	152,314	161,820
Legacies		34,116	29,815	596	64,527	63,423
Grants receivable						
from NHS bodies		434	845	-	1,279	8,421
other grants receivable		494	2,654	-	3,148	2,514
Total donations, legacies and similar resources		107,283	113,385	600	221,268	236,178
Operating activities						
Activities for generating funds		2,296	3,994	-	6,290	5,628
Activities in the furtherance of the charities' objectives		7,194	950	-	8,144	7,149
		9,490	4,944	0	14,434	12,777
Investment income		54,272	18,685	180	73,137	80,461
Other incoming resources		13,228	5,133	-	18,361	10,491
Total incoming resources		184,273	142,147	780	327,200	339,907
Resources expended						
Cost of generating funds		7,332	3,025	3	10,360	9,467
Charitable expenditure:						
Grants payable to other NHS charities	2.1	25,684	13,803	-	39,487	39,576
Other grants payable	2.1	166,345	88,150	26	254,521	179,006
Activities in furtherance of charitable activities	2.2	41,209	51,037	144	92,390	88,048
Support cost		607	165	-	772	396
Management and administration		7,688	4,977	32	12,697	12,751
Total resources expended		248,865	161,157	205	410,227	329,244
Net incoming resources before transfers		(64,592)	(19,010)	575	(83,027)	10,663
Gross transfer between funds		(125,162)	3,933	121,229	-	-
Net (outgoing)/incoming resources		(189,754)	(15,077)	121,804	(83,027)	10,663
Gains on revaluation of own fixed assets		5,616	48	184	5,848	10,835
(Losses)/gains on revaluation and disposal of fixed assets		(32,879)	(35,325)	(11,461)	(79,665)	108,528
Net movement in Funds		(217,017)	(50,354)	110,527	(156,844)	130,026
Fund balances brought forward at 31 March 2000		990,618	504,350	400,211	1,895,179	
Fund balances carried forward at 31 March 2001		773,601	453,996	510,738	1,738,335	

All recognised gains and losses are included in the Statement of Financial Activities, and all activities are continuing.

The notes at pages 101 to 109 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	31 March 2001 Total Funds £000	31 March 2000 Total Fund £00
Fixed Assets						
Tangible assets	5	88,752	7,369	16,787	112,908	102,60
Inalienable and historic assets		805	-	2,523	3,328	4
Investments	6.1	698,468	401,216	489,195	1,588,879	1,673,47
Total Fixed Assets		788,025	408,585	508,505	1,705,115	1,776,11
Current Assets						
Stocks		226	48	-	274	12
Debtors	7	24,994	11,283	3,284	39,561	35,03
Short term investments and deposits		56,432	53,189	2,916	112,537	104,42
Cash at bank and in hand		40,271	38,840	4,632	83,743	81,06
		121,923	103,360	10,832	236,115	220,65
Creditors: Amounts falling due within one year	8.1	(79,843)	(41,777)	(8,579)	(130,199)	(96,037)
Net Current Assets		42,080	61,583	2,253	105,916	124,61
Total Assets less Current Liabilities		830,105	470,168	510,758	1,811,031	1,900,73
Creditors: Amounts falling due after more than one year	8.2	(52,556)	(6,182)	(20)	(58,758)	(5,278)
Provisions for liabilities and charges		(3,948)	(9,990)	-	(13,938)	(279)
Funds of the Charities		773,601	453,996	510,738	1,738,335	1,895,17
Funds of the Charities at 31 March 2000		990,618	504,350	400,211		

The notes at pages 101 to 109 form part of this account.

Nigel Crisp
Accounting Officer

30 November 200

Notes to the Account

Accounting policies 1.1 Accounting convention

This account has been prepared in accordance with the Statement of Recommended Practice issued in October 2000—Accounting and Reporting 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 and Reporting 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

(a) All incoming resources are included in full in the Statement of Financial Activities as soon as the following three factors can be met:

- (i) entitlement—arises when a particular resource is receivable or the charity’s right becomes legally enforceable;
- (ii) certainty—when there is reasonable certainty that the incoming resource will be received;
- (iii) measurement—when the monetary value of the incoming resources can be measured with sufficient reliability.

(b) *Gifts in kind*

- (i) Assets given for distribution by the funds are included in the Statement of Financial Activities only when distributed;
- (ii) 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;
- (iii) 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.

(c) *Intangible income*

Intangible income (e.g. the provision of free accommodation) is included in the accounts with an equivalent amount in outgoing resources, if there is a financial cost borne by another party. The value placed on such income is the financial cost of the third party providing the resources.

1.4 Fixed assets***(a) Capitalisation***

All assets falling into the following categories are capitalised:

- (i) tangible assets which are capable of being used for more than one year, and have a cost equal to or greater than £5,000;
- (ii) 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.

(b) Valuation

Fixed assets are valued as follows:

- (i) 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. The last valuation was made on 1 April 2000. Between valuations an appropriate index is applied to revalue the assets;
- (ii) equipment is valued at the lower of estimated net replacement cost or recoverable amount;
- (iii) assets in the course of construction are valued at current cost.

(c) Depreciation

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

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

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

(d) 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.

- (i) property assets are not depreciated but are shown at market valuation. Valuations are carried out by a professional valuer at five yearly intervals. The last such valuation was at 1 April 2000. 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;
- (ii) quoted stocks and shares are included in the balance sheet at mid-market price, ex-dividend;
- (iii) 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 Inclusion of special health authorities

This account summarises the underlying accounts of the charitable funds held by health authorities, NHS Trusts, Primary Care Trusts, special trustees, Section 11 trustees and special health authorities.

1.8 Transfers of pre 1948 funds

The Charity Commission decided that funds transferred to St Bartholomew's Hospital Special Trustees and the Royal London Special Trustees under Section 7 of the 1946 NHS Act should be treated as Expendable Endowment funds rather than Unrestricted funds. The transfer of £80,000,000 for St Bartholomews and £43,000,000 for the Royal London represents the funds transferred and the gains and losses accruing since that date.

1.9 Format of the accounts

The format of the Statement of Financial Activities, Balance Sheet and some of the notes has been revised to reflect the new Statement of Recommended Practice, issued in October 2000.

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

	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	Total 1999-200 Fund £00
Patients welfare and amenities	15,868	17,676	6	33,550	31,33
Staff welfare and amenities	9,376	9,678	3	19,057	20,07
Research	29,381	20,428	—	49,809	52,56
Contributions to NHS	121,515	51,738	17	173,270	102,70
Miscellaneous	15,889	2,433	—	18,322	11,91
	<u>192,029</u>	<u>101,953</u>	<u>26</u>	<u>294,008</u>	<u>218,58</u>

2.2 Other:

	Unrestricted Funds £000	Restricted Funds £000	Endowment Funds £000	Total Funds £000	Total 1999-200 Fund £00
Patients welfare and amenities	11,137	15,726	—	26,863	23,86
Staff welfare and amenities	8,846	7,154	12	16,012	14,51
Research	6,436	18,754	—	25,190	25,53
Contributions to NHS	5,170	5,066	90	10,326	10,54
Miscellaneous	9,620	4,337	42	13,999	13,59
	<u>41,209</u>	<u>51,037</u>	<u>144</u>	<u>92,390</u>	<u>88,04</u>

Total direct charitable expenditure (note 3.1)

386,398 306,63

Analysis of total resources expended

3 **3.1**

	Cost of Generating Funds £000	Direct Charitable Expenditure £000	Support Costs £000	Management and Admin- istration £000	Total £000	Total 1999-200 Fund £00
Staff	2,331	2,955	490	2,069	7,845	7,55
Depreciation	—	1,624	—	182	1,806	1,70
Impairments	—	180	—	—	180	
Auditors remuneration:						
Audit fee	—	—	—	1,198	1,198	1,14
Other fees	—	—	—	195	195	22
Indemnity insurance	158	—	3	64	225	5
Bought-in services from NHS	1,386	4,578	238	5,401	11,603	9,36
Other	6,485	377,061	41	3,588	387,175	309,19
	<u>10,360</u>	<u>386,398</u>	<u>772</u>	<u>12,697</u>	<u>410,227</u>	<u>329,24</u>

3.2 Analysis of staff costs

	Total	Total
	1999-2000	1999-2000
	£000	£000
Salaries and wages	6,937	6,756
Social security costs	608	550
Other pension costs	300	246
	<u>7,845</u>	<u>7,552</u>
 Average monthly number of employees in the year:	 391	 405

**Changes in resources 4
available for charity
use**

	Unrestricted	Restricted	Endowment	Total	Total
	Funds	Funds	Funds	Funds	1999-2000
	£000	£000	£000	£000	£000
Net movement in funds for the year	(217,017)	(50,354)	110,527	(156,844)	130,022
Net movement in tangible fixed assets	<u>9,640</u>	<u>780</u>	<u>(115)</u>	<u>10,305</u>	<u>13,592</u>
Net movement in funds available for future activities	<u>(207,377)</u>	<u>(49,574)</u>	<u>110,412</u>	<u>(146,539)</u>	<u>143,614</u>

Fixed assets

5

	Freehold Land and Buildings £000	Other Interests in Land and Buildings £000	Plant and Machinery £000	Fixtures, Fittings and Equipment £000	Assets under Construction £000	Tot £00
Gross Value						
Balance at 31 March 2000	95,204	4,177	61	9,347	-	108,789
Transfer to Inalienable and historic assets	(45)	-	-	-	-	(45)
Restated balance						
at 31 March 2000	95,159					
Additions	2	138	3	327	9,239	9,709
Revaluations and indexation	6,446	380	(30)	40	26	6,862
Impairments	(120)	-	-	(60)	-	(180)
Disposals	(4,164)	-	-	(70)	-	(4,234)
Balance at 31 March 2001	97,323	4,695	34	9,584	9,265	120,901
Accumulated Depreciation						
Balance at 31 March 2000	5,499	273	42	327	-	6,141
Disposals	(55)	-	-	(2)	-	(57)
Revaluations and indexation	77	44	(27)	9	-	103
Charge for the year	1,590	56	9	151	-	1,806
Balance at 31 March 2001	7,111	373	24	485	0	7,993
Net Book Value at 31 March 2001	90,212	4,322	10	9,099	9,265	112,901
Net Book Value at 31 March 2000	89,705	3,904	19	9,020	0	102,648
Historic cost at 31 March 2001						48,861

**Analysis of fixed
asset investments**

6 6.1 Fixed asset investments:

	£000	31 March 2000 £000
Market value at 31 March	1,673,471	1,540,588
Less: Disposals at carrying value	(461,886)	(547,780)
Add: Acquisition at cost	484,293	592,515
Net gain/(loss) on revaluation	(106,999)	88,148
Closing market value	<u>1,588,879</u>	<u>1,673,471</u>
Historic cost at 31 March	<u>1,163,849</u>	<u>1,132,148</u>

6.2 Market value at 31 March:

	Held in UK £000	Held outside UK £000	Total £000	31 March 2000 £000
Investment properties	297,785	-	297,785	254,494
Investments listed on Stock Exchange	967,620	66,654	1,034,274	1,152,185
Investments in a Common Deposit Fund or Common Investment Fund	140,388	10,172	150,560	143,587
Unlisted securities	13,684	378	14,062	13,107
Cash held as part of the investment portfolio	70,267	6	70,273	74,855
Other investments	21,391	534	21,925	35,243
	<u>1,511,135</u>	<u>77,744</u>	<u>1,588,879</u>	<u>1,673,471</u>

Analysis of debtors	7	7.1 Amounts falling due within one year:	£000	31 March 2000
			£000	£000
		Amounts due from subsidiary and associated undertakings	281	1,538
		Trade debtors	2,167	1,074
		Prepayments	794	561
		Accrued income	22,039	19,484
		Other debtors	12,329	10,641
		Total debtors falling due within one year	37,610	33,309
		7.2 Amounts falling due after more than one year:		
		Amounts due from subsidiary and associated undertakings	323	381
		Trade debtors	7	41
		Prepayments and accrued income	148	144
		Other debtors	1,473	1,167
		Total debtors falling due after more than one year	1,951	1,733
		Total debtors	39,561	35,032
<hr/>				
Analysis of creditors	8	8.1 Amounts falling due within one year:	£000	31 March 2000
			£000	£000
		Loans and overdrafts	1,827	2,741
		Trade creditors	5,985	4,861
		Amounts due to subsidiary and associated undertakings	5,928	4,591
		Other creditors	58,173	54,321
		Accruals	55,291	28,001
		Deferred income	2,995	1,501
		Total creditors falling due within one year	130,199	96,037
		8.2 Amounts falling due after more than one year:		
		Loans and overdrafts	7,707	2,151
		Other creditors	48,124	2,581
		Accruals and deferred income	2,927	531
		Total creditors falling due after more than one year	58,758	5,271
		Total creditors	188,957	101,311

Contingencies	9	<p>Contingent liabilities totalling £50,000 (1999-2000: £859,000) have not been accrued in the accounts. These mostly relate to grants which trustees expect to pay only if grant conditions are met.</p> <p>Contingent gains amount to £796,000 (1999-2000: £2,517,000) and relate to legacies and other potential income where the precise amount and timing of the receipt is unknown.</p>																		
<hr/>																				
Commitments	10	<p>The Trusts have the following commitments:</p> <table border="0" style="width: 100%; margin-left: 40px;"> <thead> <tr> <th></th> <th style="text-align: right;">1999-2000</th> <th style="text-align: right;">1999-2000</th> </tr> <tr> <th></th> <th style="text-align: right;">£000</th> <th style="text-align: right;">£000</th> </tr> </thead> <tbody> <tr> <td>Charitable projects</td> <td style="text-align: right;">59,046</td> <td style="text-align: right;">30,324</td> </tr> <tr> <td>Capital</td> <td style="text-align: right;">48,668</td> <td style="text-align: right;">40,959</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">9,309</td> <td style="text-align: right;">11,541</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>117,023</u></td> <td style="text-align: right;"><u>82,824</u></td> </tr> </tbody> </table>		1999-2000	1999-2000		£000	£000	Charitable projects	59,046	30,324	Capital	48,668	40,959	Other	9,309	11,541		<u>117,023</u>	<u>82,824</u>
	1999-2000	1999-2000																		
	£000	£000																		
Charitable projects	59,046	30,324																		
Capital	48,668	40,959																		
Other	9,309	11,541																		
	<u>117,023</u>	<u>82,824</u>																		
<hr/>																				
Related party transactions	11	<p>Health authorities, NHS Trusts, Primary Care Trusts, special health authorities, Special trustees and Section 11 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, health authority boards, and Primary Care Trust boards. During the year, the Funds Held on Trust accounts had a significant number of material transactions with their associated health authorities, NHS trusts and Primary Care Trusts.</p>																		

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, Primary Care 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 2001 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.

David Loweth

Head of Central Accountancy Team HM Treasury

19 November 2000

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 2000;

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;
- 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Ashworth Special Hospital Special Health Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement on their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of Ashworth Special Hospital Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 118 to 132 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 121 to 124.

Respective responsibilities of Accounting Officer and Auditors

As described on page 115 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 116 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Ashworth Special Hospital Authority at 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing operations	Notes	£000	Restated 1999-2000 £000
Income			
Income from ordinary activities		52,439	-
Government funding		7,358	52,753
Other income	2.2	1,372	687
		61,169	53,440
Expenditure			
Operating costs	3	(61,152)	(55,890)
Surplus/(deficit) for the year		17	(2,450)

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

		£000	Restated 1999-2000 £000
Surplus/(deficit) for the year		17	(2,450)
Unrealised surplus on fixed asset revaluation/indexation	8.2	851	9,308
Fixed asset impairment losses		-	(8,251)
Total recognised gains/(losses) relating to the year		868	(1,393)
Prior year adjustment		2,005	
Total recognised gains since the last annual report		2,873	

The notes at pages 121 to 132 form part of this account

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets			
Tangible fixed assets	4.1	68,219	73,105
Current assets			
Stocks		71	76
Debtors: amounts falling due within one year	5	653	766
Cash at bank and in hand	10	25	76
		<u>749</u>	<u>918</u>
Current Liabilities			
Creditors: amounts falling due within one year	6	<u>(2,553)</u>	<u>(5,354)</u>
Net current liabilities			
		<u>(1,804)</u>	<u>(4,436)</u>
Total assets less current liabilities			
		66,415	68,669
Provisions for liabilities and charges	7	<u>(6,307)</u>	<u>(3,692)</u>
Total net assets			
		<u>60,108</u>	<u>64,977</u>
Taxpayer's Equity:			
Capital account	8.1	57,905	62,759
Revaluation reserve	8.2	10,314	10,310
Income and expenditure reserve	8.3	<u>(8,111)</u>	<u>(8,092)</u>
		<u>60,108</u>	<u>64,977</u>

The notes at pages 121 to 132 form part of this account

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	9	(72)	719
Capital expenditure			
(Payments) to acquire tangible fixed assets		(715)	(1,427)
Receipts from sale of fixed assets		<u>2,400</u>	<u>-</u>
Net cash inflow/(outflow) before financing		<u>1,613</u>	<u>(708)</u>
Financing			
Capital funding		736	1,427
Surrender of receipts from sale of fixed assets		<u>(2,400)</u>	<u>-</u>
Net cash (outflow)/inflow from financing		<u>(1,664)</u>	<u>1,427</u>
(Decrease)/increase in cash	10	<u>(51)</u>	<u>719</u>

The notes at pages 121 to 132 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 Secretary of State, with the approval of Treasury and in accordance with the Resource Accounts Manual.

1.2 Income

In 1999-2000 the main source of funding was the Department of Health, from 2000-01 the main source of funding is from contracts with Health Authorities. This funding is recorded on an accruals basis.

Other income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Income is stated net of VAT.

1.3 Taxation

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

1.4 Capital charges

A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1.5 Fixed assets

(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

**Accounting policies
(continued)**

- 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.

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;

**Accounting Policies
(continued)**

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 vehicles	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.

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.

1.6 Stocks and Work-in-progress

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

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

1.7 Losses and special payments

Losses and special payments are charged to the relevant functional headings, 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 Prior Period Adjustment

A prior period adjustment has been made in respect of the downward revaluations of fixed assets which were solely due to price changes which were previously treated as impairments and charged to the Revaluation Reserve. The adjustment removes those price changes which are unlikely to be reversed in the medium term. The effect of this adjustment is to increase the value of the Revaluation Reserve and decrease the Capital account by £2,005,000.

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.

1.9 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 five 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 and employee 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 Leases

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

1.11 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	2.1	1999-2000	
		£000	£000
Net cash (outflow)/inflow from operating activities		(51)	719
Expenditure		61,152	53,886
Income		(46,738)	(687)
Capital charges		(7,073)	(10,290)
Capital payments		736	5,020
Change in working capital		68	(3,169)
Total Parliamentary funding		8,094	45,479
Comprising of:			
Department of Health High Security Psychiatric Services Funding		-	38,783
National Assembly for Wales		5,275	5,146
Direct funding from Department of Health Vote		2,819	1,550
<hr/>			
Miscellaneous income	2.2	1999-2000	
		£000	£000
Fees and charges		165	184
Other		1,207	503
		1,372	687
<hr/>			
Operating expenses	3	Restated 1999-2000	
		£000	£000
Non-executive members' remuneration		46	45
Other salaries and wages		44,257	38,952
Supplies and Services:			
clinical		972	918
general		908	839
Establishment costs		1,098	900
Transport costs		71	71
Premises and fixed plant costs		4,589	2,448
Provision for Bad Debt		9	(20)
Capital:			
Depreciation		3,324	2,649
Impairments		-	2,005
Capital charges interest		3,749	4,047
Auditors remuneration:			
audit services		74	44
non-audit services		-	18
Recharges from NHS bodies		334	381
Interest		135	559
Legal costs		766	1,142
Miscellaneous		820	892
		61,152	55,890

**Operating expenses
(continued)**

Operating expenses include £309,192 (1999-2000: £152,822) in respect of research and development, £235,000 (1999-2000: £208,000) for other operating lease rentals.

Operating lease commitments	£000	£000
Commitments under non-cancellable operating leases which expire:		
Within one year	17	71
Between one and five years	108	47
After five years	132	93
	<u>257</u>	<u>211</u>
 Authority members' remuneration	 £000	 £000
Non-executive members' remuneration	46	45
Executive members' remuneration:		
Basic Salaries	373	361
Benefits	30	14
Pension Contributions	18	15
Performance related bonuses	9	10
	<u>476</u>	<u>445</u>

	Chairman	Chairmen	Chief	Chief
	1999-2000	1999-2000	1999-2000	Executive
	£000	£000	£000	1999-2000
				£000
Basic salaries	18	18	92	91
Benefits	-	2	3	9
Pension contributions	-	-	4	4
	<u>18</u>	<u>20</u>	<u>99</u>	<u>104</u>

During 1999-2000 the post of chairman was held by two persons. The 1999-2000 figure is the aggregate remuneration for the post.

**Operating expenses
(continued)**

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

Range £	1999-2000	
	Number	Number
Up to 5,000	-	2
5,001 to 10,000	6	5
10,001 to 15,000	-	1
15,001 to 20,000	2	-
20,001 to 25,000	1	1
25,001 to 30,000	1	-
35,001 to 40,000	-	1
55,001 to 60,000	-	1
70,001 to 75,000	1	1
80,001 to 85,000	1	-
90,001 to 95,000	1	-
95,001 to 100,000	-	1
100,001 to 105,000	1	1

Executive members' remuneration and staff costs

	1999-2000	
	£000	£000
Salaries and wages	39,497	34,853
Social security costs	2,818	2,651
Other pension costs	1,518	1,086
Agency staff	424	362
	<u>44,257</u>	<u>38,952</u>

The average number of employees was 1,476 (1999-2000: 1,389).

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

Range £	1999-2000	
	Number	Number
40,000 to 50,000	39	35
50,001 to 60,000	9	6
60,001 to 70,000	3	2
70,001 to 80,000	6	6
80,001 to 90,000	5	3
90,001 to 100,000	2	-
100,001 to 110,000	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. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

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

**Operating expenses
(continued)***Retirements due to ill-health*

During 2000-01 there were 25 early retirements from the special health authority on the grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Pension Scheme) will be £2,126,328.

Tangible fixed assets

4.1

	Freehold Land £000	Buildings, installations & fittings £000	Assets under construction £000
Cost or valuation as at 31 March 2000	4,662	66,702	9
Indexation and revaluation	-	810	-
Additions-purchased	-	108	117
Transfers	-	9	(9)
Depreciation provided during the year	-	(2,068)	-
Disposals	(388)	(2,761)	-
Net book value as at 31 March 2001	4,274	62,800	117
			Equipment £000
Gross replacement cost at 31 March 2000			3,671
Indexation			87
Additions-purchased			511
Disposals			(1,647)
Gross replacement cost at 31 March 2001			2,622
Depreciation as at 31 March 2000			1,939
Indexation			46
Provided during the year			1,256
Disposals			(1,647)
Depreciation as at 31 March 2001			1,594
Net book value as at 31 March 2000			1,732
Net book value as at 31 March 2001			1,028

All tangible fixed assets were purchased.

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

Tangible fixed assets (continued)

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

	1999-2000	1999-2000
	£000	£000
(Loss) on disposal of land and buildings	(749)	-
(Loss) on disposal of equipment	(918)	-
	<u>(1,667)</u>	<u>0</u>

The notional loss of £918,000 is included in the equipment depreciation charge of £1,256,000.

Debtors: Amounts falling due within one year

5

31 March

	2000	2000
	£000	£000
National Health Service debtors	43	164
Other debtors	303	356
Provision for irrecoverable debts	(10)	(41)
Prepayments and accrued income	317	287
	<u>653</u>	<u>766</u>

Creditors: Amounts falling due within one year

6

31 March

	2000	2000
	£000	£000
National Health Service creditors	544	217
Non-NHS trade creditors—revenue	874	547
Non-NHS trade creditors—capital	57	36
Tax and social security	12	386
Patients' money	142	152
Receipts in advance	175	2,888
Other creditors	618	875
Accruals and deferred income	131	253
	<u>2,553</u>	<u>5,354</u>

Provisions for liabilities and charges	7	Pensions relating to directors	Pensions relating to staff	Other	Total
		£000	£000	£000	£000
At 31 March 2000		-	2,514	1,178	3,692
Arising during the year		1,895	300	829	3,024
Utilised during the year		-	(252)	(292)	(544)
Unwinding of discount		-	135	-	135
At 31 March 2001		1,895	2,697	1,715	6,307
Expected timing of cashflows:					
Within 1 year		87	272	1,560	1,919
1-5 years		347	1,040	155	1,542
Over 5 years		1,461	1,385	-	2,846
Total		1,895	2,697	1,715	6,307

Capital Account	8.1	The movement on the capital account in the year comprised:	£000
		At 31 March 2000	64,764
		Prior year adjustment	(2,005)
		Restated 31 March 2000	62,759
		Additions	736
		Depreciation	(3,324)
		Transfer to Capital Account from income and expenditure reserve	36
		Transfer to Capital Account of realised elements of the revaluation reserve	847
		Disposals	(3,149)
		At 31 March 2001	57,905

Revaluation Reserve	8.2	The movement on the revaluation reserve in the year comprised:	£000
		At 31 March 2000	8,305
		Prior year adjustment	2,005
		Restated 31 March 2000	10,310
		Indexation and revaluation of fixed assets	851
		Transfer to Capital Account of realised elements of the revaluation reserve	(847)
		At 31 March 2001	10,314

Income and Expenditure Reserve	8.3	The movement on the reserve in the year comprised:	£000
		At 31 March 2000	(8,092)
		Transfer to income and expenditure from Capital Account	(36)
		Transfer from income and expenditure account	17
		At 31 March 2001	(8,111)

Reconciliation of operating surplus/ (deficit) to net cash (outflow)/inflow from operating activities	9		1999-2000
			£000
		Surplus/(Deficit) for the year	17 (2,450)
		Depreciation	3,324 2,650
		Other capital charges	3,749 4,047
		Capital charge allocation	(7,073) (6,697)
		Decrease/(Increase) in stocks	5 (16)
		Decrease in debtors	113 187
		(Decrease)/increase in creditors and other provisions	(207) 2,998
		Net cash inflow/(outflow) from operating activities	(72) 719

Analysis of change in cash	10		At 31
			March
			2000
			£000
		(Overdraft)/cash at bank	76 (51) 25
			76 (51) 25

Capital commitments 11 Capital commitments contracts at balance sheet date were £195,785 (1999-2000: £562,000).

Contingent liabilities 12 The estimated future liability of potential early retirement costs is estimated to be £921,527 (1999-2000: £971,287). No provision has been made in the accounts for these items.

The estimated future liability of potential legal and compensation claims is £434,640. No provision has been made in the accounts for these items.

At 31 March 2001, 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 13 There were 66 cases of losses and special payments (1999–2000: 85 cases) totalling £34,060 (1999–2000: £57,686) approved during 2000–2001. There was no case where the payment exceeded £100,000.

Related party transactions 14 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, NHS Executive, Tees Health Authority, Sefton Health Authority, North Nottinghamshire Health Authority, Birmingham Health Authority, East and North Hertfordshire Health Authority, Ealing Hammersmith and Hounslow Health Authority, Southampton and North East Hampshire Health Authority and Avon Health Authority.

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.

Prior Year Adjustment 15 The 1999–2000 accounts have been restated. Impairment of £2,005,000, previously charged to the Revaluation Reserve, have been charged to the Income and Expenditure Account. Government Funding has increased by an equal amount. As a consequence Government funding was increased to £52,754,000 and Expenditure to £55,891,000. The deficit for the year remains unchanged. The Capital Account was reduced to £62,759,000 and the Revaluation Reserve increased to £10,310,000.

Post Balance Sheet Event 16 Ashworth Special Hospital Authority will cease to exist on 31 March 2002. Responsibility for the services provided will be transferred in the main to Mersey Care NHS Trust, with some to Mental Health Services at Salford NHS Trust.

The summarised accounts direction is at page 393.

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;
- 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Office for the Broadmoor Special Hospital Special Health Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of Broadmoor Special Hospital Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 138 to 151 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 141 to 144.

Respective responsibilities of Accounting Officer and Auditor

As described on page 135 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 136 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of Broadmoor Special Hospital Authority at 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing Operations

	Notes	£000	Re-state 1999-200 £00
Income			
Income from ordinary activities		48,859	
Government Funding		2,517	45,19
Other income	2.2	983	1,62
		52,359	46,82
Expenditure			
Operating costs	3	(52,351)	(46,81)
Surplus for the year		8	

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

		£000	£00
Surplus for the year		8	
Unrealised surplus on fixed asset revaluation/ indexation	9.2	710	10,54
Impairments	9.2	-	(5,06)
Total recognised gains for the financial year		718	5,48
Prior year adjustment		(1,465)	
Total recognised losses since the last annual report		(747)	

The notes at pages 141 to 151 form part of this account

Balance Sheet as at 31 March 2001

	Notes	£000	Re-stated 31 March 2000 £000
Fixed assets			
Tangible fixed assets	4.1	71,103	69,302
Current Assets			
Stocks		341	223
Debtors: Amounts falling due within one year	5	934	407
Cash at bank and in hand	11	242	122
		<u>1,517</u>	<u>752</u>
Current Liabilities			
Creditors: Amounts falling due within one year	6	(3,534)	(3,157)
Net current liabilities		<u>(2,017)</u>	<u>(2,405)</u>
Total assets less current liabilities		<u>69,086</u>	<u>66,897</u>
Provisions for liabilities and charges	7	(1,277)	(900)
Total net assets		<u>67,809</u>	<u>65,997</u>
Taxpayer's Equity:			
Capital Account	9.1	58,108	56,995
Revaluation reserve	9.2	12,993	12,302
Income and expenditure reserve	9.3	(3,292)	(3,300)
		<u>67,809</u>	<u>65,997</u>

The notes at pages 141 to 151 form part of this account

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	10	(74)	31
Capital expenditure			
(Payments) to acquire tangible fixed assets		<u>(3,290)</u>	<u>(2,66)</u>
Net cash (outflow) before financing		<u>(3,364)</u>	<u>(2,34)</u>
Financing			
Capital Funding		<u>3,442</u>	<u>2,34</u>
Net cash inflow from financing		<u>3,442</u>	<u>2,34</u>
Increase in cash	11	<u>78</u>	<u> </u>

The notes at pages 141 to 151 form part of this account

Notes to the Accounts

Accounting policies 1

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 Secretary of State, with the approval of Treasury and in accordance with the Resource Accounts Manual.

1.2 Income

In 1999-2000 the main source of funding was the Department of Health, from 2000-01 the main source of funding is from Health Authorities. This funding is recorded on an accruals basis. Other income is net of VAT.

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

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 2000-01 was 6 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 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.

Stocks and work-in-progress	1.4	<p>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.</p> <p>Work-in-progress comprises goods in intermediate stages of production. Partially completed contracts for patient services are not accounted for as work-in-progress.</p>
Losses and special payments	1.5	<p>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).</p>
Prior period adjustment	1.6	<p>A prior period adjustment has been made in respect of the downward revaluations of fixed assets which were solely due to price changes which were previously treated as impairments and charged to the Income and Expenditure Account. The adjustment removes the effect on the Income and Expenditure Account, and charges them to the Revaluation Reserve. The effect of this adjustment is to decrease the value of the Revaluation Reserve and increase the Income and Expenditure Reserve by £1,465,000.</p> <p>Impairments caused by economic usage are still charged to the Income and Expenditure Account.</p> <p>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. In previous years this adjustment has been shown in expenditure, it is now shown in income. As a consequence expenditure and income have increased by £1,465,000.</p>
Pension costs	1.7	<p>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 five 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.</p> <p>Employees pay six per cent (manual staff five per cent) of pensionable pay. Employer and employee 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.</p>

Miscellaneous income	2.2		£000	£000
		Fees and charges	596	1,234
		Other	387	394
			<u>983</u>	<u>1,628</u>

Operating expenses	3			Re-stated 1999-2000
			£000	£000
		Non-executive members' remuneration	53	46
		Other salaries and wages	37,226	33,188
		Supplies and services		
		-clinical	1,064	977
		-general	858	856
		Establishment costs	947	799
		Transport costs	190	193
		Premises and fixed plant costs	3,154	2,463
		Capital:		
		Depreciation	2,336	2,608
		Capital charges interest	4,124	3,841
		Bad Debts	8	10
		Audit free	55	30
		Other auditor's remuneration	4	13
		Interest payable	8	25
		Recharges from other NHS bodies	81	74
		Miscellaneous	2,243	1,693
			<u>52,351</u>	<u>46,816</u>

Annual commitments under non-cancellable operating leases, between 1 and 5 years, are £95,000 (1999-2000: £89,000).

				1999-2000
			£000	£000
		<i>Authority members' remuneration</i>		
		Non-executive members' remuneration	53	46
		Executive members' remuneration		
		-Basic Salaries	370	355
		-Benefits	13	13
		-Performance related bonuses	-	2
		-Pension contributions	18	14
			<u>454</u>	<u>430</u>

	Chairman	Chairman	Chief Executive	Chief Executive	Highest Paid Member	Highest Paid Member
	1999-2000	1999-2000	1999-2000	1999-2000	1999-2000	1999-2000
	£000	£000	£000	£000	£000	£000
Basic salaries	19	18	95	86	91	85
Benefits	-	-	-	-	5	4
Performance related bonuses	-	-	-	-	-	2
Pension contributions	-	-	5	3	5	3
	19	18	100	89	101	94

The Chief Executive received remuneration under a new contract as Chief Executive on the shadow Board of the West London Mental Health NHS Trust as from 1 November 2000. Other Executive Directors, including the Director of Finance, the Director of Human Resources and the Director of Security also received remuneration under new contracts from the shadow board.

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

Range £	1999-2000	
	Number	Number
Up to 5,000	3	3
5,001 to 10,000	5	3
15,001 to 20,000	1	1
55,001 to 60,000	1	-
60,001 to 65,000	-	2
65,001 to 70,000	2	1
85,001 to 90,000	-	1
90,001 to 95,000	1	1
95,001 to 100,000	1	-

Executive members' remuneration and staff costs

	1999-2000	
	£000	£000
Salaries and wages	33,069	29,783
Social security costs	2,662	2,354
Other pension costs	1,207	854
Agency staff	288	197
	37,226	33,188

The average number of employees was 1,145 (1999-2000: 1,066).

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

Range £	1999-2000	
	Number	Number
40,000 to 50,000	21	15
50,001 to 60,000	7	7
60,001 to 70,000	7	4
70,001 to 80,000	3	6
80,001 to 90,000	4	2
90,001 to 100,000	2	2
100,001 to 110,000	1	-

**Operating expenses
(continued)**

Retirements due to ill-health

During 2000–01 there were 6 early retirements from the special health authority grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Pension Scheme) will be £668,000.

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000–2001 accounts pending the issue of further central guidance.

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

Tangible fixed assets 4.1

	Freehold Land £000	Buildings installations & fittings £000	Assets under construction £000
Cost or valuation as at 31 March 2000	13,800	54,659	–
Indexation	–	691	–
Additions–purchased	–	1,464	1,940
Depreciation provided during the year	–	(2,152)	–
Disposals	–	(12)	–
Net book value as at 31 March 2001	13,800	54,650	1,940
			Equipment £000
Gross replacement cost as at 31 March 2000		1,523	
Indexation			35
Additions–purchased			35
Gross replacement cost as at 31 March 2001		1,593	
Depreciation as at 31 March 2000			680
Indexation			16
Depreciation provided during the year			184
Depreciation as at 31 March 2001			880
Net book value as at 31 March 2000			843
Net book value as at 31 March 2001			713

All tangible fixed assets were purchased

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

Debtors: Amounts falling due within one year	5.		31 March 2000 £000	£000
		National Health Service debtors	402	41
		Other debtors	314	204
		Provision for irrecoverable debts	(12)	(24)
		Prepayments and accrued income	230	186
			934	407

Included in the above amount are debtors falling due after one year of £99,000 (1999-2000: £83,000).

Creditors: Amounts falling due within one year	6.		31 March 2000 £000	£000
		Bank overdraft	54	12
		National Health Service creditors	150	122
		Non-NHS trade creditors-revenue	552	572
		Non-NHS trade creditors-capital	154	5
		Tax and social security	885	469
		Patients' money	105	106
		Pensions-relating to staff	124	168
		Accruals and deferred income	1,283	1,524
		Other creditors	227	179
			3,534	3,157

Included in the above amount are creditors falling due after one year of £55,000 (1999-2000: £90,000).

Provision for liabilities and charges	7.		Pensions relating to staff	Other	Total
			£000	£000	£000
		At 31 March 2000	404	496	900
		Arising during the year	0	576	576
		Utilised during the year	(153)	(54)	(207)
		Unwinding of discount	8	-	8
		At 31 March 2001	259	1,018	1,277
		Expected timing of cashflows:			
		Within 1 year	-	434	434
		1-5 years	259	584	843
		Total	259	1,018	1,277

Capital account	9.1	The movement on the capital account in the year comprised		£000
		At 31 March 2000		55,530
		Prior year adjustment		1,465
		Restated at 31 March 2000		56,995
		Additions		3,442
		Depreciation		(2,336)
		Transfer to Capital Account of realised elements of the revaluation reserve		19
		Disposals		(12)
		At 31 March 2001		58,108

Revaluation reserve	9.2	The movement on the revaluation reserve in the year comprised		£000
		At 31 March 2000		13,767
		Prior year adjustment		(1,465)
		Restated at 31 March 2000		12,302
		Indexation of fixed assets		710
		Transfer to Capital Account of realised elements of the revaluation reserve		(19)
		At 31 March 2001		12,993

Income and expenditure reserve	9.3	The movement on the income and expenditure reserve in the year comprised		£000
		At 31 March 2000		(3,300)
		Transfer from income and expenditure account		8
		At 31 March 2001		(3,292)

Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	10		1999-2000
		£000	£000
		Surplus for the year	8
		Depreciation	4,073
		Other capital charges	3,841
		Capital Allocation	(7,914)
		(Increase)/decrease in stocks	4
		(Increase)/decrease in debtors	35
		Increase in creditors and other provisions	271
		Net cash (outflow)/inflow from operating activities	317

Analysis of change in cash during the year	11		At 31 March	Cashflow	At 31 March
			2000		2001
			£000	£000	£000
		Cash at bank and in hand	122	120	242
		Overdraft	(12)	(42)	(54)
			<u>110</u>	<u>78</u>	<u>188</u>

Capital commitments 12 Capital commitments contracts at balance sheet date were £92,073 (1999–2000: £239,450).

Contingent liabilities 13 At 31 March 2001, litigation claims with a potential value of £284,000 (1999–2000: £251,000) 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 2000–2001 accounts for these items.

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.

Related party transactions 14 Broadmoor 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 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:

NHS Supplies Authority, Regional Specialist Commissioning Groups and NHS Pensions Agency.

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.

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.

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.

Losses and special payments 15 There were 123 cases of losses and special payments (1999-2000: 150 cases) totalling £80,000 (1999-2000: £97,000) approved during 2000-2001. There was no case where the payment exceeded £100,000.

Post balance sheet event 16 The Authority merged with Ealing, Hammersmith and Fulham Mental Health NHS Trust on 1 April 2001 to become the West London Mental Health NHS Trust.

The summarised accounts direction is at page 393.

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 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Dental Practice Board. It is his responsibility within his individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to the accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require him to make a statement on his system of internal financial control, supported by an auditor's report, with the annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the Dental Practice Board made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp
Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 158 to 169 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 161 to 163.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 155, 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 directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 156 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Dental Practice Board at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	£000	Restated 1999-2000 £000
Programme costs	2	23,066	23,102
Operating income	3	(158)	(145)
Net operating cost		22,908	22,957

Statement of Recognised Gains and Losses for the year ended 31 March 2001

		£000	1999-2000 £000
Unrealised surplus on the indexation of fixed assets	10	73	247
Unrealised surplus on the revaluation of fixed assets		-	124
Recognised gains for the financial year		73	371

The notes at pages 161 to 169 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets			
Tangible assets	4	4,708	4,873
Current assets			
Debtors	5	1,265	1,254
Cash at bank and in hand	6	18	18
		1,283	1,272
Current liabilities			
Creditors: (amounts falling due within one year)	7	(1,088)	(1,087)
Net current assets			
		195	185
Total assets less current liabilities			
		4,903	5,058
Provisions for liabilities and charges			
	8	(1,872)	(2,165)
		3,031	2,893
Taxpayers' equity			
General Fund	10	2,418	2,284
Revaluation reserve	10	613	609
		3,031	2,893

The notes at pages 161 to 169 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Net cash outflow from operating activities	11	22,284	21,637
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		526	718
(Receipts) from disposal of fixed assets		(15)	-
Net cash outflow from investing activities		511	718
Net cash outflow before financing		22,795	22,355
Financing			
Net Parliamentary funding		22,795	22,350
Decrease in cash in the period	6	-	5

The notes at pages 161 to 169 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 their current costs.
- 1.2 Operating income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital charges**
- A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.
- 1.5 Fixed assets**
- (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 are 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 at Existing Use Value.

Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. Between valuations the appropriate indices are applied to revalue the assets. Land and buildings are revalued annually, re-lifed and therefore accumulated depreciation carried forward is nil.

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

(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:

Furniture, fixtures, fittings, plant and machinery	Year 1
Vehicles	
Office equipment	
Computers including software costs	

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 five 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. Employee and employee 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 operating cost statement at the time the Board commits itself to the retirement, regardless of the method of payment.

1.7 Introduction of resource accounts

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures for the balance sheet, statement of recognised gains and losses and cash flow statement have been restated, and associated notes where necessary. These changes have no impact on the financial performance of the authority for 1999-2000.

The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II Vote 1) within an approved cash limit which is credited to the general fund.

1.8 Losses and special payments

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

1.9 Accounts

The Dental Practice Board prepares three sets of annual accounts; one dealing with the administration of the General Dental Services (GDS); and two dealing with the operation of GDS for England and Wales which together account for £1.6 billion expenditure. This account deals with the administration of the GDS only.

Programme costs 2.1

	£000	Restated 1999-2000 £000
Staff costs		10,611
Computer staff contractors		3,897
Postage, stationery and telephone		1,259
Early retirement provision		1,831
Bureau keying		1,211
Capital:		
Depreciation	652	581
Impairments	101	31
Capital charges interest	178	271
(Profit)/loss on disposal	(4)	-
		<u>927</u>
Transport, travel and subsistence		511
Reference service agency staff		401
Consultants		371
Rent and rates		301
Maintenance of equipment and premises		301
Training		251
Furniture and equipment		371
Auditor's remuneration: Audit fees		81
Heat, light and power		81
Hire and leasing		31
Other administration costs		651
		<u>23,066</u>
		<u>23,102</u>

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (1999-2000: £0).

**Authority members' 2.2
remuneration**

	£000	1999-2000 £000
Non-executive members' remuneration	34	27
	Chairman	Chief Executive
	£000	£000
Basic salaries	16	71
Pension contributions	-	4
	<u>16</u>	<u>75</u>
1999-2000 Totals	<u>17</u>	<u>75</u>

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of five 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 the other 6 non-executive Board members, excluding pension contributions, fell within the range up to £5,000 (1999-2000: 4 up to £5,000).

Staff costs

	1999-2000	
	£000	£000
2.3 Executive members' remuneration and staff costs		
Salaries and wages	9,301	9,025
Social security costs	731	695
Employer contributions to NHSPA	433	333
Early retirement costs for retirements prior to 6 March 1995	370	531
	10,835	10,584
Authority non-executive members remuneration	34	27
Total staff costs	10,869	10,611

The average number of whole-time equivalent persons employed (including senior management) during the year was 381 (1999-2000: 442).

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

Range £	1999-2000	
	Number	Number
40,001 to 50,000	46	43
50,001 to 60,000	15	15
60,001 to 70,000	-	-
70,001 to 80,000	1	1

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-01 accounts pending the issue of further central guidance.

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

Operating income **3** **Operating income analysed by classification and activity, is as follows:**

	Total £000	1999-2000 Total £000
Programme income:		
Fees & charges to external customers	158	145
Total	<u>158</u>	<u>145</u>

Tangible fixed assets **4**

	Freehold Land £000	Buildings, installation & fittings £000
Net book value as at 31 March 2000	750	2,250
Revaluation and indexation	-	28
Depreciation provided during the year	-	(64)
Net book value as at 31 March 2001	<u>750</u>	<u>2,214</u>
Equipment		£000
Gross replacement cost or valuation as at 31 March 2000		5,641
Additions		526
Revaluation and indexation		135
Disposals		(877)
As at 31 March 2001		<u>5,425</u>
Accumulated depreciation as at 31 March 2000		3,768
Revaluation and indexation		90
Impairments		101
Charge for the year		588
Disposals		(866)
As at 31 March 2001		<u>3,681</u>
Net book value as at 31 March 2000		1,873
Net book value as at 31 March 2001		1,744

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.

The net book value of land and buildings as at 31 March 2001 of £2,964,000 was in respect of Freehold Property.

Debtors	5			Restated 31 March 2000 £000
				£000
		Amounts falling due within one year		
		Department of Health	73	67
		National Assembly for Wales	-	2
		NHS Pensions Agency	26	1
		Other Debtors	368	366
		Prepayments and accrued income	798	818
			1,265	1,254

The Dental Practice Board makes payments on behalf of the Department of Health and the National Assembly for Wales in respect of Electronic Data Interchange and the NHS Pensions Agency in respect of Widows'/Widowers' Pensions. These payments are subsequently reimbursed. Amounts due to the Dental Practice Board at 31 March 2001 totalled £99,000 (1999-2000: £70,000).

Analysis of changes in cash	6	At 31 March 2000 £000	Change during the year £000	At 31 March 2001 £000
		Cash at commercial banks and in hand	18	-
				18

Funds in accounts held at the Office of the Paymaster General were fully utilised at 31 March 2001.

Creditors: Amounts falling due within one year	7			31 March 2000 £000
				£000
		NHS Pensions Agency	208	211
		Dental Vocational Training Authority	22	44
		Tax and social security	246	268
		Other creditors	114	45
		Accruals and deferred income	498	519
			1,088	1,087

Provisions for liabilities and charges	8	Provisions: relating to staff	£000
		At 31 March 2000	2,168
		Arising during the year	1,088
		Utilised during the year	<u>(1,378)</u>
		At 31 March 2001	<u>1,878</u>
		Expected timing of cash flows:	
		Within 1 year	1,018
		1-5 years	398
		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 2001 and includes retirements planned for 2001-02 of £773,000 (2000-01: £843,000).	
<hr/>			
Movements in working capital other than cash	9		Restated 1999-2000 £000
		Increase in debtors	11
		(Increase)/decrease in revenue creditors	<u>(1)</u>
			<u>10</u>
			<u>654</u>
<hr/>			
Reserves	10	The movement on the General Fund in the year comprised:	£000
		Balance at 31 March 2000	2,284
		Net operating cost for the year	(22,908)
		Net Parliamentary funding	22,795
		Non cash items:	
		Capital charge interest	178
		Transfer from revaluation reserve	<u>69</u>
		Balance at 31 March 2001	<u>2,418</u>
		The movement on the revaluation reserve in the year comprised:	£000
		Balance at 31 March 2000	609
		Indexation of fixed assets	73
		Transfer to General Fund—realised revaluation	<u>(69)</u>
		Balance at 31 March 2001	<u>613</u>

Reconciliation of operating cost to operating cash flows	11		£000	£000
		Net operating cost for the year	22,908	22,957
		Adjust for non-cash transactions	2.1 (927)	(898)
		Adjust for movements in working capital other than cash	9 10	654
		Decrease/(increase) in provisions	8 293	(1,076)
		Net cash flow from operating activities	22,284	21,637

Contingent liabilities 12 At 31 March 2001, there were no known contingent liabilities.

Capital commitments 13 At 31 March 2001 there were no contracted capital commitments.

Losses and special payments 14 During the year the DPB did not incur any individual losses of £100,000 or more (1999-2000: nil).

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

The Department of Health and National Assembly for Wales are regarded as related parties. During the year the Dental Practice Board has had a significant number of material transactions with the Department of Health and National Assembly for Wales, and with other entities for which they are regarded as the parent, including:

- Health Authorities and NHS Trusts for use of their facilities for Dental Clinics;
- the NHS Purchasing and Supply Agency; and
- the NHS Pensions Agency.

Non-executive members of the Board and employees who are also Dental Practitioners may 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 393.

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 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 page 175 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 176.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 173, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements properly present the receipt and payments and balances of the Dental Vocational Training Authority, are been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, if I have not received all the information and explanations I require for my audit.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements properly present the receipts and payments of the Dental Vocational Training Authority for the year ended 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25.

John Bourn
Comptroller and Auditor General
28 March 2002

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

Receipts and Payments Account for the year ended 31 March 2001

	Notes	1999-2000 £000	2000-2001 £000
Receipts			
Advances from the Department of Health Class II, Vote 1		94	130
Payments			
Staff	2	(84)	(78)
Administration costs		(24)	(18)
Solicitors fees		(3)	(3)
Appeal body	3	(4)	(3)
Audit fee		1	(1)
		<u>(116)</u>	<u>(103)</u>
Excess of (payments over receipts)/receipts over payments		<u>(22)</u>	<u>27</u>

Statement of Balances as at 31 March 2001

	Balances at 31 March 2001 £000	Movement £000	Balances at 31 March 2000 £000
Cash and bank balances	<u>22</u>	<u>(22)</u>	<u>44</u>

The notes on page 176 form part of this account

Nigel Crisp
Accounting Officer for the Department of Health

30 November 2001

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 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Family Health Services Appeal Authority. It is his responsibility within his individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to the accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require him to make a statement on his system of internal financial control, supported by an auditor's report, with the annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the Family Health Services Appeal Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 182 to 191 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 185 to 187.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 179, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 180 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Family Health Services Appeal Authority at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R21 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	£000	Restated 1999-2000 £000
Programme costs	2	754	969
Operating income	3	(121)	(67)
Net operating cost		633	902

Statement of Recognised Gains and Losses for the year ended 31 March 2001

There were no other recognised gains or losses.

The notes at pages 185 to 191 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets:			
Tangible assets	4	-	-
Current assets			
Debtors	5	24	23
Cash at bank and in hand	6	109	201
		<u>133</u>	<u>224</u>
Creditors (amounts falling due within one year)	7	<u>(66)</u>	<u>(48)</u>
Net current assets		<u>67</u>	<u>176</u>
Total assets less current liabilities		<u>67</u>	<u>176</u>
		<u>67</u>	<u>176</u>
Taxpayers' equity			
General Fund	10	<u>67</u>	<u>176</u>
		<u>67</u>	<u>176</u>

The notes at pages 185 to 191 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Net cash outflow from operating activities	11	617	913
Capital expenditure and financial investment		-	-
Net cash (inflow)/outflow from investing activities		-	-
Net cash outflow before financing		617	913
Financing			
Net Parliamentary funding		525	971
Decrease/(increase) in cash in the period	6	92	(58)

The notes at pages 185 to 191 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 their current costs.
- 1.2 Operating income**
- Operating income is income which relates directly to the operating activities of the Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital charges**
- A charge, reflecting the cost of capital utilised by the Authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.
- 1.5 Fixed Assets**
- (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:

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

(iii) Depreciation

The only type of tangible asset held is equipment, comprising office and information technology equipment, depreciated evenly over its estimated life of five years.

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 five 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 and employee 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 operating cost statement at the time the Board commits itself to the retirement, regardless of the method of payment.

1.7 Introduction of Resource Accounts

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures for the balance sheet, statement of recognised gains and losses and cash flow statement have been restated, and associated notes where necessary. These changes have no impact on the financial performance of the Authority for 1999-2000.

The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II Vote 1) within an approved cash limit which is credited to the general fund.

1.8 Prior period adjustments

In the 1999-2000 accounts the treatment of fixed assets in the account was in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. In the 2000-01 accounts the cost of capital no longer applies solely to fixed assets but to all the assets and liabilities of the Authority, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in both the financial years was six per cent. A prior period adjustment has been made to amend the 1999-2000 results for this change.

1.9 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).

Programme costs 2.1

	£000	Restated 1999-2000 £000
Staff costs	370	473
External contractors	135	109
Provision for early retirement	-	95
Accommodation and computer	145	140
Administration	64	44
Travel and subsistence	27	41
Redundancy payments	-	56
Capital charges interest	(1)	(2)
Auditor's remuneration—Audit fees	7	7
Other operating expenses	7	6
	<u>754</u>	<u>969</u>

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (1999-2000: £nil).

Authority members' remuneration 2.2

	1999-2000	
	£000	£000
Non-executive members' remuneration	20	20
		Chief Executive
	Chairman	£000
Basic salaries	10	82
Performance related bonuses	-	12
Pension contributions	-	4
	10	98
1999-2000 Totals	10	90

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of five 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. His contract is renewed subject to satisfactory performance, and currently expires on 30 September 2004.

The Non-Executive Chairman's term of office was renewed for 1 year from October 2000.

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

Range £	1999-2000	
	Number	Number
5,001 to 10,000	2	2
10,001 to 15,000	1	1
50,001 to 55,000	1	-
85,001 to 90,000	-	1
90,001 to 95,000	1	1

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

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

Staff Costs	2.3	Executive members' remuneration and staff costs	1999-2000	
			£000	£000
		Salaries and wages	306	404
		Social security costs	29	35
		Other pension costs	15	14
			<u>350</u>	<u>453</u>
		Authority non-executive members' remuneration	<u>20</u>	<u>20</u>
		Total staff costs	<u>370</u>	<u>473</u>

The average number of whole-time equivalent persons employed (including senior management but excluding agency staff) during the year was 10.25. (1999-2000: 12.5)

Operating income **3** **Operating income analysed by classification and activity, is as follows:**

			1999-2000
		Total	Total
		£000	£000
		Programme income:	
		Fees & charges to external customers	10 11
		Other	111 56
		Total	<u>121</u> <u>67</u>

Tangible fixed assets	4		Equipment
			£000
		Gross replacement cost or valuation as at 31 March 2000	<u>14</u>
		As at 31 March 2001	<u>14</u>
		Accumulated depreciation as at 31 March 2000	14
		Charge for the year	-
		As at 31 March 2001	<u>14</u>
		Net book value as at 31 March 2000	0
		Net book value as at 31 March 2001	0

Debtors	5			
			31 March 2000	
			£000	£000
		Amounts falling due within one year		
		NHS Debtors	2	-
		Other Debtors	1	-
		Prepayments and accrued income	<u>21</u>	<u>23</u>
			<u>24</u>	<u>23</u>

Analysis of changes in cash	6				
			At 31 March 2000	Change during the year	At 31 March 2001
			£000	£000	£000
		Cash at OPG	<u>201</u>	<u>(92)</u>	<u>109</u>
			<u>201</u>	<u>(92)</u>	<u>109</u>

Creditors: Amounts falling due within one year	7			
			31 March 2000	
			£000	£000
		NHS creditors	2	9
		Other creditors	18	30
		Accruals and deferred income	<u>46</u>	<u>9</u>
			<u>66</u>	<u>48</u>

Provisions for liabilities and charges **8** There were no provisions in 2000-01.

Movements in working capital and other than cash	9		1999-2000	
			£000	£000
		Increase in debtors	1	2
		(Increase)/decrease in creditors	<u>(18)</u>	<u>7</u>
			<u>(17)</u>	<u>9</u>

General fund	10	The movement on the General Fund in the year comprised:		£000
		Balance at 31 March 2000		176
		Net operating cost for the year		(633)
		Net Parliamentary funding		525
		Non cash items: Capital charge interest		<u>(1)</u>
		Balance at 31 March 2001		<u>67</u>

Reconciliation of operating cost to operating cash flows	11			1999-2000	
				£000	£000
		Net operating cost for the year		633	902
		Adjust for non-cash transactions	2.1	1	2
		Adjust for movements in working capital other than cash	9	<u>(17)</u>	<u>9</u>
		Net cash flow from operating activities		<u>617</u>	<u>913</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, ie:
		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 Authorities.

The summarised accounts direction is at page 393.

Summarised Account of the Health Development Agency

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 Development Agency at the year end and 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 Accounts of the Health Development Agency. 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Health Development Agency. It is his responsibility within his individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control, supported by an auditor's report, with the annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the Health Development Agency made a statement on the system of internal financial control. I note that the Internal Auditors commented that as this was the first year of the Health Development Agency's operation, it was still developing its internal operational and financial control processes. I have reviewed the Accountable Officer's statement and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officer.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 198 to 211 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 201 to 203.

Respective responsibilities of Accounting Officer and Auditor

As described on page 195 the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements, in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the summarised Accounts. My responsibilities as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 196 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Health Development Agency, 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Health Development Agency at 31 March 2000 and the net operating cost, 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

	Notes	2000-01 £000
Programme costs:		
Staff costs	2	4,836
Other operating costs	3	<u>7,330</u>
		12,166
Operating income	4	<u>(697)</u>
Net operating cost		<u>11,469</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	Notes	2000-01 £000
Loss on revaluation of intangible fixed assets	5.1	(4)
Loss on revaluation of tangible fixed assets	5.2	<u>(14)</u>
Recognised losses related to the financial year		<u>(18)</u>

The notes at pages 201 to 211 form part of this account

Balance Sheet as at 31 March 2001

	Notes	31 March 2001 £000	1 April 2000 £000
Fixed assets			
Intangible assets	5.1	22	30
Tangible assets	5.2	<u>376</u>	<u>283</u>
		398	313
Current assets			
Stocks and work in progress	7	-	41
Debtors and prepayments	8	964	1,250
Cash at bank and in hand		<u>105</u>	<u>781</u>
		1,069	2,072
Current liabilities			
(Creditors) Amounts falling due in less than one year	9	(1,219)	(1,897)
Total assets less current liabilities			
		248	488
Provision for liabilities and charges	10	<u>(556)</u>	<u>(608)</u>
Total net liabilities			
		(308)	(120)
Taxpayers' equity:			
General fund	11	(308)	(120)
Revaluation reserve	12	<u>-</u>	<u>-</u>
		(308)	(120)

The notes on pages 201 to 211 form part of this account

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	2000-01 £000
Operating activities		
Net cash outflow from operating activities	15	11,629
Capital expenditure and financial investment		
Acquisition of intangible assets	5.1	16
Acquisition of tangible assets	5.2	259
Net cash outflow from investing activities		<u>275</u>
Net cash outflow before financing		<u>11,904</u>
Financing		
Net Parliamentary funding		11,228
Decrease in cash in the period		<u>676</u>

The notes at pages 201 to 211 form part of this account

Notes to the Accounts

- Accounting policies** **1** The financial statements have been prepared in accordance with 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 reflect changes in the value of fixed assets, and in accordance with the Accounts Direction issued by the Treasury.
- 1.2 Operating income**
- Operating income is income that relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work. It also includes other income such as that from investments and non-funding income from the Department of Health. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund that HM Treasury has agreed should be treated as operating income.
- 1.3 Pensions**
- The Agency 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 (Statutory Instrument 1995, No. 300). Under these regulations the Agency pays an employer's contribution, currently 5% 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 and employee 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 Agency. Index linking costs under the Provision (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.
- 1.4 Fixed assets**
- (a) Capitalisation*
- The Agency has adopted an accounting policy to capitalise all tangible and intangible assets that have a value exceeding £5,000 and an estimated useful life of more than one year in line with the policy adopted by NHS bodies.
- (b) Revaluation*
- Fixed assets are revalued annually using the appropriate indices.

(c) Depreciation

Depreciation is provided on all fixed assets purchased since 1 April 2000, 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 acquisition, as follows:

Computers, software and software licences	3 years
Tenant's improvements	2 years
Furniture	5 years

(d) Inherited assets

On 1 April 2000 the Agency inherited assets from the Health Education Authority (HEA). In accordance with FRS7 ("Acquisition Accounting") these assets have been taken onto the balance sheet at fair value. This was deemed to be the net book value of the assets in the closing balance sheet of the HEA. These assets will be depreciated over their remaining useful lives.

The Agency also inherited the lease for four floors of Trevelyan House. As a result, the computer room was moved from the first floor, which was no longer occupied, the second floor. The costs associated with this transfer (£62,000) have been capitalised. Because the potential rent increase (see note 26) has led to the Agency exploring options for relocation, it is considered prudent to amortise the computer room transfer costs over two years.

1.5 Stocks

The Agency inherited stocks of publications from the Health Education Authority valued at £40,589. A review of the stock balances has revealed that only nominal amounts of income are generated from sales of publications and with effect from July 2001 all Agency publications will be available online free of charge. The stock value of £40,589 has therefore been written down through the operating cost statement.

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 Opening balances

The Agency was established on 14 January 2000 by Statutory Instrument 1999 No 3431 - 'The Health Development Agency (Establishment and Constitution) Order 1999'. However, the Agency did not commence activities until 1 April 2000 and the first accounting period commenced on that date.

On 1 April 2000 the Agency inherited assets and liabilities from the Health Education Authority (HEA). In accordance with FRS7 ("Acquisition Accounting") these assets and liabilities have been taken onto the balance sheet at fair value. For tangible and intangible assets this was deemed to be the net book value of the assets in the closing balance sheet of the HEA. Debtors, creditors and cash have been recorded at their actual monetary value as at 1 April 2000.

1.9 Statement of comparatives

The financial year 2000-01 was the first year of operations for the Agency. Accordingly, no comparatives are available however the Agency's opening balance sheet as at 1 April 2000 has been used as the comparative for balance sheet purposes.

1.10 Introduction of Resource Accounts

The 2000-01 accounts are the first to be completed using the Resource Accounts format. The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II, Vote 2) within an approved cash limit which is credited to the General Fund.

Programme costs:	2	2000-01
		£000
Salaries and wages		3,308
Social security costs		299
Superannuation		132
Early retirement pension costs		284
Other pension costs		34
Redundancies		343
Agency staff costs		196
Secondment costs		135
Non-executive board members' emoluments		39
Other staff costs		66
		<u>4,836</u>

The average number of employees (excluding non-executive directors) during the year was 119. The analysis of these employees by organisational segment is as follows:

	2000-01
	Number
Health Improvement	37
Research and Information	22
Planning, Partnership and Communication	29
International	4
Corporate Resources	27
	<u>119</u>

90 employees of the Agency are members of the NHS Pension Scheme. The scheme is contributory with employees contributing six per cent and the employer five per cent of pensionable pay. Contributions made by the Agency are shown under "other pension costs".

Pay rises for senior managers in 2000-01 did not exceed 3.25% of the managerial pay bill.

The number and remuneration of senior employees fell within the following ranges

	2000-01 Number
Less than £5,000	2
£10,001 to £15,000	2
£15,001 to £20,000	1
£20,001 to £25,000	3
£35,001 to £40,000	4
£40,001 to £45,000	2
£45,001 to £50,000	2
£50,001 to £55,000	7

Board members' remuneration was as follows:

	2000-01 £000
Non-executive Chairman	24
Non-executive directors' fees	39
Executive directors' remuneration:	
Salaries	293
Pension contributions	13
Other benefits	21
	<hr/> 390 <hr/>

The Chairman's remuneration for the year was £23,691.

The remuneration of one non-executive director was paid to their employer although it related to the appointment of the individual.

The total remuneration of the Chief Executive, including contributions to the NHS Pension Scheme (of which he is an ordinary member) and relocation allowance, was £118,247. The Chief Executive was the highest paid employee during the year.

One Executive Director left the Agency on 31 August 2000 and was replaced on 9 October 2000.

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

	2000-01 Number
Less than £5,000	3
£5,001 to £10,000	5
£20,001 to £25,000	1
£25,001 to £30,000	1
£35,001 to £40,000	1
£55,001 to £60,000	1
£60,001 to £65,000	1

The Resource Accounting Manual requires the Agency to provide information on the age, salary and pension rights of named individuals who are the 'most senior managers' of the Agency, 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 2001-02 pending the issue of further central guidance.

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

Programme costs	3	3.1 Other operating costs	2000-01
			£000
		Direct project costs (see note 3.2)	3,667
		Non-direct costs (see note 3.3)	3,360
		Insurance charges	24
		External auditor's remuneration	31
		Internal auditor's remuneration	16
		Stock write-off	41
		Loss on revaluation	7
		Depreciation (see notes 5.1 and 5.2)	184
			7,330

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

3.2 Direct project costs	2000-01
	£000
Advertising	38
Agency staff	56
Books and subscriptions	37
Conference organisation	147
Consultancy fees	1,916
Furniture and equipment	2
Information gathering	326
Information technology costs	91
Publications	566
Stationery and post	55
Telephone	12
Training	104
Travel and subsistence	198
Other project costs	119
	3,667

3.3 Non-direct costs	2000-01 £000
Advertising	32
Advertising – staff recruitment	252
Bank and tax	162
Books and subscriptions	22
Building and maintenance	1,172
Conference organisation	102
Consultancy fees	502
Furniture and equipment	52
Information gathering	22
Information technology costs – hardware	162
Information technology costs – software	132
Professional fees	32
Publications	122
Stationery and post	112
Telephone	62
Training	52
Travel and subsistence	162
Other costs	162
	<u>3,362</u>

3.4 Transitional expenditure

Included in the costs cited in notes 3.1 to 3.3 are costs which are directly attributable to the Agency's predecessor body, the Health Education Authority (HEA), and to the transition from the HEA to the Agency and which are therefore expected to be non-recurrent. The main costs, which exclude HEA redundancies specifically funded by the Department of Health are as follows:

Obligations under rental lease for floors previously occupied by HEA	£194,000
Inherited contractual liabilities	£136,000
Transfer of computer facilities (including contract staff)	£75,000
Legal advice	£10,000
Total	<u>£415,000</u>

Operating income 4

	2000-01 £000
Fee income	610
Publications and merchandise	51
Miscellaneous	36
	<u>697</u>

Fixed assets	5	5.1 Intangible assets	Software		Total £000
			Software £000	Licences £000	
Cost/valuation:					
		At 1 April 2000	-	30	30
		Additions in the year	16	-	16
		Revaluation	-	(4)	(4)
		At 31 March 2001	16	26	42
Depreciation:					
		At 1 April 2000	-	-	-
		Depreciation charged in the year	2	21	23
		Backlog depreciation	-	(3)	(3)
		At 31 March 2001	2	18	20
		Net book value at 31 March 2001	14	8	22

Tangible assets	5.2	Tenant's			Total £000	
		Furniture £000	Improvements £000	Computers £000		
Cost/valuation:						
		At 1 April 2000	186	-	97	283
		Additions in the year	-	62	197	259
		Revaluation	-	-	(14)	(14)
		At 31 March 2001	186	62	280	528
Depreciation:						
		At 1 April 2000	-	-	-	-
		Charged in the year	65	31	65	161
		Backlog depreciation	-	-	(9)	(9)
		At 31 March 2001	65	31	56	152
		Net book value at 31 March 2001	121	31	224	376

Capital commitments 6 The Agency had no capital commitments at 31 March 2001.

Stocks and work in progress 7 The Agency inherited stocks of publications from the Health Education Authority valued at £40,589. A review of stock balances has revealed that only nominal amounts of income are being generated from the stocks as the Agency continues to provide publications free of charge. In addition, with effect from 1 July 2001 all publications will be available free via the Agency's website. The stock balance of £40,589 has therefore been written down to zero through the operating cost statement.

Debtors	8		2000-01
			£000
		Trade debtors	158
		Provision for bad debts	(11)
		Sundry debtors and prepayments	612
		VAT debtor	177
		Other debtors	28
			<u>964</u>
<hr/>			
Creditors—Amounts falling due within one year	9		2000-01
			£000
		Trade creditors	592
		Accruals and deferred income	627
			<u>1,219</u>
		(There were no tax and social security liabilities payable within one year at 31 March 2001).	
<hr/>			
Provisions for liabilities and charges	10		2000-01
			£000
		Provision for future compensation pensions*	£000
		Opening balance at 1 April 2000	407
		Decrease in provision	(34)
		Balance carried forward at 31 March 2001	<u>373</u>
		*There were ten former employees to whom the Health Education Authority (HEA) had an obligation to pay compensation pensions from retained funds. This provision is reduced annually in line with actuarial forecasts of future pension payments.	
		Provision for Inland Revenue assessment of HEA PAYE/National Insurance liability	
		Opening balance at 1 April 2000	201
		Less: Paid in year	(18)
		Balance carried forward at 31 March 2001	<u>183</u>
		Total provision for liabilities and charges	<u>556</u>

General Fund	11		2000-01
			£000
		Opening balance at 1 April 2000	(120)
		Reduction in Taxpayers' equity in the year	(188)
		Balance carried forward at 31 March 2001	<u>(308)</u>

At 1 April 2000 the Agency inherited a net excess of liabilities of £433,000 relating to activities of the Health Education Authority (HEA). These liabilities were mainly attributable to an Inland Revenue assessment and to compensation pensions. The value of HEA liabilities carried forward in the General Fund at 31 March 2001 is estimated to be £399,000. Funding for these liabilities is yet to be agreed with the Department of Health.

Revaluation reserve	12		2000-01
			£000
		Opening balance at 1 April 2000	-
		Loss on revaluation of fixed assets	(18)
		Backlog depreciation	12
		Other movements	(1)
		Transfer to operating cost statement	7
		Balance carried forward at 31 March 2001	<u>0</u>

Lease commitments	13	Annual commitments under non-cancellable operating leases are as follows:	2000-01
			£000
		Leasehold rent	
		Operating leases which expire:	
		In over five years	<u>661</u>
			<u>661</u>
		Other leases	
		Operating leases which expire:	
		Within one year	17
		Between one and five years	24
			<u>41</u>
		Total	<u>702</u>

**Movements in 14
working capital other
than cash**

	£000
Decrease in stocks	41
Decrease in debtors	286
(Decrease) in creditors	(678)
	<u>(351)</u>

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

	2000-01
	£000
Net operating cost for the year	(11,469)
Adjust for non-cash depreciation charge	3.1 184
Adjust for movements in working capital other than cash	14 (351)
Loss on revaluation	12 7
Net cash outflow from operating activities	<u>(11,629)</u>

**Analysis of changes 16
in cash**

	2000-01
	£000
Opening balance at 1 April 2000	781
Cash outflow	(676)
Balance at 31 March 2001	<u>(105)</u>

**Expenditure analysis 17
by project segment**

The Agency's total expenditure on projects (direct and indirect) was as follows:

	2000-01
	£000
Health Improvement	2,759
Research and Information	2,373
Planning, Partnerships and Communication	1,699
International	337
Corporate Resources	4,991
	<u>12,159</u>

Contingent liabilities 18

There were no contingent liabilities at 31 March 2001.

Losses and special payments	19	One special payment of £100 was made in the year. This was compensation for administrative expenses incurred by an employee in relation to a PAYE claim.
<hr/>		
Related party transactions	20	<p>The Agency is a special health authority established by order of the Secretary of State for Health. The Department of Health is regarded as a related party. During the year the Agency had a number of material transactions with the Department.</p> <p>During the year none of the Agency's directors or members of its key management, staff or parties related to them has undertaken any material transactions with the Agency.</p>
<hr/>		
Post-balance sheet events	21	<p>A rent review of the Trevelyan House accommodation was received in June 2001. Discussions with the landlord indicated that the rent (net of sublet income) was likely to increase by more than £400,000 per year and service charges by £100,000. The Agency appealed against these increases which were reduced to £307,000 and £37,000 respectively. As a result of these increases and consideration of the Agency's current working practices, the Agency instigated an option appraisal of available accommodation for future use, and arranged a move to alternative premises in March 2002. The cost of this move is estimated to be £900,000 of which £700,000 will be met by agreed additional funding from the Department of Health.</p> <p>Additionally, the Agency is undertaking an organisational review in 2001-02 to ensure that it can deliver its agreed objectives and manage within its agreed income. This review may result in staff redundancies.</p>

The summarised accounts direction is at page 393.

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 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Mental Health Act Commission. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement on their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of Mental Health Act Commission made a statement on the system of internal financial control. The Commission indicated that it had weaknesses in their systems in that they did not have a Remuneration Committee and the Fraud and Corruption policy and standing orders were not in place for the whole year. I have reviewed these statements and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officer.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 218 to 225 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 220 to 222.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 215, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied for the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 216 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Mental Health Act Commission at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing operations

	Note	£000	Restated 1999-2000 £000
Programme costs	2.1	3,380	3,215
Operating income		(91)	(73)
Net operating cost		<u>3,289</u>	<u>3,142</u>

The Commission has no recognised gains or losses for the year.

The notes at pages 220 to 225 form part of this account.

Balance Sheet as at 31 March 2001

	Note	£000	31 March 2000 £000
Current assets			
Debtors	3	50	36
Cash in hand		2	2
		<u>52</u>	<u>38</u>
Current liabilities			
Creditors: (amounts falling due within one year)	4	(549)	(290)
Total assets less current liabilities		<u>(497)</u>	<u>(252)</u>
Taxpayer's Equity:			
General Fund	8	(497)	(252)

**Cash Flow Statement for the year ended
31 March 2001**

	Note	£000	1999-2000 £000
Net cash outflow from operating activities	6	3,066	3,117
Financing			
Net Parliamentary funding		3,066	3,115
Decrease in cash	7	<u>-</u>	<u>2</u>

The notes at pages 220 to 225 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

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 has been prepared under the historical cost convention.
- 1.2 Operating income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income from the National Assembly of Wales. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income. Income is stated net of VAT.
- 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 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.6 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.

**Pensions
(continued)**

- 1.6** Individual members bear a share of the pension costs in two ways: through making an explicit contribution of 1.5 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 (AVC) Scheme 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 accrual 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.

1.7 **Introduction of resource accounts**

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures, and associated notes, have been restated where necessary. These changes have no impact on the financial performance of the authority for 1999-2000.

The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II Vote 1) within an approved cash limit which is credited to the general fund.

1.8 **Capital charges**

A charge, reflecting the cost of capital utilised by the Commission, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.

1.9 **Prior period adjustments**

In 1999-2000 NHS bodies included a cost of capital of six per cent on fixed assets. The Commission did not have any fixed assets and therefore did not incur a cost of capital.

In the 2000-01 accounts the cost of capital no longer applies solely to fixed assets but to all the assets and liabilities of the authority, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in both financial years was six per cent. A prior period adjustment has been made to amend the 1999-2000 results for this change.

Programme costs	2.1	1999-2000	
		£000	£000
	Commission members' fees and expenses	2,293	2,220
	Staff costs	552	537
	Non-executive Management Board members	73	38
	Administration expenses	175	159
	Accommodation and office equipment	262	226
	Car hire	36	37
	Cost of Capital	(22)	(14)
	Auditor fee	11	12
		<u>3,380</u>	<u>3,215</u>

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.

Commission members	2.2	£000	
		£000	£000
	Members' fees	1,036	1,043
	Members' expenses	202	199
	Second opinion doctors' fees	919	855
	Second opinion doctors' expenses	136	123
		<u>2,293</u>	<u>2,220</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 2000-01 was £147,324 (1999-2000: £155,000).

Administrative support staff costs	2.3	£000	
		£000	£000
	Salaries	450	451
	Social security costs	30	30
	Other pension costs	54	55
	Agency costs	18	1
		<u>552</u>	<u>537</u>

The average number of employees (excluding agency staff) was 31 (1999-2000: 32).

Members' remuneration

2.4 Executive members of the Management Board are civil service staff seconded from the Department of Health. The total remuneration paid to executive members was £87,483 (1999-2000: £91,000).

The remuneration of the Chairman during the year was £18,450 (1999-2000: £12,590). 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, was £44,519 (1999-2000: £51,637).

During the period 1 April to 31 October the Chief Executive's post was jointly filled by a secondee from the Department of Health and the Director of Finance. From 1 November the secondee was appointed as the substantive Chief Executive. £3,136 of the £44,519 relates to the Finance Director and the balance to the secondee/substantive Chief Executive.

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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

The salaries of the senior managers of the Authority are included in the table in Note 2.3.

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

Range £	1999-2000	
	Number	Number
up to £5,000	3	5
£5,001-£10,000	2	1
£10,001-£15,000	1	-

Debtors

	31 March 2000	
	£000	£000
Prepayments	23	26
VAT recoverable	27	8
Other debtors	-	2
	<u>50</u>	<u>36</u>

Creditors: amounts falling due within one year

	£000	£000
Staff salaries	146	113
Income tax and social security	26	21
Other creditors	377	156
	<u>549</u>	<u>290</u>

Movements in working capital other than cash	5			1999-2000	
				£000	
		(Increase)/decrease in debtors		(14)	
		Increase in creditors		25	
				<u>14</u>	
				<u>245</u>	
				<u>39</u>	
<hr/>					
Reconciliation of operating cost to operating cash flows	6			£000	
				£000	
		Net operating cost for the year		(3,289)	
		Adjust for non-cash transactions	2.1	(22)	
		Adjust for movements in working capital other than cash	5	245	
			<u>39</u>		
				<u>(3,066)</u>	
				<u>(3,117)</u>	
<hr/>					
Analysis of changes in cash	7		As at	Cash	As at
			31 March	Flows	31 March
			2000		2001
			£000	£000	£000
		Cash in hand	<u>2</u>	<u>-</u>	<u>2</u>
<hr/>					
General fund	8	The movement on the general fund in the year comprised:			
					£000
		At 31 March 2000			(252)
		Net operating cost for the year			(3,289)
		Net Parliamentary funding			3,066
		Capital charge interest			<u>(22)</u>
		At 31 March 2001		<u>(497)</u>	

Related party transactions

- 9** 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, South Derbyshire Health Authority.

In addition the Commission has had a significant number of material transactions with other publicly funded bodies, The Treasury Solicitors and Gwent Healthcare Trust.

Mr Kamlesh Patel, a non-executive Member of the Commission, is head of the Ethnicity and Health Unit (Faculty of Health) at the University of Central Lancashire. This unit entered into financial transactions with the Commission totalling £23,500 during 2000-01.

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.

Contingent liabilities 10

At 31 March 2001, there were no known contingent liabilities.

The summarised accounts direction is at page 393.

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;
- 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Office for the Microbiological Research Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the Microbiological Research Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 232 to 244 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 236 to 238.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 229, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 230 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Microbiological Research Authority at 31 March 2001 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; and
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Income			
Income from activities	2	15,013	14,361
Department of Health revenue funding		4,207	4,207
Transfer from deferred government grant	11	1,926	1,618
		21,146	20,186
Expenditure			
Staff costs	4	(10,353)	(10,035)
Other operating charges	3	(8,972)	(8,413)
Depreciation	5	(2,825)	(2,516)
		(22,150)	(20,964)
Operating deficit		(1,004)	(778)
(Loss) on fixed asset disposal		(17)	(150)
Transfer from revaluation reserve	12	916	1,048
Notional interest on capital		(2,367)	(2,212)
Interest receivable		50	36
		(2,422)	(2,056)
(Deficit) on ordinary activities		(2,422)	(2,056)
Write back of capital interest		2,367	2,212
		(55)	156
(Deficit)/surplus for the year		(55)	156
Transfer from capital grant	11	690	4
		(635)	160
Retained surplus for the year		(635)	160
Retained deficit brought forward		(2,983)	(3,143)
		(2,348)	(2,983)
Accumulated income and expenditure reserve		(2,348)	(2,983)

All operations are continuing.

The notes at pages 236 to 244 form part of this account.

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

	£000	1999-2000 £000
Surplus for the financial year	635	156
Unrealised surplus/(loss) on the revaluation of fixed assets	380	(2,817)
Revaluation release on disposals of fixed assets	(3)	-
Total gains/(losses) related to the financial year	1,012	(2,661)
Prior year adjustment	-	1,404
Total recognised gains/(losses) for the financial year	1,012	(1,257)

The notes at pages 236 to 244 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	1999-2000 £000
Fixed assets	1.4, 5	38,409	36,577
Current assets			
Stocks and work-in-progress	1.5, 7	1,167	1,862
Debtors and prepayments	8	5,117	4,035
Cash at bank and in hand		331	9
		6,615	5,906
Creditors: Amounts falling due within one year	9	(3,638)	(3,520)
Net current assets		2,977	2,386
Total assets less current liabilities		41,386	38,963
Provisions for liabilities and charges	10	(807)	(851)
Total net assets		40,579	38,112
Taxpayers' equity:			
Deferred government grant	11	29,211	26,840
Capital reserve	12	4,518	4,518
Revaluation reserve	12	9,198	9,737
Income and expenditure account	12	(2,348)	(2,983)
		40,579	38,112

The notes at pages 236 to 244 form part of this account.

Nigel Crisp
Accounting Officer

30 November 200

Cash Flow Statement for the year ended 31 March 2001

	Notes	1999-2000 £000	£000
Operating activities			
Net cash (outflow) from operating activities	14	(418)	(139)
Returns on investments and servicing of finance			
Interest received		50	36
Capital expenditure and financial investment			
Receipts from the sale of fixed assets		-	4
(Payments) to acquire tangible fixed assets		(4,298)	(7,871)
Net cash (outflow) before financing		(4,666)	(7,970)
Financing:			
Department of Health capital funding		4,988	7,871
Increase/(decrease) in cash	15	322	(99)

The notes at pages 236 to 244 form part of this account.

Notes to the Account

1.1 Accounting policies

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

Income comprises the amounts invoiced, excluding Value Added Tax, 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 Department of Health. 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 12 years
Scientific equipment	5-15 years
Plant and machinery	5-15 years
Vehicles	7 years
Office and IT equipment	5 years

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 (currently six per cent).

1.9 Value Added Tax

The Authority is registered for Value Added Tax (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 (five per cent of pensionable pay in 2000-01 increasing to seven per cent from 1 April 2001) as specified by the Secretary of State for Health. These contributions are charged to operating expenses as and when they become due. Employer and employee 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 of pensionable pay.

Income from activities	2	1999-2000	
		£000	£000
<i>By Category:</i>			
Contracts services and grants		7,705	7,830
Products and royalties		7,308	6,531
		<u>15,013</u>	<u>14,361</u>
<i>By Territory:</i>			
UK		11,918	11,711
Other Europe		998	960
USA/Canada		1,874	1,523
Rest of the world		223	167
		<u>15,013</u>	<u>14,361</u>

Other operating charges	3	<i>Other operating charges include:</i>	1999-2000	
			£000	£000
		Operating lease charges	33	30
		Auditor's remuneration	30	31

Staff costs	4		£000	£000
		Salaries and wages	8,982	8,964
		Social security costs	697	689
		Other pension costs	607	321
		Non-executive Board members' emoluments and social security costs	67	61
			10,353	10,035

The average number of employees (excluding non-executive directors) during the year was 381 (1999-2000: 383) made up as follows:

		1999-2000
	Number	Number
Operating divisions	341	343
Service divisions	40	40
	381	383

The number and remuneration of senior employees fell within the following ranges:

Range (£s)	Number	Number
40,001-50,000	26	24
50,001-60,000	7	7
60,001-70,000	4	3
70,001-80,000	-	2
80,001-90,000	1	-
	38	36

Board Members' remuneration:	£000	£000
Non-executive directors' fees	67	61
Other remuneration	23	23
	90	84

Executive directors' remuneration:		
Salaries	186	175
Pension contributions	8	6
	194	181

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

Range (£s)	1999-2000	
	Number	Number
up to £5,000	1	4
5,001-10,000	6	3
10,001-15,000	-	2
15,001-20,000	1	-
60,001-65,000	-	1
65,001-70,000	1	-

The emoluments of the Chief Executive (excluding pension contributions) were £119,000 (1999-2000: £114,000). The Chief Executive is an ordinary member of the NHS Superannuation Scheme and was the highest paid member during the year.

The emoluments of the Chairman were £31,000 (1999-2000: £28,000).

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. The Treasury have agreed to delay the implementation of the disclosure for the 2000-01 accounts pending the issue of further central guidance.

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

Fixed assets

5

	Land and buildings	Plant and machinery	Vehicles	Computers and office equipment	Assets under construction	Total
	£000	£000	£000	£000	£000	£000
Cost/Valuation						
At 31 March 2000	63,183	10,514	31	788	8,401	82,917
Additions	-	-	-	-	4,298	4,298
Transfers	4,673	968	-	-	(5,641)	-
Disposals	-	(455)	-	-	-	(455)
Revaluation	777	264	1	18	-	1,060
At 31 March 2001	68,633	11,291	32	806	7,058	87,820
Depreciation						
At 31 March 2000	37,921	7,747	28	644	-	46,340
Provided during the year	2,231	547	1	46	-	2,825
Disposals	-	(434)	-	-	-	(434)
Revaluation	480	185	-	15	-	680
At 31 March 2001	40,632	8,045	29	705	-	49,412
Net Book Value						
At 31 March 2000	25,262	2,767	3	144	8,401	36,577
At 31 March 2001	28,001	3,246	3	101	7,058	38,409

	Revalued amount*	Historic cost
	£000	£000
<i>Historic cost of revalued assets:</i>		
Land and buildings:		
Cost or valuation	68,633	35,098
Depreciation to date	(40,632)	(16,049)
Net book value	28,001	19,049
Other assets:		
Cost or valuation	12,129	8,499
Depreciation to date	(8,779)	(5,395)
Net book value	3,350	3,104

* See Note 1.4(c).

Capital commitments 6

		31 March 2000
	£000	£000
<i>The Authority has the following capital commitments:</i>		
Contracted	2,092	2,667
Authorised but not yet contracted	86	332
	2,178	2,999

Stocks and work in progress 7

	£000	£000
Raw materials	262	281
Work-in-progress	211	720
Finished goods	694	861
	1,167	1,862

There is no material difference between the stock values disclosed and their related replacement costs.

Debtors and prepayments 8

	£000	£000
Trade debtors	2,182	2,602
Other debtors	112	94
Prepayments and accrued income	2,823	1,339
	5,117	4,035

Creditors: Amounts falling due within one year	9		31 March 2000
		£000	£000
		Trade creditors	58
		Accruals and deferred income	3,462
			<u>3,520</u>
			<u>3,638</u>

Provisions for liabilities and charges	10		Pensions for former staff
			£000
		As at 31 March 2000	851
		Arising during the year	329
		Utilised during the year	(373)
		Reversed unused	-
		As at 31 March 2001	<u>807</u>
		Expected timing of cash flows:	
		Within one year	324
		Over one year	483
		Total	<u>807</u>

No other assumptions have been made regarding the timing of cash flows.

Deferred government grant	11		31 March 2000
		£000	£000
		Balance brought forward	20,587
		Received in year	7,871
		Proceeds on disposals	4
		Released to income and expenditure account	(1,618)
		Transferred to income and expenditure account	(4)
		Other movements	-
		Balance at Year End	<u>26,840</u>
			<u>29,211</u>

Reserves	12	Revaluation reserve	Income and Expenditure reserve	Capital reserve
		£000	£000	£000
Balance at 31 March 2000		9,737	(2,983)	4,518
Surplus for the year		-	635	-
Surplus on revaluation		380	-	-
Released on disposals		(3)	-	-
Transfer of amount to income and expenditure account equal to annual depreciation on revalued assets		(916)	-	-
Balance at 31 March 2001		9,198	(2,348)	4,518

The Capital Reserve represents the fixed capital base of the Authority as at 1 April 1994.

Lease commitments	13	1999-2000	
		£000	£000
The minimum commitments due in the next year under non-cancellable operating leases, none of which relate to land and buildings, are:			
On operating leases expiring:			
-within one year		12	3
-between one and five years		4	18
-after five years		-	-
		<u>16</u>	<u>21</u>

Reconciliation of operating deficit to net cash (outflow) from operating activities	14	£000	£000
Operating deficit		(1,004)	(778)
Depreciation		2,825	2,516
Net transfer from deferred government grant reserve		(1,926)	(1,622)
Proceeds from fixed asset disposals transferred to deferred capital grants		-	4
Decrease/(increase) in stocks		695	(1,051)
(Increase) in debtors		(1,082)	(509)
Increase in creditors and provisions		74	1,301
Net cash (outflow) from operating activities		(418)	(139)

Analysis of changes in cash	15	31 March 2000 £000	Cash flows £000	31 March 2001 £000
		Cash at bank and in hand	9	322
			<u>9</u>	<u>331</u>

Losses and special payments 16 The Authority reports a single special payment of £1,000 to an employee in respect of an injury (1999-2000: one compensation claim payment of £1,000 to an employee).

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:

- (i) The Medicines Control Agency;
- (ii) The NHS Pensions Agency; and
- (iii) 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 £800,000, although the extent of the liability cannot be determined until the contractor's claims for additional costs are investigated.

The summarised accounts direction is at page 393.

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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the National Blood Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement on their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the National Blood Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp
Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 250 to 265 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 253 to 257.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 247, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 248 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Blood Authority at 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing operations	Notes	£000	Restated 1999-2000 £000
Income			
Department of Health funding		26,953	18,547
Operating income	2.2	299,420	286,626
		326,373	305,173
Expenditure			
Operating expenses	3	(321,264)	(299,504)
Surplus for the year		5,109	5,669

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Surplus for the financial year		5,109	5,669
Unrealised gain on the revaluation of fixed assets	11	2,532	12,751
Fixed asset impairment losses	11	(77)	(12,920)
Total recognised gains		7,564	5,500

The notes at pages 253 to 265 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets			
Intangible assets	5.1	731	541
Tangible assets	5.2	174,181	175,544
		<u>174,912</u>	<u>176,085</u>
Current assets			
Stocks	6	44,509	40,387
Debtors	7	30,489	29,115
Cash at bank and in hand	12	199	453
		<u>75,197</u>	<u>69,955</u>
Creditors: amounts falling due within one year	8	<u>(24,205)</u>	<u>(23,896)</u>
Net current assets		<u>50,992</u>	<u>46,059</u>
Total assets less current liabilities		<u>225,904</u>	<u>222,144</u>
Provisions for liabilities and charges	10	<u>(8,928)</u>	<u>(9,104)</u>
		<u>216,976</u>	<u>213,040</u>
Taxpayers' equity			
Capital reserve	11	152,464	156,000
Revaluation reserve	11	22,410	19,997
Donated asset reserve	11	38	88
Income and expenditure reserve	11	42,064	36,955
		<u>216,976</u>	<u>213,040</u>

The notes at pages 253 to 265 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

Operating activities	Notes	£000	1999-2000 £000
Net cash (outflow) from operating activities	9	<u>(254)</u>	<u>(22)</u>
Capital expenditure			
Payments to acquire fixed assets		(12,519)	(17,777)
Receipts from sale of fixed assets		19	62
Net cash (outflow) before financing		<u>(12,754)</u>	<u>(17,737)</u>
Financing			
Capital funding		12,519	17,777
Surrender of receipts from sale of fixed assets		(19)	(62)
(Decrease) in cash	12	<u>(254)</u>	<u>(22)</u>

The notes at pages 253 to 265 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 by the application of current cost principles to tangible fixed assets, and stocks where material, at their value to the business by reference to their current costs.
- 1.2 Income**
- The main sources of funding for the Authority are income from sales to the NHS and discretionary 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.
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital Charges**
- A charge, reflecting the cost of capital utilised by the Authority, is included in expenditure 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 capital charges in the financial year 2000-2001 was 6% on all fixed assets.
- 1.5 Fixed Assets**
- (i) Capitalisation*
- All assets falling into the following categories are capitalised:
- 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;
 - 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;

- donated tangible fixed assets are capitalised at their current value on receipt, and this value is credited to the donated asset reserve.

(ii) Valuation

Fixed assets are valued as follows:

- intangible fixed assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount;
- 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 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;
- subsequent revaluations to donated fixed assets are taken to the donated asset reserve.

(iii) Depreciation

- intangible assets are amortised, on a straight line basis, over the estimated lives of the assets;
- 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 estimated useful life as follows:

	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

(iv) Impairments

From 1999-2000, all impairments resulting from price changes are charged to the Statement of Total Recognised Gains and Losses. Falls in value when newly constructed assets are brought into use are also charged there. These falls in value result from the adoption of ideal conditions as the basis for depreciated replacement cost valuations.

Accounting Policies 1.6
(continued)

Leases

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

1.7 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.

Other stocks are valued at the lower of net current replacement cost and net realisable value.

1.8 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.

1.9 Research and development

Research and development expenditure is charged against income in the year in which it is incurred.

1.10 Clinical negligence

The Authority 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 the 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.

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 6% 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.

A number of cases relating to Hepatitis C infection have been brought as product liability cases under the Consumer Protection Act. These cases are not covered within the ELS scheme and will be funded directly by the Department of Health.

1.11 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 5% 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 and employee 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.

1.12 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).

1.13 Prior period adjustment

ELS transfer

As at 1 April 2000, the NHS Litigation Authority (NHSLA) took over the full financial responsibility for all ELS cases unsettled at that date and will be responsible for any new cases. Provisions for these are included in the accounts of the NHSLA. Although the NHSLA is administratively responsible for cases from 1 April 2000, the legal liability remains with the authority.

**Accounting Policies
(continued)**

Expected reimbursements from the Existing Liabilities Scheme for cases settled as at 1 April 2000 but still unpaid is included in debtors.

Reclassification of Hepatitis C claims

An adjusting post balance sheet event (PBSE) was included in the 1999-2000 summarised account for the transfer of Hepatitis C claims to the NHSLA under the transfer of ELS liabilities. As these cases can no longer be included in the ELS, the comparatives have been restated to exclude the effect of the PBSE.

Disclosure of recognised gains and losses

In the 1999-2000 financial statements, figures for the unrealised gain on the revaluation of fixed assets and fixed asset impairment losses were disclosed incorrectly. This year these figures have been restated for consistency with movements in the revaluation reserve.

**Reconciliation of
cashflow statement
to Parliamentary
funding**

2.1

		Restated 1999-2000
	£000	£000
Net cash (outflow) from operating activities	(254)	(22)
Expenditure	321,264	299,504
Operating Income	(299,420)	(286,626)
Movement in working capital	5,363	5,691
Capital expenditure (net)	12,500	17,715
Capital charges adjustment	(1,438)	(3,045)
Total Parliamentary funding	38,015	33,217

Operating income

2.2

		1999-2000
	£000	£000
Blood product income	226,336	216,008
BPL product sales	52,534	46,504
Appropriations in aid	11,864	7,089
Other income	8,686	17,025
	299,420	286,626

Segmental reporting

2.3

		1999-2000
	£000	£000
BPL Income	70,672	64,989
BPL Surplus	308	5,935
BPL Fixed Assets	75,523	75,077

Under SSAP25 the net assets of a business segment would normally be reported. However, the SSAP allows for this disclosure to be limited on the grounds of commercial confidentiality and as a consequence BPL's fixed assets only have been disclosed.

Operating costs	3	£000	£000
Authority members' fees		44	42
Other salaries and wages		118,047	107,718
Other staff costs		9,199	7,672
Consumable supplies		109,914	89,743
Maintenance of buildings, plant & equipment		9,138	10,969
Rent and rates		6,509	7,118
Transport costs		5,726	5,345
External contractors		8,355	8,743
Purchase and lease of equipment and furniture		5,471	6,704
Utilities and telecommunications		4,667	4,910
Media advertising		4,666	3,224
Capital charges:			
Depreciation	13,831		12,663
Impairments	316		2,190
Interest	10,383		10,674
		<u>24,530</u>	<u>25,527</u>
Auditor's remuneration:			
-Audit fees		164	168
-Non-statutory audit fees		-	20
Reorganisation costs		(343)	3,148
Miscellaneous		15,177	18,453
Total		<u>321,264</u>	<u>299,504</u>
* Re-analysed to align comparatives			
<i>Hire and operating rentals included in expenses:</i>			1999-2000
		£000	£000
Hire of plant and machinery		253	1,090
Other operating leases		1,855	1,741
		<u>2,108</u>	<u>2,831</u>
There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998			
<i>Authority members' remuneration:</i>		£000	£000
Non-executive members' remuneration		44	42
<i>Executive members' remuneration:</i>			
Basic salaries		305	296
Benefits		19	15
Pension contributions		15	12
		<u>383</u>	<u>365</u>
			Highest Paid Director
	Chairman	Chief Executive	
	£000	£000	£000
Basic salary	22	96	120
Benefits	-	6	4
Pension contributions	-	5	6
Total	<u>22</u>	<u>107</u>	<u>130</u>
1999-2000 totals	<u>22</u>	<u>102</u>	<u>124</u>

Operating costs
(continued)

3 *The remuneration of all Board members fell within the following ranges:*

Range £	Number	1999-2000
		Number
Up to 5,000	3	-
5,001 to 10,000	3	4
15,001 to 20,000	-	1
20,001 to 25,000	1	-
90,001 to 95,000	-	1
100,001 to 105,000	2	2
More than 120,000	1	-

Executive members' remuneration and staff costs:

	1999-2000	
	£000	£000
Salaries and wages	101,392	93,888
Social security costs	7,146	6,450
Other pension costs	4,249	3,051
Agency staff	5,260	4,329
	<u>118,047</u>	<u>107,718</u>

The average monthly number of full time equivalent employees (excluding agency staff) during the year was 5,561 (1999-2000: 5,311).

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

Range £	Number	1999-2000
		Number
40,001 to 50,000	95	69
50,001 to 60,000	38	31
60,001 to 70,000	24	24
70,001 to 80,000	14	4
80,001 to 90,000	3	8
90,000 to 100,000	6	5
More than 100,000	7	4

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

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

Clinical negligence 4 Charges to operating expenses in 2000-01 in respect of clinical negligence are:

	£000	£000
Contribution to Clinical Negligence Scheme for Trusts		20
In-year provisions for future settlements:		
Gross movements on provision	693	
Less: expected from NHSLA:	(359)	
		<u>334</u>
		<u>354</u>

The expected recovery has increased as the Department of Health have agreed to fund the full value of Hepatitis C cases which have been brought under an action for product liability.

Intangible fixed assets 5.1

	£000
Gross book value as at 31 March 2000	611
Additions-purchased	135
Indexation	20
Transfers	226
Gross book value at 31 March 2001	<u>992</u>
Accumulated amortisation as at 31 March 2000	70
Provided during the year	189
Indexation	2
Accumulated amortisation as at 31 March 2001	<u>261</u>
Net book value as at 31 March 2000	541
Net book value as at 31 March 1999	731

The intangible fixed assets disclosed within this note relate to software licences.

Tangible Fixed Assets	5.2	Freehold land	Buildings, installations & fittings	Assets under construction	Equipment	Total
		£000	£000	£000	£000	£000
		Gross replacement cost or valuation as at 31 March 2000				
		13,075	122,580	4,244	80,768	220,667
		-	(3,571)	48	1,962	(1,561)
		-	1,272	4,298	5,863	11,433
		-	-	-	(443)	(443)
		-	990	(3,298)	2,082	(226)
		-	(29)	-	(8,939)	(8,968)
		Depreciation provided during the year				
		-	(5,110)	-	-	(5,110)
		-	(31)	-	-	(31)
		Gross replacement cost as at 31 March 2001				
		13,075	16,101	5,292	81,293	215,761
		Accumulated depreciation as at 31 March 2000				
					40,060	40,060
					957	957
					(50)	(50)
					(7,919)	(7,919)
		Depreciation provided during year				
					8,532	8,532
		Accumulated depreciation at 31 March 2001				
					41,580	41,580
		Net book value as at 31 March 2000				
		13,075	117,517	4,244	40,708	175,544
		Net book value as at 31 March 2001				
		13,075	116,101	5,292	39,713	174,181
Net book value of land and buildings	5.3	The net book value of land and buildings as at 31 March 2001 comprises:				31 March 2001
						£000
						122,123
						7,053
						129,176
Loss on disposals of tangible fixed assets	5.4					1999-2000
						£000
		Notional loss on disposal of buildings and equipment				(1,030)
						£000
						(326)

Stocks	6		31 March 2000	£000	£000
		Raw materials and consumables	20,935	10,427	
		Work-in-progress	3,702	2,791	
		Finished goods and goods for resale	19,872	27,169	
			<u>44,509</u>	<u>40,387</u>	
<hr/>					
Debtors	7		Restated 31 March 2000	£000	£000
		Amounts falling due within one year		£000	£000
		Department of Health, health authorities, and NHS trusts	18,749	15,365	
		Other debtors	9,294	10,723	
		Provision for bad debts	(1,258)	(800)	
		Prepayments and accrued income	3,704	3,827	
			<u>30,489</u>	<u>29,115</u>	
<hr/>					
Creditors: Amounts falling due within one year	8		£000	£000	£000
		Department of Health, health authorities, and NHS trusts	6,422	2,667	
		Non-NHS trade creditors—revenue	9,676	8,845	
		Non-NHS trade creditors—capital	551	1,453	
		Tax and social security	8	16	
		Payments received on account	32	63	
		Other creditors	53	48	
		Accruals and deferred income	7,463	10,804	
			<u>24,205</u>	<u>23,896</u>	
<hr/>					
Reconciliation of operating surplus to net cash (outflow) from operating activities	9		£000	£000	1999-2000
		Operating surplus	5,109	5,669	
		Depreciation of donated assets	16	17	
		Releases from donated asset reserve	(16)	(17)	
		(Increase) in stocks	(4,122)	(9,529)	
		(Increase) in debtors	(1,374)	(9,388)	
		Increase in creditors & provisions	133	13,226	
		Net cash (outflow) from operating activities	<u>(254)</u>	<u>(22)</u>	

Provisions for liabilities and charges	10	Early retirement	Restated product	Clinical	Other	Total
		costs	liability	negligence		
		£000	£000	£000	£000	£000
At 31 March 2000		2,109	4,980	194	1,821	9,104
Arising during the year		790	534	886	1,261	3,471
Utilised during the year		(616)	0	(5)	(307)	(928)
Reversed unused		(1,390)	0	(188)	(1,141)	(2,719)
At 31 March 2001		893	5,514	887	1,634	8,928

Expected timing of cashflows:

Within 1 year	804	5,514	592	1,297	8,207
1-5 years	70	0	295	337	702
Over 5 years	19	0	0	0	19

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.

Provisions for the settlement of Hepatitis C cases amounting to £5,514,000 have been brought under an action for product liability through a legal judgement by the Queen's Bench Division of the High Court.

Reserves	11	Capital Revaluation	Donated	Income &	
		reserve	asset	expenditure	
		£000	reserve	reserve	
At 31 March 2000		156,000	19,997	88	36,955
Transfer from income & expenditure account		-	-	-	5,109
Additions		11,568	-	-	-
Impairments charged to I & E		(282)	-	(34)	-
Impairments-revaluation		-	(75)	(2)	-
Revaluation & indexation		-	2,530	2	-
Disposals		(1,007)	(42)	-	-
Depreciation		(13,815)	-	(16)	-
At 31 March 2001		152,464	22,410	38	42,064

Analysis of changes in cash	12		At 31 March 2000 £000	Change during the year £000	At 31 March 2001 £000												
		Cash at bank and in hand	453	(254)	199												
			<u>453</u>	<u>(254)</u>	<u>199</u>												
<hr/>																	
Contingent liabilities	13	<p>A net contingent liability of £934,000 (1999-2000: £1,428,000) relates to outstanding legal claims. £1,185,000 represents the gross cost and £251,000 would be refunded by the NHS Litigation Authority for those claims relating to clinical negligence.</p> <p>A contingent liability of £3,062,047 relates to Hepatitis C cases brought under an action for product liability. These cases can no longer be included within the ELS scheme and if settled will be funded directly by the Department of Health.</p> <p>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. During the year work began to establish the required production facility, the capital costs and set up costs of this are being 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.</p> <p>Insurance to cover product liability will be effected from the date of the first sale which is expected in 2003-04. 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.</p>															
<hr/>																	
Capital commitments	14	<p><i>The Authority has the following capital commitments:</i></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: right;">£000</th> <th style="text-align: right;">31 March 2000 £000</th> </tr> </thead> <tbody> <tr> <td>Contracted for</td> <td style="text-align: right;">1,735</td> <td style="text-align: right;">2,103</td> </tr> <tr> <td>Authorised but not contracted</td> <td style="text-align: right;">4,437</td> <td style="text-align: right;">3,123</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>6,172</u></td> <td style="text-align: right;"><u>5,226</u></td> </tr> </tbody> </table>					£000	31 March 2000 £000	Contracted for	1,735	2,103	Authorised but not contracted	4,437	3,123		<u>6,172</u>	<u>5,226</u>
	£000	31 March 2000 £000															
Contracted for	1,735	2,103															
Authorised but not contracted	4,437	3,123															
	<u>6,172</u>	<u>5,226</u>															
<hr/>																	
Operating lease commitments	15	<p><i>Commitments under non-cancellable operating leases:</i></p> <p>Operating leases which expire:</p> <p> Within one year</p> <p> Between one and five years</p> <p> In over five years</p>	<p>Land and buildings</p> <p>£000</p> <p>421</p> <p>3,289</p> <p>385</p> <p><u>4,095</u></p>	<p>Other</p> <p>£000</p> <p>206</p> <p>417</p> <p>-</p> <p><u>623</u></p>													

Post balance sheet events	16	There were no post balance sheet events.
<hr/>		
Losses	17	There were 289 loss cases in 2000-01 (1999-2000: 342) amounting to £508,000 (1999-2000: £921,000). There were no cases individually amounting to £100,000 or more (1999-2000: 2 cases).
<hr/>		
Related parties	18	<p>The 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 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>the majority of NHS acute trusts.</p> <p>Mrs Jennie Gubbins, a non-executive member, is a partner of Trowers & Hamblins, solicitors and provides legal advice to the NHS Litigation Authority.</p> <p>The Authority has also received revenue payments from two charitable funds, the Trustees for which are also members of the Board.</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 Blood Authority.</p>

The summarised accounts direction is at page 393.

Summarised Account of the 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 present 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; 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the National Institute for Clinical Excellence. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the National Institute for Clinical Excellence made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 272 to 282 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 275 to 277.

Respective responsibilities of Accounting Officer and Auditor

As described on page 269, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 270 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of the National Institute for Clinical Excellence at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- In all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	1999-2000 £000	2000-2001 £000
Programme costs	2.1	10,607	9,650
Operating income	3	(670)	(950)
Net operating cost		9,937	9,550

Statement of Recognised Gains and Losses for the year ended 31 March 2001

There were no recognised gains or losses in the year.

The notes at pages 275 to 282 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets			
Tangible assets	4	373	20
Current assets			
Debtors	5	845	251
Cash at bank and in hand	6	159	86
		<u>1,004</u>	<u>337</u>
Creditors: (amounts falling due within one year)	7	(1,018)	(726)
Net current liabilities		<u>(14)</u>	<u>(389)</u>
Total assets less current liabilities		<u>359</u>	<u>(369)</u>
Total net assets		<u>359</u>	<u>(369)</u>
Taxpayers' equity			
General Fund	10	359	(369)
		<u>359</u>	<u>(369)</u>

The notes at pages 275 to 282 form part of this account.

Nigel Crisp

Accounting Officer for the Department of Health

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Net cash outflow from operating activities	11	10,183	7,345
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		369	20
Net cash outflow from investing activities		369	20
Net cash outflow before financing		10,552	7,365
Financing			
Net Parliamentary funding		10,625	7,451
(Increase) in cash in the period	6	(73)	(86)

The notes at pages 275 to 282 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 their current costs.
- 1.2 Operating Income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments and from the National Assembly for Wales. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital Charges**
- A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-2001 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, (OPG), where the charge is nil.
- 1.5 Fixed Assets**
- (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:

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

(iii) Depreciation

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, information technology, short life medical and other equipment	5

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 five 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 and employee 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 operating cost statement at the time the Board commits itself to the retirement, regardless of the method of payment.

1.7 Operating Leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

1.8 Losses and Special Payments

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

1.9 Prior Period Adjustment

A prior period adjustment has been made to remove a debtor of £1,345,000 from the 1999-2000 comparative figures as funding debtors with the Department of Health are not permitted under resource accounting.

Programme Costs 2.1

	£000	£000	1999-2000 £000
Staff costs		1,275	673
External contractors		6,557	7,126
Consumable supplies		717	468
Rent and rates		698	415
Travel and subsistence		334	122
Maintenance of buildings, plant and equipment		242	46
Premises and fixed plant		215	486*
Capital: Depreciation	16		1
Capital charges interest	40		1
Total non-cash items		56	2
Recharges from NHS bodies		83	50
Transport costs		1	1
Auditor's remuneration-Audit fees		22	15
Miscellaneous		407	246
		10,607	9,650

*Includes £391,000 paid by the Department of Health for accommodation costs.

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (1999-2000: £0).

2.2	Commitments under non-cancellable operating leases are:	£000	1999-2000 £000
	Land and buildings		
	Operating leases which expire:		
	Between 1 and 5 years	938	-

Authority Members' 2.3 Remuneration	£000	£000
Non-executive members' remuneration	60	56
	Chairman	Chief Executive
	£000	£000
Basic salaries	21	114
Pension contributions	-	5
	<u>21</u>	<u>119</u>
1999-2000 Totals	<u>21</u>	<u>94</u>

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 five 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 3 years expiring on 31 March 2002, which can be renewed at the discretion of the Secretary of State for Health. He is seconded from the University of Newcastle to whom the reimbursement detailed above is made.

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

Range £	Number	1999-2000 Number
Up to 5,000	1	2
5,001 to 10,000	6	5
20,001 to 25,000	-	1
25,001 to 30,000	1	1
45,001 to 50,000	-	1
70,001 to 75,000	1	-
75,001 to 80,000	-	1
90,001 to 95,000	-	1
Over 100,000	2	-

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

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

Staff Costs	2.4	Executive members' remuneration and staff costs	1999-2000	
			£000	£000
		Salaries and wages	924	480
		Social security costs	85	43
		Other pension costs	42	18
		Redundancy payments and pension capitalisations	164	76
			<u>1,215</u>	<u>617</u>
		Authority non-executive members remuneration	60	56
		Total staff costs	<u>1,275</u>	<u>673</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 30. (1999-2000: 10)

Operating Income **3** **Operating income analysed by classification and activity, is as follows:**

		1999-2000	
		Total	Total
		£000	£000
		Programme income:	
		National Assembly for Wales	-
		Fees & charges to external customers	69
		Other	24
		Total	<u>93</u>

Tangible Fixed Assets	4	Equipment	
		£000	
		Gross replacement cost as at 31 March 2000	21
		Additions	369
		Gross replacement cost at 31 March 2001	<u>390</u>
		Accumulated depreciation as at 31 March 2000	1
		Charge for the year	16
		Accumulated depreciation at 31 March 2001	<u>17</u>
		Net book value as at 31 March 2000	20
		Net book value as at 31 March 2001	373

Debtors	5	Amounts falling due within one year:	£000	Restated 31 March 2000 £000	
		NHS debtors	708	-	
		Other debtors	137	140	
		Prepayments and accrued income	-	111	
			<u>845</u>	<u>251</u>	
<hr/>					
Analysis of Changes in Cash	6		At 31 March 2000 £000	Change during the year £000	At 31 March 2001 £000
		Cash at OPG	-	159	159
		Cash at commercial banks and in hand	86	(86)	-
			<u>86</u>	<u>73</u>	<u>159</u>
<hr/>					
Creditors: Amounts falling due within one year	7		£000	31 March 2000 £000	
		Non-NHS trade creditors—revenue	895	457	
		NHS creditors	88	146	
		Tax and social security	35	27	
		Accruals and deferred income	-	96	
			<u>1,018</u>	<u>726</u>	
<hr/>					
Provision for Liabilities and Charges	8	There were no provisions in 2000-01.			
<hr/>					
Movements in Working Capital other than Cash	9		£000	Restated 1999-2000 £000	
		Increase/(decrease) in debtors	594	(1,094)	
		(Increase) in creditors	(292)	(726)	
			<u>302</u>	<u>(1,820)</u>	

Reserves	10	The movement on the General Fund in the year comprised:	£000
		Balance at 31 March 2000 as previously stated	976
		Prior period adjustment	(1,345)
		Restated balance at 31 March 2000	(369)
		Net operating cost for the year	(9,937)
		Net Parliamentary funding	10,625
		Non cash items:	
		Capital charge interest	40
		Balance at 31 March 2001	359
<hr/>			
Reconciliation of Operating Cost to Operating Cash Flows	11		1999-2000
			£000 £000
		Net operating cost for the year	9,937 9,557
		Adjust for non-cash transactions 2.1	(56) (392)
		Adjust for movements in working capital other than cash 9	302 (1,820)
		Net cash flow from operating activities	10,183 7,345
<hr/>			
Contingent Liabilities	12	At 31 March 2001, there were no known contingent liabilities.	
<hr/>			
Capital Commitments	13	At 31 March 2001, there were no capital commitments.	
<hr/>			
Operating Lease Commitments	14	The Institute has an operating lease at a cost of £200,000 per annum on its current premises at 11 The Strand. The lease commenced in October 2000 for an initial period of 5 years with the option to extend the lease period for a further 5 years after the initial period has expired.	
<hr/>			
Other Commitments	15	The Authority has no other non-cancellable contracts (which are not operating leases).	

Losses and Special Payments 16 There were no cases of loss in 2000–2001 (1 case of less than £1,000 in 1999–2000)

Related Parties 17 The Authority is a body corporate established by order of the Secretary of State for Health and the National Assembly for Wales.

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, ie:

St George's Healthcare NHS Trust
Other NHS Trusts
Wiltshire Health Authority

During the year Chelsea and Westminster NHS Trust entered into a service level agreement with the Authority to provide financial and other support.

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.

Post Balance Sheet Events 18 There were no post balance sheet events.

The summarised accounts direction is at page 393.

Summarised Account of 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 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 National Health Service Information Authority, 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 Health Service 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the NHS Information Authority. It is his responsibility within his individual organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to the accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require him to make a statement on his system of internal financial control supported, by an auditor's report, with the annual accounts.

For the 2000-2001 financial year, the Accountable Officer of the NHS Information Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp
Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 288 to 300 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 291 to 293.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 285, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 286 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the National Health Service 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Health Service Information Authority at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- In all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Programme Costs:			
Operating costs	2.1	75,621	49,552
Operating income	3	(5,901)	(5,185)
Net operating costs		<u>69,720</u>	<u>44,367</u>
Exceptional item—restructuring costs		98	1,618
Net operating cost		<u>69,818</u>	<u>45,985</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	£000	£000
Unrealised surplus on the revaluation of properties	<u>41</u>	<u>213</u>

There are no other recognised gain and losses for the financial period.

The notes at pages 291 to 300 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	31 March 2000 £000
Fixed assets			
Intangible fixed assets	4	76	—
Tangible fixed assets	4	<u>4,160</u>	<u>4,154</u>
		4,236	4,154
Current assets			
Work in progress		—	57
Debtors	6	10,876	5,817
Cash at bank and in hand	14	<u>88</u>	<u>263</u>
		10,964	6,137
Creditors: Amounts falling due within one year	7	<u>(4,033)</u>	<u>(7,031)</u>
Net current assets/(liabilities)		6,931	(894)
Total assets less current liabilities		11,167	3,260
Provisions for liabilities and charges	8	<u>(1,229)</u>	<u>(1,339)</u>
		9,938	1,921
Taxpayers' equity			
General Fund	13	9,699	1,708
Revaluation reserve	9	<u>239</u>	<u>213</u>
		9,938	1,921

The notes at pages 291 to 300 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the period ended 31 March 2001

	Notes	£000	1999-2000 £000
Net cash outflow from operating activities	16	<u>76,160</u>	<u>44,192</u>
Capital expenditure			
Purchase of fixed assets		1,462	1,120
Net cash outflow from investing activities		<u>1,462</u>	<u>1,120</u>
Net cash outflow before financing		<u>77,622</u>	<u>45,312</u>
Financing			
Net Parliamentary Funding		77,447	44,906
Decrease in cash	14	<u>175</u>	<u>406</u>

The notes at pages 291 to 300 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.
- 1.2 Operating Income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as that from investments and from the Scottish Executive, National Assembly for Wales and the National Assembly for Northern Ireland. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital charges**
- A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General, where the charge is nil.
- 1.5 Fixed Assets**
- (i) Capitalisation*
- All assets falling into the following categories are capitalised:
- intangible assets where they are capable of being used for more than one year and have a cost, individually or as a group, equal to or greater than £5,000;
 - 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:

- intangible assets held for operational use are valued at historical cost. Surplus intangible assets are valued at the net recoverable amount;
- valuations are on the basis of Existing Use Value. 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.

(iii) Depreciation

Depreciation is charged on a straight line basis on each individual fixed asset as follows:

- Intangible assets are amortised on a straight line basis over their estimated lives up to a maximum of 20 years. The carrying amount 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;
- 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:

	Year
moveable engineering plant and equipment, and long life medical equipment	1
furniture and medium life medical equipment	1
vehicles and soft furnishings	
office, information technology, short life medical and other equipment	

(iv) Fixed Assets (change in accounting policy)

The Authority revised its fixed asset accounting policy with effect from 1 April 2000. The reason for this change was to bring the accounting policy into line with NHS practice. The change in policy means that some assets will be written back to expenditure and no longer carried on the Authority's balance sheet. On Department of Health advice, all of the changes have been effected through the 2000-01 operating cost statement. The net effect of the changes is as follows:

	£00
Gross replacement cost or valuation of assets written back	1,127
Revaluation reserve written back	(9)
Depreciation written back	(246)
Total net assets written back to operating cost statement in year	872

The costs of assets written back are included as non-cash transactions in the cash flow statement.

1.6 Leases

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

1.7 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.

1.8 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 five 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 operating cost statement at the time the Authority commits itself to the retirement, regardless of the method of payment.

1.9 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).

Programme costs	2.1	1999-2000	
		£000	£000
Non-executive members' remuneration		42	42
Other salaries and wages		18,804	15,129
Consumable supplies		1,393	5,670
Maintenance of buildings, plant & equipment		454	714
Rent and rates		1,218	949
Transport costs		2,498	732
Premises and fixed plant		3,442	552
External contractors		36,047	15,388
Capital charges-Depreciation		540	477
-Cost of capital		356	110
-Assets written off		872	-
Auditor's fee		24	73
Other auditors' remuneration		159	79
Interest payable		-	1
Recharges from NHS bodies		9,166	692
Miscellaneous		606	8,944
Total		75,621	49,552

Staff numbers and costs	2.2	Authority members' remuneration:	
		£000	£000
		42	42
			Chief
			Chairman
			Executive
		£000	£000
Basic salary		21	98
Benefits		-	4
Pension contributions		-	5
Total		21	107
1999-2000 Totals		22	73

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

Range £	Number	Number
5,001 to 10,000	4	5
10,001 to 15,000	-	1
20,001 to 25,000	1	2
65,001 to 70,000	2	1
70,001 to 75,000	1	-
75,001 to 80,000	2	-
90,001 to 95,000	1	-
105,001 to 110,000	1	-

2.3 Executive members and other staff costs

The aggregate payroll costs of executive members and other staff costs were as follows:

	1999-2000	
	£000	£000
Wages and salaries	16,289	13,305
Social Security costs	1,338	1,089
Other pension costs	707	466
Agency staff	512	269
Total	18,846	15,129

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-01 accounts pending the issue of further central guidance.

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

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

Range £	Number	Number
40,001 to 50,000	52	37
50,001 to 60,000	13	13
60,001 to 70,000	4	5
70,001 to 80,000	5	1
90,001 to 100,000	1	-

The average number of whole-time equivalent persons employed (including senior management) during the period was as follows: 542 (1999-2000: 485).

Operating income 3 Operating income analysed by classification and activity, is as follows:

	1999-2000	
	£000	£000
Administration income:		
Fees & charges to external customers	628	4,731
Other	5,273	454
Total	5,901	5,185

Fixed assets **4**

	£000
Intangible Fixed assets	
Gross replacement cost or valuation as at 31 March 2000	-
Additions	50
Transfers	83
Gross replacement cost or valuation as at 31 March 2001	133
Accumulated depreciation as at 31 March 2000	0
Depreciation provided during the period	44
Transfers	13
Accumulated depreciation at 31 March 2001	57
Net book value as at 31 March 2000	-
Net book value as at 31 March 2001	76

Tangible Fixed assets

	Freehold Land £000	Buildings, installations & fittings £000
Gross replacement cost or valuation as at 31 March 2000	619	2,177
Additions	-	931
Indexation	-	26
Gross replacement cost or valuation as at 31 March 2001	619	3,134
Accumulated depreciation as at 31 March 2000	-	63
Depreciation provided during the period	-	125
Accumulated depreciation at 31 March 2001	-	188
Net book value as at 31 March 2000	619	2,114
Net book value as at 31 March 2001	619	2,946

	Equipment £000	Total Fixed Assets £000
Gross replacement cost or valuation as at 31 March 2000	1,835	4,631
Additions	481	1,462
Indexation	15	41
Transfers	(83)	-
Written off	(1,127)	(1,127)
Gross replacement cost or valuation as at 31 March 2001	1,121	5,007
Accumulated depreciation as at 31 March 2000	414	477
Depreciation provided during the period	371	540
Transfers	(13)	-
Written off	(246)	(246)
Accumulated depreciation at 31 March 2001	526	771
Net book value as at 31 March 2000	1,421	4,154
Net book value as at 31 March 2001	595	4,236

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

**Movements in
working capital other
than cash**

5

	31 March 2001 £000	31 March 2001 £000
Decrease/(increase) in stocks	(57)	32
Increase in debtors	5,059	3,449
Decrease/(increase) in creditors	2,998	(3,429)
	8,000	52

Debtors

6

	31 March 2001 £000	31 March 2000 £000
Amounts falling due within one year		
Department of Health, health authorities, and NHS trusts	1,263	1,215
Trade debtors	1,257	576
Other debtors	3,271	1,538
Provision for bad debts	(19)	(18)
Prepayments and accrued income	5,104	2,506
	10,876	5,817

Creditors: Amounts falling due within one year	7		£000	£000
		Department of Health, health authorities, and NHS trusts	405	3,287
		Non-NHS trade creditors-revenue	3,035	1,939
		Tax and social security	42	509
		Other creditors	-	230
		Accruals and deferred income	551	1,066
			4,033	7,031
Provisions for liabilities and charges	8			
			Early retirement costs	Other
			£000	£000
		At 31 March 2000	1,139	200
		Arising during the year	-	1,145
		Utilised during the year	(1,135)	(56)
		Reversed unused	-	(64)
		At 31 March 2001	4	1,225
		Expected timing of cashflows:		
		Within 1 year	4	1,225
Reserves	9			Revaluation Reserve
				£000
		At 31 March 2000		213
		Arising on revaluation during the period		41
		Transfer to general fund-realised revaluation		(6)
		Written off		(9)
		Balance at 31 March 2001		239
Capital commitments	10	The Authority has no capital commitments.		
Operating lease commitments	11	Commitments under non-cancellable operating leases:		
			Land and buildings	Other
			£000	£000
		Operating leases which expire:		
		Within one year	26	41
		Between one and five years	39	308
		In over five years	428	-
			493	349

Contingent liabilities 12 The Authority has no contingent liabilities (1999-2000: £1,228,000).

Reconciliation of net operating cost to changes in the general fund	13		£000
		Net operating cost for the year	(69,818)
		Net parliamentary funding	77,447
		Non-cash charges: Capital charge interest	356
		Transfer from revaluation reserve	6
		Net increase in general fund	7,991
		General fund at 31 March 2000	1,708
		General fund at 31 March 2001	9,699

The Parliamentary funding is net of £0 (1999-2000: £402,000) refunded to the Department of Health in respect of estimated funding of capital charges.

Analysis of changes in cash	14		At	Change	At
			31 March	during the	31 March
			2000	year	2001
			£000	£000	£000
		Cash at bank and in hand	263	(175)	88

In addition to bank accounts reported above the Authority holds accounts in trust for the European Union. The balance held at 31 March 2001 (31 March 2000: 159,491 Euros) was 1,314 Euros.

Losses 15 There were 10 (1999-2000: 78) loss and special payment cases in 2000-01 amounting to £34,802 (1999-2000: £91,119). There were no cases individually amounting to £100,000 or more.

Reconciliation of operating cost to operating cash flows	16		1999-2000
			£000
		Net operating cost for the year	69,818
		Adjust for non-cash transactions	(1,768)
		Adjust for movements in working capital other than cash	8,000
		Decrease/(Increase) in provisions	110
		Net cash flow from operating activities	76,160
			44,192

- 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 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.
- The spouse of Mr B Curtis, who is a key member of staff, is a director of Exeter Systems. This company paid the Authority £51,000 for goods and services during the financial year.
-

The summarised accounts direction is at page 393.

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 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the NHS Litigation Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each Accountable Officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control, supported by an auditor's report, with the annual accounts.

For the 2000-01 financial year, the Accountable Officer of the NHS Litigation Authority made a statement on the system of internal financial control indicating that a review had been performed of the system of internal financial control and the minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 306 to 319 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 309 to 313.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 303, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 304 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the National Health Service 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Health Service Litigation Authority at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury.
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	£000	Restated 1999-2000 £000
Expenditure			
Authority and claims administration	2, 3.1	(178,527)	(100,255)
Claims and associated costs	2	<u>3,141,789</u>	<u>536,420</u>
		2,963,262	436,165
Operating Income			
Schemes income	2	<u>(67,455)</u>	<u>(44,587)</u>
Net Operating Cost		<u>2,895,807</u>	<u>391,578</u>

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Unrealised surplus on indexation of fixed assets	9	<u>7</u>	<u>8</u>
Total recognised gains relating to the financial year		<u>7</u>	<u>8</u>
Prior year adjustment	7	<u>(39,000)</u>	
Total (losses) recognised since last annual report		<u>(38,993)</u>	

The notes at pages 309 to 319 form part of this account.

Balance Sheet as at 31 March 2001

	Note	£000	Restated 31 March 2000 £000
Fixed assets			
Intangible assets	4.1	229	94
Tangible assets	4.2	323	244
		<u>552</u>	<u>338</u>
Current assets			
Debtors	5	26,313	25,394
Cash at bank and in hand	16	96,917	47,667
		<u>123,230</u>	<u>73,061</u>
Creditors: amounts falling due within one year	6	(212,803)	(3,485)
Total assets less current liabilities		<u>(89,021)</u>	<u>69,914</u>
Provision for liabilities and charges	7	(4,170,253)	(1,901,430)
		<u>(4,259,274)</u>	<u>(1,831,516)</u>
Financed by:			
General Fund	8	(2,103,985)	(96,176)
Revaluation reserve	9	15	8
CNST reserve	10	(2,129,597)	(1,718,906)
PES reserve	11	4,819	(50)
LTPS reserve	12	(30,526)	(16,392)
		<u>(4,259,274)</u>	<u>(1,831,516)</u>

The notes at pages 309 to 319 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Note	£000	1999-2000 £000
Net cash outflow from operating activities	14	605,550	986
Capital Expenditure			
Payments to acquire fixed assets		<u>303</u>	<u>211</u>
		<u>605,853</u>	<u>1,197</u>
Analysis of Financing			
Net Parliamentary funding		<u>655,103</u>	<u>15,636</u>
(Increase) in cash	16	<u>(49,250)</u>	<u>(14,439)</u>

The notes at pages 309 to 319 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 by the application of current cost principles to tangible fixed assets, and in accordance with directions issued by the Secretary of State, with the approval of Treasury.
- 1.2 Operating income**
- Operating income is payments receivable from NHS Trusts/PCTs who are members of the Clinical Negligence Scheme for Trusts (CNST), Property Expenses Scheme (PES) or Third Party Liability Scheme (LTPS).
- 1.3 Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4 Capital charges**
- A charge, reflecting the cost of capital utilised by the Authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000–01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil. The charge for 1999–2000 has been restated to reflect the change in calculation required by the application of the Resource Accounting Manual. This decreased the net operating cost by £109,901,000, but did not affect the reserves brought forward to 2000–2001.
- 1.5 Fixed assets**
- (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;
 - 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.

(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

- 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.
- equipment is to be depreciated over the estimated life of the asset:

	Years
furniture	10
office, information technology and other equipment	5

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 five 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 and employee 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 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.

1.8 Allocation of costs

The apportionment of administration expenditure to the various segments in the operating cost statement (Note 2), has been made on the basis of actual costs where known, with the remainder based pro rata to the actual costs allocated under the individual schemes.

1.9 Outstanding claims liabilities*Existing Liabilities Scheme (ELS)*

As at 1 April 2000 the Authority became responsible for the ELS scheme. The scheme is funded by the Department of Health and the accounts for the scheme are prepared in accordance with FRS 12.

A provision for this scheme is calculated in accordance with FRS 12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 1995. This is disclosed in Note 7.

The calculation is made using:

- (i) probability factors. The probability of each claim having to be settled is assessed 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 6% per annum is applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in Note 13.

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.

Clinical Negligence Scheme for Trusts (CNST)

A provision for this scheme is calculated in accordance with FRS 12 by discounting the gross value of all claims received relating to incidents which occurred on or before 31 March 2001 and after 1 April 1995. This is disclosed in Note 7.

The calculation is made using:

- (i) probability factors. The probability of each claim having to be settled is assessed 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 6% per annum applied to the probable cost to take into account the likely time to settlement.

The difference between the gross value of claims and the amount of the provision calculated above is also discounted, taking into account the likely time to settlement, and is included in contingent liabilities as set out in Note 13.

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

- a. the probable cost and time to settlement in accordance with scheme guidelines;
- b. that they are qualifying incidents; and
- c. that the Trust remains a member of the scheme.

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 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 2001, 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 £79,363,000 (Note 7) for their total amount. A contingent liability has been included for the scheme in relation to IBNR. 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.

FRS 12 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 FRS 12.

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 FRS 12.

Incidents Incurred but not reported (IBNR)

FRS 12 requires the inclusion of liabilities in respect of incidents which have been incurred but not reported to the NHS Litigation Authority as at 31 March 2001 when the following can be reasonably forecast:

- (a) that an adverse incident has occurred; and
- (b) that a transfer of economic benefit will occur; and
- (c) that a reasonable estimate of the likely value can be made.

The provisions and contingent liabilities for all schemes have, therefore, been adjusted to include IBNR which will subsequently be replaced by actual provisions 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.

2000-01 is the first year IBNR provisions and contingent liabilities for the ELS have been included in the accounts.

1.10 Prior year adjustment

The Authority has included IBNR for the Ex-RHA, PES and LTPS for the first time. As a result all the schemes are accounted for on a consistent basis. The effect is for a prior year adjustment to increase provisions by £39 million, Note 7.

Allocation of income and expenditure to the clinical negligence funding schemes

	CNST £000	ex-RHAs £000	ELS £000	PES £000	LTPS £000	Total £000	Restated Total 1999-2000 £000
Expenditure							
Authority and claims administration	(54,728)	(1,691)	(83,973)	(6,951)	(31,184)	(178,527)	(100,255)
Claims and associated costs	457,772	(10,070)	2,668,887	5,038	20,162	3,141,789	536,420
	<u>403,044</u>	<u>(11,761)</u>	<u>2,584,914</u>	<u>(1,913)</u>	<u>(11,022)</u>	<u>2,963,262</u>	<u>436,165</u>
Income							
Scheme income	49,696	-	-	10,239	7,519	67,455	44,587
	<u>49,696</u>	<u>-</u>	<u>-</u>	<u>10,239</u>	<u>7,519</u>	<u>67,455</u>	<u>44,587</u>
Net operating Cost	<u>(353,348)</u>	<u>11,761</u>	<u>(2,584,914)</u>	<u>12,152</u>	<u>18,541</u>	<u>(2,895,807)</u>	<u>(391,578)</u>

Expenses of the Authority include the following in respect of claims and associated costs:

Settlements not previously accrued	2,335,967	177,582
In year provision for future settlements	805,822	358,838
	<u>3,141,789</u>	<u>536,420</u>

The net operating cost has increased by £2,504,229,000 compared to 1999-2000. This is mainly due to the transfer of ELS claims from the accounts of health authorities and NHS Trusts to the accounts of the NHS Litigation Authority.

**Authority
administration****3 3.1 Authority administration costs include:**

	Note	£000	1999-2000 £000
Non-executive members' remuneration		30	32
Other salaries and wages	3.3	3,230	1,881
External contractors		4,009	6,723
Premises		685	649
Establishment expenses		362	230
Transport and moveable plant		36	23
Capital-depreciation		96	55
-cost of capital		(187,060)	(109,891)
Auditors' remuneration-audit fees		71	37
Miscellaneous		14	6
		<u>(178,527)</u>	<u>(100,255)</u>

Operating leases of £4,871 (1999-2000: £5,000), in respect of the Chief Executive's car, and £27,527 (1999-2000: £18,000) in respect of other vehicles are included in the costs of the Authority.

Commitments under non-cancellable operating leases are:

	£000	1999-2000 £000
Land and buildings		
Expiring between 1 and 5 years	75	68
Expiring after 5 years	557	353
Other leases		
Expiring between 1 and 5 years	32	23

3.2 Authority members' remuneration:

The Chairman's remuneration was £19,285 (1999-2000: £18,365). Other members received remuneration in the range:

Range (£)	Number	1999-2000 Number
0 to 5,000	-	3
5,001 to 10,000	2	-
10,001 to 20,000	-	1

3.3 Executive members and other staff costs:

	£000	1999-2000 £000
Salaries and wages	2,634	1,583
Social security costs	225	131
Other pension costs	113	49
Agency staff	258	118
	<u>3,230</u>	<u>1,881</u>

The average number of employees, excluding agency staff, during the year was 85 (1999-2000: 57).

The Chief Executive's remuneration was £97,840 (1999-2000: £96,344), including basic salary of £87,804 (1999-2000: £87,388), benefits of £5,910 (1999-2000: £5,250) and pension contributions of £4,126 (1999-2000: £3,760).

The remuneration of other senior managers (excluding pension contributions) fell within the following ranges:

Range £	Number
40,000-50,000	9
50,001-60,000	2
60,001-70,000	1
90,001-100,000	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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further guidance. The salaries of the senior managers of the Authority are included in the table above.

Fixed assets	4	4.1 Intangible fixed assets	£000
		Historic cost at 1 April 2000	97
		Additions	161
		Historic cost at 31 March 2001	258
		Accumulated depreciation at 1 April 2000	3
		Provided during the year	26
		Accumulated depreciation at 31 March 2001	29
		Net book value at 1 April 2000	94
		Net book value at 31 March 2001	229

4.2 Tangible fixed assets**Equipment**

	£000
Gross replacement cost at 31 March 2000	321
Indexation	7
Additions	142
Gross replacement cost at 31 March 2001	470
Accumulated depreciation at 31 March 2000	77
Provided during the year	70
Accumulated depreciation at 31 March 2001	147
Net book value at 31 March 2000	244
Net book value at 31 March 2001	323

Debtors: Amounts falling due within one year

5

1999-2000

	£000	£000
Schemes' debtors	4,240	459
NHS ELS call-in debtors	3,077	-
Other NHS debtors	17,629	24,460
Other debtors	1,367	475
	26,313	25,394

Creditors: Amounts falling due within one year

6

1999-2000

	£000	£000
NHS ELS call-in creditors	195,761	-
Other NHS creditors	271	797
Other creditors	16,771	2,688
	212,803	3,485

Provisions for liabilities and charges

7

	ex-RHA scheme £000	ELS scheme £000	CNST scheme £000	PES scheme £000	LTPS scheme £000	Total £000
At 31 March 2000	78,805	-	1,777,267	2,501	3,857	1,862,430
Prior year adjustment	18,000	-	-	3,000	18,000	39,000
Restated at 31 March 2000	96,805	-	1,777,267	5,501	21,857	1,901,430
Value at 1 April 2000	-	2,058,023	-	-	-	2,058,023
Discounting	(9,708)	(203,091)	(113,307)	-	(114)	(326,220)
Arising during year	12,262	281,687	502,471	2,364	7,038	805,822
Utilised during year	(6,843)	(441,123)	(157,448)	(230)	(1,042)	(606,686)
Unwinding of discount	2,540	-	28,586	3	77	31,206
IBNRs arising	(15,693)	131,298	174,949	2,472	13,652	306,671
At 31 March 2001	79,363	1,826,794	2,212,518	10,110	41,468	4,170,253
Expected timing of cashflows:						
Within 1 year	24,587	367,789	225,565	4,611	7,876	630,428
1-5 years	40,052	1,170,644	678,366	27	1,939	1,891,034
Over 5 years	14,724	288,361	1,308,587	5,472	31,653	1,648,797
Total	79,363	1,826,794	2,212,518	10,110	41,468	4,170,253

General Fund	8		£000
		At 3 March 2000	(78,176)
		Prior year adjustment	(18,000)
		Restated 31 March 2000	(96,176)
		Transfer from Operating Cost Statement	(2,573,153)
		Net Parliamentary funding	655,103
		Cost of capital	(89,759)
		At 31 March 2001	(2,103,985)
<hr/>			
Revaluation reserve	9		£000
		At 31 March 2000	8
		Indexation	7
		At 31 March 2001	15
<hr/>			
CNST reserve	10		£000
		At 31 March 2000	(1,718,906)
		Transfer form Operating Cost Statement	(353,348)
		Cost of capital	(57,343)
		At 31 March 2001	(2,129,597)
<hr/>			
PES reserve	11		£000
		At 31 March 2000	2,950
		Prior year adjustment	(3,000)
		Restated 31 March 2000	(50)
		Transfer from Operating Cost Statement	12,152
		Cost of capital	(7,283)
		At 31 March 2001	4,819
<hr/>			
LTPS reserve	12		£000
		At 31 March 2000	1,608
		Prior year adjustment	(18,000)
		Restated 31 March 2000	(16,392)
		Transfer from Operating Cost Statement	18,541
		Cost of capital	(32,675)
		At 31 March 2001	(30,526)

Contingent liabilities 13

Contingent liabilities in respect of the various schemes represent the difference between the gross value of claims and the amount of the provision, Note 7, adjusted for the time value of money, and are set out below.

	ex-RHA scheme £000	ELS scheme £000	CNST scheme £000	PES scheme £000	LTPS scheme £000	Tota £000
Gross value of the estimated cost of settlement of claims notified relating to incidents on or before 31 March 2001 and certified by the members as being correct (NHSLA undiscounted provision + NHSLA contingent liability) IBNR (as supplied by actuaries)	7,307	3,553,426	2,236,378	6,904	18,319	5,822,330
less:						
Provisions for notified claims	-	(1,898,586)	(1,161,939)	(4,640)	(9,933)	(3,075,098)
Discount	-	(212,463)	(157,029)	-	(95)	(369,587)
Provisions for IBNR	(9,693)	(131,298)	(1,183,949)	(5,472)	(31,652)	(1,362,066)
Contingent liability for claims notified	(2,386)	1,572,377	2,232,410	6,264	35,291	3,843,954

The provision for claims, based on the probable costs of settlement and adjusted in accordance with FRS 12, 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 have been effected in accordance with the rules.

Reconciliation of operating costs to operating cash flows 14

	Note	1999-2000 £000	1999-2000 £000
Net operating cost for the year		(2,895,807)	(538,466)
Adjust for non-cash transactions	3	(186,964)	(109,836)
Adjust for movements in working capital other than cash	15	208,398	(22,830)
Movement in provisions	7	2,268,823	670,146
Net cash flow from operating activities		(605,550)	(986)

Movements in working capital other than cash 15

	1999-2000 £000	1999-2000 £000
(Increase) in debtors	(919)	(23,869)
Increase in creditors	209,318	1,039
Net movement in working capital other than cash	208,399	(22,830)

Analysis of changes in cash during the period	16	As at 31 March 2000 £000	Cash flows £000	As at 31 March 2001 £000
Cash at bank and in hand		47,667	49,250	96,917

Losses and special payments **17** No losses or special payments were made in the year.

Related party transactions **18** 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 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.

The summarised accounts direction is at page 393.

Summarised Account of the NHS Logistics 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 Logistics, 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 Logistics 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the NHS Logistics Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-01 financial year, the Accountable Officer of the NHS Logistics Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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

I certify that I have audited the financial statements on pages 326 to 337 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 329 to 331.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 323, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 324 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of the financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the National Health Service Logistics 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the National Health Service Logistics Authority at 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General
28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing operations

	Notes	£000
Operating income	2.1	548,281
Expenditure		
Cost of sales	3	(488,359)
Staff costs and administration expenses	3,4	(54,656)
		(543,015)
Operating surplus		5,266
Cost of fundamental reorganisation or restructuring on continuing operations		(4,413)
Surplus for the financial year		853

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

Surplus for the financial year	£000
Unrealised surplus on the revaluation and indexation of fixed assets	853
	270
Total recognised gains for the financial year	1,123

The notes at pages 329 to 337 form part of this account

Balance Sheet as at 31 March 2001

	Note	£000	1 April 2000 £000
Fixed assets	5	27,694	28,583
Current assets			
Stocks		38,420	41,145
Debtors: amounts falling due within one year	6	46,405	65,175
Cash at bank and in hand	14	82	155
		<u>84,907</u>	<u>106,475</u>
Creditors: amounts falling due within one year	7	<u>(15,107)</u>	<u>(38,627)</u>
Net current assets		<u>69,800</u>	<u>68,848</u>
Total assets less current liabilities		<u>97,494</u>	<u>96,431</u>
Provision for liabilities and charges	8	<u>(10,161)</u>	<u>(8,811)</u>
Total net assets		<u>87,333</u>	<u>87,620</u>
Financed by:			
Capital account	10	27,195	28,583
Revaluation reserve	11	248	-
Income and expenditure reserve	12	59,890	59,037
		<u>87,333</u>	<u>87,620</u>

The notes at pages 329 to 337 form part of this account

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000
Operating activities		
Net cash (outflow) from operating activities	13	(209)
Capital expenditure		
(Payments) to acquire fixed assets		(364)
Receipts from sale of fixed assets		907
Net cash inflow before financing		334
Financing		
Surrender of receipts from sale of fixed assets		(907)
Capital funding		500
(Decrease) in cash	14	(73)

The notes at pages 329 to 337 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 Secretary of State and approved by the Treasury.

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. Parliamentary funding is from Class II, Vote 1.

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 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 depreciated replacement cost, other than surplus land and buildings which 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;
- 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:

moveable engineering plant and equipment	15 years
furniture	10 years
mainframe information technology installations	8 years
vehicles and soft furnishings	7 years
office, information technology and other equipment	5 years

(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 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 average fixed assets.

1.7 Leases

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

1.8 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 five 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. Employee and employee 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
		Sales to NHS customers	535,437
		Fees	397
		Sales to non-NHS customers	12,447
			<u>548,281</u>
Reconciliation of cashflow statement to Parliamentary funding	2.2		£000
		Net cash (outflow) from operating activities	(209)
		Expenditure	547,428
		Income	(548,281)
		Change in working capital	1,062
		Revenue funding	926
		Capital funding	(407)
		Total Parliamentary funding	<u>519</u>
Cost of sales and administration	3.1		£000
		Cost of sales	488,359
		Authority members' remuneration	523
		Other salaries and wages	26,459
		Transport costs	10,970
		Depreciation	799
		Impairments	55
		Capital charges	1,658
		Auditors' remuneration—audit services	127
		Interest	375
		Maintenance	1,004
		Miscellaneous	12,686
			<u>543,015</u>

	3.2 <i>Hire and operating rentals included in expenses</i>	£000
	Hire of plant and machinery	77
	Other operating leases	3,479
		3,556

Staff costs	4.1 <i>Authority members' remuneration:</i>	£000
	Non-executive members' remuneration	53
	Executive members' remuneration:	
	Basic salaries	399
	Benefits	25
	Performance related bonuses	27
	Pension contributions	19
		523

Executive members' remuneration and staff costs

Salaries and wages	23,961
Social security costs	1,681
Other pension costs	898
Agency staff	389
	26,929

The average monthly number of employees (excluding agency staff) during the year was 1,489, of which 123 were employed in the headquarters function and 1,375 in support of the services.

4.2		Chief
		Chairman
		Executive
		£000
		£000
	Basic salary	22
	Benefits	-
	Performance related bonuses	-
	Pension contributions	5
		22
		118

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

Range £	Number
5,001 to 10,000	5
55,001 to 60,000	1
80,001 to 85,000	1
85,001 to 90,000	2

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

Range £	Number
40,000 to 50,000	18
50,001 to 60,000	10
60,001 to 70,000	2
70,001 to 80,000	1
80,001 to 90,000	2
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. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

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

Tangible fixed assets 5.1

	Land £000	Buildings, installations and fittings £000	Assets under construction £000
Net book value at 1 April 2000	7,880	19,932	-
Additions	-	-	250
Indexation	-	252	-
Depreciation provided during the year	-	(555)	-
Disposals	(250)	(607)	-
Net book value at 31 March 2001	7,630	19,022	250
			Equipment £000
Gross book value at 1 April 2000			771
Additions			365
Indexation			18
Disposals			(108)
Gross book value at 31 March 2001			1,046
Accumulated depreciation at 1 April 2000			-
Impairments			55
Provided during the year			239
Indexation			5
Disposals			(45)
Accumulated depreciation at 31 March 2001			254
Net book value at 1 April 2000			771
Net book value at 31 March 2001			792

5.2	Notional profit/(loss) on disposal of fixed assets is made up as follows:	£000
	Land and buildings	50
	Equipment	(35)
		15
<hr/>		
5.3	Net book value at 31 March 2001	£000
	Total tangible fixed assets	
	Land	7,630
	Buildings, installations and fittings	19,022
	Equipment	792
	Assets under construction	250
		27,694
	Net book value of land and buildings at 31 March 2000	
	Freehold	25,667
	Long leasehold	985
		26,652
<hr/>		
Debtors:	6	£000
Amounts falling due within one year		
	Department of Health, health authorities and NHS Trusts	33,336
	Non-NHS trade debtors	3,327
	Other debtors	663
	Provision for bad debts	(35)
	Prepayments and accrued income	9,114
		46,405
<hr/>		
Creditors:	7	£000
Amounts falling due within one year		
	Department of Health, health authorities and NHS Trusts	23
	Income tax and social security	87
	Non-NHS trade creditors	12,204
	Capital creditors	251
	Other creditors	2,542
		15,107

Provision for liabilities and charges	8	Pensions relating to other staff £000	Legal actions £000	Reorganisation and Restructure £000	Other £000	Total £000
At 1 April 2000		3,943	426	4,306	136	8,811
Arising during the year		294	271	4,268	-	4,833
Utilised during the year		(596)	(254)	(2,452)	(136)	(3,438)
Reversed unused		-	(207)	(213)	-	(420)
Unwinding of discount		237	-	138	-	375
At 31 March 2001		3,878	236	6,047	-	10,161
Expected timing of cashflows:						
Within 1 year		494	236	3,505	-	4,235
1-5 years		1,252	-	1,275	-	2,527
Over 5 years		2,132	-	1,267	-	3,399
Total		3,878	236	6,047	-	10,161

Operating lease commitments	9	Commitments under non-cancellable operating leases are as follows:	£000
Land and Buildings			
Operating leases which expire:			
In over five years			4,411
Other			
Operating leases which expire:			
Within one year			127
In over five years			3,352
			3,479

Capital account	10	The movement on the capital account in the year comprised:	£000
At 1 April 2000			28,583
Additions			364
Impairments			(55)
Disposals			(910)
Depreciation			(799)
Transfer from revaluation reserve			12
As at 31 March 2001			27,195

Revaluation reserve	11	The movement on the revaluation reserve in the year comprised:			£000
		Revaluations and indexation			270
		Disposals			(10)
		Transfer to capital account			(12)
		As at 31 March 2001			248
<hr/>					
Income and expenditure reserve	12	The movement on the income and expenditure reserve in the year comprised:			£000
		At 1 April 2000			59,037
		Transfer from Income and Expenditure account			853
		As at 31 March 2001			59,890
<hr/>					
Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	13				£000
		Surplus for the financial year			853
		Depreciation			799
		Other capital charges			1,658
		Capital charges allocation			(2,457)
		Decrease in NHS balances			27,158
		Decrease in stocks			2,725
		(Increase) in other debtors			(8,818)
		(Decrease) in other creditors and provisions			(22,127)
		Net cash (outflow) from operating activities			(209)
<hr/>					
Analysis of changes in cash	14		1 April 2000 £000	Cash flows £000	31 March 2001 £000
		Cash at bank and in hand	155	(73)	82
<hr/>					
Contingent liabilities	15	As at 31 March 2001 outstanding legal claims totalling approximately £300,000 have been made against NHS Logistics. These claims are disputed and until they are resolved it is not possible to determine the NHS Logistics liability in this regard, if any. £236,000 has been provided in this account for these items. The balance of £64,000 has not been provided.			

Capital commitments	16	The Authority has no capital commitments.
<hr/>		
Losses and special payments	17	There were 6,202 cases of losses and special payments totalling £751,134 approved during 2000-01. There were no individual losses over £100,000, which would require separate disclosure in accordance with Government Accounting requirements.
<hr/>		
Related party transactions	18	<p>National Health Service Logistics 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 National Health Service Logistics 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>Sales and services to other health authorities and trusts during the year were valued at approximately £535 million, which represented trading with 488 individual organisations.</p> <p>Purchases of goods and services from other health authorities and trusts during the year were valued at £0.7 million, which represented trading with 101 individual organisations.</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 National Health Service Logistics Authority.</p> <p>Members of the board of NHS Logistics Authority are on record as having interests in a small number of organisations with which the NHS Logistics 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.</p>

The summarised accounts direction is at page 393.

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 net 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Prescription Pricing Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-01 financial year, the Accountable Officer of the Prescription Pricing Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 200

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

I certify that I have audited the financial statements on pages 344 to 356 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 347 to 350.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 341, 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 directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 342 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of the Prescription Pricing Authority at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing Operations

	Notes	£000	Restated 1999-2000 £000
Programme costs	2.1	62,340	52,753
Operating income	3	(1,644)	(1,113)
Net operating cost		60,696	51,639

Statement of Recognised Gains and Losses for the year ended 31 March 2001

		£000	1999-2000 £000
Unrealised surplus on the indexation and revaluation of fixed assets	11	289	956
Unrealised losses on valuation and indexation of fixed assets	11	-	(2,032)
Recognised gains/(losses) for the financial year		289	(1,076)

The notes at pages 347 to 356 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2000 £000
Fixed assets:			
Tangible assets	4.1	14,130	15,757
Current assets			
Stocks	5	208	181
Debtors	6	3,567	3,429
Cash at bank and in hand	7	8	33
		<u>3,783</u>	<u>3,643</u>
Creditors: amounts falling due within one year	8	<u>(1,017)</u>	<u>(947)</u>
Net current assets		<u>2,766</u>	<u>2,696</u>
Total assets less current liabilities		<u>16,896</u>	<u>18,453</u>
Provisions for liabilities and charges	9	(955)	(1,257)
		<u>15,941</u>	<u>17,196</u>
Taxpayers' equity			
General Fund	11	16,410	17,196
Revaluation reserve	11	(469)	-
		<u>15,941</u>	<u>17,196</u>

The notes at pages 347 to 356 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Restated 1999-2000 £000
Net cash outflow from operating activities	12	56,639	47,351
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		1,545	1,323
Net cash outflow from investing activities		<u>1,545</u>	<u>1,323</u>
Net cash outflow from all activities		<u>58,184</u>	<u>48,674</u>
Financing			
Net Parliamentary funding		58,159	48,634
Decrease in cash in the period	7	<u>25</u>	<u>40</u>

The notes at pages 347 to 356 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 their current costs.
- 1.2** **Operating income**
- Operating income is income which relates directly to the operating activities of the Authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income such as from the Scottish Parliament and National Assembly for Wales. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3** **Taxation**
- The Authority is not liable to pay corporation tax. Expenditure is shown net of recoverable VAT. Irrecoverable VAT is charged to the most appropriate expenditure heading or capitalised if it relates to an asset.
- 1.4** **Capital charges**
- A charge, reflecting the cost of capital utilised by the Authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was 6% on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil.
- 1.5** **Fixed assets**
- (i) Capitalisation*
- All assets falling into the following categories are capitalised:
- computer software licences are not capitalised, see note 1.5d;
 - 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 are 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 at Existing Use Value.

Valuations are carried out by the District Valuer of the Inland Revenue at five yearly intervals. Between valuations the appropriate indices are applied to revalue the assets. Land and buildings are revalued annually, re-lifed and therefore accumulated depreciation carried forward is nil;

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

(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:

	Year:
Furniture, fixtures, fittings, plant and machinery	10
Mainframe IT installations	8
Vehicles	5
Office equipment	5
Computers including software development costs	5

(iv) Intangible assets

The Authority has not capitalised software licences as:

- any licences purchased for operational 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.

(v) Impairments

The Authority reviewed its fixed assets for impairments under FRS11 but considered there were no material losses which fell within the definitions and which would be reflected in the accounts.

1.6 Stocks

Stocks are valued at cost.

1.7 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 five 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 and employees 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 operating cost statement at the time the Board commits itself to the retirement, regardless of the method of payment.

1.8 Introduction of Resource Accounts

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures for the balance sheet, statement of recognised gains and losses and cash flow statement have been restated, and associated notes where necessary. These changes have no impact on the financial performance of the authority for 1999-2000.

The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II Vote 1) within an approved cash limit which is credited to the general fund.

1.9 Operating leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

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).

1.11 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 the Pharmaceutical Services which account for £762 million of expenditure. This account deals with the administration of the Prescription Pricing Authority only.

Programme costs 2.1

	£000	1999-2000	
		£000	£000
Staff costs		43,666	34,373
Contract staff		490	1,361
Capital:			
Depreciation	3,504		3,346
Capital charges interest	993		1,111
Total non cash capital items		4,497	4,457
Equipment and furniture		2,884	1,919
Stationery, printing, postage and telephone		3,057	2,990
Maintenance, fuel, power and cleaning		3,626	3,306
Rent and rates		1,457	1,544
Transport		454	376
Staff training, advertising and removal expenses		641	711
Interest paid		477	462
Auditor's remuneration			
-Audit fee		83	85
-Non-statutory audit fees		56	57
Other operating expenses		952	1,112
		<u>62,340</u>	<u>52,753</u>

There was no interest payable arising from claims made under the Late Payment of Commercial Debts (Interest) Act 1998 (1999-2000: £0).

Annual commitments under non-cancellable operating leases, which relate to land and buildings only:

	£000	£000
Less than 1 year	-	-
Between 1 and 5 years	157	110
Over 5 years	918	890
	<u>1,075</u>	<u>1,000</u>

Authority members' remuneration	2.2	Non-executive members' remuneration	£000	£000
			41	40
			Chairman	Chief Executive
			£000	£000
		Basic salaries	16	77
		Benefits	-	2
		Pension contributions	-	4
			16	83
		1999-2000 Totals	16	80

The Chief Executive is a member of the NHS pension scheme. The employer's contribution to the scheme amounted to the equivalent of five per cent of the Chief Executive's salary. The Chief Executive is employed on a personal contract with review performance linked to increases in remuneration undertaken by the Remuneration Committee.

The Non-Executive Chairman has a 3 year contract which terminates on 31 October 2001.

One authority member received remuneration in the range £0 to £5,000 (three in 1999-2000) and five in the range £5,001 to £10,000 for 2000-2001 (three in 1999-2000).

Staff costs	2.3	Executive members' remuneration and staff costs	1999-2000	
			£000	£000
		Salaries and wages	39,526	31,179
		Social security costs	2,465	2,057
		Employer contributions to NHSPA	1,631	1,097
			43,622	34,333
		Authority non-executive members remuneration	41	40
		Total staff costs	43,663	34,373

The average number of whole-time equivalent persons employed (including senior management but excluding agency staff) during the year was 3,196. (1999-2000: 2,145.)

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

		1999-2000	
Range £	Number	Number	
40,000 to 50,000	7	9	
50,001 to 60,000	5	3	
60,001 to 70,000	1	1	
70,001 to 80,000	-	2	
80,001 to 90,000	2	-	

The RAM 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 the disclosure. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

Operating income 3

Operating income analysed by classification and activity, is as follows:

	Total £000	1999-2000 Total £000
Programme income:		
Fees & charges to external customers	354	293
Income received from Scottish Parliament and from the National Assembly for Wales	1,290	822
Total	1,644	1,115

Tangible fixed assets

4.1

	Freehold Land £000	Buildings, installations & fittings £000
Net book value as at 31 March 2000	765	6,085
Additions	-	20
Revaluation and indexation	-	77
Depreciation provided during the year	-	(146)
Net book value as at 31 March 2001	765	6,036
Equipment		
		£000
Gross replacement cost or valuation as at 31 March 2000		24,824
Additions		1,568
Revaluation and indexation		589
As at 31 March 2001		26,981
Accumulated depreciation as at 31 March 2000		15,917
Revaluation and indexation		377
Charge for the year		3,358
As at 31 March 2001		19,652
Net book value as at 31 March 2000		8,907
Net book value as at 31 March 2001		7,329

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.

Net book value of land and buildings	4.2	The net book value of land and buildings as at 31 March 2001 comprises:		
			£000	
		Freehold	6,801	
			<u>6,801</u>	
		In addition to the value attributed to land and buildings in the accounts, the Authority has also held leases on nine other buildings during the 2000-01 financial year. The total value of seven of these leases is £7,439,000. The Authority is awaiting notification of District Valuer valuations of two further buildings.		
<hr/>				
Finance leases and hire purchase contracts	4.3	There are no assets held under finance leases or hire purchase contracts.		
<hr/>				
Stocks and work in progress	5		1999-2000	
			£000	£000
		IT	175	137
		Print Room	9	7
		Health Benefits	18	23
		Cleaning supplies	6	14
			<u>208</u>	<u>181</u>
<hr/>				
Debtors	6		31 March	
			2000	
			£000	£000
		Amounts falling due within one year		
		NHS Debtors	259	69
		Other Debtors	652	665
		Prepayments and accrued income	2,656	2,695
			<u>3,567</u>	<u>3,429</u>
<hr/>				
Analysis of changes in cash	7	At 31	Change	At 31
		March	during	March
		2000	the year	2001
		£000	£000	£000
		Cash at OPG	5	(4)
		Cash at commercial banks and in hand	28	(21)
			<u>33</u>	<u>8</u>

Creditors:	8		31 March
Amounts falling due within one year		£000	2000
		£000	£000
Non-NHS trade creditors		223	142
Capital creditors		49	6
Tax and social security		-	1
Staff pensions		-	2
Other creditors		599	599
Accruals and deferred income		146	197
		<u>1,017</u>	<u>947</u>

Provisions for liabilities and charges	9	Early retirement provisions: relating to staff	£000
		At 31 March 2000	1,257
		Utilised during the year	(302)
		At 31 March 2001	<u>955</u>
		Expected timing of cash flows:	
		Within 1 year	300
		1-5 years	630
		Over 5 years	25
			<u>955</u>

The above liability consists of full retirement costs to employees up to the age of 60. At age 60, the liability relates only to the enhanced element of retirement costs. In cases of death, the liability would relate only to continuing but reduced payments to a legal spouse. For these reasons, uncertainties exist as to the cash flow timings and amounts. No other assumptions have been made concerning events.

Movements in working capital other than cash	10		1999-2000
		£000	£000
(Increase)/decrease in stocks		(27)	16
(Increase) in debtors		(138)	(5)
Increase in revenue creditors		27	148
		<u>(138)</u>	<u>159</u>

Reserves	11	The movement on the General Fund in the year comprised:	£000
		Balance at 31 March 2000	17,196
		Net operating cost for the year	(60,696)
		Net Parliamentary funding	58,159
		Non cash items:	
		Capital charge interest	993
		Transfer from revaluation reserve	758
		Balance at 31 March 2001	16,410

		The movement on the revaluation reserve in the year comprised:	£000
		Balance at 31 March 2000	-
		Transfer to general fund	(758)
		Indexation and revaluation of fixed assets	289
		Balance at 31 March 2001	(469)

Reconciliation of operating cost to operating cash flows	12		Note	£000	1999-2000 £000
		Net operating cost for the year		60,696	51,638
		Adjust for non-cash transactions	2.1	(4,497)	(4,457)
		Adjust for movements in working capital other than cash	10	138	(159)
		Decrease in provisions	9	302	329
		Net cash flow from operating activities		56,639	47,351

Contingent liabilities 13 At 31 March 2001, there were no known contingent liabilities.

Capital commitments 14 At 31 March 2001 the value of contracted capital commitments was £146,137 (£311,917 at 31 March 2000).

Losses and special payments 15 The Authority reported no losses and special payments in the year which exceeded delegated limits.

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 Parliament and the National Assembly for Wales during the year.

The summarised accounts direction is at page 393.

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;
- 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 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".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for the Rampton Special Hospital Special Health Authority. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement on their system of internal financial control supported by an auditor's report, with their annual accounts.

For the 2000-01 financial year, the Accountable Officer of Rampton Special Hospital Authority made a statement on the system of internal financial control indicating that a review of the effectiveness of the organisation's internal financial control system had been performed and that minimum control standards had been in existence throughout the year.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2002

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

I certify that I have audited the financial statements on pages 362 to 375 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 365 to 368.

Respective responsibilities of Accounting Officer and Auditor

As described on page 359, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 360 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- The financial statements give a true and fair view of the state of affairs of Rampton Special Hospital Authority at 31 March 2001 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at Pages R1 to R25

John Bourn
Comptroller and Auditor General

28 March 2002

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

Income and Expenditure Account for the year ended 31 March 2001

Continuing operations	Notes	£000	1999-2000 £000
Income			
Income from ordinary activities		52,324	-
Department of Health funding		587	48,169
Other income	2.2	1,159	1,710
		54,070	49,879
Expenditure			
Operating costs	3	(54,024)	(49,875)
Surplus for the year		46	4

Statement of Total Recognised Gains and Losses for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Surplus for the year		46	4
Unrealised surplus on fixed asset revaluation/indexation		1,544	4,719
Impairments	8.2	-	(12,364)
Total recognised gains/(losses) for the financial year		1,590	(7,641)

The notes at pages 365 to 375 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	31 March 2000 £000
Fixed Assets			
Tangible fixed assets	4.1	55,641	55,132
Current assets			
Stocks		331	235
Debtors	5	3,161	389
Cash at bank and in hand	10	164	293
		<u>3,656</u>	<u>917</u>
Creditors: Amounts falling due within one year	6	<u>(4,917)</u>	<u>(2,508)</u>
Net current liabilities		<u>(1,261)</u>	<u>(1,591)</u>
Total assets less current liabilities		<u>54,380</u>	<u>53,541</u>
Provisions for liabilities and charges	7	<u>(1,347)</u>	<u>(1,063)</u>
Total net assets		<u>53,033</u>	<u>52,478</u>
Financed by:			
Capital account	8.1	53,977	54,968
Revaluation reserve	8.2	1,665	165
Income and expenditure reserve	8.3	<u>(2,609)</u>	<u>(2,655)</u>
		<u>53,033</u>	<u>52,478</u>

The notes at pages 365 to 375 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	1999-2000 £000
Operating activities			
Net cash (outflow)/inflow from operating activities	9	(129)	106
Capital expenditure			
(Payments) to acquire tangible fixed assets		(2,156)	(1,363)
Receipts from the sale of tangible fixed assets		153	
			155
Net cash (outflow) before financing		<u>(2,132)</u>	<u>(1,102)</u>
Financing			
Capital funding		<u>2,003</u>	<u>1,208</u>
Net cash inflow from financing		<u>2,003</u>	<u>1,208</u>
(Decrease)/Increase in cash	10	<u>(129)</u>	<u>106</u>

The notes at pages 365 to 375 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 Secretary of State, with the approval of Treasury and in accordance with the Resource Accounts Manual.

1.2 Income

In 1999-2000 the main source of funding was the Department of Health, from 2000-01 the main source of funding is from contracts with Health Authorities. This funding is recorded on an accruals basis. Other income is net of VAT.

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

1.3 Taxation

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

1.4 Capital charges

A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil.

1.5 Fixed assets

(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.

(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.

1.6 Stocks and work-in-progress

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

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

1.7 Losses and special payments

Losses and special payments are charged to the relevant functional headings, 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 Leases

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

1.9 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 five 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 and employee 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	1999-2000	
		£000	£000
	Net cash (outflow)/inflow from operating activities	(129)	106
	Expenditure	54,024	49,875
	Income	(47,329)	(1,710)
	Capital charges	(6,154)	(5,873)
	Capital payments	2,156	1,363
	Movement in working capital	175	(102)
	Capital receipts	(153)	(155)
	Total Parliamentary funding	2,590	43,504
	Comprising of:		
	Department of Health high security psychiatric services funding	-	42,648
	Direct funding from Department of Health Vote	2,590	856
Miscellaneous income	2.2	£000	£000
	Fees and charges	1,017	1,444
	Other	142	266
		1,159	1,710

Operating expenses 3

	1999-2000	
	£000	£000
Non-executive members' remuneration	45	46
Other salaries and wages	38,219	36,608
Supplies and services:		
clinical	623	534
general	1,361	1,577
Establishment costs	1,290	1,241
Transport costs	55	45
Premises and fixed plant costs	3,076	2,470
Interest payable	41	136
Capital:		
Depreciation	3,052	2,467
Capital charges interest	3,102	3,406
Auditors remuneration:		
audit services	41	30
non-audit services	20	29
Recharges from other NHS bodies	230	128
Miscellaneous	2,869	1,158
	<u>54,024</u>	<u>49,875</u>
<i>Authority members' remuneration:</i>	£000	£000
Non-executive members' remuneration	45	46
<i>Executive members' remuneration:</i>		
Basic salaries	381	372
Benefits	13	15
Performance related bonuses	4	1
Compensation for loss of office	74	-
Pension Contributions	18	15
	<u>535</u>	<u>449</u>

	Chairman £000	Chairman 1999-2000 £000	Chief Executive £000	Chief Executive 1999-2000 £000	Highest Paid Member 1999-2000 £000
Basic salaries	18	18	103	91	114
Benefits	1	4	3	3	4
Compensation for loss of office	-	-	74	-	-
Pension contributions	-	-	5	4	5
	<u>19</u>	<u>22</u>	<u>185</u>	<u>98</u>	<u>123</u>

The highest paid member was the Chief Executive in 2000-2001 and another member in 1999-2000.

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

Range £	1999-2000	
	Number	Number
Up to 5,000	-	4
5,001 to 10,000	6	3
35,001 to 40,000	1	-
50,001 to 55,000	1	1
60,001 to 65,000	-	1
65,001 to 70,000	-	1
70,001 to 75,000	1	-

Executive members' remuneration and staff costs

	1999-2000	
	£000	£000
Salaries and wages	33,035	32,031
Social security costs	2,585	2,538
Other pension costs	1,455	1,070
Agency staff	1,144	969
	38,219	36,608

The average number of employees was 1,404 (1999-2000: 1,242).

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

Range £	1999-2000	
	Number	Number
40,000 to 50,000	17	37
50,001 to 60,000	7	9
60,001 to 70,000	7	5
70,001 to 80,000	-	1
80,001 to 90,000	3	4
90,001 to 100,000	6	2
100,001 to 110,000	4	4
110,001 to 120,000	3	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. The Treasury have agreed to delay the implementation of this disclosure for the 2000-01 accounts pending the issue of further central guidance.

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

Retirements due to ill-health

During 2000-01 there were 11 early retirements from the special health authority on the grounds of ill-health. The estimated additional pension costs of these ill-health retirements (calculated on an average basis and borne by the NHS Pension Scheme) will be £644,237.

Tangible fixed assets**4.1**

	Freehold land £000	Buildings, installations & fittings £000	Assets under construction £000
Cost or valuation as at 31 March 2000	2,437	50,063	863
Indexation and revaluation	(8)	1,493	17
Additions-purchased	-	1,127	603
Transfers	(3)	713	(705)
Depreciation provided during the year	-	(2,462)	-
Disposals	(45)	(61)	-
Net book value as at 31 March 2001	2,381	50,873	778

	Equipment £000
Gross replacement cost as at 31 March 2000	2,858
Indexation and revaluation	67
Additions-purchased	426
Transfers	(5)
Disposals	(33)
Gross replacement cost as at 31 March 2001	3,313
Depreciation as at 31 March 2000	1,089
Indexation and revaluation	25
Depreciation provided during the year	590
Depreciation as at 31 March 2001	1,704
Net book value as at 31 March 2000	1,769
Net book value as at 31 March 2001	1,609

All tangible fixed assets were purchased.

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

4.2 Notional profit/(loss) on disposal of fixed assets is made up as follows:

	£000
Land, buildings, installations and fittings	1
Equipment	(15)
	(14)

Debtors	5		31 March
Amounts falling due within one year	5.1	£000	2000 £000
National Health Service debtors		1,442	24
Other debtors		336	287
Prepayments and accrued income		225	78
		<u>2,003</u>	<u>389</u>
Amounts falling due after one year	5.2		
National Health Service debtors		535	-
Prepayments and accrued income		623	-
		<u>1,158</u>	<u>-</u>
Total debtors		<u>3,161</u>	<u>389</u>
<hr/>			
Creditors: Amounts falling due within one year	6		31 March
		£000	2000 £000
National Health Service creditors		498	340
Non-NHS trade creditors: revenue		1,450	665
Non-NHS trade creditors: capital		194	123
Tax and social security		721	414
Patients' money		76	69
Payments received on account		285	279
Other creditors		203	618
Accruals and deferred income		1,490	-
		<u>4,917</u>	<u>2,508</u>

Provisions for liabilities and charges	7	Pensions relating to			
			staff	Other	Total
			£000	£000	£000
		At 31 March 2000	874	189	1,063
		Arising during the year	-	475	475
		Utilised during the year	(216)	(16)	(232)
		Unwinding of discount	41	-	41
		At 31 March 2001	699	648	1,347
		Expected timing of cashflows:			
		Within 1 year	85	648	733
		1-5 years	311	-	311
		Over 5 years	303	-	303
		Total	699	648	1,347

Capital account	8.1	The movement on the capital account in the year comprised:	£000
		At 31 March 2000	54,968
		Additions	2,156
		Depreciation	(3,052)
		Disposals	(104)
		Transfer to Capital Account of realised elements of the revaluation reserve	29
		At 31 March 2001	53,997

Revaluation reserve	8.2	The movement on the revaluation reserve in the year comprised:	£000
		At 31 March 2000	165
		Indexation and revaluation of fixed assets	1,544
		Disposals	(15)
		Transfer to Capital Account of realised elements of the revaluation reserve	(29)
		At 31 March 2001	1,665

Income and expenditure reserve	8.3	The movement on the reserve in the year comprised:		£000
		At 31 March 2000		(2,655)
		Transfer from Income and Expenditure Account		46]
		At 31 March 2001		<u>(2,609)</u>

Reconciliation of operating surplus to net cash (outflow)/inflow from operating activities	9			1999-2000	
				£000	
				£000	
		Surplus for the year		46	4
		Depreciation		3,052	2,467
		Other capital charges		3,102	3,406
		Capital allocation		(6,154)	(5,873)
		(Increase) in stocks		(96)	(6)
		(Increase) in debtors		(2,772)	(72)
Increase in creditors and other provisions		2,693	180		
Net cash (outflow)/inflow from operating activities		<u>(129)</u>	<u>106</u>		

Analysis of change in cash during the year	10	As at		As at
		31 March		31 March
		2000		2001
		£000		£000
Cash at bank and in hand		<u>293</u>	<u>(129)</u>	<u>164</u>

Capital commitments 11 Capital commitments contracts at balance sheet date were £106,000 (1999-2000: £15,000).

Contingent liabilities 12 At 31 March 2001, the estimated future liability of early retirement costs that have not been capitalised is £332,676 (1999-2000: £738,172).

Losses and special payments 13 There were 51 (1999-2000: 50) cases of losses and special payments totalling £9,515 (1999-2000: £10,335) approved during 2000-01.

Related party transactions

- 14 Rampton 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 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:

NHS Pensions Agency, Birmingham Health Authority, Ealing Hammersmith and Hounslow Health Authority, East and North Hertfordshire Health Authority, Avon Health Authority, Sefton Health Authority, Tees Health Authority, Southampton and South and West Hampshire Health Authority and North Nottingham Health Authority.

In addition the Authority has had a significant number of material transactions with another publicly funded body, Dyfed Powys Health 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 Rampton Special Hospital Authority.

Post balance sheet event

- 15 The authority merged with Nottingham Mental Health and Learning Disability Services on 1 April 2001 to become the Nottingham Healthcare Trust.

The summarised accounts direction is at page 393.

Summarised Account of United Kingdom Transplant

LAID BEFORE THE SCOTTISH PARLIAMENT BY THE SCOTTISH MINISTERS 22 APRIL 2002

SE/2002/91

HC766

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 United Kingdom Transplant Special Health Authority, 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 United Kingdom Transplant Special Health Authority. His relevant responsibilities, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for keeping proper records, are set out in the Accounting Officers' memorandum issued by the Treasury and published in "Government Accounting".

Statement on the system of internal financial control

As Accounting Officer for the Department of Health I appoint the Accountable Officer for United Kingdom Transplant. It is his responsibility within his organisation to ensure that there is an effective system of internal financial control.

These systems can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

I have issued guidance to each accountable officer regarding corporate governance and systems of internal financial control, in particular setting out the minimum control standards that should be in place. I also require each to make a statement of their system of internal financial control, supported by an auditor's report, with their annual accounts.

For the 2000-2001 financial year, the Accountable Officer of United Kingdom Transplant made a statement on the system of internal financial control. The Authority indicated that it had weaknesses in its systems as the Remuneration and Terms of Reference Committee had not met throughout the year. I have reviewed this statement and I am satisfied that the issues raised are being dealt with appropriately by the Accountable Officer.

Nigel Crisp

Accounting Officer for the Department of Health

24 March 2001

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 382 to 392 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 385 to 388.

Respective responsibilities of the Accounting Officer and Auditor

As described on page 379, the Accounting Officer, on behalf of the Secretary of State, is responsible for the preparation of financial statements in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury and for ensuring the regularity of transactions. The Accounting Officer is also responsible for the preparation of the Foreword to the Summarised Accounts. My responsibilities, as independent auditor, are established by statute and guided by the Auditing Practices Board and the auditing profession's ethical guidance.

I report my opinion as to whether the financial statements give a true and fair view, and are properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Accounting Officer has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the statement on page 380 reflects the Department's compliance with Treasury's guidance 'Corporate governance: statement on the system of internal financial control'. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements.

Basis of audit opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of UK Transplant, 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 respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion:

- the financial statements give a true and fair view of the state of affairs of UK Transplant at 31 March 2001 and the net operating costs, recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with section 98(4) of the National Health Service Act 1977 and with the directions made thereunder by the Treasury;
- in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Please see my report at pages R1 to R25.

John Bourn
Comptroller and Auditor General

28 March 2002

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

Operating Cost Statement for the year ended 31 March 2001

Continuing operations

	Notes	£000	Re-stated 1999-2000 £000
Programme costs	2	6,296	6,959
Operating income	3	(910)	(948)
Net operating cost		5,386	6,011

Statement of Recognised Gains and Losses for the year ended 31 March 2001

	£000	Restated 1999-2000 £000
Unrealised surplus on the revaluation of fixed assets	57	467
Fixed asset impairment losses	-	(1,252)
Recognised gains/(losses) for the financial year	57	(785)

The notes at pages 385 to 392 form part of this account.

Balance Sheet as at 31 March 2001

	Notes	£000	Restated 31 March 2001 £000
Tangible fixed assets	4	4,219	4,537
Current assets			
Stocks		-	5
Debtors	5	276	252
Cash at bank and in hand	12	362	8
		638	265
Creditors: amounts falling due within one year	6	(424)	(258)
		214	7
Net current assets			
		4,433	4,544
Total assets less current liabilities			
Provisions for liabilities and charges	7	-	(460)
		4,433	4,084
Total net assets			
		4,433	4,084
Taxpayers' equity			
General fund	8	4,337	3,989
Revaluation reserve	9	96	95
		4,433	4,084

The notes at pages 385 to 392 form part of this account.

Nigel Crisp
Accounting Officer

30 November 2001

Cash Flow Statement for the year ended 31 March 2001

	Notes	£000	Re-stated 1999-2000 £000
Net cash (outflow) from operating activities	11	4,949	4,559
Capital expenditure			
Payments to acquire fixed assets		133	201
Receipts from disposal of fixed assets		-	6
Net cash outflow from investing activities		133	195
Net cash outflow before financing		5,082	4,754
Financing			
Net Parliamentary funding		5,436	4,757
(Increase) in cash	12	(354)	(3)

The notes at pages 385 to 392 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 their current costs.
- 1.2 Operating income**
- Operating income is income which relates directly to the operating activities of the authority. It principally comprises fees and charges for services provided on a full-cost basis to external customers, as well as public repayment work, but it also includes other income from the Scottish Executive, National Assembly for Wales and National Assembly of Northern Ireland. It includes both income appropriated-in-aid of the Vote and income to the Consolidated Fund which HM Treasury has agreed should be treated as operating income.
- 1.3 Capital charges**
- A charge, reflecting the cost of capital utilised by the authority, is included in operating costs in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. The interest rate applied to capital charges in the financial year 2000-01 was six per cent on all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General (OPG), where the charge is nil.
- 1.4 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 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 their existing use value. Surplus land and buildings are stated at Open Market Value.

- 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;
- assets in the course of construction are valued at net current replacement cost using an appropriate index.

(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

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.

1.5 Stocks and work-in-progress

Stocks and work-in-progress are valued as follows:

(a) finished goods and goods for resale are valued at cost or, where materially different, current replacement cost, and at net realisable value only when they cannot or will not be used;

(b) work-in-progress is valued at the lower of cost, including appropriate overheads and net realisable value.

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 five 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 and employee 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.

1.7 Research and development

Expenditure on research and development has been treated as an operating cost in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated research project, or according to the asset category if the asset is to be used for subsequent production work.

1.8 Introduction of resource accounts

The 2000-01 accounts are the first to be completed using the Resource Accounts format. As a consequence the income and expenditure account has been replaced by the operating cost statement and the 1999-2000 comparative figures for the balance sheet, statement of recognised gains and losses and cash flow statement have been restated, and associated notes where necessary. These changes have no impact on the financial performance of the authority for 1999-2000. The main source of funding for the Authority is Parliamentary grant from the Department of Health (Class II Vote 1) within an approved cash limit which is credited to the general fund.

1.9 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).

1.10 Operating leases

Operating lease rentals are charged to the operating cost statement in equal amounts over the lease term.

1.11 Prior period adjustments

In the 1999-2000 accounts the treatment of fixed assets in the account was in accordance with the principal capital charges objective to ensure that such charges are fully reflected in the cost of capital. In the 2000-01 accounts the cost of capital no longer applies solely to fixed assets but to all the assets and liabilities of the authority, less cash balances held at the OPG and donated assets. The interest rate applied to capital charges in both the financial years was six per cent. A prior period adjustment has been made to amend the 1999-2000 results for this change.

The Authority is responsible for the administration of a donor reimbursement scheme for England. In previous years, the Authority accounted for administration costs only. In 2000-2001, the Authority accounted for all the costs relating to the scheme. Prior year expenditure has therefore been increased by £585,000 to £6,959,000.

Programme costs 2.1

	£000	Re-stated 1999-2000 £000
Staff costs	2,381	2,415
Capital: Depreciation	356	343
Capital charge interest	242	297
Loss on disposal of fixed assets	87	23
Agency activities	648	577
Premises	337	298
Computer and IT	502	489
Donor Reimbursement Scheme	602	585
Laboratory costs	315	414
Auditors remuneration		
- audit services	47	21
- non-audit services	-	8
Other	779	1,489
	<u>6,296</u>	<u>6,959</u>

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

**Authority members' 2.2
remuneration**

	£000	1999-2000 £000
Non-executive members' remuneration	20	21
	Chairman	Chief Executive
	£000	£000
Basic salaries	10	90
Benefits	-	1
Compensation for loss of office	-	100
Pension contributions	-	4
	<u>10</u>	<u>195</u>
1999-2000 Totals	<u>10</u>	<u>79</u>

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

Range £	1999-2000	
	Number	Number
£0-£5,000	5	4
£10,001-£15,000	1	1
£40,001-£45,000	2	-
£50,001-£55,000	-	1
£75,001-£80,000	-	1
£150,001 to £155,000	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. The Treasury have agreed to delay the implementation of this disclosure for the 2000-2001 accounts pending the issue of further central guidance.

The salaries of the board members of the Authority are included in the table above.

Executive members' remuneration and staff costs

2.3

	1999-2000	
	£000	£000
Salaries and wages	2,033	2,117
Social security costs	165	163
Pension costs	94	76
Agency costs	69	38
	<u>2,361</u>	<u>2,394</u>
Authority non-executive members' remuneration	20	21
Total staff costs	<u>2,381</u>	<u>2,415</u>

The average number of whole-time equivalent persons employed (including senior management) during the year was 88. (1999-2000: 98)

Operating income

3

	1999-2000	
	£000	Re-stated £000
Fees and charges	3	17
Scottish Executive	392	320
National Assembly for Wales	215	174
National Assembly of Northern Ireland	109	89
Income from NHS bodies	71	228
Republic of Ireland	120	120
	<u>910</u>	<u>948</u>

Fixed assets	4	Assets under construction				Total
		Land £000	Buildings £000	Equipment £000	£000	
Gross book value at 31 March 2000		850	2,613	1,891	67	5,421
Indexation		-	33	34	1	68
Additions in the year		-	-	68	-	68
Disposals		-	-	(531)	-	(531)
Gross book value at 31 March 2001		850	2,646	1,462	68	5,026
Depreciation at 31 March 2000		-	-	884	-	884
Indexation		-	-	11	-	11
Depreciation charged in the year		-	77	279	-	356
Disposals		-	-	(444)	-	(444)
Depreciation at 31 March 2001		-	77	730	-	807
Net book value at 31 March 2000		850	2,613	1,007	67	4,537
Net book value at 31 March 2001		850	2,569	732	68	4,219

The net book value of land and buildings at 31 March 2001 was entirely freehold.

Debtors	5	31 March	
		2000	2000
		£000	£000
Trade debtors		5	3
Other debtors		122	115
Prepayments and accrued income		149	134
		276	252

Creditors: Amounts falling due within one year	6	31 March	
		2000	2000
		£000	£000
Trade creditors		72	62
Tax and social security		-	69
Other creditors		15	12
Capital creditors		-	65
Accruals		337	50
		424	258

Provisions for liabilities and charges	7		£000	
		At 31 March 2000	460	
		Utilised during the year	(460)	
		At 31 March 2001	0	
<p>The opening provisions are in respect of the early retirement and redundancy for two executive members of the Authority.</p>				
<hr/>				
General fund	8	The movement of reserves in the year comprised:		£000
		At 31 March 2000	3,989	
		Net operating cost for the year	(5,386)	
		Net Parliamentary funding	5,436	
		Cost of capital	242	
		Transfer from revaluation reserve	56	
		At 31 March 2001	4,337	
<hr/>				
Revaluation reserve	9	The movement of reserves in the year comprised:		£000
		At 31 March 2000	95	
		Indexation	57	
		Transfer from general fund	(56)	
		At 31 March 2001	96	
<hr/>				
Movements in working capital other than cash	10		£000	Restated 1999-2000 £000
		Decrease in stocks	5	4
		Decrease in debtors	(24)	235
		Increase in creditors	231	90
		Net movement in working capital other than cash	212	329
<hr/>				
Reconciliation of operating cost to operating cash flows	11		£000	Restated £000
		Notes		
		Net operating cost for the year	(5,386)	(6,011)
		Adjust for non-cash transactions	2 685	663
		Adjust for movements in working capital other than cash	10 212	329
		Movement in provisions	7 (460)	460
		Net cash flow from operating activities	(4,949)	(4,559)

Analysis of changes in cash	12	As at		As at
		31 March 2000 £000	Cash flows £000	31 March 2001 £000
Cash at PGO		8	354	362

Capital commitments 13 The authority had no contracted (31 March 2000: £Nil) capital expenditure and had authorised but not contracted £139,000 (31 March 1999: £165,000) capital expenditure.

Contingent liabilities 14 As at 31 March 2001 there were no contingent liabilities (31 March 2000: £Nil).

Related party transactions 15 United Kingdom Transplant 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 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, Oxford University, South Gloucestershire Council and National Blood Service.

The United Kingdom Transplant received additional funding from the Scottish Executive, £392,000, (1999-2000: £320,000), National Assembly for Wales, £215,000, (1999-2000: £174,000), National Assembly of Northern Ireland £109,000 (1999-2000: £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.

The summarised accounts direction is at page 393.

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 a summarised account shall be prepared for the financial year ended 31 March 2001 and subsequent financial years in respect of the each and every Special Health Authority and the Dental Practice Board. The basis of preparation and the form and content shall be set out in the following paragraphs and Schedules. |
| Basis of Preparation | 2 | <p>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:</p> <p>(a) generally accepted accounting practice in the United Kingdom (UK GAAP);</p> <p>(b) the accounting and disclosure requirements of the Companies Act;</p> <p>(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;</p> <p>(d) accounting guidance approved by the FRAB and contained in the Resource Accounting Manual, but specifically excluding schedules 1 and 5;</p> <p>(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.</p> |
| Form and Content | 3 | The summarised account 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 Microbiological Research Authority, 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. |
| | 4 | For the financial year ended 31 March 2001 and subsequent years, the summarised account of the Special 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 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. |
| | 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. |
| | 7 | The notes to the accounts shall, inter alia, include details of the accounting policies adopted. |
| | 8 | Notes providing further examinations of figures in the accounts shall be made where it is considered appropriate for a proper understanding of the accounts. |

David Loweth

Head of Central Accountancy Team HM Treasury

19 November 2001

SCHEDULE 1

Application to 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 | Each summarised income & expenditure account shall have regard to the profit and loss account format 2 prescribed in Schedule 4 to the Companies Act. |
| | 4 | Each summarised balance sheet shall have regard to the balance sheet format 1 prescribed in Schedule 4 to the Companies Act. |
| | 5 | The operating cost statement and cashflow statement shall have regard to the format prescribed in the Resource Accounting Manual except for authorities preparing an income and expenditure account, where the cashflow statement shall have regard to the FRS1 (Revised) format. |
| | 6 | NHS bodies are not required to provide the historical cost information described in paragraph (33) of Schedule 4 to the Companies Act. |
| Accounting Standards | 7 | NHS bodies are not required to include a note showing historical cost profits and losses as described in FRS 3. |

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 a summary of their performance against targets. |

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